

# UNITED STATES DEPARTMENT OF DEFENSE AGENCY FINANCIAL REPORT



Fiscal Year 2013



OFFICE OF THE UNDER SECRETARY OF DEFENSE  
(COMPTROLLER) / CHIEF FINANCIAL OFFICER



# FOREWORD

The U.S. Department of Defense Agency Financial Report (AFR) for Fiscal Year (FY) 2013 provides an overview of the Department's financial information and performance goals and objectives. It also describes our priorities in upholding our mission and responding to challenges encountered in the defense of our Nation.

For FY 2013, the Department has chosen to produce the Agency Financial Report as an alternative to the Performance and Accountability Report (PAR). The alternative report is intended to simplify and summarize information while providing transparent financial and performance reporting. The FY 2013 AFR consists of three components.

- Agency Financial Report – Published December 16, 2013
- Annual Performance Report – Published February 2014
- Summary of Performance and Financial Information – Published February 15, 2014

All three reports will be available at the Comptroller's website:

<http://comptroller.defense.gov/>

## Agency Financial Report (AFR)

The AFR consists of the Management's Discussion and Analysis (MD&A), the Financial Section, and the related appendices. The MD&A provides executive-level information about the Department's history, mission, organization, performance activities, analysis of the financial statements, controls and legal compliance, and other challenges facing the Department. The Financial Section contains the Independent Auditor's Report, the principal financial statements and notes, and Required Supplementary Information. Additional information is available in Addendums A and B, and appendices.

## Annual Performance Report (APR)

The APR will be included in the Congressional Budget Justification and will provide the detailed performance information and description of results by performance measures.

## Summary of Performance and Financial Information (SPFI)

The SPFI will summarize the Department's financial and performance information from the AFR and APR, making the information more transparent and accessible to Congress, the public, and other key constituents.



Soldiers at the National Training Center, Fort Irwin, California.

*U.S. Air Force Photo by Senior Airman Daniel Hughes*

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The estimated cost of report or study for the Department of Defense is approximately \$202,000 in Fiscal Years 2013 – 2014. This includes \$50,000 in expenses and \$151,000 in DoD labor.

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## MESSAGE FROM THE ACTING DEPUTY SECRETARY OF DEFENSE

I appreciate the opportunity to introduce the Department of Defense (DoD) Agency Financial Report (AFR) for Fiscal Year (FY) 2013. The AFR summarizes our use of approximately \$650 billion in FY 2013 resources in a difficult fiscal climate. This report describes how we used taxpayer dollars to protect the American people, to defend the national interest, and to provide America's military with the resources to accomplish its mission. The AFR also includes an overview of the Department's organization, results for key performance measures, and the presentation and analysis of our FY 2013 financial statements.



In FY 2013, the Department continued to implement the new defense strategy while also dealing with a number of unprecedented challenges, including the impact of sequestration. In FY 2013, sequestration required a \$37 billion cut in the Department's budget. This reduction halted flying for some Air Force squadrons, cancelled ship deployments, ended Army combat training center rotations, and led to unpaid furloughs for 650,000 civilian employees.

To deal with this very uncertain future, Secretary Hagel ordered a strategic review that would provide options to align the Defense strategy with a range of possible budget scenarios, including the possibility of future cuts due to sequestration. The resulting Strategic Choices and Management Review provided a framework that the Military Services and Defense agencies are now using to assess solutions to the various scenarios identified. In order to execute the President's defense strategy and to responsibly prepare for reductions in spending, we need to continue a relentless effort to make every defense dollar count.

As we deal with the fiscal facts of life, our decisions must be worthy of the sacrifices we ask America's men and women to make for our country. The Department has a responsibility to give the American people a clear-eyed assessment of what several years of sequestration-level cuts will do to military capabilities as we continue to face a very dangerous and uncertain world. In the months ahead, we will continue to provide our best assessment, especially in the face of sequestration-level caps that still threaten to reduce defense funding by as much as \$52 billion a year in the years beyond FY 2015.

Most importantly, I can say with confidence that whatever the challenge, the men and women of the Department of Defense will never let the Nation down. We remain dedicated to our sacred mission. Even in a period of fiscal uncertainty, this is a promise you can take to the bank.

A handwritten signature in black ink, which appears to read "Christine H. Fox".

Christine H. Fox  
Acting Deputy Secretary of Defense

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## A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to present the Fiscal Year (FY) 2013 financial statements. The information contained in this report shows the Department's dedication to responsible stewardship of taxpayer dollars and our determination to provide the public with transparent financial information.

In FY 2013, the Department of Defense experienced the destructive impact of sequestration. By March 2013, the combination of abrupt sequestration cuts, coupled with wartime funding shortfalls, left us more than \$30 billion short of needed operating dollars. In response to this crisis, the Department imposed civilian hiring freezes, laid off temporary and term employees, cut travel and conferences, and sharply reduced facilities maintenance. However, these actions were not sufficient to close this gap. We were forced to cut training and maintenance, actions that seriously harmed military readiness, and to furlough 650,000 DoD civilians for six days, an action that contributed to low morale and hurt productivity. Unfortunately, the budgetary uncertainty has not been resolved, and we continue to face potentially serious problems.



Despite the difficult and uncertain budgetary environment, the Department continued to work to reshape the business environment and improve the quality of financial information. During this year we made significant progress. For example:

- We made continued progress in our overall effort to improve financial management and achieve audit readiness, completing numerous examinations of our budgetary accounts and property;
- We continued to deploy new financial systems that offer better financial controls;
- We utilized innovative techniques to hold improper payments to just a few tenths of a percent of our budget – a level significantly lower than the average in other federal agencies; and
- We made more disciplined use of resources by streamlining business practices and support services, such as consolidation of information technology services and grouping purchases of goods and services to take advantage of market leverage.

We also began implementation of a course-based certification program designed to improve the training of financial management personnel. The new program requires that all financial managers complete certain requirements, which vary depending on their seniority and the nature of their job. As just one example, the new program will require that all financial managers receive at least some training in audit readiness, with many receiving advanced training.

Despite the difficult environment, we remain fully committed to continued improvement in DoD financial management. We owe it to the Congress. We owe it to the troops. And we owe it to the taxpayers.

A handwritten signature in black ink that reads "Robert F. Hale". The signature is written in a cursive, flowing style.

Robert F. Hale  
Under Secretary of Defense (Comptroller)/  
Chief Financial Officer

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