

# *Department of Defense Overview*





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# *Snapshot of the Department*

The Military Services of the United States have a rich and glorious history. The earliest form of our warfighting infrastructure, the Massachusetts Bay Colony Militia, was established more than 360 years ago. Since that time, U.S. Armed Forces have responded effectively to numerous challenges and evolved into the most powerful and sophisticated fighting force in the world.

The War Department (Army) was formed in 1789; 9 years later--in 1798--the Navy Department was formed to manage Naval and Marine Corps affairs. Although there was unified control of the military at the national and major command levels during World War II, the two departments remained autonomous throughout that conflict.

In 1947, the Congress created the National Military Establishment (NME) and directed that it be headed by a civilian Secretary. The legislation that created this overarching department also created the Air Force as a Service separate from the Army, converted the War Department to the Department of the Army, and placed the four Services under the direct control of the NME. A 1949 amendment to the "National Security Act of 1947" established the NME as an executive department, renamed it the Department of Defense, and withdrew cabinet level status from the Secretaries of the Army, Navy and Air Force. For more than half a century this national security structure has remained intact.

Since certain of our military units trace their roots to before the Revolutionary War, some describe the Department of Defense as the oldest and largest firm in America.

## *Our Mission*

The Department's primary mission is to provide the military forces needed to deter war and protect the security and national interests of the United States. We proudly accept this mission and diligently serve as "protector" of the American people.

With the same dedication and patriotism, the Department performs a variety of other very important missions for the American people and U.S. allies around the world. Whether it's saving lives, protecting property or keeping the peace, the U.S. military stands ready to keep America strong and free.

## *Our Resources*

The Department of Defense is the nation's largest employer, with 1.4 million men and women currently on active duty, 700,000 civilians, and another 900,000 volunteers serving in the selected Reserve. We have a worldwide presence with military and civilian personnel located in more than 130 countries, in every time zone and every climate.

The Department maintains a robust infrastructure in order to support its force structure. No other U.S. firm owns, operates and maintains the volume of physical assets (*property, plant and equipment, and inventories*) controlled by the Department.

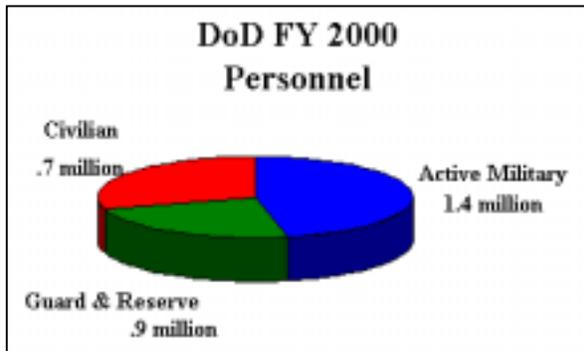


Chart 1 Source: WHS Directorate for Information Operations & Reports

Our personnel are located at approximately 600 fixed facilities that are composed of more than 40,000 properties that occupy roughly 18 million acres of land. The Department operates and maintains approximately 250,000 vehicles, over 15,000 aircraft, more than 1,000 oceangoing vessels, and some 550 public utility systems.

operating and maintaining our forces, and the remainder for buying equipment and conducting and acquiring technological research and development.

In the past 10 years, DoD funding has declined roughly 25 percent. The DoD budget has shrunk both in terms of overall government spending and as a percentage of the nation’s wealth, as measured by the Gross Domestic Product. To accommodate this sizable reduction, we have decommissioned enough ships, stood down enough combat divisions and grounded enough flying units to arm a formidable foe.

Summary of Drawdowns  
(Since 1990)

- 1,000,000 Regular and Reserve personnel
- 8 Army divisions
- 7,800 main battle tanks
- 960 combat aircraft
- 211 strategic bombers
- 450 long range ballistic missiles
- 4 aircraft carriers, and
- 42 submarines

Figure 1 Source: Defenselink/DoD101

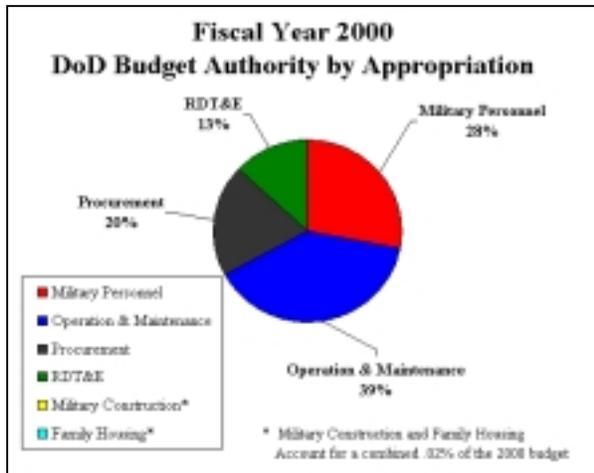


Chart 2 Source: Office of the Assistant Secretary of Defense (Public Affairs) Press Release No. 032-99

America’s oldest, largest and most diverse “firm” gets by on resources that are compared to those in private industry. Our annual budget is approximately \$280 billion—about half of which goes for salaries, one quarter for

## Our Workload

Despite the demise of the Soviet Union and the downsizing of U.S. military forces, American operational commitments (since 1990) have exponentially increased. Our military operational tempo from the end of the Cold War through the end of fiscal year (FY) 1999 numbered 99 major commitments of Americans in uniform, to virtually every corner of the globe.

The impact that those commitments have had on our military forces has been unrelenting. Army deployments have increased



300 percent in the past 10 years; the number of deployed Navy ships on any given day has increased by 52 percent in the last 6 years; and Air Force deployments have quadrupled since 1986.

In addition to planned deployments, our troops routinely perform emergency deployments, such as disaster relief in Venezuela, southern Mozambique and South Africa; and peacekeeping and humanitarian relief efforts in Kosovo and East Timor.

Our military forces have maintained this sustained level of commitments to defending U. S. national security interests, while the number of DoD civilians and military personnel reduced by 40 percent between 1990 and 1999.

The increase in contingency operations has substantially raised the demand placed on our Reserve Component forces. In 1999, some 235,000 Guard and Reserve personnel, averaging 19 days each, deployed overseas performing duties ranging from humanitarian and peacekeeping missions to readiness training. Another 325,000 personnel were deployed in the United States to support domestic priorities, such as counter drug operations and natural disaster assistance, averaging 22 days each. Over the past 10 years the number of days these patriots have served on active duty increased roughly 13 fold!

The Department's infrastructure support workload also has increased substantially. Every month we cut 5 million paychecks, take 920,000 contract or purchase actions, and serve our troops approximately 3.4 million meals. On any given day we buy enough fuel to drive a car around the world 13,000 times, maintain 12,000 miles of waterways, operate 24 percent of the nations hydropower

capacity, manage 225 schools and provide day care for 200,000 children.

In FY 1999, we recruited 207,000 new personnel and separated about 170,000 personnel. That represents more than a 25 percent turnover of our uniformed personnel and a 3 percent turnover of our civilians. Turnover rates of this magnitude challenge our personnel management functions and require significant investments in recruiting, training and developing our employees.

## Our Organizational Structure

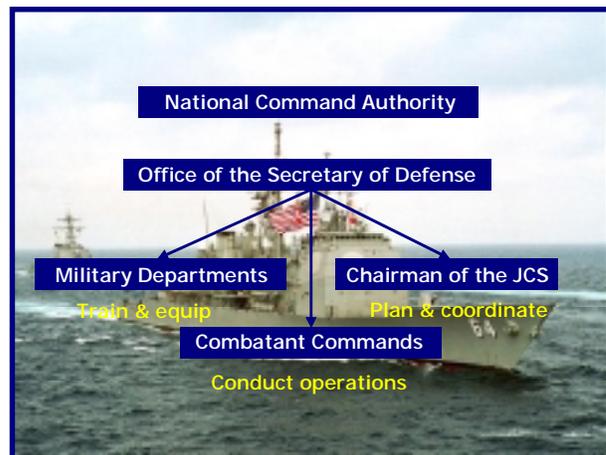


Chart 3 Source: FY 99 Agencywide Financial Statement Overview

Orders for military operations emanate from the National Command Authority – i.e., the President and the Secretary of Defense. The President, as commander-in-chief of the Armed Forces, is the ultimate authority. The Office of the Secretary of Defense carries out the Secretary's policies by tasking the Military Departments, the Chairman of the Joint Chiefs of Staff (JCS) and the Combatant Commands. The Military Departments train



and equip their forces, while the Chairman, JCS plans and coordinates deployments and operations that are conducted by the Combatant Commands.

### **Office of the Secretary of Defense**

The Office of the Secretary of Defense helps the Secretary plan, advise and carry out the nation's security policies as directed by both the Secretary and the President. Four key Under Secretaries support the Secretary in the critical areas of policy, acquisition, finance and, force readiness.

#### ***Policy***

The Department's senior policy advisor, the Under Secretary of Defense (Policy), formulates national security/defense policy, integrates and oversees DoD policy, and develops plans to achieve national security objectives.

#### ***Purchasing***

The Under Secretary of Defense for Acquisition, Technology and Logistics oversees all matters related to buying, researching, testing, producing and moving assets and personnel, advises on the use of new technology, protects the environment and controls the Department's use of atomic energy.

#### ***Finance***

The Under Secretary of Defense (Comptroller), the Department's Chief Financial Officer, oversees budgetary and fiscal operations, program analysis and evaluation, contract audit and general management improvement programs.

#### ***Human Resources***

The Under Secretary of Defense (Personnel and Readiness) oversees readiness; the Reserve Component; health affairs; training; and personnel requirements and management, including equal opportunity, morale, welfare, and quality of life issues.

### **Inspector General, Department of Defense**

The Inspector General, Department of Defense (IG, DoD) serves as an independent departmental official responsible for initiating, conducting, supervising and monitoring investigations and inspections relating to DoD programs and operations.

### **Joint Chiefs of Staff (JCS)**

Representatives from all the Military Services support the Chairman of the Joint Chiefs of Staff in his capacity as the principal military advisor to the President, the National Security Council and the Secretary of Defense. The JCS command structure consists of the Chairman, the Vice Chairman, and the four-star heads of the four Military Services. The Chairman plans and coordinates military operations involving U.S. Forces and, as such, is responsible for the operation of the National Military Command Center, commonly referred to as the "war room," from where all U.S. military operations are directed. He meets regularly with the four Service chiefs to resolve issues and coordinate "joint" Service military activities.

### ***Commanders in Chief (CINCs)***

The Secretary of Defense exercises his authority over military training and equipping through the Service secretaries; but the Secretary of Defense uses the military



command structure to deploy troops and exercise military power. This latter authority is directed, with the advice of the Chairman of

Africa and Israel, Lebanon and Syria, and the South Atlantic Ocean.



Chart 4 Source: Office of the Joint Chiefs of Staff

the Joint Chiefs of Staff, to his nine combatant commanders-in-chief (commonly referred to as “CINCs”). The CINCs have direct links both to the President and Secretary of Defense. Five CINCs have geographical responsibility, while the remaining four have worldwide responsibility.

**Geographical CINCs**

***Central Command***

The Central Command oversees the balance of the Mid-East, parts of Africa and west Asia, and part of the Indian Ocean.

***European Command***

The European Command is responsible for all U.S. military activities in Europe, most of

***Joint Forces Command***

The Joint Forces Command protects U.S. interests in the North Atlantic Ocean, Arctic Ocean and Greenland. In addition, it has worldwide responsibility for joint warfighting training and provides military support to weapons of mass destruction incidents within the Continental United States, its territories and possessions.

***Pacific Command***

The Pacific Command covers 50 percent of the Earth's surface including Southwest Asia, Australia and Alaska.

***Southern Command***

The Southern Command guards U.S. interests in the southern hemisphere, including Central America, South America and the Caribbean.



### **Worldwide CINCS**

#### ***Space Command***

The Space Command launches and operates satellites, supports joint-service military forces worldwide with intelligence, communications, weather, navigation, and ballistic missile attack warning information, engages adversaries from space, assures U.S. access to and operation in space, and deny enemies that same freedom. In essence, the command is responsible for controlling space, including what goes up and what comes down.

#### ***Special Operations Command***

The Special Operations Command provides counter-paramilitary, counter-narcotics, guerilla, psychological warfare, civil education, and insurgency capability in support of U.S. national and international interests.

#### ***Strategic Command***

The Strategic Command deters conventional and nuclear attack on the U.S. and its allies. Its forces include land-based and sea-based nuclear assets. If deterrence fails, it employs the needed forces to achieve national military and security objectives.

#### ***Transportation Command***

The Transportation Command is responsible for moving things and people around the world, specifically providing air, land and sea transportation for the Department of Defense in time of peace and war.

### **The DoD Components**

#### ***The Military Services***

Troops are trained and equipped through our three Military Departments -- the Army, the Navy and the Air Force. The Marine Corps,

our main amphibious force, is a component of the Department of the Navy.

#### ***Army***

The Army's mission is to defend the land mass of the United States and its territories, commonwealths and possessions and overcome any aggressor that imperils our nation's peace and security.

Throughout history, wars have been won primarily by armed forces on the ground. Only soldiers on the ground can take and hold territory. America's Army effectively deploys its forces and establishes direct, continuous, and comprehensive control over land, resources, and people to achieve victory on the battlefield and ensure peace.



For nearly three quarters of a century, the Army's Corps of Engineers Civil Works Program has developed, managed, protected, and enhanced our nation's water and related land resources for commercial navigation, flood damage reduction, environmental restoration, and allied purposes. The Civil Works Program diligently supports the Army in peacetime pursuits, during national emergencies, and in times of war.



World War II, an average of once every 90 days. Marines have provided humanitarian assistance to earthquake victims in Turkey, were among the first U.S. ground troops to enter Kosovo and formed the core of U.S. peacekeeping efforts in East Timor.

The Marine Corps provides sea-based, integrated air-ground units for contingency and combat operations, and for suppressing or containing international disturbances.

### ***Navy***

The U.S. Navy is America's forward deployed force and a major deterrent to aggression around the world. Our carriers are stationed in hotspots around the globe -- in the Far East, in the Persian Gulf, and in the Mediterranean Sea -- ready to provide a quick response to any crisis worldwide.



### ***Air Force***

The Air Force defends the United States through control and exploitation of air and space.

The Navy maintains, trains and equips combat-ready Naval forces capable of winning wars, deterring aggression and maintaining freedom of the seas.



### ***Marine Corps***

The call "Send in the Marines!" has been sounded more than 200 times since the end of

The Air Force provides America a rapid, flexible, and when necessary, lethal air and space capability. It can deliver forces anywhere in the world in less than 48 hours.



It routinely participates in peacekeeping, humanitarian, and aeromedical evacuation missions and actively patrolled the skies above Iraq and Bosnia. Air Force crews annually fly missions into all but five nations of the world.

something that Americans have been doing since 1636, when the country’s first militia units were organized in the Massachusetts Bay Colony.

**Reserve Components**

Our active military forces are supported by the world’s premier military power multiplier—forces of the selected Reserve, including the National Guard and the Federal Reserve. Within the last decade, Reserve Component (RC) personnel have taken on new and more important roles in wartime military support, humanitarian, peacekeeping, law enforcement assistance and disaster assistance missions.

**Defense Agencies**

Several agencies provide operational support services to the Office of the Secretary of Defense and the Military Services. The array of functions that these organizations perform ranges from making maps to shipping supplies and equipment to our troops, to providing information management, or finance and accounting services.

*Size of Our force Multiplier in FY 2000*

Army National Guard	353,045
Army Reserve	206,892
Naval Reserve	86,933
Marine Corps Reserve	39,667
Air National Guard	106,365
Air Force Reserve	72,340
Individual Ready Reserve	373,473
Total: 1,238,715	
Coast Guard Reserve w/IRR	7,965

The Department’s 15 Defense Agencies provide invaluable Department-wide support and service functions. Following is a summary of each agency’s contribution to the national defense mission.

Figure 2 Source: Office of the Under Secretary of Defense (Comptroller)

These challenges have been met both at home and abroad, as America redefines its national military strategy. With personal ties to local communities, RC personnel are the perfect fit for these emerging missions. These personnel comprise approximately half of America’s total uniformed force. They are your friends, neighbors and coworkers, who sacrifice their free time to help guard our freedom - -

**Defense Advanced Research Projects Agency (DARPA)**

The DARPA, as the central research and development organization of the Department, primarily is responsible for maintaining U.S. technological superiority and guarding against unforeseen technological advances by potential adversaries.

**Ballistic Missile Defense Organization (BMDO)**

The BMDO is responsible for managing, directing, and executing the DoD’s Ballistic Missile Defense (BMD) Program, focusing on three areas-- Theater Missile Defense, National Missile Defense, and advanced BMD technologies. Such technologies are based on continuing research and development of follow-on technologies that are relevant for long-term BMD.



### ***Defense Commissary Agency (DeCA)***

The DeCA is responsible for providing an efficient and effective worldwide system of commissaries for the use of military personnel, their families, and other authorized patrons. Defense commissaries sell groceries and household supplies at the lowest practical price (consistent with quality) to customers while maintaining high standards for quality facilities, products, and service.

### ***Defense Contract Audit Agency (DCAA)***

The DCAA is responsible for performing all contract audits for the Department. The DCAA also provides financial advisory services related to contracts and subcontracts to DoD Components responsible for procurement and contract administration.

### ***Defense Contract Management Agency (DCMA)***

The DCMA provides customer-focused contract management services throughout the acquisition lifecycle process for the Department. Services performed include product and manufacturing assurance, delivery surveillance, program integration and contract closeout.

### ***Defense Finance and Accounting Service (DFAS)***

The DFAS is responsible for providing accurate, comprehensive, and timely finance and accounting services and financial information to the Department.

### ***Defense Information Systems Agency (DISA)***

The DISA is a combat support agency responsible for planning, engineering, developing, testing and acquiring, implementing, operating and maintaining information systems. These systems support command, control, communications (C3) and

information needs of the Department during times of peace and war.

### ***Defense Intelligence Agency (DIA)***

The DIA is a combat support agency that serves as the nation's primary manager and producer of foreign military intelligence.

### ***Defense Security Service (DSS)***

The DSS conducts all personnel security investigations for DoD Components and, when appropriate, for other federal agencies and activities.

### ***Defense Legal Services Agency (DLSA)***

The DLSA provides legal advice and services for the Defense Agencies, DoD Field Activities, and other assigned organizations.

### ***Defense Logistics Agency (DLA)***

The DLA, a combat support agency, provides worldwide logistics support to the Military Departments and the Combatant Commands under conditions of peace and war.

### ***Defense Threat Reduction Agency (DTRA)***

The DTRA is charged with reducing the threat to the United States and its allies from nuclear, biological, chemical, conventional and special weapons; to support the U.S. nuclear deterrent; and to provide technical support on weapons of mass destruction matters to the DoD Components.

### ***Defense Security Cooperation Agency (DSCA)***

The DSCA serves as the DoD focal point and clearinghouse for the development and implementation of security assistance plans and programs.

### ***National Imagery and Mapping Agency (NIMA)***

The NIMA is a combat support agency that provides timely, relevant, and accurate



imagery, imagery intelligence, and geo-spatial information in support of the national security objectives of the United States.

### ***National Security Agency/Central Security Service (NSA/CSS)***

The NSA/CSS is the combat support agency responsible for centralized coordination, direction, and performance of highly specialized intelligence functions in support of U.S. Government activities.

### ***DoD Field Activities***

The following DoD Field Activities were 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 the aforementioned Defense Agencies. Brief summaries of the scope of each field activity's mission follow.

### ***American Forces Information Service (AFIS)***

The AFIS advises and acts for the Assistant Secretary of Defense (Public Affairs) in managing DoD internal information programs; develops policies, guidelines, and standards for the management of DoD visual information activities and programs; develops policies, guidelines, and standards for the management of Armed Forces Radio and Television Service (AFRTS) outlets and activities; and provides joint-interest print, radio, film, and television materials for use in the internal information programs of the Military Departments and other DoD organizations.

### ***Defense Prisoner of War/Missing in Action Office***

The Defense Prisoner of War/Missing in Action Office provides centralized

management and oversight of prisoner of war/missing in action affairs within the Department.

### ***DoD Education Activity***

The DoD Education Activity serves as the principal staff advisor on all Defense education matters relative to overseas, domestic, and continuing adult and post-secondary education activities and programs.

### ***Human Resources Activity***

The Human Resources Activity provides program support, information management, and administrative services to the DoD Components on human resource matters and collects, archives and conducts information management research and analysis of human resources and other related functional data bases for the DoD.

### ***TRICARE Management Activity (TMA)***

The TMA administers the Department's health management programs that serve members of the Armed Forces, military retirees and their families. It manages TRICARE, executes the Defense Health Program Appropriation and the DoD Unified Medical Program, and supports the Uniformed Services in the implementation of the TRICARE and the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS).

### ***Office of Economic Adjustment***

The Office of Economic Adjustment serves as the principal staff advisor to the Department 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.

This DoD military structure continues to be effective at deterring threats to the national security and protecting the United States and its allies. Our men and women in uniform, together with the DoD civilians in support roles, are the Department's most important resources. They are proud to be charged with the task of keeping America strong and free.

## *Financial Condition*

The improvement in the quality of the financial data in this year's reports is due primarily to the efforts we took to correct major "non-system" deficiencies. The Department, in coordination with the Office of Management and Budget (OMB), the General Accounting Office (GAO) and the Office of the Inspector General, Department of Defense, aggressively pursued new approaches for addressing deficiencies identified in previous audit reports in the areas of inventory management; operating materials and supplies; property, plant and equipment; future liabilities; fund balance with the U.S. Treasury; and intragovernmental eliminations. We believe noticeable progress has been made toward improving data quality in those categories.

In addition, the DFAS has initiated measures to address issues that were raised in previous audit reports regarding journal vouchers, unliquidated obligations, and abnormal balances in payables and receivables. Workgroups were formed to research deficiencies, make process changes and initiate other corrective actions that would

reduce the number of deficiencies in each of the identified areas.

The DoD financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of the 31 U.S.C. 3515(b). While these statements have been prepared from the books and records of the Department, in accordance with the formats prescribed by the OMB, the statements are in addition to those financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

To the extent possible given the existing systems and data sources, the financial statements have been prepared in accordance with federal accounting standards. At times, the Department is unable to implement all elements of the standards due to financial management systems limitations. The Department continues to implement system improvements to address these limitations. There are other instances when the Department's application of the accounting standards is different from the auditor's application of the standards. In those situations, the Department has reviewed the intent of the standard and applied it in a manner that management believes fulfills that intent.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation that provides resources to do so.

As of the date these statements were prepared, the Federal Accounting Standards Advisory Board (FASAB) had not determined the final reporting requirements for National Defense



Property, Plant and Equipment (ND PP&E). Therefore, the Department elected to report ND PP&E in its FY 2000 financial statements consistent with reporting in its FY 1998 and FY 1999 statements. The Department implemented early for FY 1998, as encouraged by the FASAB, the then proposed amendments to the accounting standards that required the reporting of quantities, condition and investment trends for major types of ND PP&E. At subsequent FASAB meetings, the Board chose not to implement the proposed amendments to the Statement of Federal Financial Accounting Standards (SFFAS) No.6, "Accounting for Property, Plant and Equipment," and SFFAS No. 8, "Supplementary Stewardship Reporting," but, rather, chose to continue studying various alternatives for reporting ND PP&E. These studies were ongoing at the conclusion of FY 2000.

Since the FASAB did not adopt the proposed amendments, the Department is not in full compliance with the existing reporting requirements that require the Department to report the value of ND PP&E. The Department cannot comply fully with the existing reporting requirement, because many of the Department's ND PP&E accountability and logistics systems do not contain a value for the ND PP&E assets. These systems were designed for purposes of maintaining accountability and meeting other logistics requirements, and not for reporting the value of ND PP&E.

Given the complexity of the existing temporary reporting requirements, the enormous cost of implementing those temporary reporting requirements and the interim nature of the temporary reporting requirements, the Department is continuing to use the prior year reporting disclosure. Further, the Department believes the most

reasonable and responsible course of action is to report quantity and investment information for the ND PP&E until such time that the FASAB adopts permanent reporting requirements.

## *Systems Controls and Legal Compliance*

Effective internal controls and full compliance with established systems guidelines and standards are two of DoD's core financial management priorities. For almost a decade, we have taken innovative steps to ensure systematic and continuous improvement in these areas. The Department is committed to prudent management and proper stewardship of the resources entrusted to it.

To strengthen internal controls and elevate fraud awareness, the Department has implemented, and continues to install additional checks, balances, and approval requirements for finance and accounting transactions. Our goal is to incorporate appropriate levels of verification without requiring excessive resources or hampering the Department's ability to complete its mission.

### *Systems Controls*

The DFAS has an aggressive internal control program. This fiscal year, the DFAS consolidated its Fraud and Internal Review Office to better ensure that programs achieve intended results, laws and regulations are obeyed, resources are appropriate for the



program's mission, data are reliable, and fraud is prevented. Other efforts that were taken included the implementation of better controls to reduce vulnerability, and broader exposure of DFAS employees to fraud awareness and training.

Another internal control initiative, Operation Mongoose, completed its fifth year as DoD's agency-wide financial management fraud prevention and detection program. This program utilizes state-of-the-art technology to detect and prevent fraudulent and erroneous payments.

Through the combined efforts of the initiatives described above, the DoD financial management community expects continued, marked success in strengthening internal controls.

### Legal Compliance

Three initiatives serve as the foundation of the Department's efforts to comport with systems management policies and requirements. All of those efforts are well underway.

The first of these initiatives is the finance and accounting systems streamlining effort. The Department has reduced the number of its finance and accounting systems from 324 to 76, since 1991. By 2005, the DFAS expects to perform its accounting functions and pay over 2 million service members, 2.2 million retirees and annuitants, over 700,000 civilian employees, and 200,000 contractors using just 30 finance and accounting systems -- a 90 percent reduction since 1991.

These consolidations have achieved genuine benefits and savings. For example, after consolidating 700,000 civilian payroll accounts into a single system, 26 separate systems were eliminated and 348 payroll

offices closed. In 2000, a typical civilian payroll technician handled over 2,200 accounts, compared to just 380 accounts in 1991.

The DFAS Corporate Information Infrastructure (DCII), the second systems improvement initiative, is under development. The DCII will help modernize DFAS accounting and finance systems and augment our current financial management information management environment by improving the interactions between DoD's procurement and financial systems. Substantial amounts of the data on our financial statements comes from personnel, acquisition, logistics and other "feeder" systems. Establishing a seamless connection between these feeder systems and the accounting systems used to prepare financial statements is a crucial step in moving toward full systems compliance. Most feeder systems were developed and put into service long before the promulgation of federal accounting standards. As a result, they simply were not designed to produce information that feeds business type financial statements.

For example, most of DoD's inventory systems were designed to maintain records on the latest acquisition costs. These are the data that our logistics managers find most critical. The systems do not retain historical costs, which are the data that the auditors seek in the financial statements. The Department is moving to upgrade its inventory systems to retain both historical and latest acquisition costs--but it is an expensive and laborious process.

The third initiative, the "Financial and Feeder Systems Compliance Process," was created to manage the massive effort required to bring the Department's automated systems into compliance with established guidelines. The Process will be implemented fully in



FY 2001. It also was designed to facilitate management oversight and monitor progress on actions needed to ensure that both financial and feeder systems meet federal financial management requirements. All critical feeder systems and migratory accounting and finance systems were evaluated for compliance with federal financial management requirements; and remediation plans were developed for all systems that are non-compliant. The remediation plans layout a clear road map for getting from “where we are to where we’d like to be,” and include specific, measurable corrective actions with clear objectives, intermediate target dates, performance measures, and an estimated cost for the installation of corrective actions.

Substantial progress has been made, yet much remains to be done. Our timeline for completing the corrective actions that will produce fully compliant systems extends into FY 2003. Our goal is to make steady, incremental progress in systems improvement each fiscal year and produce more accurate, timely and meaningful financial management information by the middle of this decade.