# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>SECTION</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Message from the Chief Financial Officer</td>
<td>i</td>
</tr>
<tr>
<td><strong>Overview of the Reporting Entity</strong></td>
<td>1-1</td>
</tr>
<tr>
<td>Description of the Reporting Entity</td>
<td>1-3</td>
</tr>
<tr>
<td>Financial Performance Measures</td>
<td>1-17</td>
</tr>
<tr>
<td>Financial Management Improvement</td>
<td>1-18</td>
</tr>
<tr>
<td>Reporting Year 2000 Issues</td>
<td>1-24</td>
</tr>
<tr>
<td>Limitations of the Financial Statements</td>
<td>1-26</td>
</tr>
<tr>
<td><strong>Principal Statements</strong></td>
<td>2-1</td>
</tr>
<tr>
<td>Consolidated Balance Sheet</td>
<td>2-3</td>
</tr>
<tr>
<td>Consolidated Statement of Net Cost</td>
<td>2-5</td>
</tr>
<tr>
<td>Consolidating Statement of Net Cost</td>
<td>2-6</td>
</tr>
<tr>
<td>Consolidated Statement of Changes in Net Position</td>
<td>2-12</td>
</tr>
<tr>
<td>Consolidating Statement of Changes in Net Position</td>
<td>2-13</td>
</tr>
<tr>
<td>Combined Statement of Budgetary Resources</td>
<td>2-16</td>
</tr>
<tr>
<td>Combined Statement of Financing</td>
<td>2-17</td>
</tr>
<tr>
<td>Statement of Custodial Activity</td>
<td>2-18</td>
</tr>
<tr>
<td><strong>Notes to the Principal Statements</strong></td>
<td>3-1</td>
</tr>
<tr>
<td><strong>Required Supplemental Stewardship Information</strong></td>
<td>4-1</td>
</tr>
<tr>
<td>National Defense Plant, Property and Equipment</td>
<td>4-3</td>
</tr>
<tr>
<td>Heritage Assets</td>
<td>4-7</td>
</tr>
<tr>
<td>Stewardship Land</td>
<td>4-8</td>
</tr>
<tr>
<td><strong>Required Supplemental Information</strong></td>
<td>5-1</td>
</tr>
<tr>
<td>Disaggregated Statement of Budgetary Resources (Combining)</td>
<td>5-3</td>
</tr>
<tr>
<td>Segment Information</td>
<td>5-6</td>
</tr>
<tr>
<td><strong>Other Accompanying Information</strong></td>
<td>6-1</td>
</tr>
<tr>
<td>Consolidating Balance Sheet</td>
<td>6-3</td>
</tr>
<tr>
<td>Combining Statement of Budgetary Resources</td>
<td>6-12</td>
</tr>
<tr>
<td>Combining Statement of Financing</td>
<td>6-15</td>
</tr>
<tr>
<td>Appropriations Funds and Accounts Included in DoD Agency-Wide Statements</td>
<td>6-18</td>
</tr>
<tr>
<td>Funds Appropriated to the President</td>
<td>6-26</td>
</tr>
<tr>
<td><strong>Audit Opinion</strong></td>
<td>7-1</td>
</tr>
</tbody>
</table>
DEPARTMENT OF DEFENSE

AGENCY-WIDE
FINANCIAL STATEMENTS

OVERVIEW
OVERVIEW OF THE REPORTING ACTIVITY

DESCRIPTION OF THE REPORTING ACTIVITY

The Department of Defense (DoD) is the largest of the fourteen Cabinet-level Departments. The mission of the DoD is to provide the military forces needed to deter war and to protect the security of our country. The major elements of these forces are the Army, Navy, Air Force, and Marine Corps. As of September 30, 1998, full-time military personnel comprising both regular and reserves on active duty and officer candidates, including cadets at the three military academies, numbered 1,406,830. An additional 65,000 (approximate) full-time military personnel serve reserve components and civil works functions of the U.S. Army Corps of Engineers. The DoD employed 756,290 civilians as of fiscal yearend. The DoD is represented in 138 countries on six continents, in addition to the United States and Territories.

The consolidated, agency-wide DoD financial statements reflect the complex activities of the component entities. Financial statements for ten components are presented, as required by Appendix B, Bulletin 98-08 of the Office of Management and Budget (OMB). Those reporting entities are the general funds of the Departments of the Army, the Navy, and the Air Force; the Working Capital Funds (WCF) of the Army, the Navy, the Air Force, the Defense Logistics Agency, and the Defense Finance and Accounting Service; plus the DoD Military Retirement Trust Fund, and the U.S. Army Corps of Engineers (Civil Works).

The Office of the Inspector General (OIG), DoD, renders opinions on the Department’s financial statements. Opinions will be provided for the financial statements of each of the entities identified and the DoD consolidated agency-wide financial statements.

The remaining DoD organizations are included in the consolidated, agency-wide financial statements under the headings “Other Defense Organizations” and “Other Defense Working Capital Funds.” Included are principal statements for the various Defense Agencies, as well as financial statements for that portion of Defense-wide (appropriation code “97” funds) entrusted to the Military Departments. The statements are subject to audit by the OIG although the IG, DoD does not issue separate opinions on these statements.

Each set of financial statements includes the Overview of the Reporting Activity, Principal Statements and Related Notes, Required Supplemental Stewardship Information (as necessary), Required Supplemental Information, and Other Accompanying Information. The separate financial statements include Component-level eliminating entries.

Organizational Structure of the DoD. Under the President, who is also Commander-in-Chief, the Secretary of Defense exercises authority, direction, and control over the Department which includes the Office of the Secretary of Defense; the Chairman of the JCS and the Joint Staff; three Military Departments; nine Unified Combatant Commands; the IG, DoD; fifteen Defense Agencies; and nine DoD Field Activities.

The Secretary of Defense. The Secretary of Defense is the principal defense policy advisor to the President, responsible for the formulation of general defense policy and policy related to all matters of direct and primary concern to the DoD, and for the execution of approved policy.
OVERVIEW OF THE REPORTING ACTIVITY

Under the direction of the President, the Secretary exercises authority, direction, and control over the DoD.

The Deputy Secretary of Defense. The Deputy Secretary of Defense is delegated full power and authority to act for the Secretary of Defense and to exercise the powers of the Secretary on any and all matters for which the Secretary is authorized to act pursuant to law.

The Office of the Secretary of Defense. The Office of the Secretary of Defense (OSD) is the principal staff element of the Secretary in the exercise of policy development, planning, resource management, fiscal, and program evaluation responsibilities. The OSD includes the immediate offices of the Secretary and Deputy Secretary of Defense, Under Secretary of Defense (Acquisition and Technology), Under Secretary of Defense (Policy), Under Secretary of Defense (Comptroller), Under Secretary of Defense (Personnel and Readiness), Director of Defense Research and Engineering, Assistant Secretaries of Defense, General Counsel, Director of Operational Test and Evaluation, Assistants to the Secretary of Defense, Director of Administration and Management, and such other staff offices as the Secretary establishes to assist in carrying out assigned responsibilities.

- **Under Secretary of Defense (Acquisition and Technology).** Under the direction of the Secretary of Defense, the Under Secretary of Defense (Acquisition and Technology) (USD(A&T)) is the principal staff assistant and advisor to the Secretary and Deputy Secretary of Defense for all matters relating to the DoD acquisition system; research and development; advanced technology; test and evaluation; production; logistics; military construction; procurement; economic security; and atomic energy.

- **Under Secretary of Defense (Policy).** Under the direction of the Secretary of Defense, the Under Secretary of Defense (Policy) is the principal staff assistant and advisor to the Secretary and Deputy Secretary of Defense for all matters concerning the formulation of national security and defense policy and the integration and oversight of DoD policy and plans to achieve national security objectives.

- **Under Secretary of Defense (Comptroller).** Under the direction of the Secretary of Defense, the Under Secretary of Defense (Comptroller) (USD(C)) is the principal advisor and assistant to the Secretary and Deputy Secretary of Defense for budgetary and fiscal matters (including financial management, accounting policy and systems, budget formulation and execution, and contract audit administration and organization), DoD program analysis and evaluation, and general management improvement programs. In addition, the USD(C) is the Chief Financial Officer (CFO) of the DoD.

- **Under Secretary of Defense (Personnel and Readiness).** Under the direction of the Secretary of Defense, the Under Secretary of Defense (Personnel and Readiness) is the principal staff assistant and advisor to the Secretary and Deputy Secretary of Defense for Total Force management as it relates to readiness; National Guard and Reserve component affairs; health affairs; training; and personnel requirements and management, including equal opportunity, morale, welfare, and quality of life matters.
OVERVIEW OF THE REPORTING ACTIVITY

• **Assistant Secretary of Defense (Command, Control, Communications, and Intelligence).** Under the direction of the Secretary of Defense, the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) (C3I) is the principal staff assistant and advisor to the Secretary and Deputy Secretary of Defense for C3I, information management, information operations, counter-intelligence, and security countermeasures matters, including warning, reconnaissance, and intelligence and intelligence-related activities conducted by the DoD.

• **Assistant Secretary of Defense (Legislative Affairs).** Under the direction of the Secretary of Defense, the Assistant Secretary of Defense (Legislative Affairs) is the principal staff assistant and advisor to the Secretary and Deputy Secretary of Defense for DoD relations with the members of the Congress.

• **Assistant Secretary of Defense (Public Affairs).** Under the direction of the Secretary of Defense, the Assistant Secretary of Defense (Public Affairs) is the principal staff advisor and assistant to the Secretary and Deputy Secretary of Defense for DoD public information, internal information, the Freedom of Information Act, mandatory declassification review and clearance of DoD information for public release, community relations, information training, and audiovisual matters.

• **General Counsel of the DoD.** Under the direction of the Secretary of Defense, the General Counsel of the DoD (GC, DoD) serves as chief legal officer of the DoD. The GC, DoD is responsible for providing advice to the Secretary and Deputy Secretary of Defense regarding all legal matters and services performed within, or involving, the DoD; and for providing legal advice to OSD organizations and, as appropriate, other DoD Components.

• **Director of Operational Test and Evaluation.** Under the direction of the Secretary of Defense, the Director of Operational Test and Evaluation (OT&E) is the principal staff assistant and advisor to the Secretary and Deputy Secretary of Defense on OT&E in the DoD and the principal OT&E official within the senior management of the DoD.

• **Assistant to the Secretary of Defense (Intelligence Oversight).** Under the direction of the Secretary of Defense, the Assistant to the Secretary of Defense (Intelligence Oversight) (ASD(IO)) is responsible for the independent oversight of all intelligence activities in the DoD. In this capacity, the ASD(IO) shall ensure that all activities performed by intelligence units and all intelligence activities performed by non-intelligence units are conducted in compliance with Federal law and other laws as appropriate, Executive Orders and Presidential Directives, and DoD Directives System issuances.

• **Director of Administration and Management.** Under the direction of the Deputy Secretary of Defense, the Director of Administration and Management is the principal staff assistant and advisor to the Secretary and Deputy Secretary of Defense on DoD-wide organizational and administrative management matters.
Department of the Army. The Army includes land combat and service forces and such aviation and water transport as have been determined to be necessary. It is organized, trained, and equipped primarily for prompt and sustained combat incident to operations on land. It is responsible for the preparation and sustainment of land forces necessary for the effective prosecution of war except as otherwise assigned and, according to integrated joint mobilization plans, for the expansion of the peacetime components of the Army to meet the needs of war. The Army is a total force, comprised of both active and reserve forces.

The U.S. Army mission is to:

- Preserve the peace and security, and provide for the defense of the United States, the Territories, Commonwealths, and Possessions, and any areas occupied by the United States;

- Support national policies;

- Implement national objectives; and

- Overcome any nations responsible for aggressive acts that imperil the peace and security of the United States.

Since the birth of our nation, America’s Army has served the United States with distinction, both at home and abroad, in peace and in war. At the threshold of the 21st century, the Army is a Total Force, an institution with people at its core--Active, National Guard, Army Reserve, civilian employees, families, and retired members. The strength and character of the Army’s soldiers and civilians are the linchpin in maintaining our Army as the finest in the world.

A new global security environment exists as a result of social, political, and military changes during the past decade. No longer a world in which two hostile superpowers face each other, today’s environment includes threats--and opportunities--in a wide number of areas. The Army has evolved to be a strategically relevant joint force to meet the challenges of today’s world. It is our nation’s force of decision--a full spectrum force--trained and ready to respond to a wide range of crises, from fighting and winning major theater wars, to peacekeeping, to humanitarian relief missions, to disaster relief in communities at home. America’s Army is a central element of our National Military Strategy, in shaping the international security environment, responding to a wide range of crises, and preparing now for an uncertain future.

The primary mission of America’s Army remains constant: to fight and win the nation’s wars. In an uncertain world, the Total Army also performs a wide variety of other missions around the world and at home, including deterring potential adversaries, reassuring and lending stability to allies, and supporting our communities in times of emergency.

The Army provides the nation with unique capabilities for implementing the National Security Strategy. Throughout history, wars have been won by forces on the ground. Only soldiers on the ground can take and hold territory. America’s Total Army, with a full spectrum of capabilities, is able to project its forces and establish direct, continuous, and comprehensive control over land, resources, and people to achieve victory and ensure an enduring peace. Whatever the mission,
committing the Army commits the Nation. There is no greater expression of national resolve and will than to put our soldiers--America’s sons and daughters--on the ground.

**Department of the Navy.** The Department of the Navy (DoN) consists of two uniformed Services: the United States Navy and the United States Marine Corps. The National Military Strategy specifies three tasks for the armed forces:

- Shape the international environment;
- Respond to the full spectrum of crises; and
- Prepare now for an uncertain future.

Forward-deployed naval forces are engaged around the world on a daily basis to accomplish each of these tasks. Carrier battle groups and amphibious ready groups with embarked Marine expeditionary units provide the National Command Authorities (NCA) with a rapid, flexible response capability that is multifaceted and deployable around the world.

**The United States Navy.** The mission of the Navy is to maintain, train and equip combat-ready Naval forces capable of winning wars, deterring aggression and maintaining freedom of the seas. The DoN is committed to ensuring that naval forces can continue to immediately respond to national security tasking, when and wherever required. The Department understands that the responsive, adaptable, and combat credible naval expeditionary forces of tomorrow depend upon the correct programmatic and acquisition decisions of today.

Naval forces are built to fight and win wars. But an equally important role is to be positioned forward to prevent conflict. The forward naval forces provide:

- Deterrence of aggression;
- Enhancement of regional stability, including countering the proliferation of weapons of mass destruction;
- Protection and promotion of U.S. interests;
- Improvement of interoperability with key allies; and
- Readiness to provide a timely initial crisis response.

In cooperation with our friends and allies, naval forces are deployed near potential flashpoints to prevent the emergence of dangers to shared interests. Partnership is developed and enhanced when we promote interoperability at the operational and tactical levels with the naval, air, and ground forces of the most likely coalition partners. Exercises that reassure friends and build coalitions are the stock-in-trade of Navy and Marine Corps units.
The United States Marine Corps. The United States Marine Corps, within the DoN, includes not less than three combat divisions and three air wings, and such other land combat, aviation and other services as have been determined to be necessary. The Marine Corps is organized, trained, and equipped to provide fleet marine forces of combined arms, together with supporting air components, for service with the fleet in the seizure or defense of advanced naval bases and for the conduct of such land operations as may be essential to the prosecution of a naval campaign.

In addition, the Marine Corps provides detachments and organizations for service on armed vessels of the Navy, provides security detachments for the protection of naval property at naval stations and bases, and performs such other duties as the President may direct. However, these additional duties may not detract from or interfere with the operations for which the Marine Corps is primarily organized.

The Marine Corps develops, in coordination with the Army and the Air Force, those phases of amphibious operations that pertain to the tactics, techniques, and equipment used by landing forces. The Marine Corps is responsible, in accordance with integrated joint mobilization plans, for the expansion of peacetime components of the Marine Corps to meet the needs of war.

Department of the Air Force. The mission of the U.S. Air Force is to defend the United States through control and exploitation of air and space. Teamed with the Army, Navy, and Marine Corps, the Air Force is prepared to fight and win any war if deterrence fails. The Air Force is responsible for providing:

• Aircraft and missile forces necessary to prevent or fight a general war;

• Land-based air forces needed to establish air superiority, interdict the enemy, and provide air support of ground forces in combat;

• The primary aerospace forces for the defense of the United States against air and missile attack;

• The primary airlift capability for use by all of the nation's military services;

• Major space research and development support for the DoD; and

• Assistance to the National Aeronautics and Space Administration in conducting our Nation's space program.

The Air Force is charting a future that conforms fully to visions outlined by the President’s National Security Strategy and the Chairman of the JCS’s National Military Strategy. The Air Force contribution to this vision, “Global Engagement: A Vision for the 21st Century Air Force,” was published in November 1996. It extends across the full range of Air Force issues--operations, infrastructure, and personnel--and will shape the Air Force throughout the first quarter of the 21st century. Global Engagement defines the Air Force core competencies--competencies that stem from the speed, flexibility, and global range of aerospace forces--and supports the joint goals
established in the Chairman’s Joint vision 2010. Global Engagement is being implementing through the United States Air Force Long-Range Plan (LRP). The LRP provides a framework for programs with directive statements necessary to make Global Engagement actionable and end states which describe the capabilities the Air Force must possess to realize this vision. Global Engagement and long-range planning initiatives guided the Air Force’s participation in the Quadrennial Defense Review (QDR).

The QDR strategy that is now reflected in the 1997 National Security Strategy, the latest edition of National Military Strategy, and the Defense Planning Guidance emphasizes the continuing need to deter aggression by maintaining the ability to rapidly halt enemies in two major theater wars, nearly simultaneously. This strategy depends heavily on the speed, range, agility, and overwhelming firepower of aerospace forces. Such forces give the NCA and theater commanders additional flexibility and open new political and military options for achieving theater objectives. Readiness is key to maintaining this capability.

The Joint Chiefs of Staff. The Joint Chiefs of Staff (JCS), headed by the Chairman of the JCS, consists of the Chairman; the Vice Chairman, JCS; the Chief of Staff, U.S. Army; the Chief of Naval Operations; the Chief of Staff, U.S. Air Force; and the Commandant of the Marine Corps. Subject to the authority, direction, and control of the Chairman, the JCS are supported by the Joint Staff. The JCS constitute the immediate military staff of the Secretary of Defense. The Chairman of the JCS is the principal military advisor to the President, the National Security Council, and the Secretary of Defense.

The Chiefs of Service are the senior military officers of their respective Services and are military advisers to the President, the National Security Council, and the Secretary of Defense, responsible for keeping the Secretaries of the Military Departments fully informed on matters considered or acted upon by the JCS. The Vice Chairman of the JCS performs such duties as may be prescribed by the Chairman with the approval of the Secretary of Defense. When there is a vacancy in the Office of the Chairman or in the absence or disability of the Chairman, the Vice Chairman acts as Chairman and performs the duties of the Chairman until a successor is appointed or the absence or disability ceases.

The Unified Commands. The Unified Combatant Commands are responsible to the President and the Secretary of Defense for accomplishing the military missions assigned to them. Commanders of the Unified Combatant Commands exercise command authority over forces assigned to them 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 Unified Combatant Commands. The Chairman of the JCS functions within the chain of command by transmitting to the Commanders of the Unified Combatant Commands the orders of the President or the Secretary of Defense. Unified Combatant Commands include the European Command, Pacific Command, Atlantic Command, Southern Command, Central Command, Special Operations Command, Strategic Command, Transportation Command, and Space Command.

The Inspector General of the Department of Defense. The Inspector General of the DoD (IG, DoD) serves as an independent and objective official in the DoD who is responsible for
conducting, supervising, monitoring, and initiating audits, investigations, and inspections relating to programs and operations of the DoD. The IG, DoD provides leadership and coordination and recommends policies for activities designed to promote economy, efficiency, and effectiveness in the administration of, and to prevent and detect fraud and abuse in, such programs and operations. The IG, DoD is also responsible for keeping the Secretary of Defense and the Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for, and progress of, corrective action.

The Defense Agencies. The Defense Agencies, authorized by the Secretary of Defense pursuant to the provisions of Title 10, United States Code, perform selected support and service functions on a Department-wide basis. Defense Agencies that are assigned wartime support missions are designated as Combat Support Agencies.

- **Defense Advanced Research Projects Agency.** The Defense Advanced Research Projects Agency (DARPA) serves as the central research and development organization of the DoD, under the authority, direction, and control of the Director for Defense Research and Engineering. Its primary responsibility is maintaining U.S. technological superiority and guarding against unforeseen technological advances by potential adversaries. The DARPA pursues imaginative, innovative and often high risk research ideas offering a significant technological impact that will go well beyond the normal evolutionary developmental approaches, from the demonstration of technical feasibility through the development of prototype systems. The DARPA manages and directs the conduct of basic and applied research and development for improved cost and performance of advanced technology. It stimulates a greater emphasis on prototyping in defense systems, conducting prototype projects that embody technology that might be incorporated in joint programs. It develops programs in support of deployed U.S. Forces (including the Unified Combatant Commands), or selected Military Department programs, and on request, assists the Military Departments in their own prototyping programs.

- **Ballistic Missile Defense Organization.** The Ballistic Missile Defense Organization (BMDO), under the authority, direction, and control of the USD(A&T), is responsible for managing, directing, and executing DoD's Ballistic Missile Defense (BMD) Program. The program focuses on three areas: Theater Missile Defense, National Missile Defense, and advanced BMD technologies based on continuing research and development of follow-on technologies that are relevant for long-term BMD. These programs will build a technical foundation for evolutionary growth in future BMDs. In developing these acquisition and technology programs, the BMDO utilizes the services of the Military Departments, the Department of Energy, private industries, and educational and research institutions.

- **Defense Commissary Agency.** The Defense Commissary Agency (DeCA), under the authority, direction, and control of the Assistant Secretary of Defense (Force Management Policy), is responsible for providing an efficient and effective worldwide system of commissaries for the resale of groceries and household supplies at the lowest practical price (consistent with quality) to members of the Military Services, their families, and other
authorized patrons, while maintaining high standards for quality, facilities, products, and service.

- **Defense Contract Audit Agency.** The Defense Contract Audit Agency (DCAA), under the authority, direction, and control of the USD(C), is responsible for performing all contract audits for the DoD, and providing accounting and financial advisory services regarding contracts and subcontracts to all DoD Components responsible for procurement and contract administration. These services are provided in connection with negotiation, administration, and settlement of contracts and subcontracts. The DCAA also provides contract audit services to other government agencies, as appropriate.

- **Defense Finance and Accounting Service.** The Defense Finance and Accounting Service (DFAS), under the authority, direction, and control of the USD(C), is the accounting firm of the DoD, responsible for providing accurate, comprehensive, and timely financial and accounting information. The DFAS was activated on January 15, 1991, to improve the overall effectiveness of DoD financial management through the consolidation, standardization and integration of finance and accounting procedures, operations and systems. The DFAS is responsible for identifying and implementing finance and accounting requirements, systems and functions for appropriated and non-appropriated funds, as well as working capital, revolving funds and trust fund activities including security assistance, the DFAS provides finance and accounting services for DoD Components and other federal activities, as designated by the USD(C).

To accomplish this, the Director, DFAS, establishes and enforces requirements, principles, standards, systems, procedures, and practices necessary to comply with finance and accounting statutory and regulatory requirements applicable to the DoD; and directs the consolidation, standardization, and integration of finance and accounting requirements, functions, procedures, operations, and systems within the DoD and ensures their proper relationship with other DoD functional areas (e.g., budget, personnel, logistics, acquisition, civil engineering, etc.).

- **Defense Information Systems Agency.** The Defense Information Systems Agency (DISA) is a Combat Support Agency of the DoD under the authority, direction, and control of the C3I. The DISA is responsible for planning, engineering, developing, testing and supporting acquisition, implementation, operation and maintenance of information systems for command, control, communications (C3) and information systems that serve the needs of the NCA under all conditions of peace and war. It provides guidance and support on technical and operational C3 and information systems issues affecting the OSD, the Military Departments, the Chairman of the JCS, the Unified Combatant Commands, and the Defense Agencies. It ensures the interoperability of the Worldwide Military Command and Control System, the Defense Communications System, theater and tactical command and control systems, NATO and/or allied C3 Systems, and those national and/or international commercial systems that effect the DISA mission. It supports national security emergency preparedness telecommunications functions of the National Communications System as prescribed by Executive Order 12472, Assignment of National Security and Emergency Preparedness Telecommunications Functions, April 3, 1984.
As the manager of the Defense Information Infrastructure (DII), the DISA is integrating hardware and software and constructing a common operating environment to sustain warfighters’ need for information anytime, anywhere. The pillars of the DII are the Defense Information System Network, the Defense Message System, the Global Command and Control System, and the Global Combat Support System. The DISA is also helping protect against, detect and react to threats to both its information infrastructure and information sources. Additionally, the DISA is aggressively working with DoD Agencies, the military departments, and other federal agencies, and industry to fix potential problems associated with the coming of Year 2000.

- **Defense Intelligence Agency**. The Defense Intelligence Agency (DIA) is a Combat Support Agency of the DoD under the authority, direction, and control of the C3I. The DIA serves as the Nation’s primary manager and producer of foreign military intelligence. It fills a critically important need for a central intelligence producer and manager for the DoD, directly supporting the Secretary of Defense, the JCS, the Unified Combatant Commands and the Military Services. The DIA is the principal source for military-related foreign intelligence. The DIA also collects and provides military intelligence for national foreign intelligence and counterintelligence products; coordinates all DoD intelligence collection requirements; manages the Defense Attaché system; provides foreign intelligence and counterintelligence staff support to the Chairman of the JCS; and manages the General Defense Intelligence Program.

- **Defense Investigative Service**. The Defense Investigative Service (DIS), under the authority, direction, and control of the C3I, conducts all Personnel Security Investigations (PSIs) for DoD Components and, when appropriate, also conducts PSIs for other U.S. Government activities. These PSIs include investigation of allegations of subversive affiliations, adverse suitability information, or any other situation that requires resolution to complete the PSI. The DIS is also responsible for the four major programs involving industrial security: the Defense Industrial Security Program; the Key Assets Protection Program; the Inspection Program for Contractors with conventional arms, ammunition and explosives, and the Certification Program for Contractors with very high speed integrated circuits.

- **Defense Legal Services Agency**. The Defense Legal Services Agency, under the authority, direction, and control of its Director, who also serves as the GC, DoD, provides legal advice and services for the Defense Agencies, DoD Field Activities, and other assigned organizations. This includes technical support and assistance for development of the DoD Legislative Program; coordinating DoD positions on legislation and Presidential Executive Orders; providing a centralized legislative document reference and distribution point for the DoD; maintaining the Department’s historical legislative files; developing DoD policy for standards of conduct and administering the Standards of Conduct Program for the OSD and other assigned organizations; and administering the Defense Industrial Security Clearance Review Program.
**Defense Logistics Agency.** The Defense Logistics Agency (DLA) is a Combat Support Agency of the DoD under the authority, direction, and control of the USD(A&T). The DLA provides worldwide logistics support for the missions of the Military Departments and the Unified Combatant Commands under conditions of peace and war. The DLA also provides logistics support to other DoD Components and certain federal agencies, foreign governments, international organizations, and others as authorized. The DLA provides integrated management for selected materiel commodities and items of supply on behalf of all DoD Components. The DLA furnishes logistics services directly associated with the supply management function and other support services including scientific and technical information, federal cataloging, industrial plant equipment, reutilization and marketing and systems analysis, design, procedural development and maintenance for supply and service systems, industrial plant equipment storage and issuance, DLA logistics systems development, and the National Defense Stockpile Program. The DLA maintains a wholesale distribution system for assigned items. In addition, the DLA provides contract administration service in support of the Military Departments, other DoD Components, federal civil agencies and, when authorized, to foreign governments and others.

**Defense Special Weapons Agency (DSWA).** The Defense Special Weapons Agency (DSWA), under the authority, direction, and control of the Assistant to the Secretary of Defense (Nuclear and Chemical and Biological Defense Programs (NCB)) (ATSD(NCB)), supports the DoD and other Federal Agencies on matters concerning nuclear weapons, nuclear weapons system acquisitions, nuclear weapons effects on weapons systems and forces, and nuclear weapons safety and security. During wartime and international crisis, in accordance with national priorities and, as directed by the ATSD (NCB), the DSWA shall redirect its resources to support the Chairman of the JCS and the Commanders of the Unified Combatant Commands in analyzing nuclear weapons planning and action options, and reconstituting nuclear forces.

The DSWA serves as the DoD’s center for nuclear and advanced weapons effects expertise. The Agency's mission is to research and develop technologies to support military systems development and operational requirements. DSWA also manages the military nuclear weapons stockpile and conducts programs associated with Cooperative Threat Reduction (Nunn-Lugar), arms control technology and counter-proliferation support. Through the use of simulators and computer models, DSWA maintains the scientific expertise and develops data necessary to ensure advanced conventional systems, nuclear systems and command and control assets will continue to operate in potential nuclear environments. This expertise is also used to provide commanders with options for effective targeting against underground or hardened structures, as well as enhanced capabilities to assess battle damage.


**Defense Security Assistance Agency.** The Defense Security Assistance Agency (DSAA), under the authority, direction, and control of the Assistant Secretary of Defense (International Security Affairs), serves as the DoD focal point and clearinghouse for the development and
OVERVIEW OF THE REPORTING ACTIVITY

implementation of security assistance plans and programs, monitoring major weapon sales and technology transfer issues, budgetary and financial arrangements, legislative initiatives and activities, and policy and other security assistance matters through the analysis, coordination, decision, and implementation process. The DSAA directs and supervises the organization, functions, training, administrative support, and staffing of DoD elements in foreign countries responsible for managing security assistance programs and supports the development of cooperative programs with industrialized nations. To accomplish its mission, the DSAA develops and manages the security assistance program so as to gain maximum benefit for the foreign policy and national security of the United States.

The DSAA is renamed the Defense Security Cooperation Agency effective October 1, 1998 (FY 1999).

- **National Imagery and Mapping Agency.** The National Imagery and Mapping Agency (NIMA) is a Combat Support Agency of the DoD under the authority, direction, and control of the Secretary of Defense and the overall supervision of the C3I. The mission of the NIMA is to provide timely, relevant, and accurate imagery, imagery intelligence, and geospatial information in support of the national security objectives of the United States. The NIMA carries out this responsibility by advising the Secretary and Deputy Secretary of Defense, the C3I, the Chairman of the JCS, the Combatant Commanders, and, for national intelligence purposes, the Director of Central Intelligence and other Federal Government officials, on imagery, imagery intelligence, and geospatial information; and by supporting the imagery, imagery intelligence, and geospatial requirements of the Departments and Agencies of the Federal Government, to the extent provided by law.

The NIMA provides timely, relevant, and accurate imagery, imagery intelligence, and geospatial information in support of national security objectives. The NIMA guarantees the information edge—ready access to the world's imagery, imagery intelligence, and geospatial information. Part of the NIMA's professional development college, the Defense Mapping School provides instruction in preparation and use of geospatial information.

- **National Security Agency.** The National Security Agency/Central Security Service (NSA/CSS), is a Combat Support Agency of the DoD under the authority, direction, and control of the Secretary of Defense, and is responsible for centralized coordination, direction, and performance of highly specialized intelligence functions in support of U.S. Government activities. The NSA carries out the responsibilities of the Secretary of Defense to serve as Executive Agency for U.S. Government signals intelligence, communications security, computer security, and operations security training activities. The CSS provides the Military Services a unified cryptologic organization within the DoD designed to assure proper control of the planning, programming, budgeting, and expenditure of resources for cryptologic activities.

- **On-Site Inspection Agency.** The United States On-Site Inspection Agency (OSIA), under the authority, direction, and control of the ATSD(NCB), is responsible for managing and coordinating on-site inspections used to collect information for monitoring the Intermediate-Range Nuclear Forces Treaty; the Threshold Test Ban Treaty; the Vienna Document of 1990;
and, planning for the Strategic Arms Reduction Treaty, Peaceful Nuclear Explosion Treaty, and Chemical Weapons agreements.

The Agency's work is not limited to supporting the treaty verification process. The U.S. Government also relies upon OSIA's inspection experiences and linguistic capabilities to perform a variety of other missions. To date, these include supporting the United Nations Special Commission on Iraq, providing humanitarian assistance through Operation Provide Hope, leading and supporting the Defense Treaty Inspection Readiness Program, supporting U.S. Forces Korea, assisting implementation of the Cooperative Threat Reduction program and working towards peace by supporting the multilateral inspection activities in Bosnia and Herzegovina under the Dayton Peace Accords.


DoD Field Activities. The DoD Field Activities are established by the Secretary of Defense, under the provisions of Title 10, United States Code, to perform selected support and service functions of a more limited scope than Defense Agencies.

- **American Forces Information Service.** The American Forces Information Service, under the authority, direction, and control of the Assistant to the Secretary of Defense (Public Affairs) (ASD(PA)): (1) advises and acts for the ASD(PA) in managing DoD internal information programs; (2) develops policies, guidelines, and standards for the management of DoD visual information activities and programs; (3) develops policies, guidelines, and standards for the management of Armed Forces Radio and Television Service (AFRTS) outlets and activities; and (4) provides joint-interest print, radio, film, and television materials for use in the internal information programs of the Military Departments and other DoD organizations.

  The AFRTS provides radio and television programs to a million service members and their families overseas, to include Navy members aboard ships at sea. The AFRTS's programming hub is located at its Broadcast Center at March Air Force Base, California, which obtains radio and television programs from commercial networks and syndicators--or specially produces them--and sends them out worldwide. The AFRTS has outlets in about 140 countries. Outlets range in size and capability from large radio and TV facilities like those found in U.S. metropolitan areas - to small, unmanned repeater stations - to simple video monitors and videocassette players.

- **Defense Medical Program Activity.** The Defense Medical Programs Activity, under the authority, direction, and control of the Assistant Secretary of Defense (Health Affairs), is designed to help support the resources planning, programming, budgeting, execution, program review and evaluation of the Defense Unified Medical Program; and the information systems development and management, facility planning, programming, budgeting, and review requirements of the Military Health Services System.
OVERVIEW OF THE REPORTING ACTIVITY

- **Defense Prisoner of War/Missing in Action Office.** The Defense Prisoner of War/Missing in Action Office under the authority, direction, and control of the Assistant Secretary of Defense (International Security Affairs), provides centralized management of prisoner of war/missing in action affairs within the DoD.

- **Defense Technology Security Administration.** The Defense Technology Security Administration, under the authority, direction, and control of the Assistant Secretary of Defense (International Security Policy), serves as the focal point within DoD for administering the DoD Technology Security Program. It is responsible for reviewing the international transfer of defense-related technology, goods, and services consistent with U.S. foreign policy and national security objectives.


- **Defense Civilian Personnel Management Service.** The DoD Civilian Personnel Management Service, under the authority, direction, and control of the Assistant Secretary of Defense (Force Management Policy) (ASD(FMP)), provides civilian personnel policy support, functional information management, and centralized administration of common civilian personnel management services to the DoD Components and their activities.

- **DoD Education Activity.** The DoD Education Activity, under the authority, direction, and control of the ASD(FMP), serves as the principal staff advisor to the ASD(FMP) on all Defense education matters relative to overseas, domestic, and continuing adult and post-secondary education activities and programs.

- **Tricare Support Office.** The Tricare Support Office, under the authority, direction, and control of the Assistant Secretary of Defense (Health Affairs), administers civilian health and medical programs for retirees, and for spouses and children of active duty, retired, and deceased members of the Uniformed Services. The Uniformed Services include the Army, Navy, Air Force, Marine Corps, Coast Guard, and the Commissioned Corps of the National Oceanographic and Atmospheric Administration and the Public Health Service.

- **Office of Economic Adjustment.** The Office of Economic Adjustment, under the authority, direction, and control of the Deputy Under Secretary of Defense (Industrial Affairs and Installations (DUSD(IA&I)), serves as the principal staff advisor to the DUSD(IA&I) on economic adjustment, joint land use studies, and intergovernmental coordination program matters.

- **Washington Headquarters Services.** The Washington Headquarters Services provides administrative and operational support to specified DoD activities in the National Capital Region.
OVERVIEW OF THE REPORTING ACTIVITY

FINANCIAL PERFORMANCE MEASURES

Financial performance measures summarize significant indicators of financial results and financial condition and are included in each of the DoD reporting entity financial statements. The individual financial statements for DoD reporting activities identify and discuss material changes and significant trends in financial results or condition of the funds and appropriations they receive.

OVERVIEW OF THE REPORTING ACTIVITY

FINANCIAL MANAGEMENT IMPROVEMENT

Department leaders continue to implement the most comprehensive improvement of financial management systems and practices in DoD history. Improvements will streamline and redesign DoD financial processes and organizations to make them optimally effective and to cut costs. Improvements also seek to ensure that DoD financial management fulfills the needs of its leaders, satisfies statutory requirements, minimizes the potential for fraud, and provides superior customer service.

Change is being driven by the Department’s Biennial Financial Management Improvement Plan, created as a result of the FY 1998 Defense Authorization Act. It merges previous initiatives with new ones into a single comprehensive plan and responds to special interest concerns of the Congress.

IMPROVEMENT AND CONSOLIDATION OF FINANCIAL MANAGEMENT OPERATIONS

The Defense Finance and Accounting Service and the Consolidation of Financial Management Operations

Since its activation in January 1991, the DFAS has been the Department’s pivotal agent for financial management improvement and consolidation. The DFAS now processes a monthly average of nearly 10 million payments to DoD personnel; 1.2 million commercial invoices; 600,000 travel vouchers/settlements; 500,000 savings bond issuances; and 122,000 transportation bills of lading, with monthly disbursements averaging $24 billion. Through consolidation and process improvements, DFAS has generated savings in operating costs totaling about $1 billion since 1991.

Before consolidation, the Department’s financial management operations were conducted at over 330 field sites. By consolidating activities at these sites into five DFAS centers and 18 operating locations, the Department was able to eliminate redundancy and unnecessary management layers, facilitate standardization, improve and speed up operations and service to customers, increase productivity, and enhance financial management support to DoD decision makers. All this was completed by July 1998, almost two years ahead of the original schedule.

Expanding Competition to Improve Services and Reduce Cost

DoD financial managers are participating in the Administration’s effort to use competition within the government and with the private sector to improve support services and save money. Changes implemented as a result of competition studies produced annual savings of $23 million through the streamlining of administration operations, facilities, logistics, and the consolidation of debt and claims management and DeCA vendor payments. Anticipated changes resulting from ongoing studies in DeCA accounting, depot maintenance accounting, transportation accounting, civilian payroll, and military retiree and annuitant payroll are projected to save $25 million annually.
Consolidation of Finance and Accounting Systems

There are two types of DoD financial management systems--finance and accounting. Finance systems process payments to DoD personnel, retirees, annuitants, and private contractors. Accounting systems record, accumulate, report, and analyze financial activity. As of October 1998, 109 finance and accounting systems were operating, down from 324 in 1991. Finance systems have been reduced to 18 with a goal of 9 by 2003. Accounting systems are down to 91 with a goal of 23 or fewer by 2003.

The Department’s consolidation of finance systems includes:

- Defense Civilian Pay System (DCPS). Nearly 1 million civilian payroll accounts were transferred to DCPS. Some 26 separate systems were eliminated and 348 payroll offices closed.

- Defense Joint Military Pay System (DJMS) and the Marine Corps Total Force System (MCTFS). By the end of FY 2001, DJMS will be fully implemented and all service members will be paid by either DJMS or MCTFS, eliminating an original 22 pay systems.

- Defense Procurement Payment Systems (DPPS). DPPS is being developed as a standardized DoD contract and vendor payment system. Additionally, a standard disbursement system is being developed to replace seven existing ones.

STRENGTHENING INTERNAL CONTROLS

Eliminating Problem Disbursements

A problem disbursement occurs when an expenditure has not been reconciled with official accounting records. DoD problem disbursements, once totaling $34.3 billion, have been reduced to $8.1 billion as of September 1998. Although DoD’s problem disbursements have been a serious issue, the vast majority of the expenditures involved were proper and made only after a Department official confirmed that the subject goods or services were received and that payment was in accordance with a valid contract. That notwithstanding, DoD has an extensive effort under way to improve its disbursement process.

Prevalidation, the procedure of matching a disbursement to an obligation before (rather than after) a payment is made, has helped to reduce problem disbursements. Thresholds for applying prevalidation have been established at each DFAS center. To eliminate problem disbursements, thresholds for applying prevalidation are being gradually lowered until all payments are prevalidated.

Contract overpayments are never acceptable, but they occasionally occur. In FY 1993, overpayments on major weapons systems contracts were $592 million; by FY 1998, they had been reduced to $101 million. This reflects an accuracy rate of 99.8 percent.
OVERVIEW OF THE REPORTING ACTIVITY

Improving the Contractor Payment Process

The DCAA now allows direct submission of vouchers to the DFAS by qualifying and approved contractors. This improvement will save substantial auditor time without putting accountability at risk, since the DCAA will continue to provide oversight through periodic checks. The change also facilitates the transmission of contractor voucher payments using Electronic Data Interchange (EDI), another source of savings and efficiency.

For several years, the DCAA has cut costs without hurting accountability by reducing its audits of low risk contractors (those with good audit histories and no more than $5 million of annual reimbursable contracts). Such contractors are subject to audit only once every three years on a sampling basis. Because of the DCAA’s favorable experience with this improvement, contractors with up to $10 million of annual reimbursable contracts will now be considered for this sampling program.

To speed up audits and expedite the closeout of contracts, the DCAA has begun concurrent auditing for contractors with good internal controls. By auditing transactions soon after they occur rather than after the end of the contractor’s fiscal year, the DCAA’s work can be completed sooner, overhead rates settled more quickly, and contracts closed faster.

Computer Security and Fraud Detection

The DFAS and other DoD organizations are continuing to cooperate and work hard to develop better computer security and fraud detection and protection measures. Efforts include improved employee fraud awareness training and better controls to reduce vulnerability.

Auditable Financial Statements

As part of the President’s initiative to achieve unqualified (clean) audit opinions on its financial statements, the Department is taking aggressive action. Implementation strategies, to include new policies and processes where appropriate, are being employed to produce financial statements that meet newly established federal accounting standards. The Department’s effort involves the DoD financial and nonfinancial communities; IG, DoD; the OMB; and the GAO.

Reporting and Valuation of Inventory

The Department is taking aggressive action to improve how it accounts for inventory. Enhancing inventory management systems to capture proper accounting information will provide for automated inventory valuation, reliable costing of goods sold, and other elements that enable accurate assessment of net operating results.

Reporting and Valuation of Real and Personal Property

DoD’s accounting systems were not designed to account for and report on the value of the Department’s real and personal property. Instead, financial information for these assets are obtained from various property data systems, which for the most part are not integrated with
OVERVIEW OF THE REPORTING ACTIVITY

DoD’s accounting systems. To help achieve the needed integration, the Department has been migrating some of its property management systems to its new Defense Property Accountability System (DPAS). The remaining property systems are being modified to integrate them with DPAS or changed to connect them directly to applicable DoD accounting systems and make them compliant with federal standards.

ADOPTING BEST BUSINESS PRACTICES

A critical aspect of the Department’s financial management improvement is to exploit successful business practices from the private and government sectors. The goal is to make DoD business practices simpler, more efficient, and less prone to error. This is being achieved by the revision of existing policies and procedures and the increased standardization, consolidation, capabilities, and compatibility of existing systems.

Improving the Exchange of Financial Information

The DFAS is promoting the paperless exchange of financial information through:

- Electronic Document Management (EDM) and World Wide Web applications. One such application is Electronic Document Access, which provides on-line real-time access to documents needed to perform bill paying and accounting operations. Contracts, government bills of lading, and payment vouchers can be stored in an electronic file cabinet and shared between DFAS activities. Another application avoids unnecessary printing of reports by converting them into electronic format for on-line analysis, reconciliation, and reporting. EDM technology is also being used to enhance the control and management of documents needed for bill paying operations, regardless of the format of the document.

- Electronic Funds Transfer (EFT). EFT is reducing the cost of disbursements. Over 94 percent of DoD civilian employees and military members paid by DoD have their pay directly deposited into their accounts. The direct deposit participation rate for travel payments is now up to 80 percent. In 1998, 74 percent of major DFAS contract payments were by EFT. This accounted for 89 percent ($63 billion) of total contract dollars disbursed. This percentage is expected to continue increasing.

- Electronic Data Interchange. The DFAS is using EDI to send remittance information directly to vendors and is currently working to receive and process EDI contracts and contract modifications into finance and accounting systems.

Electronic Audit Working Papers

Audit working papers are key components of audits performed by the DCAA. They document DCAA’s audit work and are sometimes shared with the customer as backups for audit reports. DCAA recently implemented an automated working paper process to make its audit services better, faster, and cheaper. As a result of this improvement, the DCAA can serve customers and obtain feedback on their services faster, helping to reduce the cycle time for negotiations.
OVERVIEW OF THE REPORTING ACTIVITY

DCAA’s new working paper process also supports DoD’s efforts to improve the procurement process and will help achieve DoD’s overall goal to become paperless by 2000.

Garnishment Operations

The DFAS continues to reengineer the processes by which the Department garnishes the pay of its civilian and military personnel for child support, alimony, commercial debt, and divisions of retired pay. The consolidated garnishment operations process approximately 11,000 garnishment orders per month. Reengineering has reduced staffing requirements significantly and will save about $19 million between 1995 and 2000. The cost of processing cases has already dropped from $153 per case honored in 1995 to $79 per case honored now. These savings are attributable mostly to technological improvements, most notably the introduction of EDM and direct linkage to DoD pay systems. Efforts are also underway to implement a system for electronic acceptance of court orders.

Travel Reengineering

The Department continues to reengineer its management of travel by DoD personnel. The goal is a much less costly travel system that supports DoD requirements and provides excellent customer service. Procedures have been simplified and refined as a result of extensive analysis and pilot tests. Implementation of DoD’s new travel processes will start in mid-1999 and extend over 3 years.

New DoD travel policies include:

• Delegation to appropriate officials of the authority to approve exceptions to standard arrangements;

• Expanded use of a government-sponsored, contractor-provided travel card to pay for all expenses related to official business travel (travel advances, tickets, taxis, lodging, meals, etc.); and

• Expanded use of electronic transfer to process reimbursements.

Transportation Documentation and Financial Processes

With cooperation from the commercial transportation industry, DoD’s transportation and financial communities have developed a far-reaching plan to use purchase cards and commercial documentation to reduce the data needed for the Department to procure and pay for transportation services. DoD officials are refining this fundamental change from past practices and expect to begin full implementation during FY 1999.

Digital Signature

To achieve the goal of a paperless process, DoD leaders worked with the Departments of Commerce and Energy and the GAO to develop a software specification that creates a digital
signature that is compliant with federal standards. The software specification enables the Department to move to paperless processes. Users will be allowed to sign documents electronically. This process will be pilot tested and eventually exported to other functional areas.

**Information Infrastructure**

The DFAS is establishing the Corporate Information Infrastructure to support use of common data elements for the collection, storage, and retrieval of finance and accounting data; use of common transactions; and movement of common transactions and data among systems. Also supporting improvement is an ambitious effort to standardize and share acquisition data. This effort will greatly improve the interactions between DoD procurement systems and the financial systems that process and account for payments of procurements.

The DFAS is working toward ensuring that all its systems are Year 2000 (Y2K) compliant by March 31, 1999. Consolidation of DoD finance and accounting systems substantially reduced the cost of fixing their Y2K problems. Repair of the 106 DFAS systems that require Y2K-related renovation is estimated to cost about $49 million. The DFAS also provided $7 million to other DoD organizations to fund Y2K work on systems they co-own and is conducting planning and testing as part of this effort. All new DFAS systems are Y2K compliant.

**IN SUMMARY**

The Department’s financial management improvements are continuing to cut costs and improve effectiveness by exploiting the best of private and government practices. Especially productive are the imaginative utilization of consolidation, standardization, simplification, advanced technology, and practical common sense. Progress is fundamentally transforming DoD financial activities, as well as other activities with which they must interact.
DoD’s goal is to assure full mission capability on January 1, 2000, unaffected by Y2K programming problems. All of DoD’s 2,300 mission-critical computer systems will be ready for Y2K. As of the end of 1998, 81 percent of DoD’s mission-critical system were ready; 73 percent were fully fielded. DoD anticipates that 90 percent of its mission-critical systems will be ready by March 31, 1999. With world-wide locations and a wide variety of missions to support, one of the biggest obstacles is the time lag for fielding to all operating locations, including ships which will be readied for Y2K during maintenance upon their return from current deployments.

DoD is also concerned about the effect of Y2K on embedded, commercial, off-the-shelf (COTS) microchips, since these are prevalent in almost all types of equipment. The computer controls at all of DoD’s 638 facilities will be Y2K verified by September 30, 1999. For weapon systems, most embedded microchips are custom-made and have been verified as Y2K ready.

DoD’s cost of Y2K compliance for its computer systems and facilities is estimated at $2.6 billion (FY 1996 to FY 2001), with $110 million of this amount in the President’s Budget for FY 2000.

DoD is moving beyond verification to demonstration of its Y2K mission capabilities, which requires connecting multiple computer systems and multiple organizational elements. Warfighting units spearhead this form of Y2K testing. All Commanders-in-Chief of Unified and Specified Commands are conducting Y2K operational evaluations throughout 1999, forming the largest and most comprehensive mission tests in DoD history. In addition, DoD is using the FY 1999 Y2K Emergency Supplemental Fund ($1.1 billion) to test its support functions such as finance, logistics and personnel, in tests that mirror those conducted by private industry. These tests are aimed at assuring DoD readiness to respond to any domestic or foreign mission throughout the century date change. DoD has prepared Y2K contingency plans for its mission-critical systems and is refining its mission contingency plans for potential Y2K scenarios. Many of these refinements will be derived from the lessons learned from Y2K tests and evaluations.

All nuclear systems are under positive control. DoD is also sharing information internationally on nuclear capabilities before and during Y2K, to avert Y2K misperceptions and misapprehensions regarding nuclear weapons. The U.S. and Russia are conducting a series of discussions on Y2K; topics under consideration include establishing a shared early warning center, exchanging personnel during the Y2K rollover, and enhancing communications between national civil and military leaders.

DoD supports federal efforts through the President’s Council on Y2K Conversion. DoD’s activity in the Council’s program for international outreach to identify potential Y2K needs includes supporting information sharing through the United Nations. DoD provides support to the Federal Emergency Management Agency, the Federal Aviation Agency, other federal agencies, and state and local governments as needed, to continue emergency support unaffected by Y2K. The Council is working in cooperation with utilities, manufacturers, banks, small and large businesses to solve Y2K problems in advance. DoD is working with the Council as it examines transportation, including international shipping and port Y2K compliance, and supplier
capabilities, ensuring reliable logistics velocity management operations such as just-in-time delivery of goods and spare parts, which depend on smooth computer operations.

Finally, DoD is addressing the human factor of preparing for Y2K decision situations. Through a series of TableTop Exercises, DoD's leaders are honing their ability to make policy and procedural decisions in a Y2K environment. DoD is extending these exercises to decisionmakers throughout the Federal Government to help ensure continued federal operations throughout the millennium rollover.
OVERVIEW OF THE REPORTING ACTIVITY

LIMITATION OF THE FINANCIAL STATEMENTS

- The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of 31 U.S.C. 3515(b).

- While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the OMB, the statements are different from the financial statements used to monitor and control budgetary resources that are prepared from the same books and records.

- The statements should be read with the realization that they are for a federal entity, that unfunded liabilities reported in the financial statements cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.