BRIEF HISTORY

- The Army, Navy, and Marine Corps were established in 1775, in concurrence with the American Revolution.
- The War Department was established in 1789, and was the precursor to what is now the Department of Defense.
- The Coast Guard (part of the Department of Homeland Security during peace time) was established in 1790.
- The Department of the Navy was established in 1798.
- The National Security Act of 1947 renamed the Department of War as the Department of the Army, created the Department of the Air Force, and unified command of the Military Departments under the “National Military Establishment” headed by a Secretary of Defense.
- The Department of Defense Reorganization Act of 1958 established the Combatant Commands.

MISSION

To provide the military forces needed to deter war and protect the security of our country.

HEADQUARTERS

The Department of Defense is headquartered at the Pentagon, located in Arlington, Virginia. The Pentagon is one of the world’s largest office buildings – it has 17.5 miles of hallways, three times the floor space of the Empire State Building, and houses about 26,000 employees. For Pentagon Tour information, click here.

EMPLOYEES

The Department of Defense is the country’s largest employer, with more than 2.1 million Military Service members and over 770 thousand civilian employees.

For information on DoD Humanitarian Efforts, click here.
About the Department of Defense Agency Financial Report

The United States Department of Defense (DoD) Agency Financial Report (AFR) for Fiscal Year (FY) 2018 provides an overview of the Department’s financial information as well as preliminary summary-level performance results. The AFR demonstrates to the Congress, the President, and the public the Department’s commitment to its mission and to accountability and stewardship over the resources entrusted to it. This report satisfies the reporting requirements contained in the following legislation:

- Federal Managers’ Financial Integrity Act (FMFIA) of 1982 – requires ongoing evaluations and reports of the adequacy of internal accounting and administrative controls;
- Chief Financial Officers (CFO) Act of 1990 – established the position of Chief Financial Officer and requires audited financial statements for each major executive agency;
- Government Management Reform Act (GMRA) of 1994 – delegates authority to the Director of the Office of Management and Budget to prescribe the form and content of the financial statements and to identify the components of executive agencies that will be required to have audited financial statements;
- Reports Consolidation Act of 2000 – permits agencies to consolidate any statutorily required reports into a single annual report and requires certain information be contained in the consolidated report;
- Accountability of Tax Dollars Act (ATDA) of 2002 – expands the requirement for audited financial statements to additional executive agencies;
- Improper Payments Information Act (IPIA) of 2002, as amended by Improper Payments Elimination and Recovery Act (IPERA) of 2010 and the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012 – requires agencies to report on their efforts to identify, prevent, reduce, and recover improper payments;
- Fraud Reduction and Data Analytics Act of 2015 – requires agencies to report on progress in implementing financial and administrative controls related to fraud, identifying risks and vulnerabilities to fraud, and establishing steps to curb fraud;
- Grants Oversight and New Efficiency (GONE) Act of 2016 – requires agencies to report on federal grant and cooperative agreement awards which have not yet been closed out and for which the period of performance, including extensions, elapsed for more than two years, the challenges leading to delays in closeout, and progress made in closing out the awards.

Pursuant to Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements, the Department produces two separate annual reports in lieu of a combined Performance and Accountability Report (PAR):

- An AFR, published in November 2018, which focuses primarily on financial results and a high-level discussion of performance results, and
- An Annual Performance Report (APR), published in February 2019, which details DoD strategic goals and performance measures and results.

The estimated cost of this report or study for the Department of Defense is approximately $324,000 in Fiscal Years 2018 – 2019. This includes $149,000 in expenses and $175,000 in DoD labor.

Generated on 2018Nov14 RefID: 7-B67A2D5
Face of Defense:
Each section cover of this report features a picture from the “Face of Defense” news series available on Defense.gov.
Each “Face of Defense” news feature highlights a personal story behind the people who serve our nation.
For their full story, click the icon.
Table of Contents

Message from the Secretary of Defense ................................................................. v

MANAGEMENT’S DISCUSSION & ANALYSIS
The Management’s Discussion and Analysis (MD&A) section provides a high-level overview of the Department’s programmatic and financial performance. This section includes a summary of the Department’s mission and structure, the current status of financial management systems, compliance with laws and regulations, and management assurances regarding internal controls.

Mission Overview ................................................................. 1
Organizational Structure ................................................................. 2
Resources ................................................................................... 8
Performance Overview ................................................................. 14
Financial Highlights & Analysis ......................................................... 21
Audit Overview ........................................................................... 27
Statement of Assurance ................................................................. 29
Management Assurances ................................................................. 30
Systems Compliance and Strategy .................................................. 33
Legal Compliance ....................................................................... 37

FINANCIAL SECTION
Message from the Under Secretary of Defense (Comptroller)/Chief Financial Officer ................................................................. 41
Principal Financial Statements and Notes ........................................... 43
Required Supplementary Stewardship Information ................................ 116
Required Supplementary Information ................................................ 119
Independent Auditor’s Report ............................................................ 126

OTHER INFORMATION
Summary of Financial Statement Audit and Management Assurances ................................................................. 143
Payment Integrity ........................................................................... 164
Fraud Reduction Report ................................................................. 191
Reduce the Footprint ..................................................................... 193
Civil Monetary Penalty Adjustment for Inflation ................................ 194
Grants Oversight and New Efficiency Act Requirements .................... 195
Management Challenges ................................................................. 196

APPENDICES
Appendix A: Acronyms and Abbreviations ........................................ A-1
Appendix B: URL Index ................................................................. B-1
Appendix C: Index of Figures, Charts, and Tables ................................ C-1
MESSAGE FROM THE SECRETARY OF DEFENSE

November 15, 2018

On behalf of our nation’s sentinels serving at home and around the world, I am honored to present the Department of Defense Agency Financial Report for FY 2018. This report provides the President, Congress, and the American people with information on the taxpayer resources entrusted to the Department in FY 2018, as well as the means to assess our management of those resources, our accomplishments, challenges, and vision for the future.

Our mission at the Department of Defense is to provide the combat-credible military forces needed to deter war and to ensure our national security. Should deterrence fail, the Joint Force is prepared to win. Reinforcing America’s traditional tools of diplomacy, the Department provides military options so the President and our diplomats always negotiate from positions of strength.

To guide our efforts, we released our new National Defense Strategy in January 2018, which implements the pillars of the President’s National Security Strategy – Protect the American People, the Homeland, and the American Way of Life; Promote American Prosperity; Preserve Peace through Strength; and Advance American Influence. In support of these pillars, the National Defense Strategy pursues three distinct lines of effort – rebuilding military readiness as we build a more lethal Joint Force, strengthening alliances as we attract new partners, and reforming the Department’s business practices for greater performance and affordability. The Management’s Discussion and Analysis section of this report provides additional information on the alignment of our efforts this year with the National Defense Strategy.

The Department underwent its first full-scope financial statement audit in FY 2018. As expected, the audit resulted in a Disclaimer of Opinion and multiple material weaknesses. The findings and recommendations of the auditors provide us with invaluable information that will help us target and prioritize corrective actions. The Management’s Discussion and Analysis section of this report provides my Statement of Assurance, which outlines the Department’s assessment of material weaknesses and compliance with relevant laws and regulations. The Financial Section of this report provides the independent auditor’s report, which details the results of the audit.

While we acknowledge the progress accomplished this year, we recognize that opportunities for continued improvement exist, and we embrace the challenges we must overcome. We worked closely with the Office of Inspector General to gain its perspective on our most serious management and performance challenges based on its oversight work, research, and judgment. The Other Information section of this report provides the Office of Inspector General summary statement on the top ten challenges facing the Department. Our civilian employees and Military Service members are committed to working diligently to address and mitigate the concerns outlined. Bottom line: We are devoted to fixing every problem revealed by the first ever department-wide audit, building trust in our compact with the American people.

We in the Department of Defense are grateful to the Congress for its support and investment in us, which has allowed us to continue our vital work in protecting the American people and our interests.

James N. Mattis