FOREWORD

Agency Financial Report

This report, the United States Department of Defense (DoD) Agency Financial Report (AFR) for fiscal year (FY) 2016, provides an executive-level overview of the Department, including our mission, organization, performance, highlights from the financial statements, internal controls and legal compliance, and challenges facing the Department. The Financial Section contains the agency-wide financial statements and notes, along with the Independent Auditor’s Report. Additional and/or detailed information is available in the Other Information Section and Appendices to this report.

The Department has produced the AFR as an alternative to the Performance and Accountability Report (PAR). The AFR is intended to simplify and summarize information while providing transparent financial and performance reporting.

The Department will publish two additional required reports that provide varying details on financial and performance information:

Annual Performance Report

Published with the Department’s annual budget submission in February 2017, the Annual Performance Report will provide a detailed description of performance measures and FY 2016 results.

Summary of Performance and Financial Information

The Summary of Performance and Financial Information, published in February 2016 and available for viewing on the Under Secretary of Defense (Comptroller) public website, is a succinct summary of the FY 2016 financial and performance information previously reported in the AFR and APR, making the information more transparent and accessible to Congress, the public, and other key constituents.

A MV-22 Osprey with Marine Medium Tiltrotor Squadron 365 departs USS Bataan (LHD 5) during Amphibious Squadron Marine Expeditionary Unit Integration Training (PMINT). PMINT familiarizes Marines and sailors with amphibious operations and to safely execute embarkation training in preparation for future pre-deployment exercises.

U.S. Marine Corps photo by Cpl. Hernan Vidana/Released
About the Department of Defense
Agency Financial Report

The DoD AFR is required by law, including the Government Management and Reform Act of 1994 (GMRA) and the Chief Financial Officers Act of 1990. This report includes five main sections.

The Message from the Deputy Secretary of Defense, the Honorable Robert O. Work, introduces the Agency Financial Report.

The Management’s Discussion and Analysis (MD&A) Section provides an executive-level overview of the DoD and our use of taxpayer resources in FY 2016. The MD&A describes the Department’s organization and strategic priorities, and provides summary-level reporting on DoD performance based on measurable objectives through the third quarter of FY 2016. The MD&A also includes a Financial Overview section that reports on FY 2016 financial highlights from the agency-wide consolidated financial statements, and updates on the Department’s financial management improvement initiatives. The MD&A section ends with an overview of the Department’s Managers’ Internal Controls program, business and financial management systems improvement strategy, and improper payments and recoveries program.

The Agency-Wide Financial Statements Section, introduced by the Chief Financial Officer, includes the FY 2016 DoD financial statements and explanatory footnote disclosures, required supplementary information, and the Independent Auditor’s report on these statements and on the Department’s internal controls.

The Other Information Section reports detailed information on material weaknesses in internal controls, improper payments and recoveries, “Freeze the Footprint” real property, the Schedule of Spending, and DoD Inspector General-identified significant performance and management challenges facing the Department, along with DoD management responses.

The Appendices Section includes the Defense Security Cooperation Agency – Security Assistance Accounts financial statements and explanatory notes, accounts the Department executes on behalf of the Executive Office of the President. The Appendices section also includes a list of acronyms and abbreviations, useful websites, and an index of figures and tables included throughout this report.

The estimated cost of this report or study for the Department of Defense is approximately $281,000 in Fiscal Years 2016 - 2017. This includes $70,000 in expenses and $211,000 in DoD labor.

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A MESSAGE FROM THE DEPUTY SECRETARY OF DEFENSE

I am extremely proud of our men and women in uniform and the civilians who support them in the critical mission of defending our great nation. We face no less than five complex strategic challenges – managing Russia, China, North Korea, Iran, and the continuing fight against extremist groups in the Middle East, North Africa, and across the globe. It is our responsibility to preserve collective defense and security, and to that end, we must ensure we maintain both a strong nuclear and conventional deterrence. In the face of these challenges, it is our duty to ensure that the American military is second to none. And, we must do so in a budget constrained environment. Doing that demands we make smart and often very tough choices on where and how we spend our limited resources.

This report summarizes how the Department has used taxpayer resources to accomplish our mission. It highlights the many challenges the Department faces to maintain its role as the global military leader. The report also provides brief updates on the Department’s continuing efforts to improve its financial management initiatives and resolve material weaknesses in business processes and systems to achieve its audit readiness goals.

Secretary Carter and I, along with the entire senior leadership of the Department, are focused on building a defense program that combines cutting edge technology with new ways of warfighting to ensure we always maintain a decisive edge over any adversary. The successful execution of a well-planned strategic defense program that strikes the proper balance between capacity, capabilities, and current and future readiness is dependent on the availability and the stability of the budget funding the Department receives.

I remain absolutely confident that we can accomplish the mission asked of us by our fellow Americans. That confidence stems from the one thing that never changes – the quality of our men and women in uniform and our DoD civilian employees. I remain convinced that we will always have an inherent advantage in our incredible people. It is our job to provide them with the most advanced gear and weaponry as well as training and support they need to dominate any adversary on any battlefield at any time.

I would encourage all concerned Americans to read this report. I am confident that they will come away with a new appreciation for the Department’s commitment to fiscal transparency, financial reporting and operational effectiveness.

Robert O. Work
Deputy Secretary of Defense