

MANAGEMENT'S DISCUSSION & ANALYSIS

PROVIDES A HIGH LEVEL OVERVIEW OF THE DEPARTMENT'S
PROGRAMMATIC AND FINANCIAL PERFORMANCE

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LEADING FROM EXPERIENCE

Changing your career course isn't always easy. Sometimes, it's not even a change you want to make. For Marine Corps Gunnery Sgt. Freddy Torres, change and adversity aren't new. For the past year, Torres has been the chief instructor for the Headquarters and Support Battalion's professional military education program, specifically teaching the Corporals' Course and Lance Corporal Seminar at Camp Pendleton, California. Before that, he was an infantryman and earned the Purple Heart after suffering a serious leg wound in Afghanistan. Doctors gave him little hope for a full recovery, but Torres defied the odds. Now, he uses his experience to mentor young Marines.

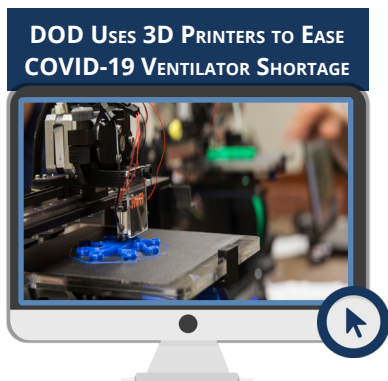
[CLICK HERE FOR A LINK TO THE COMPLETE STORY](#)

MISSION OVERVIEW

The enduring mission of the Department of Defense (DoD or the Department) is to provide combat-credible military forces needed to deter war and protect the security of the nation.

The Department is committed to ensuring the United States (U.S.) military remains the best prepared and most lethal Joint Force in the world, and that the President and American diplomats negotiate from a position of strength. Should deterrence fail, the U.S. military is prepared to fight and win.

Today, the U.S. faces an increasingly dynamic and unpredictable security environment characterized by a decline in the long-standing free and open international order established following World War II and an erosion of military advantage in key regions. Significant political changes combined with rapid advances in commercial technologies – such as big data analytics, artificial intelligence, robotics, quantum science, autonomy, and additive manufacturing (e.g., 3D printing) – present both important



opportunities as well as challenges that will shape the character of future wars. Additionally, non-state actors and rogue regimes remain a concern, enabled by increasingly sophisticated capabilities.

In response to this complex global security environment, the Department continues to carry out its mission objectives as outlined in the January 2018 National Defense Strategy (NDS), which focuses on the Department's role in implementing the December 2017 **National Security Strategy**. The NDS is the preeminent guidance document that articulates the central problem the U.S. military seeks to address; identifies core

elements of the strategic environment; defines core defense missions; and specifies the capabilities, capacity, posture, and readiness needed to address these challenges. It also articulates an effective strategy to address global security challenges and provide for the common defense. The NDS continues to serve as the key strategic document driving the Department's priorities, investments, and programmatic decisions along three distinct lines of effort:

- Rebuilding military readiness and building a more lethal Joint Force
- Strengthening alliances and attracting new partners; and
- Reforming the Department's business practices for greater performance and affordability

In addition, the Department supplements the implementation of the three NDS lines of effort with a focus on "Taking Care of Our People." This focus recognizes the fact the Department's people are its greatest resource, and their hard work at home and abroad keeps our Nation safe and determines the success of the NDS lines of effort.



ORGANIZATIONAL STRUCTURE

The Department is one of the nation's largest employers, with approximately 1.3 million personnel in the Active Component, nearly 800,000 personnel serving in the National Guard and Reserve forces, and approximately 777,000 civilian employees.

DoD Military Service members and civilians operate globally in all domains, including air, land, sea, space, and cyber space. In carrying out the Department's mission to protect national security, Military Service members operate approximately 17,400 aircraft and over 295 Battle Force ships.

The Department manages one of the Federal Government's largest portfolios of real property, with more than 603,000 assets (buildings, structures, and linear structures) located on over 4,600 sites worldwide as of the beginning of fiscal year (FY) 2020. The Department's assets are situated on sites located in all 50 states, the District of Columbia, 7 U.S. territories, and over 40 foreign countries. These sites represent a total of nearly 26.5 million acres that individually vary in size from military training ranges with over 3.3 million acres, such as the **White Sands Missile Range**, to single weather towers or navigational aids isolated on sites of less than one one-hundredth (0.01) of an acre. The acreage consists of various interest types ranging from fee interest (i.e., owned by the U.S. Government) to other legal interests such as leases, licenses, permits, public land orders, treaties, and agreements. Beyond their mission-specific areas (such as runways, training areas, and industrial complexes), DoD installations also contain many types of facilities supporting community operations similar to those found in municipalities or on university campuses (such as public safety, hospital and medical, dining, and religious facilities; community support complexes; housing and dormitories; utility systems; and roadways).

The **Secretary of Defense** is the principal assistant and advisor to the President in all matters relating to the Department, and

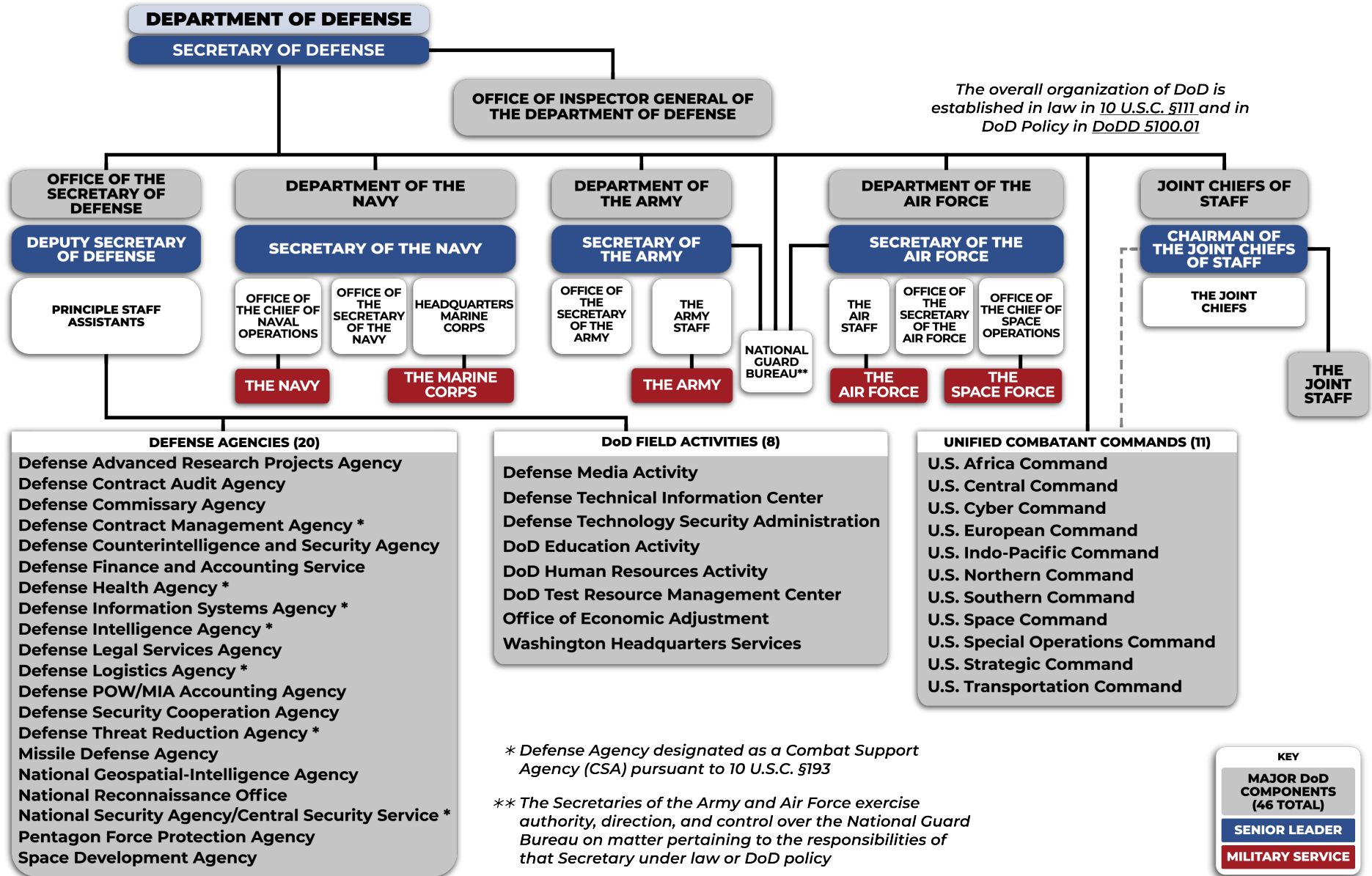


A U.S. Marine leads his squad to the first event during a field exercise, at Camp Villere, Slidell, La. March 11, 2020.

PHOTO CREDIT: Marine Corps photo by Pfc. Colby Bundy

exercises authority, direction, and control over the Department, in accordance with Title 10, United States Code (U.S.C.), section 113(b) (**10 U.S.C. §113(b)**). The Department comprises the Office of the Secretary of Defense; Joint Chiefs of Staff; Joint Staff; Combatant Commands; Military Departments; Office of Inspector General of DoD; Defense Agencies; DoD Field Activities; and other offices, agencies, activities, organizations, and commands established or designated by law, the President, or the Secretary of Defense (see Figure 1).

Figure 1: Department of Defense Organizational Structure

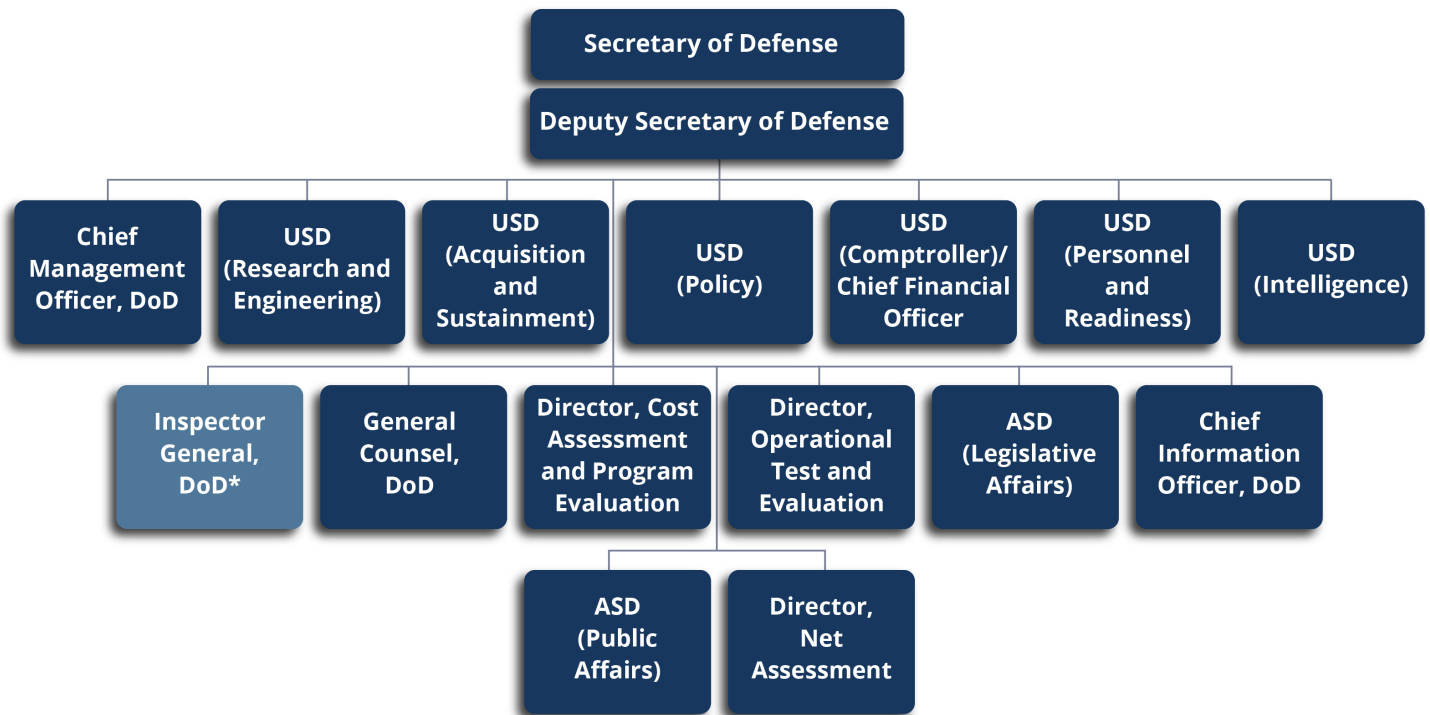


OFFICE OF THE SECRETARY OF DEFENSE

The function of the Office of the Secretary of Defense (**OSD**) is to assist the Secretary of Defense in carrying out his duties and responsibilities as prescribed by law. The OSD comprises the **Deputy Secretary of Defense**, the Chief Management Officer (**CMO**) of the DoD, the Under Secretaries of Defense (USDs), the General Counsel (**GC**) of the DoD, the Assistant Secretaries of Defense (ASDs), the Inspector General (**IG**) of the DoD, and other staff offices within OSD established by law or by the Secretary of Defense.

The OSD Principal Staff Assistants (PSA) are responsible for the oversight and formulation of defense strategy, policy, and resource allocation, as well as for overseeing and managing the Defense Agencies and DoD Field Activities under their purview (see Figure 2).

Figure 2: Office of the Secretary of Defense Principal Staff Assistants



* The Inspector General of the DoD serves as a principal advisor to the Secretary of Defense. However, the Inspector General and the Office of Inspector General are organizationally independent from the rest of the Department. Audit organization independence is a key principle under Generally Accepted Government Auditing Standards.

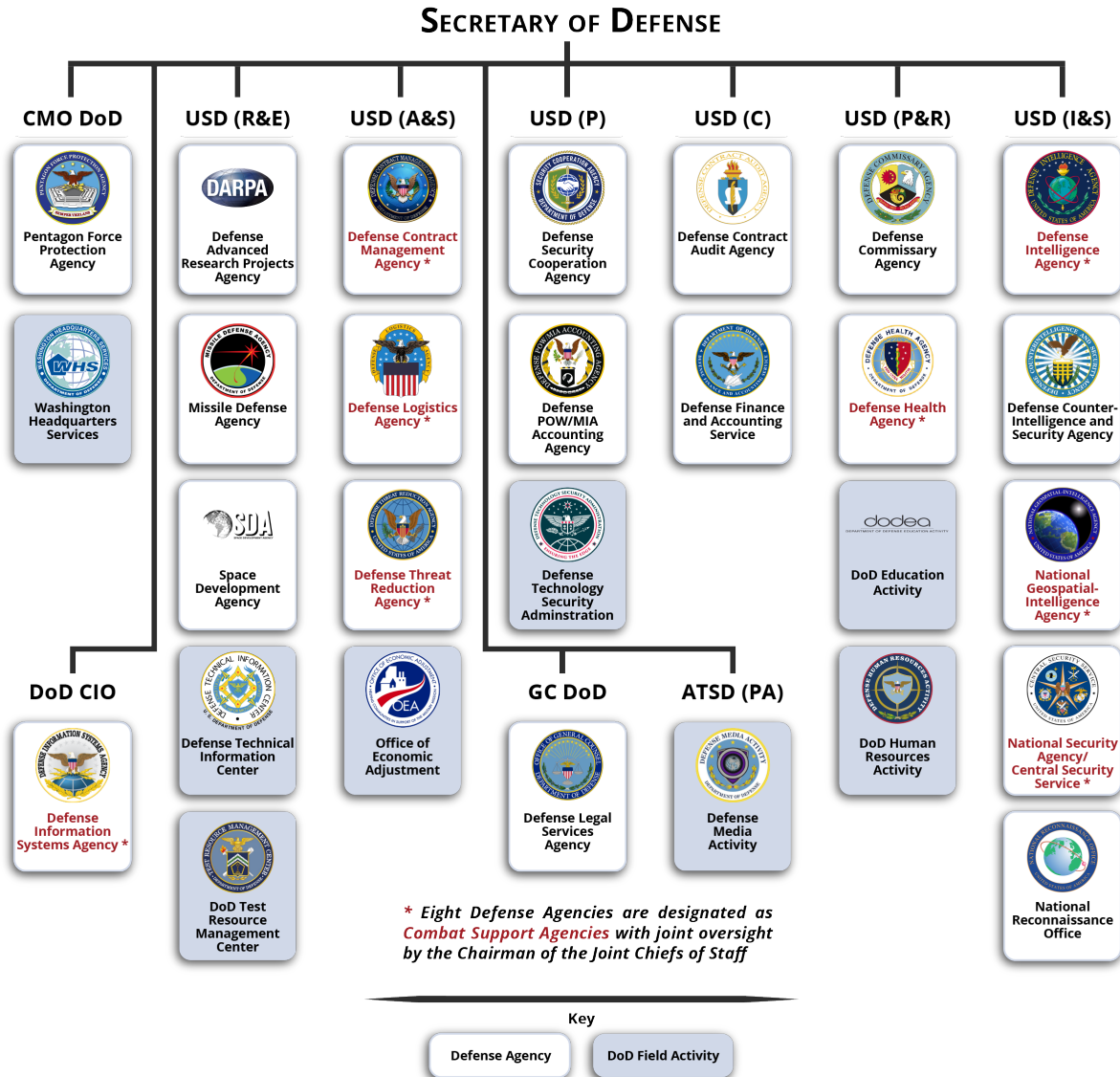
OFFICE OF INSPECTOR GENERAL

The Office of Inspector General of the DoD (**DoD OIG**) is an independent and objective unit within the Department that conducts and supervises audits and investigations relating to the Department's programs and operations. The Inspector General of the DoD serves as the principal advisor to the Secretary of Defense on all audit and criminal investigative matters relating to the prevention and detection of fraud, waste, and abuse in the programs and operations of the Department.

DEFENSE AGENCIES AND DoD FIELD ACTIVITIES

Defense Agencies and DoD Field Activities are established as DoD Components by law, the President, or the Secretary of Defense to provide, on a Department-wide basis, a supply or service activity common to more than one Military Department when it is more effective, economical, or efficient to do so. Although both Defense Agencies and DoD Field Activities fulfill similar functions, the former tend to be larger, normally provide a broader scope of supplies and services, and can be designated as Combat Support Agencies to directly support the Combatant Commands. Each of the 20 Defense Agencies and 8 DoD Field Activities operate under the authority, direction, and control of the Secretary of Defense through an OSD PSA (see Figure 3).

Figure 3: Defense Agencies and DoD Field Activities



THE JOINT CHIEFS OF STAFF AND THE JOINT STAFF

The Joint Chiefs of Staff (JCS), supported by the Joint Staff under the direction of the Chairman, constitute the immediate military staff of the Secretary of Defense. The JCS consist of the Chairman (CJCS), the Vice Chairman (VCJCS), the Chief of Staff of the Army (CSA), the Chief of Naval Operations (CNO), the Chief of Staff of the Air Force (CSAF), the Commandant of the Marine Corps (CMC), the Chief of the National Guard Bureau (CNGB), and effective December 20, 2020, the Chief of Space Operations (CSO). The JCS function as the military advisors to the President, the National Security Council, and the Secretary of Defense.

COMBATANT COMMANDS

The Commanders of the Combatant Commands are responsible for accomplishing the military missions assigned to them (see Figure 4). Combatant Commanders exercise command authority over assigned and allocated forces, as directed by the Secretary of Defense. The operational chain of command runs from the President to the Secretary of Defense to the Commanders of the Combatant Commands, with the CJCS functioning within the chain of command by transmitting the orders of the President or the Secretary of Defense to the Commanders of the Combatant Commands.

Figure 4: Combatant Commands



COMBATANT COMMANDS (CONTINUED)

Among Combatant Commands, the U.S. Special Operations Command (**USSOCOM**) and the U.S. Cyber Command (**USCYBERCOM**) have additional responsibilities and authorities similar to a number of authorities exercised by the Military Departments, including programming; budgeting; acquisition; training, organizing, equipping, and providing special operations forces and cyberspace operations forces, respectively; and developing strategy, doctrine, tactics, and procedures. However, the USSOCOM and USCYBERCOM are reliant on the Military Services for ensuring combat readiness of the forces assigned to them.

MILITARY DEPARTMENTS

The Military Departments consist of the Departments of the **Army**, the **Navy** (of which the **Marine Corps** is a component), and the **Air Force** (of which the **Space Force** is a component). Upon the declaration of war, if Congress so directs in the declaration or when the President directs, the **Coast Guard** becomes a service in the Department of the Navy; otherwise, it is part of the **Department of Homeland Security**. The Army, Navy, Marine Corps, Air Force, Space Force, and Coast Guard are referred to as the Military Services. The three Military Departments organize, train, and equip the five Military Services (or six when including the Coast Guard), and provide administrative and logistics support to the Combatant Commands by managing operational costs and execution.

The Military Departments include both Active and Reserve Components. The Active Component comprises units under the authority of the Secretary of Defense, manned by active duty Military Service members. The Reserve Component includes the **National Guard** and the Reserve Forces of each Military Service, with the exception of the Space Force (see Figure 5). The National Guard, which has a unique dual mission with both federal and state responsibilities, can be called into action during local, statewide, or other emergencies (such as storms, drought, and civil disturbances) and in some cases to support federal purposes for training or other duty (non-federalized service) when directed by the governor of each state or territory.



MILITARY DEPARTMENTS (CONTINUED)

Figure 5: Reserve Components - Reserve and National Guard



When ordered to active duty for national emergencies or other events, units of the National Guard or Reserve Forces of the Military Services are placed under operational control of the appropriate Combatant Commander or provide support to a Military Service. The National Guard and Reserve Forces are recognized as indispensable and integral parts of the nation's defense and are fully part of the applicable Military Department.



Sailors participate in a search and rescue swimmer exercise in the Persian Gulf, February 23, 2020.
 PHOTO CREDIT: Navy Mass Communication Specialist Seaman Apprentice Darren Newell

RESOURCES

During FY 2020, the Department continued to faithfully implement the three NDS lines of effort thanks to the ongoing congressional support provided through the **DoD Appropriations Act of 2020**, the **Military Construction, Veterans Affairs, And Related Agencies Appropriations Act of FY 2020**, the **Energy and Water Development and Related Agencies Appropriations Act of FY 2020**, and the **National Defense Authorization Act (NDAA) for FY 2020**.

The provisions of these laws have allowed the Department to reverse declines in readiness and begin to modernize air, land, sea, space, and cyber capabilities. To meet the objectives outlined in the NDS, the Department must continue to make the most of every resource; however, sustained and uninterrupted funding remains key to preparing the U.S. Joint Force to deter future conflict. Through balanced investments, the development of new operating concepts, disciplined execution in the field, and internal reforms, the Department will continue to foster a dominant Joint Force that will protect the security of the nation, increase American influence, preserve access to markets that will improve the American standard of living, and strengthen cohesion among allies and partners.

In FY 2020, the Department received total appropriations of \$914.2 billion (see Figure 6).

Figure 6: Trend in DoD Appropriations

\$ in billions

| DESCRIPTION | FY 2020 | FY 2019 | FY 2018 | FY 2017 | FY 2016 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Discretionary Budget Authority | \$ 723.1 | \$ 687.8 | \$670.6 | \$606.0 | \$ 580.3 |
| Civil Works Projects executed by USACE | 6.1 | 8.2 | 22.8 | 5.8 | 4.6 |
| Department of Treasury Contribution for Military Retirement and Health Benefits | 107.0 | 101.6 | 96.3 | 94.3 | 90.2 |
| Trust Fund Receipts | 168.5 | 172.5 | 164.2 | 153.2 | 141.2 |
| Trust Fund Resources Temporarily not Available | (90.5) | (95.7) | (90.3) | (82.3) | (70.6) |
| Appropriation (Discretionary and Mandatory) Reported on SBR | \$ 914.2 | \$ 874.4 | \$ 863.6 | \$ 777.0 | \$ 745.7 |

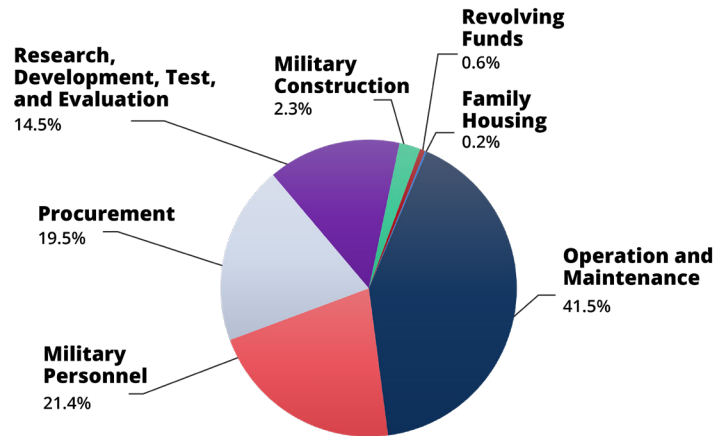
DISCRETIONARY APPROPRIATIONS

The majority of the appropriations the Department receives constitute its Discretionary Budget Authority, which are provided from the annual DoD Appropriations Act and the Military Construction, Veterans Affairs, And Related Agencies Appropriations Act. The Department's FY 2020 Discretionary Budget Authority of \$723.1 billion was provided to the Department using seven appropriation categories that describe the intended use and purpose of the funds (see Figure 7):

DISCRETIONARY APPROPRIATIONS (CONTINUED)

Figure 7: FY 2020 Discretionary Budget Authority

| APROPRIATION CATEGORY | \$ IN BILLIONS | % |
|---|----------------|---------------|
| Operation and Maintenance | \$300.4 | 41.5% |
| Military Personnel | \$154.8 | 21.4% |
| Procurement | \$140.8 | 19.5% |
| Research, Development, Test, and Evaluation | \$104.9 | 14.5% |
| Military Construction | \$16.7 | 2.3% |
| Revolving Funds | \$4.1 | 0.6% |
| Family Housing | \$1.4 | 0.2% |
| Total Discretionary Budget Authority | \$723.1 | 100.0% |



APPROPRIATION CATEGORIES

OPERATION AND MAINTENANCE (O&M)

FY 2020 O&M funding increased by \$18.6 billion over the FY 2019 amount. Funds in this category included major increases to programs such as the Military Departments' readiness efforts to increase the frequency and quality of individual and collective training, as well as improvements to home station and depot maintenance of weapons systems and platforms.

MILITARY PERSONNEL

FY 2020 Military Personnel funding increased by \$5.4 billion over the FY 2019 amount. Funds in this category provide for the **Military Compensation** provided to the Active and Reserve Component members of the Military Services, including various types of pay, benefits, and DoD contributions to retirement savings under the **Blended Retirement System**. The increased funding received is reflective of a 3.1% military base pay raise provided effective January 1, 2020 – the largest pay raise provided to Military Service members in ten years.

PROCUREMENT

FY 2020 Procurement funding decreased by \$5.7 billion from the FY 2019 amount. Funds in this category provided for the acquisition of equipment including unmanned aerial systems, air and missile defense systems across the operational force, additional aircraft to replace combat-worn strike fighters, ammunition, spare parts for existing equipment to maintain combat readiness, and individual personal protective gear to support the warfighter. The funding also allowed for procurement of new and replacement weapons systems, resulting in accelerated transition timelines from legacy platforms and increased lethality and efficiency across the Military Services. For instance, the Navy was provided with the necessary funding for the procurement of three Arleigh Burke-class guided missile destroyers, two Virginia-class fast attack submarines, one frigate, 36 F-35 Joint Strike Fighters, and 24 F/A-18E/F fighters.

REVOLVING FUNDS

FY 2020 Revolving Funds funding increased by \$2.2 billion over the FY 2019 amount. Funds in this category provided direct appropriations to the Department's working capital funds, such as the Defense Commissary Agency (**DeCA**), to support various activities including the cost of operating commissaries, headquarters operations, and field operating activities.

RESEARCH, DEVELOPMENT, TEST, AND EVALUATION (RDT&E)

FY 2020 RDT&E funding increased by \$9.6 billion over the FY 2019 amount. Funds in this category provided for critical investments in basic and applied technologies, advanced technology development, prototypes, and design and development for major acquisition programs. The funds also provided for upgrades to ensure that weapon systems used today and those developed for the future will provide capabilities to maintain a technological advantage over potential adversaries. Significant increases in next generation aviation and space systems development led the way, especially with such programs as the Long Range Strike Bomber, F-35 Continuous Capability Development and Delivery, Next Generation Air Dominance, modernization of nuclear enterprise systems, and the Next Generation Overhead Infrared Missile Warning satellite development. Additionally, the Department solidified its investment in key technologies (such as artificial intelligence, hypersonics, directed energy, and autonomous/unmanned systems) that are likely to revolutionize the future of warfare.

MILITARY CONSTRUCTION

FY 2020 Military Construction funding increased by \$5.4 billion over the FY 2019 amount. Funds in this category provided for the improvement of existing infrastructure as well as the construction of new facilities for operational and training needs, barracks, and other buildings to support the DoD mission around the world. Additionally, these funds provided support for European reassurance and deterrence initiatives as well as \$6.2 billion to repair or replace DoD facilities damaged as a result of natural disasters and severe weather events.

FAMILY HOUSING

FY 2020 Family Housing funding decreased by \$0.2 billion from the FY 2019 amount. Funds in this category provided for the construction of new housing, improvements to existing housing units, operation and maintenance of government-owned housing, and the leasing of housing facilities domestically and internationally. The funds additionally provide for the oversight of the Military Housing Privatization Initiative (**MHPI**), which enables the Military Departments to leverage private sector expertise and funding to accelerate the improvement and sustainment of quality installation housing in the U.S. and its territories. Under the MHPI program, private sector partners own, operate, and maintain housing units, commonly under a ground lease with the host installation.

DISCRETIONARY APPROPRIATIONS (CONTINUED)

In addition, Congress appropriates funding directly to the United States Army Corps of Engineers (**USACE**) under the annual Energy and Water Development and Related Agencies Appropriations Act. The \$6.1 billion received in FY 2020 was used to execute a multitude of civil works projects including supporting commercial navigation; protecting, restoring, and managing the aquatic ecosystem; and reducing storm and flood damage.

MANDATORY APPROPRIATIONS

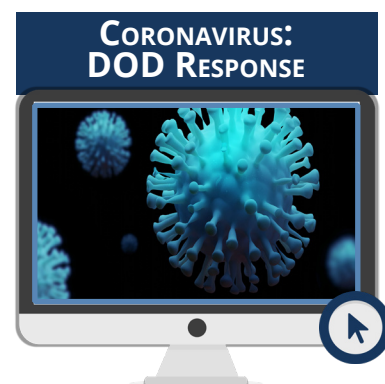
In addition to the discretionary budget authority received from annual appropriation acts, the Department also receives mandatory appropriations stemming from the provisions of previously enacted laws. The amounts the Department receives for these mandatory appropriations are generally stipulated by statutorily defined criteria.

- Treasury Contribution for Military Retirement and Health Benefits – The Department of the Treasury (**Treasury**) is required to contribute payments to the Military Retirement Fund (MRF), under the provisions of **10 U.S.C. §1413a** and **10 U.S.C. §1414**, and the Medicare-Eligible Retiree Health Care Fund (MERHCF), under the provisions of **10 U.S.C. §1116(a)(1)**, to cover (1) a portion of the present value of future benefits payments to be paid to eligible retirees and (2) the fiscal year's amortization of the funds' unfunded liability. The amounts of these contributions are determined by the **DoD Office of the Actuary** based on projection models which rely on data (such as average force strength) and assumptions (such as future inflation rates).
- Trust Fund Receipts - Funds paid into multiple DoD trust funds, primarily MRF and MERHCF, from various sources including the Treasury contributions described above, payments from the Uniformed Services (i.e., the Military Services, **National Oceanic and Atmospheric Administration**, and the **Public Health Service**) to cover the cost of benefits earned in the current year, and interest earned on Treasury investments held by the Trust Funds. See Note 21, *Disclosures Related to the Statement of Budgetary Resources*, in the Financial Section for additional information.
- Trust Fund Resources Temporarily not Available – Resources that were appropriated in the current year, but are precluded from obligation during the current year by a provision of law, such a benefit formula or limitation. The Department will obligate these resources in future years to pay the current unfunded liabilities of the corresponding Trust Funds.

COVID-19 RESPONSE FUNDING

In response to societal and economic impacts of Coronavirus Disease 2019 (**COVID-19**), multiple laws were passed by the Congress and signed into law by the President to assist with preventing the spread and mitigating the negative impact of the pandemic on individuals; businesses; and federal, state, local, and tribal government operations. Two of these laws provided supplemental appropriations to the Department totaling \$10.7 billion, which are reflected in the DoD FY 2020 total appropriations amount:

- The Families First Coronavirus Response Act (FFCRA) was signed into law on March 18, 2020. The provisions of the FFCRA included \$82.0 million in emergency supplemental O&M funding for the Defense Health Program to waive TRICARE participant copayments and cost sharing associated with COVID-19 related testing and medical visits.
- The Coronavirus Aid, Relief, and Economic Security Act (**CARES Act**) was signed into law on March 27, 2020. The provisions of the CARES Act included \$10.6 billion in emergency supplemental funding to support the Department's efforts to prevent, prepare for, and respond to the COVID-19 pandemic domestically and internationally, and to fund existing shortfalls in TRICARE-managed care support contracts. These funds were provided across multiple appropriation categories (i.e., Military Personnel, O&M, Procurement, and Revolving Funds) and to multiple DoD Components, including the Military Services, National Guard and Reserves, Defense Health Program, USACE, and the DoD OIG.



COVID-19 RESPONSE FUNDING (CONTINUED)

To facilitate the review and tracking of Component requests for COVID-19 response funds, the Department required Components to categorize their requests using the following cost categories based on the Secretary of Defense COVID-19 response priorities (see Figure 8). In addition to the efforts described by these categories, DoD funding was also used to support the whole-of-nation **Government Response to COVID-19**.

Figure 8: Priority Criteria and Cost Categories for COVID-19 Response Funding Assessments

| COST CATEGORY | DESCRIPTION/TYPES OF REQUIREMENTS |
|---|---|
| Priority 1: Protect our People | |
| A. Most urgent force protection requirements (in priority order) | |
| Medical Care | <ul style="list-style-type: none"> Increased health care cases for eligible military members, dependents, and retirees Procurement of medical equipment (e.g., ventilators) |
| Diagnostics and Medical Research | <ul style="list-style-type: none"> Development of vaccines/anti-virals 24/7 lab operations Procurement of diagnostic tests and research activities |
| Medical Countermeasures | <ul style="list-style-type: none"> Procurement of vaccines and anti-virals Public health surveillance |
| Medical Countermeasures – Medical Personal Protective Equipment (PPE) | <ul style="list-style-type: none"> Procurement of PPE for medical personnel and disease response |
| Pharmaceuticals and Medical Supplies | <ul style="list-style-type: none"> Procurement of pharmaceuticals (e.g., albuterol, codeine, saline) and medical supplies (e.g., first aid kits, thermometers) |
| Non-Medical PPE | <ul style="list-style-type: none"> Procurement of PPE for first responders, installations, and ships |
| Cleaning Contracts and Non-Medical Supplies/ Equipment | <ul style="list-style-type: none"> Increased cleaning contracts and biohazard mitigation (e.g., disinfectants, sanitizers, cleaning materials) |
| B. Longer Term Requirements | |
| Military Healthcare System Direct Care Capacity | <ul style="list-style-type: none"> Expansion of military treatment facilities to ensure maximum capacity of the direct care system Procurement of expeditionary hospital packages |
| Priority 2: Safeguard our National Security Capabilities | |
| A. Continuity of Operations – Highest immediate risk to military readiness | |
| DoD Operations | <ul style="list-style-type: none"> Increased operations and deployment schedules Costs to support social distancing, quarantine requirements, etc. |
| Information Technology (IT) Equipment/Support | <ul style="list-style-type: none"> Procurement of IT equipment and increased bandwidth to continue operations |
| Reserve Component Support for the Department | <ul style="list-style-type: none"> Deployments of Reserve/Guard personnel for DoD missions (e.g., Training, temporary duty travel costs, non-IT equipment) |
| Transactions with Nonappropriated Fund Instrumentalities (NAFI) | <ul style="list-style-type: none"> Coronavirus-related transactions with revenue-generating NAFIs (e.g., to avoid NAF employee layoffs at Morale, Welfare, and Recreation activities) |
| B. Defense Industrial Base – High Risk | |
| Defense Production Act Purchases | <ul style="list-style-type: none"> Increase in access to materials necessary for national security and pandemic recovery |
| Contract Modifications and Cost Overruns | <ul style="list-style-type: none"> Contract modifications involving price increases and cost overruns tied directly to the COVID-19 response. |

COVID-19 RESPONSE FUNDING (CONTINUED)

Of the COVID-19 response funds received and available for obligation, \$8,145.0 million were obligated during FY 2020, \$27.9 million expired on September 30, 2020, and \$1,032.7 million remained available for future obligation. The remaining \$1,450.0 million was provided to Defense Working Capital Fund activities to position them to respond to cash liquidity issues resulting from COVID-19 related impacts. See Note 29, *COVID-19 Activity*, in the Financial Section for additional information.

TAKING CARE OF OUR PEOPLE

The Military (Active, Reserve, and National Guard) and Civilian personnel are the foundation of the Department and constitute its premier asset. As such, they must have the full support of the nation and the Department to ensure that they successfully accomplish the arduous mission of defending the Nation and its interests. During FY 2020, the Department took numerous actions to demonstrate this commitment to support Military Service members and their families:

- Provided a 3.1% military pay raise effective January 1, 2020 – the largest military pay raise in ten years;
- Implemented a memorandum, **“Policy Change Concerning Priorities for Department of Defense Child Care Programs,”** to improve availability of DoD-provided child care for military families;
- Directed that military spouse license reciprocity be a factor in basing decisions and issued a report, **“Military Spouse Licensure: State Best Practices and Strategies for Achieving Reciprocity”** to help mitigate the challenges of duty station changes on military spouses;
- Implemented an **MHPI Tenant Bill of Rights** to help ensure that military families in privatized housing receive quality housing and fair treatment;
- Issued a **Per- and Polyfluoroalkyl Substances (PFAS) Task Force Progress Report** summarizing the Department's accomplishments and planned activities for protecting military families and the communities surrounding military installations;
- Took multiple steps to promote equal opportunity, diversity, and inclusion, including establishing a permanent Defense Advisory Committee on Diversity and Inclusion in the Armed Services and issuing two memorandums – **“Actions for Improving Diversity and Inclusion in the Department of Defense”** and **“Immediate Actions to Address Diversity, Inclusion, and Equal Opportunity in the Military Services;”**
- Implemented all recommendations from the April 2019 **Sexual Assault Accountability and Investigation Task Force Report** to improve the accountability process for investigations in which Military Service members are either victims or offenders of sexual assault; and,
- Integrated the seven broad, evidence-informed **Suicide Prevention Strategies** from the Centers for Disease Control and Prevention (CDC) into the DoD-wide suicide prevention program evaluation framework. Baseline data, published in the Department's **Annual Suicide Report** for Calendar Year 2019, serves as a starting point to track progress and measure effectiveness of the Department's suicide prevention efforts.

TAKING CARE OF OUR PEOPLE (CONTINUED)

The DoD civilian workforce is also a vital element in maintaining the viability and capabilities of the Joint Force. DoD civilians provide a wide range of services including logistics and supply chain management, financial management, human resource management, cyber defense, information technology management, health care management, and community services.

During FY 2020, the Department took numerous actions to demonstrate its commitment to supporting the civilian workforce:

- Implemented a 3.1% civilian pay raise in accordance with section 748 of the **Consolidated Appropriations Act of 2020**;
- Implemented a memorandum, "**Direct Hire Authority for Certain Personnel of the Department of Defense**," to streamline the recruitment of and reduce the time to hire quality candidates by consolidating several DoD-specific civilian hiring authorities into a single authority and policy;
- Rapidly responded to COVID-19 workforce needs by issuing **DoD civilian human resources guidance** to provide workplace flexibilities (such as flexible work schedules, telework, extending performance management milestones and use of time-off awards, and direct hire authorities) for the civilian workforce as they continue to execute the Department's mission;
- Published the Department's inaugural Agency Workforce Fund Plan, in accordance with OMB **Memorandum M-19-24**, to promote the strategic use of timely award recognition throughout the performance year and strengthen the relationship between performance ratings and performance awards;
- Implemented the **Federal Employee Paid Leave Act**, which provides up to 12 weeks of paid leave to eligible employees in connection with the birth, adoption, or foster placement of a child occurring on or after October 1, 2020; and
- Established an enterprise-wide **Employee Assistance Program** contract, in accordance with **5 U.S.C. §7901**, to provide scalable, streamlined, and cost-effective services to all DoD Components for civilian employees including occupational health services, health and financial counseling, and pre-placement examinations.



Air Force medical providers and support staff assigned to COVID Theater Hospital-1 at Eisenhower Hospital, Rancho Mirage, Calif., August 28, 2020.

PHOTO CREDIT: Army Lt. Col. Charles Calio

PERFORMANCE OVERVIEW

Similar to the manner in which the NDS provides a specific focus on the Department's role in implementing the National Security Strategy, the FY 2018 – FY 2022 National Defense Business Operation Plan (**NDBOP**) provides greater detail on how the Department plans to implement the three NDS lines of effort (which constitute the Department's strategic goals) from a business operations and mission support infrastructure perspective. The NDBOP, which fulfills the requirements of the Government Performance and Results Act of 1993 (**GPRA**), the GPRA Modernization Act of 2010 (**GPRAMA**), and the Office of Management and Budget (OMB) **Circular No. A-11**, contributes to NDS implementation by defining strategic objectives within each NDS line of effort based on input/recommendations from the DoD Components, DoD OIG, Government Accountability Office (**GAO**), and the **President's Management Agenda** (see Figure 9).

Figure 9: DoD Strategic Goals & Objectives

| STRATEGIC GOAL | STRATEGIC OBJECTIVE |
|--|---|
| GOAL 1: Rebuild Military Readiness and Build a More Lethal Joint Force | 1.1 - Restore military readiness to build a more lethal force |
| | 1.2 - Increase weapon system mission capability while reducing operating cost |
| | 1.3 - Enhance information technology and cybersecurity defense capabilities |
| | 1.4 - Deliver timely and relevant intelligence to warfighters and decision makers to provide decisive and dominant advantage over adversaries |
| | 1.5 - Implement initiatives to recruit and retain the best total force to bolster capabilities and readiness |
| | 1.6 - Ensure the U.S. technological advantage |
| | 1.7 - Enhance safe and resilient DoD installations |
| | 1.8 - Enhance acquisition and sustainment workforce |
| GOAL 2: Strengthen Alliances and Attract New Partners | 2.1 - Reform the security cooperation enterprise |
| GOAL 3: Reform the Department's Business Practices for Greater Performance and Affordability | 2.2 - Promote acquisition and sustainment initiatives with key international partners |
| | 3.1 - Improve and strengthen business operations through a move to DoD-enterprise or shared services; reduce administrative and regulatory burden |
| | 3.2 - Leverage data as a strategic asset by expanding our data analytics capability and cultivate data-driven solutions |
| | 3.3 - Improve the quality of budgetary and financial information that is most valuable in managing the DoD |
| | 3.4 - Enable innovative acquisition approaches that deliver warfighting capability at the speed of relevance |
| 3.5 - Build a safe, secure, and resilient Defense Industrial Base (commercial and organic) | |

This section provides an overview of the Department's operational performance through Quarter 3 (Q3), FY 2020, based on the **FY 2021 Annual Performance Plan (APP)**, which covers the FY 2020 budget execution year. The APP further builds on the NDBOP by defining specific performance goals and measures along with targets and/or milestones for use in guiding the Department's business operations (see Figure 10). Additional detailed narrative information and performance results that support this overview are available in the FY 2020 **Third Quarter Performance Results Summary**. Complete FY 2020 performance results through fiscal year-end will be published in the **Annual Performance Report** in February 2021, which will be available on the Office of the Chief Management Officer's (OCMO) website at <https://cmo.defense.gov>.

Figure 10: DoD Strategic Performance Framework



ENTERPRISE PERFORMANCE MANAGEMENT

The Department is a performance-based organization committed to using performance data and results to drive decision-making and improve enterprise business operations. The CMO, as the Performance Improvement Officer, is responsible for performance planning, measurement, and analysis as well as ensuring that business transformation policies and programs are designed to improve performance efficiency and effectiveness. Leaders at all levels throughout the Department are responsible for meeting the performance goals and measures set out in the APP that relate to their functional areas, some of which are used to inform critical elements of senior executive performance plans. To ensure the quality of the performance data provided for performance management and assessment, the CMO requires written attestation from goal owners attesting that (1) all performance information is complete, accurate, and reliable, and (2) verification and validation procedures were performed on the data, the procedures were documented, and supporting documentation is available upon request. Using the APP goals and measures in this manner, and holding goal owners accountable for the quality of their performance data, helps to ensure that DoD leaders are focusing on achieving measurable outcomes that align with the mission strategy laid out in the NDS and NDBOP (see Figure 11).

ENTERPRISE PERFORMANCE MANAGEMENT (CONTINUED)

Figure 11: DoD Performance Management and Evaluation Process



In addition to the APP performance goals and measures, the Department employs hundreds of other performance measures to help assess progress in key areas such as reform, acquisition, military readiness, audit remediation, and business process improvement. Together, these datasets help DoD management monitor the entire breadth and scope of the Department’s worldwide responsibilities and guide the effective and efficient use of resources. This information supports multiple decision-making and accountability efforts such as provision to the Deputy Secretary and Secretary of Defense to inform management decisions, inclusion in budget exhibits to justify funding requests, and submission to the Congress through a wide range of reports to facilitate proper legislative oversight.

Given the importance of performance information, the Department continually strives to identify and implement improvements to the DoD performance management process. One such initiative being led by the OCMO is the ongoing effort to define and implement consistent performance metrics for similar functions across the Department, beginning with key administrative functions such as human resources, acquisition, financial management, information technology, and property management. These shared performance metrics are being developed using a “balanced scorecard” approach (i.e., measuring performance from the perspectives of financial, customer/stakeholder, internal business processes, and organizational capacity) to help ensure that desired function outcomes are achieved while encouraging the use of innovative solutions to improve performance. Once developed, these performance metrics will be benchmarked against Departmental targets as well as performance results within the Federal Government and industry to foster accountability and improvement.



A soldier participates in German Armed Forces Proficiency Badge events in an undisclosed location in the Central Command area of responsibility, September 5, 2020.

PHOTO CREDIT: Army Sgt. Trevor Cullen

STRATEGIC GOAL 1:

REBUILD MILITARY READINESS AND BUILD A MORE LETHAL JOINT FORCE

The surest way to prevent war is to be prepared to win. This requires a competitive approach to Joint Force development and a consistent, multiyear investment to restore warfighting readiness. The nation must field a capable and lethal Joint Force that possesses decisive advantages for any likely conflict, while remaining proficient across the entire spectrum of conflict. To support this goal, the Department must gain and maintain information superiority; modernize key capabilities, such as space and cyberspace warfighting domains; and evolve innovative operational concepts for the ways the Joint Force is organized and deployed.

Central to the achievement of this goal are the people of the DoD workforce. Recruiting, developing, and retaining a high-quality military and civilian workforce is essential for the Department's warfighting and deterrent success. Cultivating a lethal, agile Joint Force requires more than new technologies and posture changes—it depends on the ability of Military Service members and the DoD civilian workforce to integrate new capabilities, adapt warfighting approaches, and improve business practices

in order to achieve mission success. The creativity and talent of the combined DoD workforce is the Department's greatest enduring strength, and one that is not taken for granted.

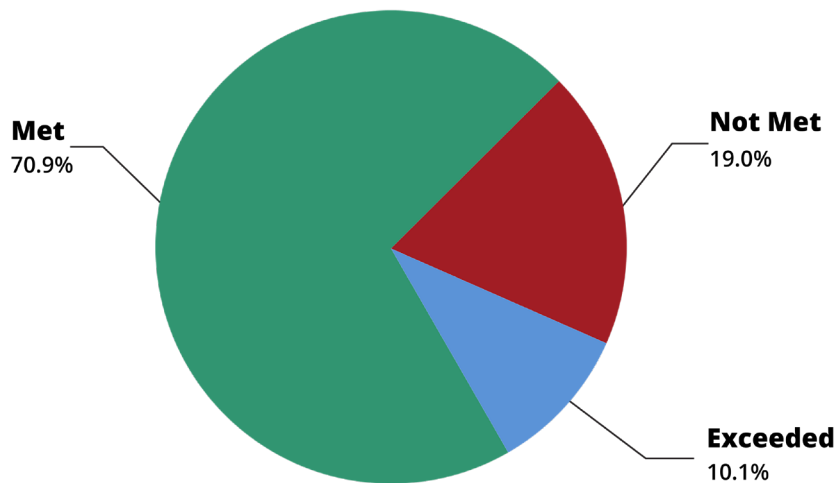
The Department measured 79 of the 103 Strategic Goal 1 performance measures as of Q3, FY 2020, with the remainder being only measured on a semi-annual or annual basis (see Figure 12). Updated performance results for all performance targets through fiscal year-end will be available in the Annual Performance Report.



Marines hike at Fort Greely, Alaska, February 19, 2020, to prepare for Arctic Edge, an exercise that provides training in extreme cold-weather conditions.

PHOTO CREDIT: Marine Corps Lance Cpl. Jose Gonzalez

Figure 12: Strategic Goal 1 Performance Result Summary



ILLUSTRATIVE PERFORMANCE RESULTS

A limited number of examples of the Department's performance results are summarized below. See the FY 2020 **Third Quarter Performance Results Summary** companion document for a full listing of the Department's Strategic Goal 1 performance measures, targets, and results; responsible Departmental performance goal leaders; prior year results; and additional narrative information.

PERFORMANCE GOAL 1.2.1: IMPROVE F-35 EXECUTION

Improving execution of the F-35 Lightning II **Joint Strike Fighter** program has been a major goal for the Department in addressing DoD weapon system mission capability. The program is the Department's focal point for defining affordable, "next-generation" strike aircraft weapon systems and is the Department's largest joint and international acquisition program in DoD history. The F-35 is key to strengthening international security and alliances while building defense capacity and enhanced interoperability with U.S. allies. Along with the Navy, Air Force, and Marine Corps, seven allied nations participate in the program as partners, four nations are customers under the Foreign Military Sales (**FMS**) program, and several additional FMS customers have shown strong interest.

The Department met its Q3, FY 2020 performance target for updating and issuing the F-35 Lifecycle Sustainment Plan and reported progress towards achieving sustainment affordability targets in accordance with the October 2018 Acquisition Decision Memorandum. For example, the Department is working to replace the F-35 Autonomic Logistics Information System with the new Operational Data Integrated Network, which is anticipated to improve fleet availability and significantly reduce related contractor support costs. The next step in the Life Cycle

Sustainment Plan process is to improve the linkage between the performance metrics currently being tracked (such as the percentage of time that an aircraft can perform at least one or all of its assigned missions) and cost metrics (such as cost per flight hour and cost per aircraft per year) in order to drive reductions in sustainment cost to meet the Military Services' affordability constraints. In support of this effort, the F-35 Joint Program Office is working together with the Office of the Assistant Secretary of Defense for Sustainment (**ASD(S)**), the Office of Cost Assessment and Program Evaluation (**CAPE**), and the GAO (which is currently performing an audit focused on F-35 sustainment cost issues) in order to improve the Department's understanding of sustainment cost issues across the F-35 enterprise.

In March 2020, the Department awarded a new \$4.7 billion contract for the acquisition of a total of 78 F-35s, which are expected to be delivered by 2023 to the Navy, Air Force, and Marine Corps. When combined with separate contracts for engine procurement, the agreement achieved an overall per aircraft price reduction from previous contracts of 12.8% for the F-35A variant, 12.3% for the F-35B variant, and 13.2% for the F-35C variant.



Two F-35A Lightning II aircraft fly over the Alaska Canada Highway en route to their new home at the 354th Fighter Wing, April 21, 2020. The F-35 represents a new model of international cooperation, ensuring U.S. and Coalition partner security well into the 21st Century.

PHOTO CREDIT: Air National Guard Tech. Sgt. Adam Keele

PERFORMANCE GOAL 1.8.1: ENHANCE ACQUISITION AND SUSTAINMENT WORKFORCE

Maintaining a highly capable and technically proficient workforce is of utmost importance to the Department's efforts to improve Joint Force readiness and increase lethality. To support the training of the DoD acquisition workforce, the Defense Acquisition University (DAU) offers eight job-specific credential programs in seven topic areas to help acquisition personnel deepen and grow their skillsets: Introduction to Risk, Issue, and Opportunity Management; Services Acquisition for Acquisition Professionals; Services Acquisition for Non-Acquisition Professionals; Agile; Foundational Intellectual Property; Program Protection; Digital Engineering; and Data Analytics. The Department tracks and assesses the number of students enrolled in and completing these credential programs as measures of performance. As of June 30, 2020, 5,891 professionals had enrolled in one of DAU's credential programs, exceeding the annual goal for FY 2020 of 2,000 enrollments by nearly 295%. Additionally, 563 members of the workforce had completed one of DAU's available credentials, surpassing the annual goal for FY 2020 of 260 completions by more than 215%. Based on these results, the Department plans

to revise the FY 2021 and FY 2022 goals for the DAU credentials program to better reflect the proven demand for these assets, and is actively developing strategies to increase completion rates.

Similar to many other training and education programs around the world, the delivery of DAU courses was disrupted by the COVID-19 pandemic during FY 2020. However, DAU was able to react swiftly and move 80% of its resident course offerings online, thereby enabling more than 10,000 workforce members to continue training without interruption. DAU also quickly developed a "**Coronavirus Acquisition Guidance and Resources**" page to provide acquisition professionals with a curated list of policy guidance, statutes, and tools issued across the Federal Government and the Department related to acquisition in the pandemic environment. Since its launch in April 2020, the page has been visited an average of 1,500 times per month. Each of these visit represents a connection between an acquisition professional and a critical piece of information required to perform their duties in support of the warfighter.



Soldiers fire the Army's new M1A2 SEPv3 tank at Fort Hood, Texas, August 18, 2020.

PHOTO CREDIT: Army Sgt. Calab Franklin

STRATEGIC GOAL 2: STRENGTHEN OUR ALLIANCES & ATTRACT NEW PARTNERS

Mutually beneficial alliances and partnerships are crucial to the Department's strategy of providing a durable, asymmetric strategic advantage that no competitor or rival can match. By working together with allies and partners, the Department amasses the greatest possible strength for the long-term advancement of American interests and maintaining favorable balances of power that deter aggression and support the stability of economic growth. Allies and partners provide a wealth of benefits to the accomplishment of the DoD mission such as providing access to critical regions; providing unique perspectives, regional relationships, and information; and supporting a widespread basing and logistics system that underpins the Department's global reach.



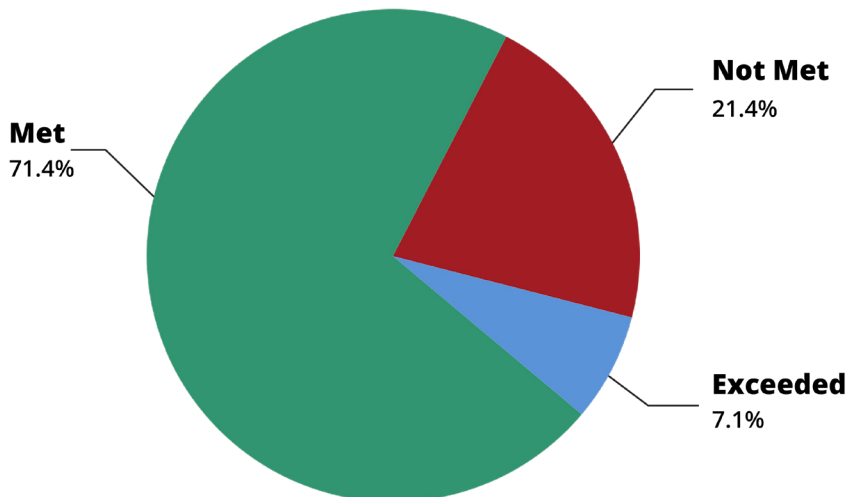
Mississippi Army National Guardsmen unload supplies at Camp Shelby Joint Force Training Center near Hattiesburg, Miss., in preparation to respond to Hurricane Sally, September 15, 2020.

PHOTO CREDIT: Army Spc. Victoria Miller

The Department of Defense is part of a broad interagency team working with the **Department of State** and other stakeholders to build international cooperation through bilateral, regional, and broader relationships toward mutually beneficial strategic and operational outcomes. The Department achieves a robust network of allies and partners through a wide range of programs and activities designed to improve security, interoperability and preparedness, and increased capability and capacity. These programs include provision of defense articles and services, institutional capacity building, exercises and training events, military-to-military exchanges, professional military education at U.S. military schools, and collaborating to develop key technological capabilities.

The Department measured 14 of the 15 Strategic Goal 2 performance measures as of Q3, FY 2020, with the remainder being only measured on a semi-annual or annual basis (see Figure 13). Updated performance results for all performance targets through fiscal year-end will be available in the Annual Performance Report.

Figure 13: Strategic Goal 2 Performance Result Summary



ILLUSTRATIVE PERFORMANCE RESULTS

A limited number of examples of the Department's performance results are summarized below. See the FY 2020 **Third Quarter Performance Results Summary** companion document for a full listing of the Department's Strategic Goal 2 performance measures, targets, and results; responsible Departmental performance goal leaders; prior year results; and additional narrative information.

PERFORMANCE GOAL 2.1.1: SYNCHRONIZE U.S. PLANNING AND RESOURCING EFFORTS TO DEVELOP FULL-SPECTRUM CAPABILITIES FOR PARTNER NATIONS

The Defense Security Cooperation Agency (**DSCA**) leads the broader U.S. security cooperation enterprise through the administration of security cooperation programs that support U.S. policy interests and objectives identified by the White House, Department of State, and Department of Defense. As part of carrying out this mission, DSCA continues to support the Department's role in national security and NDS implementation by assessing and reforming DoD security cooperation organizations, structures, workforce, and processes. Working with other key DoD stakeholders, DSCA developed and is currently implementing a four-level "Strategy to Capability" approach that will focus the Department's attention on developing partner capabilities that best support partner security roles tied to NDS objectives. For each security cooperation partner country, this approach will enable the Department to establish a coordinated current-state DoD perspective on partner roles, capabilities, activities, and desired outcomes (Level 1 Strategic Framework); prioritize and synchronize planning and resourcing efforts (Level 2 Five Year Plan); monitor **Foreign Military Sales** case implementation and execution (Level 3 System Program Management Plan); and coordinate

risk identification, mitigation, and resolution efforts (Level 4 Interagency Targeted Action Plan). Each level results in a product that synthesizes strategic outcomes with varying degrees of program activity to inform program planning, development, and execution.

In FY 2020, the Department focused on measuring progress of the development and implementation of Level 1 Strategic Frameworks as the best indicator to measure progress. As of Q3, FY 2020, DSCA completed implementation of Level 1 Strategic Frameworks for 34 security cooperation partner countries, compared to a Q3, FY 2020 target of 60. Progress in this performance area was negatively impacted during FY 2020 by the COVID-19 pandemic, as mandatory quarantines and the government-wide policy to make maximum use of telework to the extent possible limited personnel access to DoD secure networks and classified information necessary to develop, review, and validate the Level 1 Strategic Frameworks. The Department is continuing efforts to make progress on the Level 1 Strategic Frameworks not requiring this access and developing alternative strategies for securing personnel access to required resources while prioritizing personnel health and safety.



Air Force Tech Sgt. Ashley Yavorsky and Airman 1st Class Leah Weingartner test the magnetic particle unit functionality at the Pittsburgh International Airport Air Reserve Station, Pa., January 28, 2020.

PHOTO CREDIT: Joshua Seybert, Air Force

PERFORMANCE GOAL 2.1.2: DEVELOP A HIGHLY QUALIFIED SECURITY COOPERATION WORKFORCE

In accordance with a requirement contained in the **NDAAs for FY 2017** and codified at **10 U.S.C. §384**, DSCA leads the Department's effort to oversee the development and management of a professional security cooperation (SC) workforce. The Department has achieved significant progress towards the completion of this effort since the NDAA was enacted: in FY 2017 and FY 2018, DSCA gathered manpower and personnel data from the DoD Components in order to identify and analyze the size and development needs of the SC workforce, and in FY 2019 DSCA established the **Defense Security Cooperation University** and began offering an initial group of certification program courses to the SC workforce.

In FY 2020, DSCA formally began implementing the Defense Security Cooperation Workforce Certification Program to provide the SC workforce with the training and experience necessary to complete their assigned responsibilities and to formalize a continuous learning process to ensure that they remain up to date on SC developments. The program currently consists of five academic areas of concentration – SC planning, oversight, and execution management; SC case lifecycle management;

SC office operations and management; SC execution support management; and SC acquisition management – and four certification levels – basic, intermediate, advanced, and expert. The first year of the program implementation (January 1, 2020 – December 31, 2020) will be a transition period to provide DoD Components and the SC workforce with an opportunity to familiarize themselves with the Program before mandatory participation and completion milestones go into effect in calendar year 2021. As of Q3, FY 2020, DSCA issued a memorandum, "**Implementation of the Department of Defense Security Cooperation Workforce Certification Program**," and began drafting a DoD Instruction to establish the policy for management and execution of the SC Workforce Certification Program. In doing so, DSCA met the Q3 goal of completing 40% of the effort to establish guidance to create a trained and certified workforce, and is on track to meet the Q4 goal of 60% completion. Additionally, DSCA developed, tested, and fielded 67% of the SC Workforce Certification Program courses, exceeding both the Q3, FY 2020 goal of 55% and the Q4, FY 2020 goal of 60%.



A Navy patrol boat transfers supplies to the fast-attack submarine USS Texas in the Gulf of Tadjoura, November 5, 2019.

PHOTO CREDIT: Navy Mass Communication Specialist Petty Officer 1st Class Kenji Shiroma

STRATEGIC GOAL 3: REFORM THE DEPARTMENT'S BUSINESS PRACTICES FOR GREATER PERFORMANCE AND AFFORDABILITY

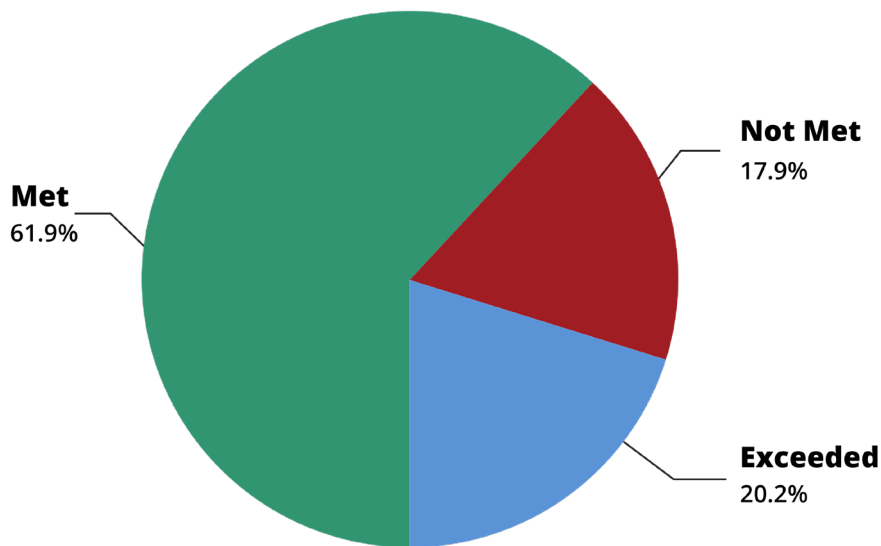
Over time, the lack of standard business processes has allowed the Department's decision-making to become overly cumbersome, costly, and risk-averse in an attempt to ensure quality of performance. The Department recognizes that in order to face the challenges of its complex and dynamic operating environment, reforms must be implemented to increase the speed with which decisions, policies, capabilities, and information are provided in support of the warfighter. As such, the Department must transition to a management system that allows leadership to harness opportunities for improved efficiency, thereby assuming greater risk at the headquarters level in order to reduce operational risk to the warfighter. This management system must also be coupled with a transition to a culture of performance where results and accountability matter. Together, these changes will help support the Department's goals of supporting Joint Force lethality and fulfilling the responsibility of gaining full value from every taxpayer dollar spent on defense.

In line with this vision, the Department continues to employ the use of cross-functional teams to examine business operations to identify and implement reforms which improve operational effectiveness and maximize efficiency so that

additional time, money, and manpower that can be reallocated to higher priorities (such as enhancing lethality, readiness, and modernization). These teams receive oversight and guidance from the Reform Management Group—a senior leadership board consisting of numerous Principal Staff Assistants and the Military Department CMOs—and use performance data to propose and evaluate reform recommendations. DoD Components use the Defense Enterprise Reform Management Framework Portal to report execution, progress, and post-implementation achievement of their reform initiatives, and the OCMO and Office of the Under Secretary of Defense (Comptroller) (**OUSDC**) review and validate all reform savings prior to their inclusion in this report, the Annual Performance Report, and the annual **Defense Budget Overview**.

The Department measured 84 of the 106 Strategic Goal 3 performance measures as of Q3, FY 2020, with the remainder being only measured on a semi-annual or annual basis (see Figure 14). Updated performance results for all performance targets through fiscal year-end will be available in the Annual Performance Report.

Figure 14: Strategic Goal 3 Performance Result Summary



ILLUSTRATIVE PERFORMANCE RESULTS

A limited number of examples of the Department's performance results are summarized below. See the FY 2020 **Third Quarter Performance Results Summary** companion document for a full listing of the Department's Strategic Goal 3 performance measures, targets, and results; responsible Departmental performance goal leaders; prior year results; and additional narrative information.

AGENCY PRIORITY GOAL 3.1.1: BY SEPTEMBER 30, 2021, CREATE A LONG-LASTING CULTURE OF INNOVATION, EMPOWERMENT, AND IMPROVEMENT TO REDUCE THE COST OF DOING BUSINESS THROUGHOUT THE DEPARTMENT AND ACHIEVE \$16.4 BILLION IN REFORM SAVINGS (FY 2020 - \$7.7 BILLION AND FY 2021 - \$8.7 BILLION)

In FY 2019, the Department set a goal of recognizing reforms savings of \$46.0 billion over the five-year period covered by the FY 2019 - FY 2024 Future Years Defense Program (FYDP), a document which projects the forces, resources, and programs the Department will need to support mission achievement. The Department exceeded its FY 2019 reform savings goal of \$5.0 billion in FY 2019 and is projected to meet its FY 2020 reform savings goal of \$7.7 billion in FY 2020, with a cumulative total of \$14.2 billion in reform savings projected over FY 2019 and FY 2020 (see Figure 15).



Soldiers conduct a joint forcible entry operation as part of an exercise at Donnelly Training Area, Alaska, September 14, 2020.

PHOTO CREDIT: Army Pfc. Colton Eller

Figure 15: FY 2019 – FY 2024 Projected Reform Savings

\$ in millions

| REFORM TYPE | FY 2019 ACTUAL SAVINGS | FY 2020 ACTUAL SAVINGS | FY 2021 PROJECTED SAVINGS | FY 2022-2024 PROJECTED SAVINGS |
|-----------------------------------|------------------------------|------------------------------|---------------------------------|--------------------------------------|
| Better Alignment of Resources | \$5,885.6 | \$2,144.2 | \$8,219.4 | \$20,007.7 |
| Business Process Improvements | 521.6 | 2,309.6 | 3,081.7 | 5,991.8 |
| Business System Improvements | (23.0) | 250.5 | 320.1 | 954.4 |
| Divestments | - | 2,949.3 | 4,978.3 | 23,417.0 |
| Policy Reform | 133.8 | 177.9 | 625.5 | 2,228.3 |
| Weapon System Acquisition Process | - | (100.6) | 856.3 | 4,036.2 |
| Total | \$6,518.0 | \$7,730.9 | \$18,081.3 | \$56,635.4 |

Below are some examples of the Department's FY 2020 efforts to implement business reforms:

- The Department has continued efforts to configure the Defense Civilian Human Resource Management System (**DCHRMS**), a cloud-based human resources personnel system that is integrating six different databases into one. Through Q3, FY 2020, thousands of business processes and rules were reengineered, reducing system roles by 30%, decreasing the number of data fields by 45%, and reducing the number of interfaces down to 36 from 42 in FY 2019.
- The Department continues to focus on validation of contract requirements, redundancy, and effectiveness as a major reform area. Through Q3, FY 2020, financial savings of \$441.0 million were confirmed through programmed budgeted amounts in accordance with Service Requirements Review Board and Senior Review Panel validations.

AGENCY PRIORITY GOAL 3.1.7: REDUCE REGULATORY BURDEN BY ELIMINATING UNNECESSARY FEDERAL RULES THROUGH CONTINUED IMPLEMENTATION OF EXECUTIVE ORDER 13771

A key Administration priority is to reform regulatory requirements that negatively impact the American economy. In accordance with **Executive Order 13777** and OMB **Memorandum M-17-23**, the Department established a goal to review all 716 DoD codified regulations in order to evaluate regulations for consolidation and to eliminate unnecessary, outdated, or ineffective regulations by 25%. This effort will help reduce burden and costs to the public; identify priority regulations that align with the Secretary of Defense's priorities; and improve the business process of issuing regulations.

The DoD Regulatory Reform Task Force review, which was completed by Q1, FY 2019, recommended 248 (35%) regulations for repeal, 49 (7%) for replacement, 80 (11%) for modification, and 339 (47%) for retention. The Department has established a goal of implementing at least 50 Task Force recommendations each fiscal year. Through Q3, FY 2020, the Department implemented 30 recommendations that resulted in repealing 18 regulations and modifying 12. While it is expected that the Department will meet its regulatory reform goals for FY 2020, the COVID-19 pandemic presented several challenges that may impact DoD regulatory performance. For instance, the OMB Office of Information and Regulatory Affairs (**OIRA**) prioritized the review and clearance of COVID-19 regulatory actions and delayed review and clearance of non-COVID-19 regulations, thereby delaying the approval of DoD regulations intended to implement reforms. Similarly, the Office of the Federal Register (**OFR**) prioritized the publication of COVID-19 regulatory actions, which created a backlog for the publication of non-COVID-19 regulations across the executive branch agencies.

FORWARD-LOOKING INFORMATION

Over recent fiscal years, the Department has made great strides to improve its current readiness, while simultaneously making significant investments in future capabilities and force modernization.

Given the breadth and complexity of its mission, the Department faces myriad emerging risks and challenges. Nevertheless, the Department is committed to ensuring a clear-eyed appraisal of these risks and in identifying every opportunity to optimize operational performance. These risks include:

NATURAL AND MAN-MADE DISASTERS MAY DISRUPT DoD OPERATIONS, POSE DANGER TO DoD PROPERTY AND PERSONNEL, AND NECESSITATE ADDITIONAL FUNDING TO SUPPORT RESPONSE AND RECOVERY EFFORTS.

The significant economic and societal effects experienced as a result of the COVID-19 pandemic underscores the importance of being prepared for the unexpected. Though the Department has been largely successful at adapting as necessary to continue operations while safeguarding the health and well-being of DoD personnel, there remain numerous challenges to be addressed including continuing distributed operations and social distancing. These and other challenges place increased stress on various enterprise and organizational processes, especially those requiring access to secure resources and human capital management functions such as training. The Department's response to the COVID-19 pandemic is being continuously monitored and reviewed to collect and distribute best practices and lessons learned, as well as to develop a full understanding of all the effects the pandemic has on DoD operations. These insights will be used to update contingency and operational plans.

While the COVID-19 pandemic may continue to be a pressing challenge during the foreseeable future, there also continues to be the risk of other disasters, both natural and man-made, that require planning and preparation. As DoD installations and personnel are located around the globe, the Department is often affected by a variety of disasters. The effects of these events may manifest in different ways, such as financial costs to preventatively relocate assets or to conduct post-disaster repairs,

or opportunity costs as DoD personnel respond to emergent disasters instead of completing other tasks. Regardless of the costs, supporting American disaster recovery efforts and those of our allies and partners is a key component of the Department's mission to protect the American people and vital national interests. To mitigate the operational and financial risks presented by disasters, the Department maintains robust continuity of operations plans to identify and mitigate any single-point failures by ensuring the availability of critical assets, capabilities, and infrastructure. For example, one focus area is energy resilience, where the Department seeks to ensure that DoD facilities have redundant capabilities.



THE COMPLEX GLOBAL SECURITY ENVIRONMENT AND GEOPOLITICAL THREATS NECESSITATE SUSTAINED VIGILANCE, AS WELL AS DELIBERATE PRIORITIZATION OF RESOURCES AND ATTENTION.

The United States is currently confronted with a range of increasingly complex security challenges and threats to its vital national interests. This is characterized by the reemergence of long-term strategic competition by revisionist powers, regional destabilization efforts of rogue nations, and threats against the homeland by non-state actors. For instance:

- China continues far reaching efforts to expand national power, “return” to leadership on the world stage, revise the international order, and make gains in what it sees as a major international competition with other states, including, and in particular, the United States;
- Russia is intent on upending international norms through its aggressive foreign policy, including violating the borders of its neighbors in pursuit of regional dominance, as well as its broken treaty obligations, nuclear intimidation, cyber operations, and coercion and hybrid tactics;
- Both China and Russia are pursuing aggressive conventional and nuclear modernization programs, and both seek to exert undue influence over other nations’ economic, diplomatic, and security decisions;
- The North Korean regime continues to expand its nuclear arsenal and develop advanced ballistic missile technologies, threatening both regional states and the U.S. homeland;
- Iran is a leading source of instability in the greater Middle East, and seeks to revise the regional security architecture through direct facilitation of terrorist and militant proxy groups and other unconventional activities; and,
- Violent extremist organizations, fueled by deep-rooted socioeconomic and ideological resentments, present a lethal, active, and enduring terrorist threat to U.S. vital national interests.

The recent COVID-19 pandemic has also deepened mistrust of international systems and institutions that previously were effective forums for American leadership to manage disputes and resolve crises. These challenges, while manageable individually, collectively strain the resources and attention of the United States, and will continue to do so for the foreseeable future. The Department is focused on correctly balancing risks to meet the demands of today while preparing for those of tomorrow. This includes addressing the challenges that emerge from a combination of recovering readiness following two decades of counterterrorism operations, continued high operational demand, and the requirement to modernize the American military for a future, high-end conflict. The NDS remains the Department’s guiding beacon to meeting the long term and enduring nature of these challenges.



Sailors and volunteers prepare care packages for sailors in restriction of movement status at Naval Air Facility Atsugi, Japan, July 20, 2020.

PHOTO CREDIT: Navy Mass Communications Specialist Petty Officer 3rd Class Jacob Smith

BUDGET IMPASSES AND CONTINUING RESOLUTIONS MAY NEGATIVELY IMPACT DOD PLANNING AND READINESS.

The Department relies on predictable and timely appropriations in order to conduct long-term planning for continued recovery of military readiness and other key capabilities. The absence of fully enacted appropriations at the beginning of a fiscal year prevent the Department from implementing new operational improvement initiatives, restricts the operations of certain civilian and Reserve Component personnel, and affects the availability of funding for critical weapon systems acquisition and personnel compensation. To mitigate this risk, the Department closely monitors the appropriation process throughout the year and develops contingency plans to ensure the continuation of essential operations in the absence of available appropriations.

THE DISPARATE SYSTEMS THAT COMPOSE THE DoD INFORMATION NETWORK MAY BE VULNERABLE TO UNAUTHORIZED ACCESS BY INTERNAL AND EXTERNAL PARTIES.

Over the past decade, DoD core functions have become increasingly reliant on the internet and other networks at various classification levels. Many of these functions (such as financial management, logistics, and personnel services) are split across multiple systems owned by various DoD Components. This wide and disparate systems infrastructure complicates the efficient sharing of information (such as requests for removal or modification of user access); increases the number of attack vectors adversaries could use to gain unauthorized access to sensitive or classified data; and raises the difficulty of implementing consistent, effective cybersecurity protocols. The Department is implementing a wide range of initiatives to mitigate these risks, including consolidating networks through the deployment of Joint Regional Security Stacks and implementing the Identity, Credential, and Access Management (**ICAM**) solution to facilitate provisioning, review, modification and removal of user access for improved access control and segregation of duties across DoD business systems from a central repository. Additionally, the Department maintains the **DoD Cybersecurity Policy Chart** to assist cybersecurity professionals in remaining cognizant of the breadth of applicable policies.



Air Force Senior Airman Matthew Jolikko takes temperatures of students before they go into Rivers Elementary School at Altus Air Force Base, Okla., August 17, 2020.

PHOTO CREDIT: Air Force Senior Airman Breanna Klemm

THE VIABILITY AND RESILIENCY OF THE DEFENSE INDUSTRIAL BASE AND SUPPLY CHAIN MAY ADVERSELY IMPACT ACQUISITION AND SUSTAINMENT.

As the Department seeks innovative solutions to priority defense challenges, a risk exists surrounding the viability of the Defense Industrial Base (**DIB**) to support the implementation of the NDS. Many suppliers lack the capability or capacity to expand production, have insufficient protections to safeguard sensitive information, and are often plagued by sole source elements of their supply chain (many of whom are foreign), raising the threat of vulnerability to single points of failure. This concern extends beyond defense-centric suppliers to commercial entities upon whom the Department increasingly relies for emerging technologies, to include artificial intelligence, autonomy, advanced computing, data analytics, biotechnology, and other fields. The COVID-19 pandemic has heightened awareness and underscores the need to verify the source of critical materials and components, have secure and diversified supply chains, and support the renewal of domestic suppliers. These efforts will ensure that the Department is better positioned to fulfill its own obligations while reducing the vectors for hostile powers to pressure suppliers by restricting or cutting off vitally needed production inputs. The Department is increasing efforts in this regard through implementation of actions pursuant to **Executive Order 13806**, enhanced support to the interagency Committee on Foreign Investment in the United States (**CFIUS**), and other related actions in concert with other elements of the federal government, allies, and partners.

DEFENSE ACQUISITION POSES CHALLENGES TO THE IMPLEMENTATION OF THE NATIONAL DEFENSE STRATEGY.

Acquisition of weapons systems remains a significant risk to the Department. Given the increasing complexity of various weapons systems, the three main key performance indicators of cost, schedule, and performance are a constant challenge. Budget uncertainty, cybersecurity, and supplier risk contribute to this risk. Acquisition risk, for both defense-centric and common goods and services, is most challenging from a geopolitical perspective, as China's purchasing power is far greater than the United States. In addition, delayed acquisition timelines increase the risk that legacy systems may need to be sustained much longer than intended. To mitigate this risk, the Department has implemented a new approach to defense acquisition by reducing layers of bureaucracy over major defense acquisition, developing and issuing innovative guidance in the **DoD 5000 series** policies, revamping the acquisition workforce structure, and applying industry best practices, such as category management and contract efficiency assessments to identify and pursue greater effectiveness and efficiency in the acquisition of goods and services.

GAO HIGH RISK LIST

The GAO issues a biennial list of programs and operations across the Federal Government that they determine to be 'high risk' due to vulnerabilities to fraud, waste, abuse, and mismanagement, or that need transformation. The FY 2019 GAO High Risk List (**GAO-19-157SP**) included the following risks specifically related to the Department:

- DoD Approach to Business Transformation
- DoD Business System Modernization
- DoD Contract Management
- DoD Financial Management
- DoD Support Infrastructure Management
- DoD Weapon Systems Acquisition

In July 2020, the OUSD(C) took the initiative of issuing a memorandum to the GAO showcasing the Department's accomplishments in addressing these risks along the five GAO evaluation criteria: leadership commitment, capacity, action plan, monitoring, and demonstrated progress. The Department later submitted supporting documentation for all of the accomplishments reported in the memorandum to substantiate the included assertions. The Department is committed to driving continual progress towards addressing these risks in support of more effective and efficient operations, and anticipates working collaboratively with GAO to identify areas for improvement.



FORT BENNING, Ga. - Soldiers from Able Company, 1st Battalion, 19th Infantry Regiment prepare to qualify with the M4 Rifle Gordon Range, September 02, 2020.

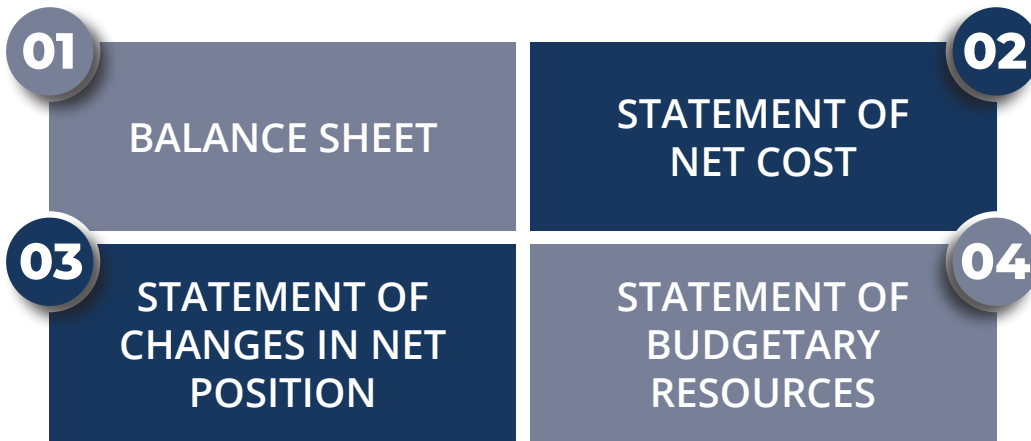
PHOTO CREDIT: Markeith Horace, Fort Benning Maneuver Center of Excellence photographer

FINANCIAL HIGHLIGHTS AND ANALYSIS

The principal financial statements are prepared to report the financial position and results of operations of the Department, pursuant to the requirements of **31 U.S.C. §3515(b)**.

The statements are prepared from the books and records of the Department in accordance with the formats prescribed by OMB **Circular No. A-136** and, to the extent possible, with U.S. Generally Accepted Accounting Principles for federal entities as prescribed by the Federal Accounting Standards Advisory Board (**FASAB**). Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

The DoD Agency-wide financial statements and accompanying notes are located in the Financial Section of this report. The principal financial statements include:



U.S. and Canadian navy ships, including the HMCS Ville de Quebec, the USS Montpelier, the USS Harry S. Truman and the USS Normandy, travel in formation with a Royal Canadian Air Force CP-140 Aurora during an exercise in the Atlantic Ocean, May 31, 2020.

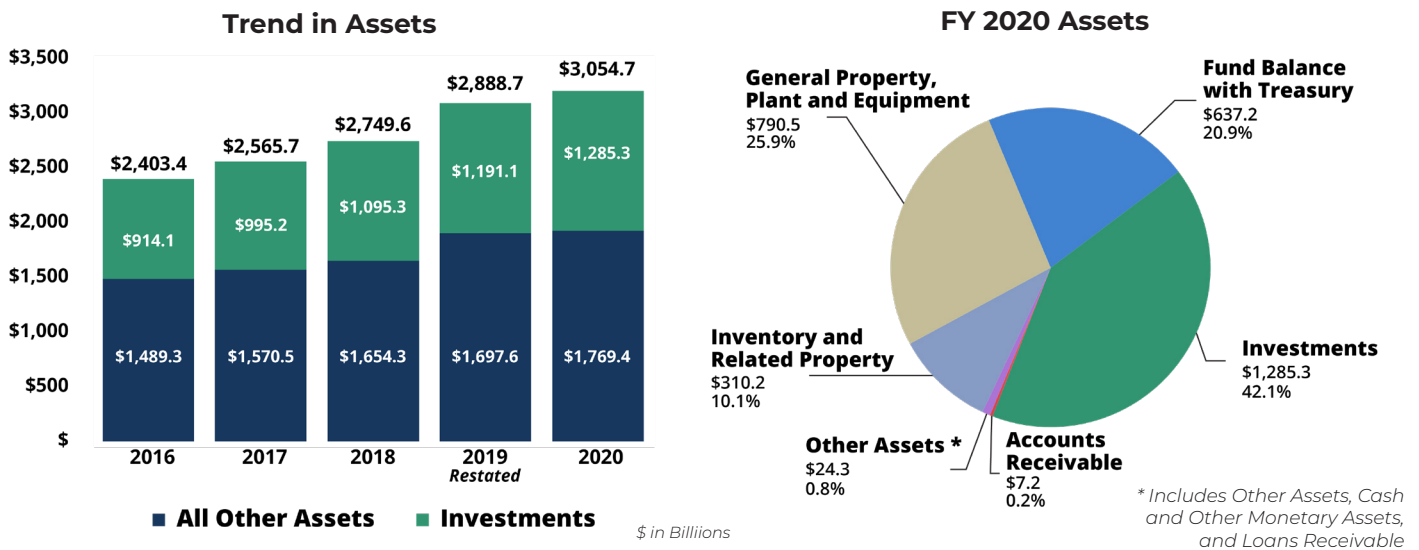
PHOTO CREDIT: Navy Seaman Isaac Esposito

BALANCE SHEET

The Balance Sheet, which represents the Department's financial position as of September 30, 2020, and September 30, 2019, reports probable economic benefits obtained or controlled by the Department (Assets), claims against those assets (Liabilities), and the residual amounts (Net Position). The Department anticipates annual fluctuations in the Balance Sheet as a result of changes in budgetary resources, improvements in internal controls, and implementation of more disciplined accounting and reporting practices throughout the organization.

As of September 30, 2020, the Department's \$3.1 trillion in assets predominately comprised Investments; Fund Balance with Treasury (FBwT); General Property, Plant, and Equipment (PP&E); and Inventory and Related Property (I&RP), which together represented 99.0% of the Department's assets (see Figure 16).

Figure 16: Summary of Total Assets (Unaudited)



The Department restated the FY 2019 General PP&E and I&RP balances to correct errors, resulting in a \$1.3 billion decrease in Total Assets as compared to the balance reported in the FY 2019 Agency Financial Report. See Note 28, *Restatements*, in the Financial Section for more information.

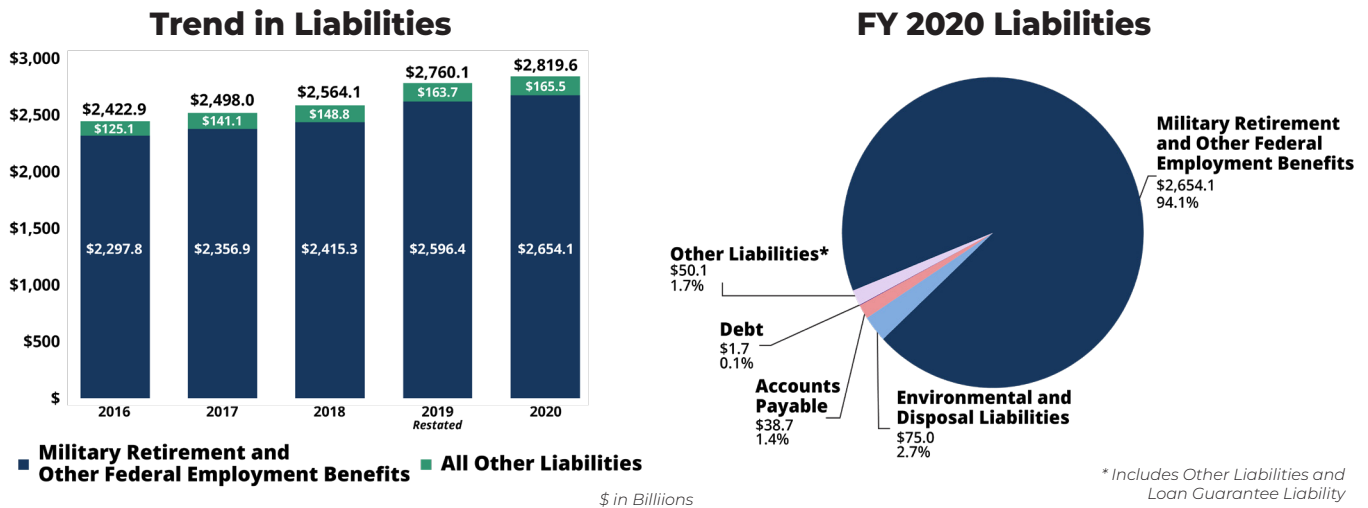
During FY 2020, the Department's total assets increased by \$166.0 billion (5.7%) as compared to FY 2019, primarily attributable to the following changes:

- Investments in securities issued by the Treasury increased by \$94.2 billion due to normal portfolio growth funded by contributions provided by Treasury and the Uniformed Services. See Note 5, *Investments and Related Interest*, in the Financial Section for more information.
- FBwT increased by \$29.6 billion, primarily as a result of increases in budgetary resources received over recent years. See Note 3, *Fund Balance with Treasury*, in the Financial Section for more information.
- I&RP increased by \$17.6 billion, primarily as a result of the Department's continuing efforts to implement more disciplined accounting practices in areas such as completeness and existence, asset valuation, and compliance with accounting standards. See Note 8, *Inventory and Related Property*, in the Financial Section for more information.
- General PP&E increased by \$24.3 billion, primarily as a result of the continued implementation of more disciplined accounting practices, such as establishing opening balances and revising asset valuations in accordance with Statement of Federal Financial Accounting Standards (SFFAS) 50 and properly reclassifying assets formerly recorded as Advances and Prepayments to Construction in Progress. See Note 9, *General PP&E*, in the Financial Section for more information.

BALANCE SHEET (CONTINUED)

As of September 30, 2020, the Department's \$2.8 trillion of liabilities predominantly comprised Military Retirement and Other Federal Employment Benefits and Environmental and Disposal Liabilities, which together represented 96.8% of the Department's liabilities (see Figure 17). The Department's liabilities are backed by the full faith and credit of the U.S. Government.

Figure 17: Summary of Total Liabilities (Unaudited)



The Department restated the FY 2019 Accounts Payable balance to correct errors, resulting in a \$0.1 billion increase in Total Liabilities as compared to the balance reported in the FY 2019 Agency Financial Report. See Note 28, *Restatements*, in the Financial Section for more information.

During FY 2020, the Department's total liabilities increased by \$59.5 billion (2.2%) as compared to FY 2019, primarily attributable to the following changes:

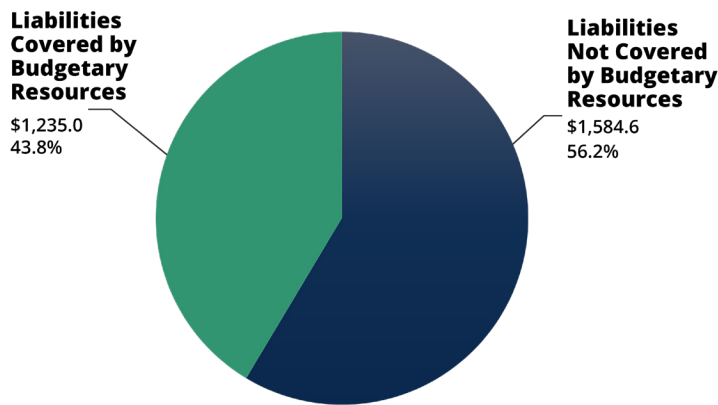
- The Military Retirement and Other Federal Employment Benefits liability increased by \$57.7 billion, primarily due to revised actuarial estimates associated with annuities, pension and health care benefits for military personnel and their survivors. This actuarial adjustment considers expected interest costs, normal costs, and changes in actuarial assumptions, net of benefit outlays. See Note 13, *Military Retirement and Other Federal Employment Benefits*, in the Financial Section for more information.
- Environment and Disposal Liabilities decreased by \$1.1 billion due to continuing efforts to safely dispose of munition stockpiles in accordance with **Chemical Weapons Convention (CWC) Treaty, Convention on the Prohibition of the Development, Production, Stockpile and Use of Chemical Weapons and on their Destruction** codified in **Title 50, United States Code, section 1521** (50 U.S.C. § 1521). See Note 14, *Environmental and Disposal Liabilities*, in the Financial Section for more information.
- Other Liabilities increased by \$5.5 billion, primarily due to a \$2.3 billion increase in Accrued Unfunded Annual Leave, \$1.8 billion in advance payments received from the **Department of Health and Human Services** for the delivery of food and medical supplies in support of the Department of Defense's COVID-19 relief efforts, and \$0.6 billion in advance payments received from the Department of Veterans Affairs for construction work to be performed by USACE on the **Veterans Affairs Medical Center – Louisville, Kentucky**. See Note 15, *Other Liabilities*, in the Financial Section for more information.

BALANCE SHEET (CONTINUED)

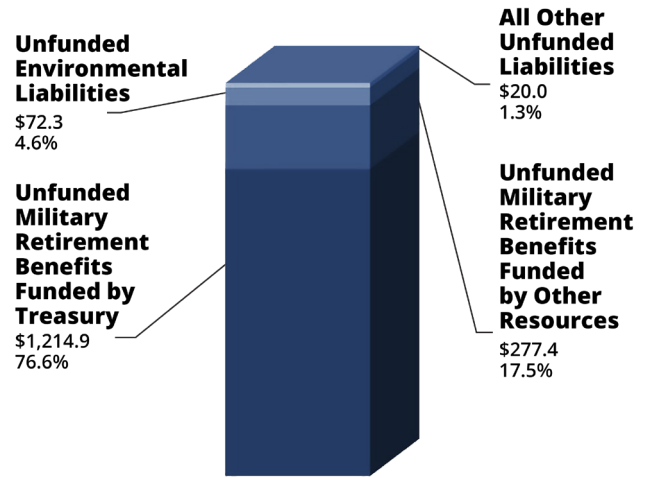
As of September 30, 2020, \$1.6 trillion (56.2%) of the Department's liabilities were not covered by budgetary resources (see Figure 18). Of this amount not covered by budgetary resources, \$1.2 trillion (75.0%) was related to Unfunded Military Retirement Benefits to be funded by the Treasury. See Note 11, *Liabilities Not Covered by Budgetary Resources*, in the Financial Section for more information.

Figure 18: Liabilities Covered/Not Covered by Budgetary Resources (Unaudited)

FY 2020 Liabilities Covered/Not Covered by Budgetary Resources



FY 2020 Liabilities Not Covered by Budgetary Resources



\$ in Billions



Marine Corps Cpl. Madison Green, right, an animal care specialist assigned to the Camp Zama Veterinary Treatment Facility in Japan, greets Layla, a beagle, August 25, 2020.

PHOTO CREDIT: Winifred Brown, Marine Corps

STATEMENT OF NET COST

The Statement of Net Cost presents the net cost of all the Department's major programs. The statement reports total expenses incurred less revenues received from external sources to finance those expenses (such as investment earnings, contributions to support retirement and health benefit requirements, and earnings from reimbursed activities). Generally, the differences between net costs reflected on the Statement of Net Cost and net outlays reported on the Statement of Budgetary Resources arise from the timing of expense recognition. These timing differences include the capitalization of assets purchased during the fiscal year; changes to the balances of various assets and accrued liabilities; and the depreciation expense on property, plant and equipment. See Note 24, *Reconciliation of Net Cost to Net Outlays*, in the Financial Section for additional information.

The Department categorizes the various costs incurred during the fiscal year into seven major programs:

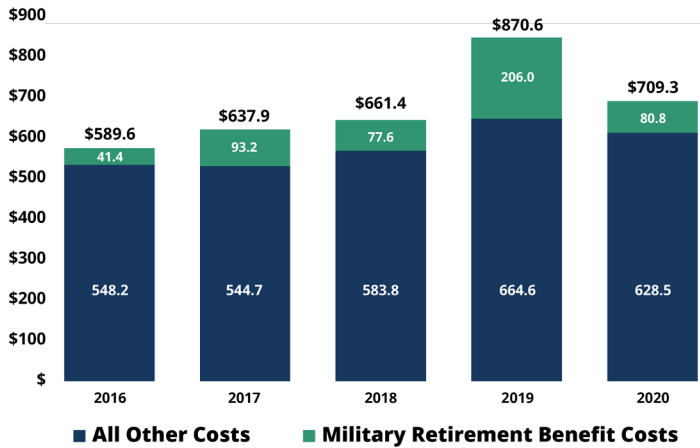
- Military Retirement Benefits includes expenditures that cover eligible members' retirement pay, disability retirement pay, and/or health care benefits for Medicare-eligible members and their dependents or survivors.
- Civil Works includes expenditures related to Energy and Water Development programs executed by USACE that primarily fulfill three mission areas: commercial navigation; flood and storm damage reduction; and aquatic ecosystem restoration.
- Military Personnel includes expenditures for the salaries and other compensation for active military personnel, reserve, and guard forces. Other compensation includes a variety of expenditures, such as housing, subsistence, and other allowances; special pay categories (e.g., incentive pay for hazardous duty); and contributions from the Uniformed Services (i.e., the Military Services, **National Oceanic and Atmospheric Administration**, and the **Public Health Service**) for future benefits under the Medicare-Eligible Retiree Health Care Fund.
- Operations, Readiness, and Support includes expenditures that provide benefits are derived for a limited period of time, such as salaries and related benefits, minor construction projects, expenses of operational military forces, training and education, recruiting, depot maintenance, purchases from Defense Working Capital Funds (e.g., spare parts), base operations support and assets with a system unit cost less than the current capitalization threshold.
- Procurement includes expenditures for the acquisition of items which provide long-term benefits as well as all costs necessary to bring the items to the condition and location for their intended operational use.
- Research, Development, Test, and Evaluation includes expenditures related to efforts that increase the Department's knowledge and understanding of emerging technologies, determine solutions for specific recognized needs, and establish technological feasibility of new developments. These efforts include all costs necessary to develop and test prototypes, including purchases of end-items, weapons, equipment, components, and materials, as well as the performance of services.
- Family Housing and Military Construction includes expenditures associated with purchasing, leasing, and support services for property that house Military Service members and their families as well as expenditures related to planning, designing, constructing, altering, and improving the Department's worldwide portfolio of military facilities.

STATEMENT OF NET COST (CONTINUED)

The major programs composing the greatest share of the Department's \$709.3 billion FY 2020 Net Cost of Operations were Operations, Readiness, and Support; Military Personnel; and Research, Development, Test, and Evaluation, which together represented 74.1% of the Department's Net Cost of Operations (see Figure 19).

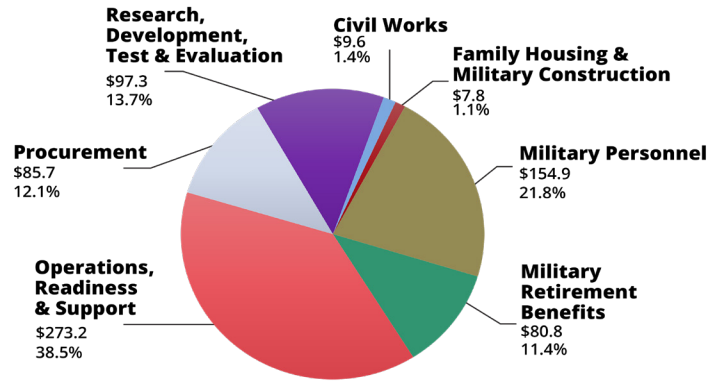
Figure 19: Summary of Net Cost of Operations (Unaudited)

FY 2020 Trend in Net Cost of Operations



\$ in Billions

FY 2020 Net Cost of Operations



During FY 2020, the Department's Net Cost of Operations decreased by \$161.4 billion (18.5%) as compared to FY 2019, primarily attributable to changes in actuarial assumptions resulting in a \$125.2 billion decrease in the net cost of military retirement benefits. A key change in the long-term economic assumptions underlying the actuarial calculations, as required by **SFFAS 33**, led to a substantial net loss in FY 2019. This along with other factors such as actual and projected demographic trends, plan amendments and changes in experience in the Department's retirement and medical benefits led to a net gain of \$17.4 billion in FY 2020 compared to a net loss of \$138.8 billion in FY 2019, resulting in a year-over-year fluctuation of \$156.2 billion. See Note 19, *Disclosures Related to the Statement of Net Cost*, in the Financial Section for additional information.

STATEMENT OF CHANGES IN NET POSITION

The Statement of Changes in Net Position (SCNP) presents the total cumulative results of operations since inception and unexpended appropriations at the end of the fiscal year. The SCNP displays the components of Net Position separately to enable the financial statement user to obtain a better understanding of the nature of changes to Net Position as a whole. The statement focuses on how the Net Cost of Operations is financed and displays the other sources that finance the Department's operations.

The Department restated the FY 2019 General PP&E, I&RP, and Accounts Payable balances to correct errors, resulting in a \$1.4 billion decrease in Net Position as compared to the balance reported in the FY 2019 Agency Financial Report. See Note 28, *Restatements*, in the Financial Section for more information. During FY 2020, the Department's Net Position increased by \$106.5 billion (82.9%) as compared to FY 2019, primarily attributable to the following changes:

- Unexpended Appropriations increased by \$25.8 billion, primarily attributable to a \$14.1 billion increase in Beginning Balance (the amount of Unexpended Appropriations carried forward from the previous year) and a \$39.7 billion increase in Appropriations Received (but not expended), offset by a \$33.4 billion increase in Appropriation Used. These changes were largely driven by the increases in budgetary resources received over recent years.
- Cumulative Results of Operations (which has an inverse effect on Net Position) increased by \$80.8 billion, primarily attributable to the following changes:
 - Beginning Balance increased \$71.2 billion as the result of the FY 2019 Total Financing Sources received being lower than the FY 2019 Net Cost of Operations. This Beginning Balance was further adjusted downward in FY 2020 by \$7.4 billion due to Prior Period Adjustments primarily related to the Department's continuing efforts to establish opening balances and revise valuations for General PP&E in accordance with SFFAS 50.
 - Net Cost of Operations decreased by \$161.4 billion primarily due to Actuarial Assumption Changes for Military Retirement Benefits.



SPC Daniel Willard from Fort Riley WTB shoots the ball during the wheelchair basketball game at the Pacific Regional Camps hosted by the Regional Health Command - Pacific Friday December 13, 2019 at Joint Base Lewis-McChord.

PHOTO CREDIT: John Wayne Liston

See Note 20, *Disclosures Related to the Statement of Changes in Net Position*, in the Financial Section for additional information.

STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources presents the Department's total budgetary resources, their status at the end of the fiscal year, and the relationship between the budgetary resources and the outlays made against them. In accordance with federal statutes and related regulations, obligations may be incurred and payments made only to the extent that budgetary resources are available to cover such items. In FY 2020, the Department reported \$1.3 trillion in total budgetary resources (see Figure 20).

Figure 20: Composition of DoD Total Budgetary Resources (Unaudited)

\$ in billions

| DESCRIPTION | FY 2020 | Restated FY 2019 | FY 2018 | FY 2017 | FY 2016 |
|--|-------------------|---------------------|-------------------|-------------------|-------------------|
| Appropriations (Discretionary and Mandatory) Reported on SBR | \$ 914.2 | \$ 874.4 | \$ 863.6 | \$ 777.0 | \$ 745.7 |
| Unobligated Balances from Prior Year Budget Authority | 213.3 | 226.8 | 181.0 | 181.0 | 180.4 |
| Spending Authority from Offsetting Collections | 130.3 | 113.0 | 119.4 | 105.7 | 105.9 |
| Contract Authority | 78.7 | 86.8 | 88.4 | 76.5 | 69.7 |
| Total Budgetary Resources | \$ 1,336.5 | \$ 1,301.0 | \$ 1,252.4 | \$ 1,140.2 | \$ 1,101.7 |

Of the \$1.3 trillion in Total Budgetary Resources for FY 2020, \$1,157.3 billion was obligated and \$872.1 billion of obligations were disbursed. The remaining Unobligated Balance of \$179.2 billion relates primarily to appropriations available to cover multi-year investment projects that require additional time for delivery of goods and services.

An understatement of \$16.0 million affecting FY 2019 obligations was corrected as a restatement in FY 2020. The restatement resulted in an increase in the reported FY 2019 New Obligations and Upward Adjustments and offsetting decrease in the FY 2019 Unobligated Balance, End of Year. See Note 28, *Restatements*, in the Financial Section for more information.

Expired unobligated appropriations remain available for five years after expiration for valid upward adjustments to prior year obligations but are not available for new obligations. In FY 2020, the Department reduced the amount of the Expired Unobligated Balance at the end of the fiscal year by \$1.5 billion (to \$21.2 billion in FY 2020 from \$22.7 billion in FY 2019). This was due to

improvements in financial management of expiring resources. In carrying out its operations, the Department must balance the goal of judiciously obligating available budgetary resources before they expire with the mandate to avoid over-obligating or over-expending funds in violation of the Antideficiency Act. The vast amount and variety of contracts, projects, and activities (e.g., construction projects, complex acquisitions, cutting-edge technology efforts, and contingency operations) that must be carried out without exceeding available budget authority often result in adjustments that must be recorded beyond the year(s) of initial obligation, as authorized by **31 U.S.C. §1553**. Consequently, the Department must always maintain a prudent level of expired unobligated appropriations to facilitate these adjustments.

See Note 21, *Disclosures Related to the Statement of Budgetary Resources*, in the Financial Section for additional information.

FINANCIAL PERFORMANCE SUMMARY

The following table summarizes the Department's condensed FY 2020 financial position and results of operations, including comparisons of financial balances from the current year to the prior year (see Figure 21). Although the Department received a Disclaimer of Opinion on its financial statements, audit remediation efforts will continue to improve the Department's financial information.

Figure 21: Financial Performance Summary (Unaudited)

| \$ in Billions | Restated | | Increase/(Decrease) | |
|---|-------------------|-------------------|---------------------|----------------|
| | FY 2020 | FY 2019 | \$ | % |
| Costs | | | | |
| Total Financing Sources | \$ 797.4 | \$ 788.1 | \$ 9.3 | 1.2% |
| Less: Net Cost | 709.3 | 870.6 | (161.3) | -18.5% |
| Net Change of Cumulative Results of Operations | \$ 88.1 | \$ (82.5) | \$ 170.7 | -206.9% |
| Net Position | | | | |
| Assets: | | | | |
| Fund Balance with Treasury | \$ 637.2 | \$ 607.6 | \$ 29.6 | 4.9% |
| Investments | 1,285.3 | 1,191.1 | 94.2 | 7.9% |
| Accounts Receivable | 7.2 | 7.9 | (0.7) | -8.9% |
| Other Assets * | 24.3 | 23.3 | 1.0 | 4.3% |
| Inventory and Related Property, Net | 310.2 | 292.6 | 17.6 | 6.0% |
| General Property, Plant and Equipment, Net | 790.5 | 766.2 | 24.3 | 3.2% |
| Total Assets | \$ 3,054.7 | \$ 2,888.7 | \$ 166.0 | 5.7% |
| Liabilities | | | | |
| Accounts Payable | \$ 38.7 | \$ 41.3 | \$ (2.6) | -6.3% |
| Other Liabilities ** | 51.8 | 46.3 | 5.5 | 11.9% |
| Military Retirement and Other Federal Employment Benefits | 2,654.1 | 2,596.4 | 57.7 | 2.2% |
| Environmental and Disposal Liabilities | 75.0 | 76.1 | (1.1) | -1.4% |
| Total Liabilities | \$ 2,819.6 | \$ 2,760.1 | \$ 59.5 | 2.2% |
| Net Position (Assets minus Liabilities) | \$ 235.1 | \$ 128.6 | \$ 106.5 | 82.8% |

* Other Assets includes Other Assets, Cash and Other Monetary Assets, and Loans Receivable

** Other Liabilities includes Debt, Other Liabilities, and Loan Guarantee Liability

AUDIT OVERVIEW

The annual financial statement audit regimen is foundational to reforming the Department's business practices consistent with the NDS. Data from the audits provide an additional means to define remediation goals, measure progress, and evaluate alternatives.

The FY 2020 audit covered the Department's total assets of approximately \$3.1 trillion and involved more than 1,400 auditors, who conducted over 600 site visits (more than 500 of which were conducted virtually). Auditor findings and recommendations help DoD leaders prioritize improvements, drive efficiencies, identify issues with systems, measure progress, and inform business reform efforts. The outcomes of the audit remediation efforts will include greater financial data integrity, better support for the warfighter, and increased transparency for Congress and the American people.

FY 2020 AUDIT RESULTS

Auditors conducted 24 standalone audits of DoD reporting entities and the DoD OIG performed the overarching consolidated audit. Six reporting entities received unmodified opinions, one received a qualified opinion, and four audits are ongoing (see Figure 22).

Figure 22: FY 2020 Audit Structure and Results

DoD-Wide Consolidated Audit Performed by DoD Office of Inspector General (DoD OIG)

Standalone Audits
95% Budget, 97% Assets

Included in the Consolidated Audit
5% Budget, 3% Assets

DoD OIG (as the Consolidated Auditor) considers the opinions of each Component auditor (performed by an independent public accounting firm) in forming its opinion.

Those DoD Components not undergoing standalone audits are included in the consolidated audit.

DoD OIG performs internal controls and substantive testing over activities and balances.

| | | | |
|--|---------------------------------|--------------------------------|--|
| Army General Fund | Navy General Fund | Air Force General Fund | Military Retirement Fund |
| Army Working Capital Fund | U.S. Marine Corps General Fund | Air Force Working Capital Fund | Medicare-Eligible Retiree Health Care Fund |
| U.S. Army Corps of Engineers - Civil Works | Navy Working Capital Fund (DON) | Defense Health Program | Defense Commissary Agency |
| DLA General Fund | DoD Classified | DHA - CRM | DFAS Working Capital Fund |
| DLA Working Capital Fund | USSOCOM | DISA General Fund | Defense Contract Audit Agency |
| DLA Strategic Materials | USTRANSCOM | DISA Working Capital Fund | DoD OIG |

| | | | | |
|---|----------------------------------|---|--|---|
| WHS | MDA | DSCA | DoDEA | DARPA |
| DCMA | DTRA | CBDP | JCS (incl. NDU) | DHRA |
| DAU | DCSA | DTIC | OEA | DMA |
| DOTe | DPAA | DTSA | DFAS GF | MHPI |
| Other TI-97 Funds Provided to Army by OSD | | Other TI-97 Funds Provided to Navy by OSD | | Other TI-97 Funds Provided to Air Force by OSD |
| Burden Sharing Account by Foreign Allies, Defense | | Support for U.S. Relocation to Guam Activities, Defense | | Host Nation Support for U.S. Relocation Activities, Defense |
| DoD Education Benefits Fund | Emergency Response Fund, Defense | Homeowners Assistance Fund, Defense | Defense Gift Fund | |
| Voluntary Separation Incentive Trust Fund | Mutually Beneficial Activities | Defense Cooperation Account | National Security Education Trust Fund | |

Unmodified
Modified
Disclaimer
Audit Ongoing

FY 2020 AUDIT RESULTS (CONTINUED)

The audits of the Navy General Fund, Navy Working Capital Fund, and Defense Information Systems Agency (DISA) Working Capital Fund were extended until December 2020, and the audit of the DoD OIG is scheduled to conclude in March 2021.

This was the 13th consecutive unmodified opinion for the U.S. Army Corps of Engineers – Civil Works, the 21st consecutive unmodified opinion for the Defense Finance and Accounting Service (DFAS) Working Capital Fund, and the 26th consecutive unmodified opinion for the Military Retirement Fund. The Military Retirement Fund's nearly \$980 billion in total assets represents more than 30% of total DoD assets.

All other DoD reporting entities received a Disclaimer of Opinion. A Disclaimer of Opinion means the auditor was unable to obtain sufficient appropriate audit evidence on which to base an opinion on the financial statements. The Department's leadership fully expected these results, as receiving a Disclaimer of Opinion is consistent with the experiences of other large and complex federal agencies during their initial years under financial statement audit.

The DoD OIG identified 26 Department-wide material weaknesses in internal controls during the FY 2020 consolidated audit, a net increase of 1 material weakness from those identified during the FY 2019 audit. Additionally, the FY 2020 audits (consolidated and standalones) resulted in the issuance of more than 1,800 Notices of Findings and Recommendations (NFRs).

The Department anticipates receiving significantly more NFRs as the auditors finish compiling their findings and developing the related NFRs. In addition to issuing NFRs, each auditor identified the audited DoD Component's material weaknesses in their Independent Auditor's Report. Understanding how the various DoD Component NFRs align to the DoD Agency-wide material weaknesses provides a consistent framework for categorizing NFRs, allows DoD leaders to better prioritize corrective actions, and focuses remediation efforts on the most significant and pervasive challenges.

The DoD OIG's Independent Auditor's Report on the FY 2020 DoD Agency-wide financial statements is available in the Financial Section. A summary of the DoD Agency-wide audit- and management-identified material weaknesses, as well as planned corrective actions, is available in Other Information. The Independent Auditor's Report for each standalone audit is available in the respective DoD Component's financial statements available on the Office of the Deputy Chief Financial Officer's (ODCFO) website at <https://comptroller.defense.gov/ODCFO/afr>.



A U.S. Air Force HH-60G Pave Hawk rescue helicopter assigned with the 55th Rescue Squadron, Davis-Monthan, AFB, Arizona stands-by at Moffett Air National Guard Base, California, August 28, 2020.

PHOTO CREDIT: Air National Guard Master Sgt. Ray Aquino

FY 2020 AUDIT PRIORITIES

During FY 2020, the Department expanded its audit priority areas from the four areas focused on in FY 2019 to include four additional priorities. The Department's strategy for addressing these priorities remains on implementing corrective actions that will result in operational improvements that provide the greatest value to the warfighter in the near-term. Although some issues related to these business areas may require long-term solutions (such as retiring legacy systems), the FY 2020 audit priorities contained various opportunities that were immediately actionable at multiple levels throughout the Department.

The FY 2020 audit priorities were:

- Real Property (Existence and Completeness)
- Inventory, and Operating Materials and Supplies (OM&S)
- Government Property in the Possession of Contractors
- Access Controls for IT Systems
- Fund Balance with Treasury
- Financial Reporting Internal Controls
- Joint Strike Fighter Program
- Supporting Audit Progress for DoD Components with Disclaimers of Opinion

Examples of the Department's progress in addressing these priorities include:

- The Department of the Navy conducted a physical count of its Inventory and OM&S through the Navy Material Accountability Campaign, resulting in the identification of almost \$442.8 million in assets that were not previously reflected in their records. Of this amount, approximately \$361.8 million were added to an accountable property system of record for future redeployment and \$81.0 million was disposed due to obsolescence.
- The Department of the Army developed and implemented a Python-based solution to automate the review of accounting transactions entered into the General Fund Enterprise Business System and the Logistics Modernization Program system for compliance with the **U.S. Standard General Ledger** transaction library. This solution strengthens the Army's internal controls over financial reporting by improving the identification of non-compliant transaction entries which may result from various potential issues (such as manual entries, incorrect job aids, and improperly implemented posting logic) and facilitating the development of system change requests to correct identified non-compliant posting logic.
- The Department of the Air Force implemented the Theatre Integrated Combat Munitions System (TICMS) at all Air Force installations to serve as their single application worldwide for configuration management, capability analysis, and combat support related to conventional munitions, which compose the majority of the Air Force OM&S balance. This system improves the accuracy of the Air Force's financial reporting of OM&S by enhancing visibility into Air Force-owned munitions managed by the Department of the Army through real-time transaction-level data.

COVID-19 AUDIT IMPACTS

The COVID-19 pandemic altered the timing and scope of the FY 2020 financial statement audits and the government-wide financial reporting timeline but not the Department's commitment to the audits or its mission. Throughout the audit, senior DoD leaders in OUSD(C), the Military Departments, and other DoD Components collaborated with the DoD OIG and other auditors to identify alternative procedures to allow audit work to continue while prioritizing the health and well-being of DoD personnel. However, travel restrictions, mandatory quarantines, and the government-wide policy to maximize the use of telework across the Federal workforce negatively impacted numerous aspects of the audit. For example:

- Audit testing of sensitive activities and areas that must be completed on site were delayed;
- Inventory, OM&S, and General PP&E, areas that required physical access to assets and documentation were heavily affected; and
- Site visits were postponed or canceled.

Despite these challenges and audit impacts, all of the standalone audits completed to date that received unmodified opinions in FY 2019 successfully sustained an unmodified opinion in FY 2020.

MEASURING AUDIT PROGRESS

The Department uses the number of auditor findings closed and material weaknesses downgraded to a significant deficiency or resolved from year to year as independent benchmarks for measuring progress toward achieving an unmodified opinion. During FY 2020, the Department succeeded in closing over 20% of the NFRs issued during the FY 2019 audit. However, many of the corrective actions the Department has implemented have not been in place long enough for the auditors to validate their effectiveness in addressing the issues identified in the NFRs. As such, the Department anticipates NFRs closing at increased rates over time as the audit and related remediation efforts mature. As the closings of these NFRs grow, the related material weaknesses are expected to be downgraded to significant deficiencies and resolved as the effect of implemented corrective actions continue to manifest themselves for validation by auditors.

Additionally, the Department measures audit progress by:

- Tracking the achievement of major milestones towards the remediation of complex NFRs;
- Assessing the quality of corrective action plan (CAP) preparation and implementation by comparing them to those previously validated by the auditors as successfully addressing NFRs;
- Identifying areas where auditors are able to rely on internal controls and moving validated CAPs into sustainment;
- Expanding Statement on Standards for Attestation Engagements (SSAE) No. 18 examinations and increasing reliance on System and Organizational Control (SOC) reports over service providers; and,
- Increasing reliance on Advana, the Department's advanced data analytics platform, for audit sampling, supporting transaction details in response to auditor requests, monitoring remediation activities, and inspiring data-driven conversation with DoD Components and other stakeholders.

The audit is driving the cultural changes needed to achieve the National Defense Strategy's business reform goals. By highlighting areas that need improvement, Department leaders are able to make targeted and effective decisions about streamlining processes and reducing the numbers of systems. Among other things, audit success will require IT system improvements and data consolidation, which will bring the added benefit of arming decision-makers with advanced data analytics capabilities to support driving and sustaining operational efficiency and effectiveness improvements. Ultimately, success is in the hands of the DoD workforce, who are already realizing the importance and benefits of the audit. By continuing to equip the workforce with resources and tools they need to respond to auditor requests and remediate audit findings, the Department will achieve its audit goals while sustaining an improved level of business proficiency.

STATEMENT OF ASSURANCE

November 16, 2020

The Department's management is responsible for the establishment and maintenance of effective internal controls to comply with the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and the Federal Financial Management Improvement Act of 1996 (FFMIA). In fiscal year 2020, the DoD Office of Inspector General completed its third audit of DoD's consolidated financial statements. As the Department matures its audit posture, it will continue to improve and refine its controls to support the reliability and accuracy of financial reporting; effective and efficient programmatic operations; and compliance with applicable laws and regulations, to include requirements of federal financial management systems.

The Department assessed the effectiveness of internal controls over financial reporting in accordance with FMFIA §2 and OMB Circular No. A-123. While DoD internal controls continue to improve, the Department concluded that the controls in place to support reliable financial reporting as of September 30, 2020, were not effective to provide reasonable assurance that the financial statements were fairly stated in all material respects. Deficiencies in the design and operation of internal controls over financial reporting include ineffective processes and controls over posting of transactions to the general ledger and reconciling with the Department of the Treasury; compiling financial statements, reconciling data, and supporting entries; accounting for and valuing Property, Plant, and Equipment; ensuring the existence and completeness of inventory and operating material and supplies; ensuring the accountability of government property in the possession of contractors, to include Joint Strike Fighter program assets; and Component and Department oversight and monitoring of financial reporting.

The Department assessed the effectiveness of internal controls over operations and compliance with applicable laws and regulations in accordance with the FMFIA §2 and the Office of Management and Budget (OMB) Circular No. A-123. Based on this assessment, the Department provides a modified statement of reasonable assurance of the effectiveness of internal controls in place to support effective and efficient programmatic operations and compliance with applicable laws and regulations as of September 30, 2020. The Department continues to address all material weaknesses for internal controls over business operations, with increased focus in the areas of acquisition, contract administration, resource management, and cyber security.

The Department assessed the compliance of DoD financial management systems with federal financial management systems requirements in accordance with FMFIA §4; FFMIA §803(a); and OMB Circular No. A-123, Appendix D. They require federal agencies to implement and maintain financial management systems that comply with federal financial management system requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction-level. While the Department continues to achieve progress in the implementation of corrective actions to address various systems limitations, the results of the assessment provided that the Department's financial management systems do not fully comply with the requirements of FMFIA §4 and FFMIA §803(a) as of September 30, 2020.

FMFIA §2, FMFIA §4, and FFMIA §803(a) material weaknesses and corrective actions are further described in Other Information.

The Department remains committed towards significant and measureable improvements in its ability to provide reliable, timely, and useful financial and managerial information to support management decisions. Findings from the annual financial statement audits provide valuable insight critical towards the achievement by the Department's business reform goals and demonstrates its continued commitment to financial accountability and transparency.



David L. Norquist
Deputy Secretary of Defense

MANAGEMENT ASSURANCES

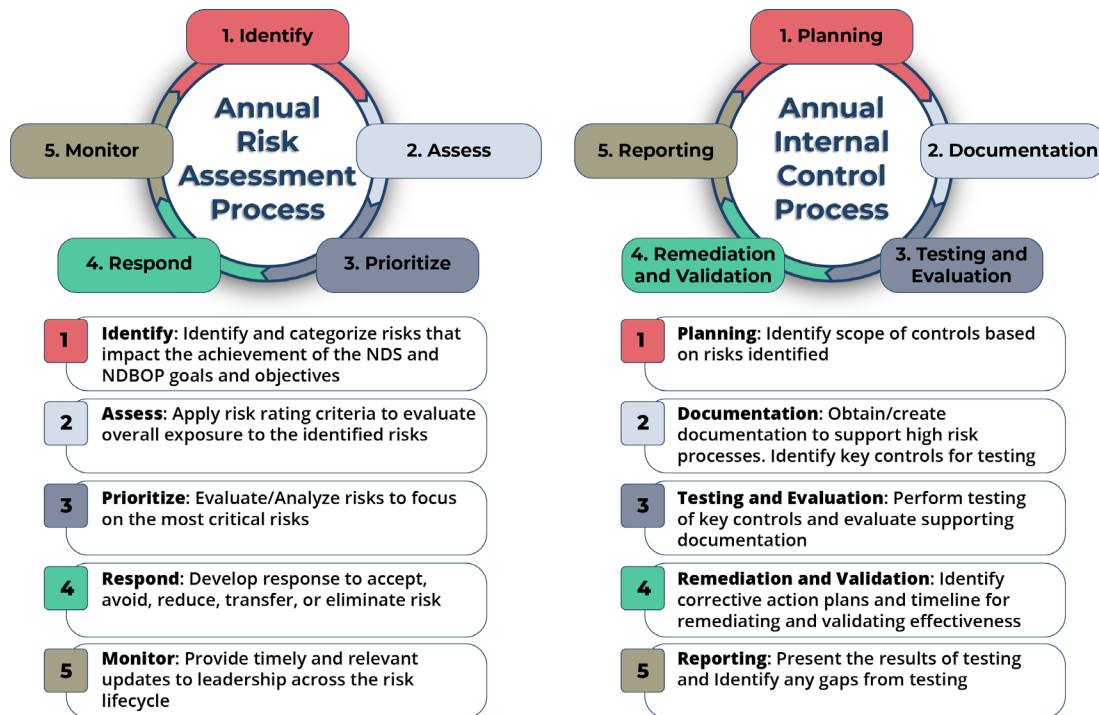
The Department is committed to ensuring an effective system of internal controls to provide reasonable assurance that its critical mission is met.

An effective system of internal controls is central to supporting the NDS line of effort to reform business practices for greater performance and affordability. By appropriately assessing internal controls, the Department can identify opportunities to improve business operations and support effective financial stewardship.

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires federal agencies to evaluate and report on the effectiveness of the organization's internal controls to support effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. OCMO and OUSD(C) lead the Department's effort in fulfilling this requirement via the Risk Management and Internal Controls (RMIC) Program, which succeeds and subsumes the responsibilities of the

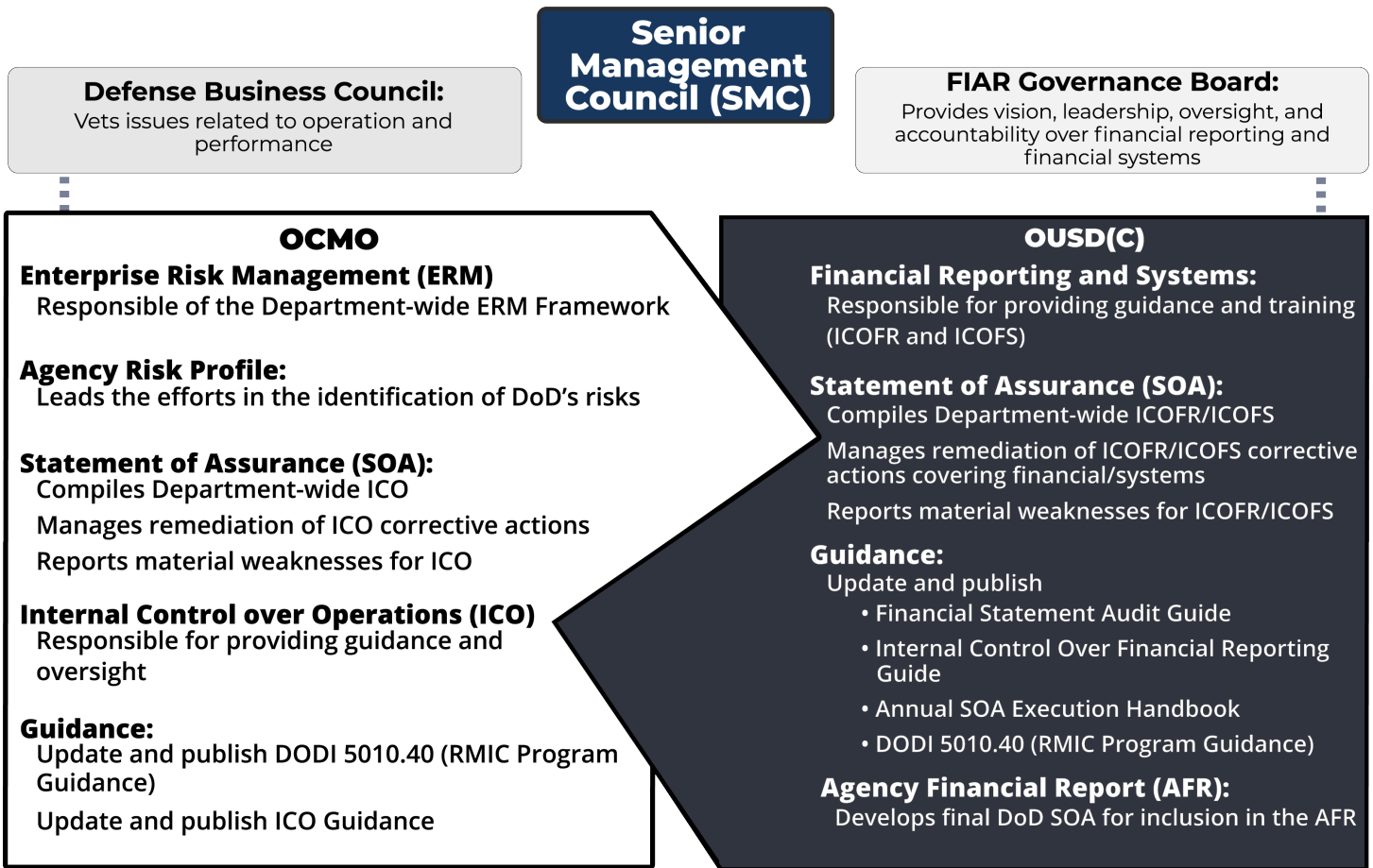
previous Enterprise Risk Management and Internal Control Program. The DoD RMIC Program holds both operational and financial managers accountable for ensuring they are effectively managing risks and internal controls in their areas of responsibility. In accordance with OMB **Circular No. A-123** and GAO Standards for Internal Control in the Federal Government ("**Green Book**"), the Department continually strives to integrate proactive risk management and effective internal controls into existing business activities. The Department, through the RMIC Program, prioritizes a risk-based approach that focuses on the remediation of audit findings aligned to the audit priority areas and the sustainment of business process improvements to advance the achievement of increased auditability (see Figure 23).

Figure 23: RMIC Program Process



The RMIC Program is a continuous, year-round effort that culminates with the Department's report on the design and effectiveness of key control activities—the Statement of Assurance—which is compiled from information gathered from the DoD Components. The Components are responsible for performing risk assessments and internal control evaluations in accordance with OMB Circular No. A-123 and **DoD Instruction 5010.40**, maintaining evidence of their evaluations of material weaknesses and significant deficiencies in internal controls, and providing the information to Department-wide Senior Accountable Officials (SAOs) and Action Officers (AOs). The SAOs (executive-level subject matter experts) and the AOs who support them are responsible for reviewing the Components' evaluations of material weaknesses and significant deficiencies within their assigned assessable units (groups of related business processes used to facilitate evaluation), working with the Components to discuss the remediation status and milestones, and reporting progress to OCMO and OUSD(C) through the Senior Management Councils (see Figure 24).

Figure 24: RMIC Governance Oversight Roles



The Financial Improvement and Audit Remediation (FIAR) Governance Board, which is jointly chaired by the CMO and the Under Secretary of Defense (Comptroller)/Chief Financial Officer (**USD(C)/CFO**), is the Senior Management Council (SMC) that oversees financial audit remediation related to internal control over financial reporting (ICOFR) and internal controls over financial systems (ICOFS). The Defense Business Council, which is chaired by the CMO, is the SMC that oversees operational audit remediation related to internal controls over operations (ICO), to include overall Department operations and non-financial systems.

FY 2020 EFFORTS TO ADDRESS MATERIAL WEAKNESSES IN INTERNAL CONTROLS

GOVERNMENT PROPERTY IN THE POSSESSION OF CONTRACTORS

Inaccurate and incomplete records for government property in the possession of contractors can negatively affect the Department's ability to manage its property and make decisions regarding acquisition, disposal, and reutilization. Financial managers currently lack proper visibility into the existence of government property in the possession of contractors, and as a result, financial reporting is inaccurate. To mitigate this risk, the Department modified certain contracts that issue government property to contractors. Where implemented, these new requirements will assist the Department to identify, report, and continually monitor assets in contractors' possession. Additionally, the Department implemented a new module within the **Procurement Integrated Enterprise Environment** (the Department's central repository for procurement capabilities) that was specifically designed to streamline the recognition, visibility, and reporting of contractor-held government property within its existing procurement environment. The Department also implemented new reporting metrics that will drive improvement in the management of contractor-held property by validating information such as the inclusion of required government property clauses that provide reporting and tracking requirements, contractor submissions of required property tracking data, and proper recording of contractor-held property in accounting and property systems. Further, the Department of the Navy is conducting a pilot program to evaluate the effectiveness of new contract data reports intended to standardize inventory reporting for contractors with government property. Lessons learned from this pilot will be reviewed for potential improvements that can be incorporated into current Department-wide procedures for managing government property in the possession of contractors.

FUND BALANCE WITH TREASURY

Ineffective and untimely reconciliation of Fund Balance with Treasury accounts between DoD and Treasury may result in the inefficient or inaccurate management of budgetary resources as well as material misstatements in financial reporting. To mitigate this risk, the Department is executing several initiatives to improve business processes, reduce reporting differences, and automate account reconciliations, such as developing management analysis reports for monitoring certain disbursement offices activities and standardizing and centralizing Fund Balance with Treasury systems and processes. The initiatives relate to sub-processes that affect the reconciliation process and should eventually result in a downgrade of the Fund Balance with Treasury material weakness to a significant deficiency. Some notable areas of focus and improvement for the Department include the reduction of total and aged disbursing offices differences between DoD and Treasury, balances in temporary holding accounts, and manual adjustments.

UNSUPPORTED ACCOUNTING ADJUSTMENTS

The Department continues to operate hundreds of financial and feeder systems across the enterprise. These legacy systems, many of which were designed and implemented in the 1960s, are not able to capture all of the transaction-level data attributes needed to satisfy various accountability and reporting requirements. As a result, the Department must perform manual work-around processes using journal vouchers, some of which are not adequately supported by substantiating documentation. In the absence of support, auditors cannot verify the accuracy and applicability of the data captured by these journal vouchers. To mitigate this risk, the Department is continuing to aggressively retire and replace legacy systems while working to determine and address root causes of unsupported journal vouchers. Key remediation initiatives are focused on fixing accounting systems, implementing new controls and business processes, identifying and resolving unsupported journal vouchers, and increasing the production and maintenance of supporting documentation.

SYSTEMS COMPLIANCE AND STRATEGY

The Department is engaged in a complex and challenging transformation effort to reform its financial management (FM) environment for enhanced mission effectiveness and auditability

This necessarily includes improving business systems compliance with the Federal Financial Management Improvement Act of 1996 (**FFMIA**) and OMB Circular No. A-123, **Appendix D**. Modernization and improved interoperability of DoD business systems are critical to efficiently respond to warfighter needs, sustain public confidence in the Department's stewardship of taxpayer funds, and support the path to full auditability. The remediation of the findings from the financial statement audits is a significant part of the Department's FM improvement strategy and an accelerator for achieving a target environment that is data-driven, standards-based, technology-enabled, affordable, secure, and auditable.

The **NDAA for FY 2012** authorizes the Secretary of Defense to act through the Defense Business Systems Management Committee to develop the Defense Business Enterprise Architecture (**BEA**), which comprises all defense business systems (DBSs)—information systems other than national security systems that are operated by, for, or on behalf of the Department—as well as the supported functions and activities. The purpose of the BEA is to effectively guide, constrain, and permit implementation of interoperable DBS solutions that are consistent with the policies and procedures established by the Director of the OMB. The CMO is responsible and accountable for developing and maintaining the BEA as well as integrating business operations, while the USD(C)/CFO is responsible and accountable for the content of those portions of the BEA that support FM activities, strategic planning, and budgeting activities.

In accordance with section 1002 of the **NDAA for FY 2020**, the Department submitted a DBS Audit Remediation Plan to Congress in July 2020. This plan is a living document that provides an integrated view of the enterprise roadmap for audit-relevant DBSs, leveraging the BEA to guide investment decisions. The plan presented the CMO's current account of DBSs of

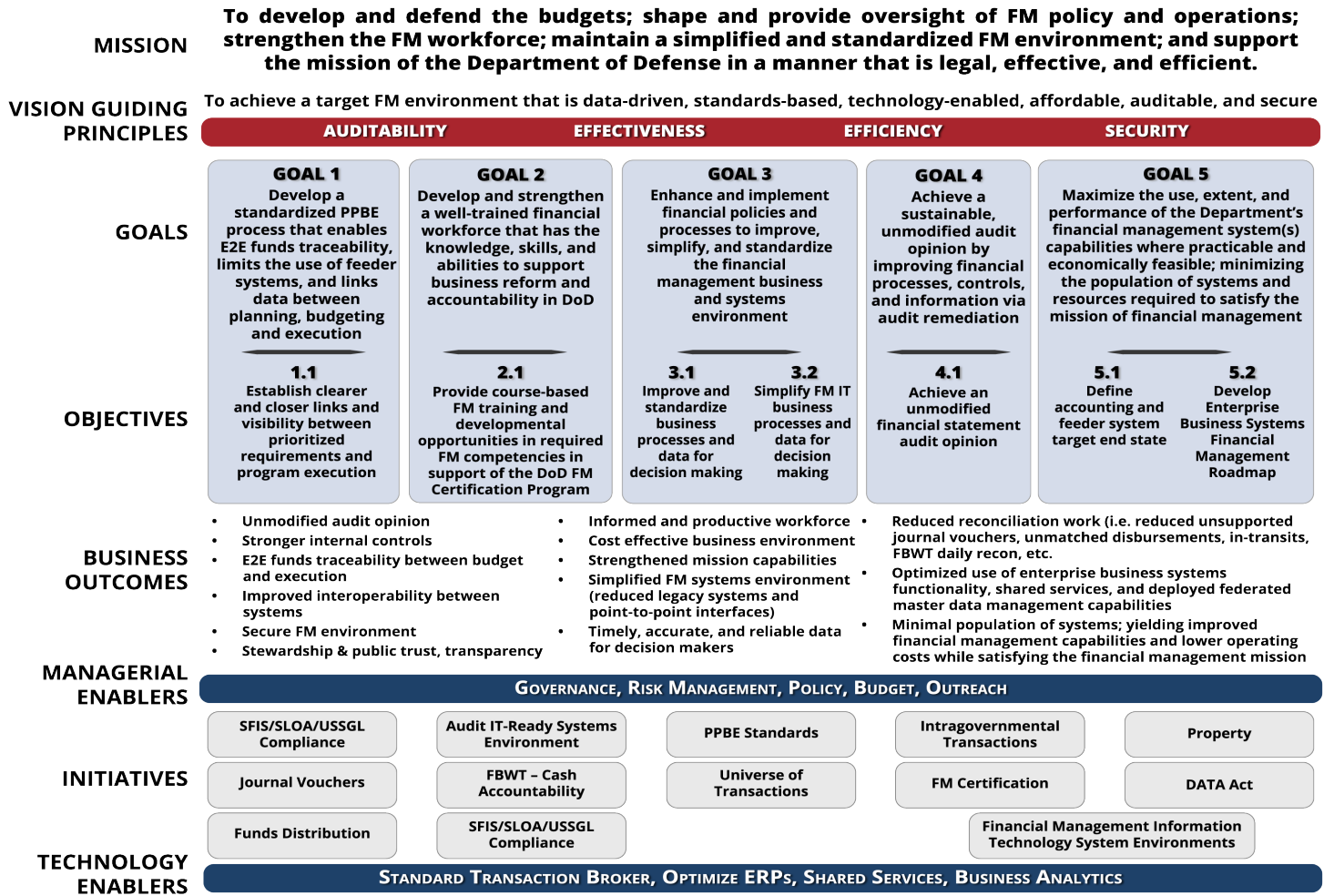
the Department that will be introduced, replaced, updated, modified, or retired in connection with the Department's financial statement audit. It also established a foundation for a future roadmap that will:

- Capture in-service, retirement, and other pertinent dates for affected DBSs;
- Describe current cost-to-complete estimates for each affected DBS; and
- Document dependencies both between the various DBSs and the introduction, replacement, update, modification, and retirement of such systems.

In addition, the DBS Audit Remediation Plan highlights the Department's progress and identifies areas of improvements for procedures in monitoring and managing its DBSs to develop a sustainable enterprise roadmap. Although the report serves as a baseline to advance the Department forward, a key improvement identified in the plan is to establish an enterprise target date to achieve the desired end state. The outcomes of executing this plan will maximize the performance of the Department's financial management systems while also reducing the population of these systems. By defining a target state, documenting the transition plan to deliver the target state, and monitoring progress towards the target state, the DBS Audit Remediation Plan aligns with the FM community's guiding principles and strategic goals as defined in the FM Functional Strategy.

The FM Functional Strategy offers FM direction and guidance for the Principal Staff Assistants, Military Departments, and other DoD Components as the Department builds for the future. It also provides a foundation on which to base FM investment decisions that support the FM strategic outcomes (see Figure 25).

Figure 25: FM Functional Strategy



The Department's FM Functional Strategy provides the Department's vision, initiatives, goals, target environment, and expected outcomes over five years. Rooted in fiscal accountability and financial improvement, the DoD FM Functional Strategy for FY 2020 – FY 2024 will lead to the achievement of the following strategic outcomes, which are essential for meeting the Department's national security mission:

- Stewardship and public trust of taxpayer funds through transparency;
- Audit corrective action sustainability;
- Strengthened mission capabilities;
- Authoritative, accurate, and timely information for decision making;
- Informed, trained, and productive workforce;
- Affordable and secure Financial Management environment; and,
- Robust internal control environment that will support and sustain an unqualified audit opinion

The key components of the FM Functional Strategy include creating data and data exchange standards, implementing system controls and enhancements, establishing standard business processes, and leveraging technology across the Department's end-to-end processes. The primary objective of the FM Functional Strategy is to achieve a fully integrated environment linked by standard processes and standard data with the fewest number of systems and interfaces. Ultimately, this strategy will lead to stronger internal controls, improvements in end-to-end funds traceability, and greater linkage between budget and expenditures. Current enterprise-level initiatives include the implementation of the Standard Financial Information Structure (**SFIS**), promotion of the use of business analytics, and progression of the development and use of Enterprise Resource Planning (ERP) systems. The Department also participates in Federal Government-wide business process improvement efforts as well as the Treasury's **Government-wide Accounting, Treasury Disbursing Office**, and **Intra-Governmental Transactions** initiatives.

By working to implement these FM initiatives and achieve the FM Functional Strategy goals, the FM community will transform to a data-first culture and add significant strategic value to DoD decision-making. A "data-first" culture places strong emphasis upon aggregation and cultivation of prioritized data and analytics needed by leadership and staff to manage the organizational business environment in achieving its defined goals and objectives. Leveraging the power of data allows FM leaders to transform the organization's ability to predict outcomes, plan, and respond appropriately. Not only will this radically enhance enterprise decision-making, it will also significantly enrich the FM function's ability to contribute strategic value to the Department.

ENTERPRISE RESOURCE PLANNING SYSTEMS

The ERP systems are integral to implementing the FM business process improvements, achieving the planned target environment and reductions in the number of legacy systems, and enabling a sustainable audit environment. The ERPs provide a broad range of functionality to support DoD business operations in areas such as financial management, supply chain management, logistics, and human resource management. Some ERPs are fully fielded while others are in a state of development and deployment.



Combat Engineer Paratroopers from across the 82nd Airborne Division train for the Best Sapper competition, February 12, 2020, on Fort Bragg, North Carolina.

PHOTO CREDIT: Army Sgt. Cody D.J. Parsons

DEPARTMENT OF THE ARMY

The General Fund Enterprise Business System (**GFEBS**) is a fully deployed General Fund accounting, asset management, and financial system used to standardize, streamline, and share critical data across the active Army, Army National Guard, and Army Reserve. GFEBS is a web-based ERP solution that uses commercial off-the-shelf (COTS) business enterprise software to compile and share accurate, up-to-date financial and accounting data.

The Logistics Modernization Program (**LMP**) is a fully deployed system that is one of the world's largest integrated supply chain, maintenance, repair and overhaul, planning, execution, and financial management systems. The LMP mission is to sustain, monitor, measure, and improve the national-level logistics support solution. By improving both the systems and the processes associated with managing the Army's supply chain at the national and installation levels, LMP allows for planning, forecasting, and rapid order fulfillment to supply lines. It also improves distribution, reduces theater footprint (e.g., required storage space), and ensures the warfighter is equipped and ready to respond to present and future threats.

Global Combat Support System – Army (**GCSS-A**) is a fully-deployed acquisition system that provides enterprise-wide

DEPARTMENT OF THE ARMY (Continued)

visibility into various logistic areas and is a key enabler for the Army in achieving auditability. GCSS-A subsumed the outdated Standard Army Management Information Systems (STAMIS) that were not financially compliant and integrated about 40,000 local supply and logistics databases into a single, enterprise-wide authoritative system. GCSS-A integrates tactical logistics enterprise information for leaders and decision-makers to provide a single maneuver sustainment picture to manage combat power. GCSS-A provides the warfighter with supply, maintenance, property accountability, integrated materiel management center, management functionality, and support for financial processes. The enterprise system is the key component for the Army Enterprise strategy for compliance with federal financial management and reporting requirements

Integrated Personnel Pay System – Army (**IPPS-A**) is an ERP software solution designed to deliver an integrated personnel and pay capability for Army military personnel. To achieve this, the Army will incrementally build and deploy IPPS-A in four primary Releases. Once fully deployed, IPPS-A will provide the Army with an integrated, multi-component personnel and pay system that streamlines Army HR processes, enhances the efficiency and accuracy of Army personnel and pay procedures, and improve support to soldiers and their families. IPPS-A will improve internal controls to prevent erroneous military payments and loss of funds.

DEPARTMENT OF THE NAVY

Navy ERP is a fully deployed integrated enterprise business system that provides streamlined financial accounting, acquisition, and supply chain management to the Navy's systems commands. Navy ERP is the Department of the Navy financial system of record that uses sophisticated business management software to streamline the Navy's financial and supply chain management. The integration of financial and supply solutions on a single platform provides real-time data access and decision support to the Navy Enterprise.

Global Combat Support System – Marine Corps (**GCSS-MC**) is a fully deployed system that serves as the Marine Corps' current official Accountable Property System of Record and logistics system, providing supply, maintenance management, inventory and equipment accountability, and rapid equipment task organization capabilities. As the Marine Corps' primary logistics

system and centerpiece of the logistics modernization, GCSS-MC provides advanced expeditionary logistics capabilities and functionality to ensure future combat efficiency. Additionally, GCSS-MC executes the Acquire-to-Require, Plan-to-Stock, and Procure-to-Pay business mission functions, ensuring resources are effectively managed to optimize mission success and enable the warfighter.

Navy Personnel and Pay System (NP2) is designed to combine the military pay and personnel functions into one seamless COTS system by streamlining existing personnel and pay systems and processes, providing an adaptable solution that meets the complex needs of Sailors, HR personnel, and Navy leaders. Once fully implemented, NP2 will provide a platform for future initiatives such as improved marketplace-style detailing, enhanced performance evaluations and management, targeted compensation (e.g., bonuses), and automation of time-consuming administrative functions. By streamlining processes and systems, the implementation of NP2 will improve the speed, accuracy, and quality of personnel and pay services.



Warrant Officer Bryant Fair, a student in the Warrant Officer Basic Course (WOBC), negotiates the Endurance Course at Marine Corps Base Quantico, Virginia, February 20, 2020.

PHOTO CREDIT: Marine Corps Warrant Officer Bryan Nygaard

DEPARTMENT OF THE AIR FORCE

The Defense Enterprise Accounting and Management System (DEAMS) is a partially deployed enterprise system that utilizes a COTS software suite to provide accurate and timely financial information using standardized business processes in compliance with applicable federal laws, regulations, and policies. DEAMS is the core accounting and financial management solution and the financial foundation for all enterprise business system modernization efforts across the Air Force General Fund and Space Force.

Air Force Integrated Personnel and Pay System (**AF-IPPS**) is a comprehensive, self-service, web-based solution currently in development that integrates personnel and pay processes into one system and maintains an official member record throughout an Airman's career. AF-IPPS is designed to be an audit-compliant financial management system that will enhance general and application controls.

OTHER DEFENSE ORGANIZATION ERPs

The Defense Agencies Initiative (**DAI**) is a partially deployed enterprise system dedicated to addressing financial management improvements through standard end-to-end business processes delivered by COTS software. Currently, DAI provides Budget-to-Report, Proposal-to-Reward, Cost Management, Order-to-Cash, Procure-to-Pay, Acquire-to-Retire, and Hire-to-Retire capabilities for Fourth Estate organizations (i.e., OSD, Defense Agencies, and DoD Field Activities).

The DAI Enterprise Business System (EBS) uses a COTS product to manage the Defense Logistics Agency's (DLA) supply chain management business. EBS also includes Electronic Procurement, Real Property, Inventory Materiel Management and Stock Positioning, and Energy Convergence modules, providing DLA leadership with the tools to respond to new challenges and trends.



The U.S. Air Force and the Qatari air forces fly in formation over Doha, Qatar, August 24, 2020.

PHOTO CREDIT: Air Force Staff Sgt. Justin Parsons

LEGAL COMPLIANCE

ANTIDEFICIENCY ACT (ADA)

The Antideficiency Act, which is codified in **31 U.S.C. §§1341(a)(1), 1342, and 1517(a)**, stipulates that federal agencies may not obligate or expend funds in excess of the amount available in an appropriation or fund or in advance of appropriations; accept voluntary services on behalf of the Federal Government or employ personal services in excess of that authorized by law, except as it may be necessary in emergencies involving the safety of human life or the protection of property; or obligate, authorize, or expend funds that exceed an apportionment or amount permitted by a regulation prescribed for the administrative control of an appropriation. An ADA violation is a serious matter as it represents a violation of a federal statute. A federal employee who violates the ADA may be subject to administrative sanctions (such as suspension from duty without pay or removal from office) and/or penal sanctions (such as fines or imprisonment).

To enhance knowledge and improve compliance with ADA requirements, the Department leverages the **DoD FM Certification Program**, sponsored by OUSD(C), which requires the FM workforce to complete competencies and other specific courses (including fiscal law training requirements) that relate to the ADA and various other FM topics. Additionally, in keeping with the reporting requirements for violations of the Act under **31 U.S.C. §1351**, the Department maintains a close cooperation with the Military Departments and Defense Agencies as they investigate suspected ADA violations. Confirmed ADA violations are reported to the President through the Director of the OMB, Congress, and the **Comptroller General** of the United States.

During FY 2020, the Department reported one violation totaling \$34.9 million in which the Department violated the purpose rule by inappropriately obligating and expending O&M funds, rather than RDT&E funds, to develop an information technology tool. To prevent a recurrence of this type of violation, the Department issued guidance to increase oversight and establish more strict procedural reviews of contract requirements at the office



Field Grade Officers assigned to Vandenberg Air Force Base prepare to commission into the United States Space Force prior to the USSF FGO Induction Ceremony October 16, 2020, at Vandenberg AFB, Calif.

PHOTO CREDIT: U.S. Staff Sgt. Brittany Murphy

in which the violation occurred. Further information about the Department's reported ADA violation and the remedial actions taken are included in GAO's annual compilation of **Antideficiency Act Reports**.

CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ACT (CARES Act)

The Coronavirus Aid, Relief, and Economic Security Act (**CARES Act**) was signed into law on March 27, 2020 in response to the COVID-19 pandemic. The CARES Act provided economic stimulus support in the form of direct cash payments to individuals; increased unemployment benefits; forgivable paycheck protection loans to small businesses; financial support for American industry; and assistance to state, local, and tribal governments. The provisions of the CARES Act additionally provided \$10.6 billion to the Department in emergency supplemental funding to prevent, prepare for, and respond to the COVID pandemic.

CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ACT (CARES Act) (continued)

On April 10, 2020, OMB issued **Memorandum M-20-21**, Implementation Guidance for Supplemental Funding Provided in Response to the Coronavirus Disease 2019 (COVID-19)". In balancing speed with transparency, OMB directed agencies to leverage and continue to employ existing financial transparency and accountability mechanisms wherever possible. Further, OMB instructed agencies to consider three core principles: mission achievement by using data and evidence to meet program objectives, expediency in issuing awards to meet crucial needs, and transparency and accountability to the public.

Under the CARES Act, federal agencies are required to submit a monthly report to the appropriate congressional committees that details how the supplemental funds were used. To fulfill this requirement, the Department issued a number of memorandums to the DoD FM community and Departmental leaders instructing the weekly cost reporting of CARES Act funding. On a weekly basis, over 100 million transactions from twenty-three general ledger accounting systems were provided and populated into Advana to facilitate compilation, oversight and monitoring, and data analytics. In compliance with the OMB reporting timeline, the Department began monthly reporting in July 2020, beginning with the June 2020 reporting period.

DIGITAL ACCOUNTABILITY AND TRANSPARENCY (DATA) ACT

The Digital Accountability and Transparency Act of 2014 (**DATA Act**) amended the Federal Funding Accountability and Transparency Act of 2006 (**FFATA**) to require the public reporting of additional financial data to supplement the current contract and financial assistance award data on **USAspending.gov**. The goal of the law is to improve the ability of the public to track and understand how the Federal Government is spending taxpayer funds. The required information includes the amount of funding the Department receives; the source of the funding (e.g., appropriations, transfers, and carry-forward balances from prior fiscal years); plans for spending the funding; and the actual use of the funding, to include the disclosure of the entities or organizations receiving federal funds through contract and financial assistance awards.

In April 2020, OMB **Memorandum M-20-21** altered the reporting requirement of DATA Act obligation and outlay data from quarterly to monthly reporting, effective with the June reporting period, to improve the timeliness and transparency of public reporting. The reporting of financial and award data related to contracts and financial assistance awards did not change, however, and are still reported quarterly to Treasury for display on USAspending.gov. As of June 2020, the Department reported the alignment of over \$47.9 billion across over 740,300 active contract and assistance awards (approximately 79% of the population) through DATA Act certification. The Department is fully committed to enabling transparency into the use of the taxpayer dollars entrusted to it as the Department continues to reform and modernize its operations for greater affordability, accountability, and performance.

FEDERAL CIVIL PENALTIES INFLATION ADJUSTMENT ACT

On November 2, 2015, the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 (**the 2015 Act**)—which further amended the Federal Civil Penalties Inflation Adjustment Act of 1990 (**Inflation Adjustment Act, 28 U.S.C. §2461, note**)—was signed into law to improve the effectiveness of civil monetary penalties and maintain their deterrent effect. The 2015 Act requires federal agencies to report the most recently published inflationary adjustments to civil monetary penalties in order to ensure that civil penalties under their purview are periodically adjusted.

The Department publishes information on these inflationary adjustments to the **Federal Register** separately for the adjustments related to the USACE and those related to the remainder of the Department. The implementation of the 2015 Act deters violations of law, encourages corrective action(s) of existing violations, and prevents waste, fraud, and abuse within the Department.

Additional information regarding the types of civil penalties within the Department's purview and their amounts is located in the Other Information section.

PAYMENT INTEGRITY INFORMATION ACT (PIIA)

In accordance with the Payment Integrity Information Act of 2019 (PIIA) and OMB Circular No. A-123, **Appendix C**, the Department is required to report the status and recovery of improper payments to the President and Congress in the following program categories:

- Civilian Pay
- Commercial Pay
- Military Health Benefits
- Military Pay
- Military Retirement
- Travel Pay

PIIA defines improper payments as any payments that should not have been made or that were made in an incorrect amount (i.e., overpayment or underpayment) to an eligible recipient. The definition also includes any payment that was made to an

ineligible recipient or for an ineligible good or service, goods or services not received, or when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation.

Each fiscal year, the DoD OIG reviews the Department's AFR and **PaymentAccuracy.gov** improper payment reporting to determine the Department's compliance with PIIA reporting requirements, and submits a report of their determination to the Secretary of Defense, the U.S. Senate **Committee on Homeland Security and Governmental Affairs**, the U.S. House of Representatives **Committee on Oversight and Reform**, and the Comptroller General of the United States. The results of the DoD OIG's FY 2020 determination of DoD payment integrity compliance will be available on the DoD OIG website at <https://www.dodig.mil/reports.html> in May 2021. Since FY 2016, the Department has demonstrated progress towards achieving all of the payment integrity measures evaluated in this review, in line with President's Management Agenda Cross-Agency Priority Goal 9, "**Getting Payments Right**" (see Figure 26).

Figure 26: DoD Payment Integrity Compliance Review Results

| Fiscal Year | Published Payment Integrity Data in the AFR in Accordance with OMB Guidance | Conducted Risk Assessments, if required | Published Accurate Improper Payment Estimates | Published Corrective Action Plans | Published and Demonstrated Improvements to Meet Reduction Targets | Reported Improper Payment Rates Below 10 Percent |
|-------------|---|---|---|-----------------------------------|---|--|
| 2016 | X | X | X | X | X | ✓ |
| 2017 | X | ✓ | X | X | X | ✓ |
| 2018 | ✓ | ✓ | X | X | X | ✓ |
| 2019 | ✓ | ✓ | X | ✓ | X | ✓ |

Legend

- ✓ Compliant
- X Not Compliant

Preventing and recovering improper payments are among the top financial management priorities of the Department. Detailed information regarding payment integrity is located in the Other Information section.

PROMPT PAYMENT ACT

The Prompt Payment Act (**PPA**) requires federal agencies to pay vendors on a timely basis and pay interest penalties when payments are issued past their due dates. DFAS complies with the PPA when applicable by statute and regulation, and within the terms of the contract. DFAS is responsible for consolidating interest data for the Department; however each DoD Component is responsible for capturing, validating, and explaining the results of their data. Established metrics are used to track payment timeliness and interest penalties for late payments.

The Department's goal is to average \$90 or less in interest dollars paid per million PPA dollars disbursed on a monthly basis across all applicable contracts. During FY 2020, the average interest paid per million PPA dollars disbursed on a monthly basis was \$93.25, which represents a \$42.26 reduction from the average interest paid per million PPA dollars disbursed on a monthly basis in FY 2019.

The Department is continuing efforts to modernize the Procure-to-Pay (P2P) process through the standardization of electronic data interchange, or "handshakes." These efforts will improve the interoperability and integrity of the end-to-end P2P process, lead to more timely actions overall, and assist in further reducing the number of late payments by the Department.



Soldiers execute a simulated two-gun M777 Howitzer raid culminating with a live fire at Fort Hood, Texas, July 29, 2020.

PHOTO CREDIT: Army Maj. Marion Jo Nederhoed