



Department of Defense Summary of Performance and Financial Information



Preparation of this report cost the Department of Defense a total of approximately \$13,200 dollars in Fiscal Year FY 2011



Summary of Performance and Financial Information

February 15, 2011

Summary of Performance and Financial Information:

- This report summarizes the Department's fiscal year (FY) 2010 financial and performance information from the Agency Financial Report (AFR) and the Annual Performance Report (APR), making the information more transparent and accessible to Congress, the public, and other key constituents.
- The AFR, APR, and this report are on the Comptroller's website at <http://comptroller.defense.gov/reports.html>

DoD Mission Statement

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

Inside

Message to Public	2
Performance Highlights	3
Management Challenges	5
Financial Highlights	5
Path Forward	7

Message to the Public

During Fiscal Year (FY) 2010, the Department of Defense (DoD) focused on reshaping America's defense establishment, applying the lessons learned in Afghanistan and Iraq while also confronting the range of other potential threats around the world.

The Department remains committed to the goal of disrupting, dismantling, and defeating al-Qaeda in Afghanistan and Pakistan. At the direction of the President, beginning in December 2009, an additional 30,000 United States (U.S.) troops deployed to Afghanistan in conjunction with international forces to operate under a strategic framework based in large part on U.S. counterinsurgency doctrine, which focuses on population security while also conducting counterterrorism operations.

The Department depends on America's men and women in uniform to execute its mission operations and continues its commitment to attract and take care of its all-volunteer force - DoD's most important resource. The approximately 2.3 million Active and Reserve Soldiers, Sailors, Marines, and Airmen received pay increases, additional basic allowance for military housing, and world-class healthcare.

To protect its vital information networks, the Department has placed continued emphasis on improving cyber defense capabilities. The Department established the new U.S. Cyber Command to address vulnerabilities and meet the ever-growing array of cyber threats to military information systems.

The Department invested in increased intelligence, surveillance, and reconnaissance support for the warfighter, such as unmanned aerial vehicles. The Department also fielded more of its most capable theater missile defense systems to better protect our forces and those of our allies in theater from ballistic missile attack. After receiving the President's approval in September 2009, DoD started to implement a phased, adaptive approach for missile defense to respond to the growing Iranian missile threat.

The Department continues to implement reforms that improve the effectiveness of how it acquires new defense systems to maintain the U.S. military's technological and conventional edge. Over the past fiscal year, the Weapon Systems Acquisition Reform Act was implemented to improve the defense acquisition process. The Department also hired acquisition professionals who will create a framework for restoring affordability and efficiency to defense procurement.

As good stewards of taxpayers money, the Department curtailed or cancelled nearly 20 troubled or excess programs that would have cost more than \$300 billion to complete. The Department also launched efficiency initiatives to significantly reduce overhead costs and apply savings to force structure and modernization efforts. These measures ensure that the resources match the needs of the warfighter.



The Department is fully committed to managing taxpayer dollars in a manner that is effective and efficient while also meeting the resource needs of our warfighters. In addition, DoD continues its commitment to providing high-quality financial information that fully documents financial activities. This includes moving toward financial statement auditability and strengthening the business environment within the operational theater to improve effectiveness and ensure better control over resources.

In summary, during FY 2010, DoD sustained a military and provided necessary capabilities to fight two wars and confront global terrorist threats. Throughout the year, the Department remained focused on taking care of its people and their families while also managing taxpayer resources wisely and responsibly.

"DoD cannot expect America's elected representatives to approve budget increases each year unless we are doing everything possible to make every dollar count."

**Robert M. Gates
Secretary of Defense**

Performance Highlights

Department of Defense Strategic Plan

The Department examines America's defense needs by conducting the Quadrennial Defense Review (QDR). This review examines national defense strategy, force structure, force modernization plans, infrastructure, budget plans, and other elements of the defense program and policies of the United States, consistent with the most recent National Security Strategy and National Military Strategy. The QDR report constitutes DoD's strategic plan.

In FY 2010, the Department completed and issued the latest QDR; however, DoD formulated the goals for FY 2010 before completion of this latest QDR. Thus, the goals do not reflect that document's conclusions. Instead, the Department based the FY 2010 goals, depicted in Figure 1, on the 2008 National Defense Strategy objectives, plus an additional objective focused on business operations.

Strategic Goal 1— "Win Our Nation's Wars," focuses on the ongoing conflict and extended stabilization campaigns in Afghanistan and Iraq.

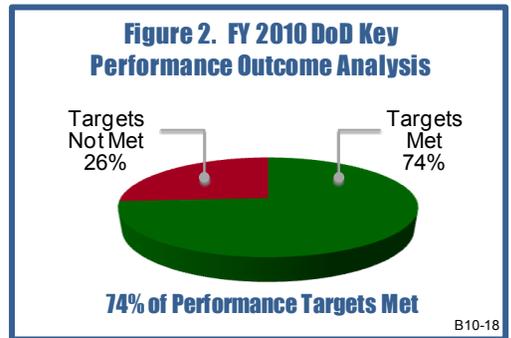
Strategic Goal 2— "Deter Conflict and Promote Security," focuses on integrated security cooperation and reorienting the Armed Forces to deter and defend against transnational terrorists around the world.

Strategic Goal 3— "Defend the Homeland," focuses on DoD's contributions to our homeland defense mission. Success, under this goal, requires that all elements of national power work together to protect our national interests.

Strategic Goal 4— "Integrate Business Operations," focuses on improving and integrating DoD business operations to better support the warfighter.

FY 2010 Key Performance Outcomes

The following tables depict 19 key performance outcomes for FY 2010. Based on year-end results, the Department met 74 percent (Figure 2) of the key outcomes. DoD's more detailed performance report for FY 2010 is submitted with the FY 2012 Congressional Budget Justification February 2011 at <http://comptroller.defense.gov/>.



Strategic Goal 1: Win Our Nation's Wars

Successfully meet military operational objectives in Afghanistan and Iraq.

Benefit(s): Ensures operational readiness to accomplish mission objectives toward winning our nation's war.

Performance Measure	2009 Results	2010 Goals	2010 Results
Percent of the Combatant Commanders' (COCOMs) Current Operations which they report ready to execute	100%	100%	■ 100%
Percent assigned of required Contracting Officer Representatives (CORs) supporting Afghan contingency operation	Not Available	85%	■ 87%

Results: Current Operations are ready to execute and the Joint Contracting Command successfully addressed critical personnel shortfalls allowing them to exceed the annual goals for maintaining a nearly 90 percent assignment rate of CORs supporting Afghan contingency operations.

Strategic Goal 2: Deter Conflict and Promote Security

Satisfy the Department's goal to deter conflict and achieve national security objectives. The first two measures focus on Combatant Command readiness. A third measure focuses on DoD Special Operations Forces' capability to address irregular/unconventional warfare. The fourth outcome focuses on Technology Security Actions and the last outcome focuses on Defense Enterprise Human Intelligence (HUMINT).

Benefit(s): Establishing capabilities and forces to address unconventional warfare provides a force structure that meets ongoing military operational missions. These risk-reduction activities help control export of technology and activities that shape the international environment toward U.S. interest. They also track training capabilities among international partners for countering threats and challenges of terrorism.

Performance Measure	2009 Results	2010 Goals	2010 Results
Percent of Combatant Commanders (COCOMs) that are ready to execute their Core or Theater Campaign Plan missions	100%	100%	■ 100%
Percent of COCOMs' Contingency Plans which they report ready to execute	89%	80%	■ 82%
Cumulative percent increase in DoD Special Forces and Navy SEAL personnel achieved	23%	26%	■ 27%
Annual number of Technology Security Actions (TSAs) approved	143,600	146,475	■ 129,608
Rate of customer satisfaction with Defense enterprise HUMINT support	99%	88%	■ 99%

Results: While the Department met or exceeded its goals for four of the five outcomes, it fell significantly short in meeting the goals for technology security actions for providing international partners with access to equipment, technology, and training. This goal is industry-driven and fluctuates each fiscal year based on the number and nature of proposed exports.

Strategic Goal 3: Defend the Homeland

Contribute to our homeland defense mission. Two key performance outcomes focus on the capabilities necessary to mitigate attacks on the U.S. and its territories.

Benefit(s): Increasing DoD capabilities to mitigate attacks on the U.S., its territories, and key assets contribute to the Nation's security.

Performance Measure	2009 Results	2010 Goals	2010 Results
Cumulative percent of treaty-declared category 1 chemical weapons destroyed	65.5%	74.2%	■ 79.8%
Cumulative number of zonal diagnostic labs built and equipped for biological agent detection and response	19	32	■ 20

Results: For FY 2010, the Department is slightly ahead of schedule in destroying treaty-declared category 1 chemical weapons. However, completion of 12 zonal diagnostic labs were delayed due to a lack of site access for commissioning inspections, loss of customs exemptions for construction material, and mechanical issues. All 12 are expected to be completed by the second quarter of FY 2011.

Strategic Goal 4: Integrate Business Operations

The first two measures address the acquisition function. A third measure focuses on wait time for operation supplies. The next four key performance outcomes focus on the Department's ability to maintain an "All-Volunteer" military force. The eighth measure indicates progress in the area of audit readiness. The last two outcomes focus on two other priority performance goal areas—i.e., personnel security clearance reform and DoD's security cooperation workforce.

Benefit(s): Integrating and improving DoD business operations improves warfighting support. It also improves the quality of life for Service Members and their families, and optimizes long-term performance, readiness, and return on investment for DoD facilities. Maintaining and developing a 21st Century Total Force ensures the U.S. military has sufficient personnel with adequate skills for ongoing mission requirements to protect the nation's interests.

Performance Measure	2009 Results	2010 Goals	2010 Results
Number of Major Defense Acquisition Program (MDAP) breaches equal to or greater than 15 percent of current Acquisition Program Baseline (APB) unit cost or equal to or greater than 30 percent of original APB unit cost	2	2	■ 8
Cumulative increase in the number of DoD civilian and military end strength performing acquisition functions	1,985	6,065	■ 8,045
Average customer wait time	16.2	15	■ 16.4
Percent of military members participating in a single, disability evaluation/transition medical exam to determine fitness for duty and disability rating	27%	40%	■ 44%
Percent variance in Active Component end strength	0.9%	0-3%	■ 0.9%
Percent variance in Reserve Component end strength	0%	+/-3%	■ 0.6%
Number of soldiers under stop loss	9,753	6,609	■ 3,198
Cumulative percent of incumbents who have been trained in security assistance in positions that require security assistance training	67%	80%	■ 82%
Percent of DoD Statement of Budgetary Resources Appropriations Received validated	19%	53%	■ 19%
Average number of days required to adjudicate the fastest 90 percent of initial top secret and secret personnel security clearance cases	25	20	■ 10

Results: While the Department exceeded its goal in hiring additional acquisition personnel and maintaining an "All-Volunteer" military force, the number of reportable cost breaches on MDAPs more than tripled over the prior year (FY 2009) level. In order to mitigate cost growth, DoD will continue implementation of the Weapon Systems Acquisition Reform Act of 2009, implement actions aimed at inhibiting requirements growth and unrealistic program costing, enforce realistic cost caps, and reform technology readiness level reviews. In addition, the Army and Navy customer wait times were adversely affected by attacks on supply convoys moving supplies forward and by delays in closing orders after parts were received. The DoD continues to maintain its prescribed Active and Reserve Component end strength, and made significant progress in reducing the number of soldiers under stop loss. The Department made less progress in the area of DoD audit readiness, primarily due to contractual process delays. However, the Department expects to have the independent audit firm validation contract in place and have 80 percent of this goal validated by the end of FY 2011.

Management Challenges

Challenge	Action Taken
Financial Management: The Department continues to face financial management challenges that adversely affect its ability to provide reliable, timely, and useful financial and managerial data needed to support operating, budgeting, and policy decisions.	<ul style="list-style-type: none"> The Department has made measured progress in improving financial information most often needed to manage the Department as demonstrated by the audit of the Marine Corps FY 2010 Statement of Budgetary Resources resulting in significant improvements to budget and other financial information.
Acquisition Processes and Contract Management: DoD has been unable to react quickly to the increased need for more contract and oversight support to meet post September 11, 2001 spending trends.	<ul style="list-style-type: none"> The Department established a 23-point plan of action to reform acquisition processes targeting affordability and cost growth, productivity and innovation, real competition, services acquisition trade, and non-productive processes and bureaucracy.
Joint Warfighting and Readiness: The Department faces challenges in executing the drawdown from Iraq and the redeployment to Afghanistan. Longer term, DoD challenges include resetting the force, retraining skills, and reengaging with other nations' militaries.	<ul style="list-style-type: none"> The Department remains engaged in adaptive measures to ensure effective and cost-efficient execution of operational missions while being mindful of our most valuable asset – our people.
Information Assurance, Security, and Privacy: The Department is challenged with managing risk associated with cyber threats and internet-based capabilities.	<ul style="list-style-type: none"> The Department established policy and responsibilities for effective use of Internet-based capabilities. In May 2010, the U.S. Cyber Command was established to ensure resilient, reliable information and communication networks, counter cyberspace threats, and assure access to cyberspace.
Health Care: The DoD Military Health System's challenge of providing quality care to approximately 9.6 million eligible beneficiaries is further stressed by user demands, legislative imperatives, and inflation that make cost control difficult.	<ul style="list-style-type: none"> The Department is actively working to eliminate unnecessary administrative overhead and unwarranted variation in both its clinical and administrative processes while ensuring it meets its targets for both quality and cost.
Equipping and Training Afghan and Iraq Security Forces: The Department faces challenges in training, equipping, and mentoring both the Afghan National Security Forces (ANSF) and Iraqi Security Forces (ISF), while laying the groundwork for a robust program that will endure after the last U.S. military forces withdraw.	<ul style="list-style-type: none"> A key strategic focus remains on training, equipping, and partnering with the ANSF to transition the lead security responsibility to the government of Afghanistan, while continuing efforts to instill the citizens of Iraq with confidence in the ISF.
Nuclear Enterprise: Since the end of the Cold War, there has been a dramatic decline in the level and intensity of focus on the nuclear enterprise and the nuclear mission.	<ul style="list-style-type: none"> The DoD has taken positive action to address recommendations made in DoD IG and other oversight reports, conducted reviews of the enterprise to identify and correct deficiencies, and created new management structures.
American Recovery and Reinvestment Act (ARRA): DoD's ability to commence Recovery Act activities quickly and effectively to meet the intent and maintain adequate transparency, accountability, and stewardship of taxpayer funds is a recurring challenge.	<ul style="list-style-type: none"> The Department is taking aggressive action to execute the funds as quickly as possible. The Department obligated \$6.5 billion (90%) and disbursed \$3.2 billion (45%) of the \$7.2 billion in ARRA funds for over 4,600 projects at over 400 sites.

The DoD Office of the Inspector General has summarized the Department's most serious management and performance challenges and briefly assessed the progress in addressing those challenges. Highlights of the assessment are provided, and the full statement is included in the Department's FY 2010 AFR found at http://comptroller.defense.gov/afr/fy2010/Addendum_A_Other_Accompanying_Information.pdf.

Financial Highlights

Financial Overview

The Department displays significant strengths in its financial management of taxpayer resources. Most importantly, Defense financial managers are successfully providing DoD's warfighters with the resources and financial services necessary to meet national security objectives.

The Department issues over \$30 billion in commercial payments every month (\$1.5 billion every business day), with an error rate at less than a tenth of one percent. DoD also reduced interest penalty payments by 29 percent since FY 2007, despite a 26 percent increase in amounts paid.

Overall, the Department has made progress toward improving financial information and

audit readiness in several entities (See Figure 3). It also is clear, however, that the most daunting challenges for the Department remain ahead, particularly the challenge of moving the Military Services toward successful financial statement audits.

The Department recognizes that there are enterprise-wide weaknesses in DoD financial management. The Government Accountability Office (GAO) designated DoD's financial management operations and controls as a high-risk area in 1995. The GAO assessment reflects the inherent problems that have developed as DoD business operations have grown within a large, decentralized organization that is both mission-oriented and

functionally "stove-piped." Audits performed by DoD IG identified long-standing material weaknesses that continue for FY 2010. The material weaknesses fall into two categories:

Figure 3. Audit Opinions B10-11

DoD Reporting Entity	Audit Opinions
U.S. Army Corps of Engineers	Unqualified
Military Retirement Fund	Unqualified
Defense Commissary Agency	Unqualified
Defense Finance and Accounting Service	Unqualified
Defense Contract Audit Agency	Unqualified
Office of the Inspector General	Unqualified

Financial Overview (continued)

- Noncompliant Systems— Most legacy systems do not comply with the wide range of systems requirements, and do not provide assurance that core financial systems and related information is traceable to source transactional information. Smaller organizations have successfully applied compensating controls, as demonstrated by favorable audit opinions, but these are not practical in larger organizations, such as the Military Departments.
- Legacy Financial Processes— Many financial processes do not comply with Generally Accepted Accounting Principles

(GAAP) because they are dependent on the noncompliant legacy systems currently used to compile financial information for DoD financial statements.

Audit Readiness Plan

The Department has instituted a new approach to improve information and move toward achieving audit readiness by FY 2017, as required by Congress. Recognizing that many decisions are budget-related, DoD adjusted its Financial Improvement Audit Readiness (FIAR) strategy to focus first on improving processes, controls, and systems that produce budgetary information and the existence and completeness (E&C) information needed to manage mission-critical assets. At the same time, the Department will

seek a cost-effective approach that results in an unqualified audit opinion on all its financial statements. For more information on DoD's FIAR Plan, refer to <http://comptroller.defense.gov/FIAR/>.

By focusing on accuracy and timeliness of budgetary information, the Department will improve the reliability of information used most often by management and meet the goal of obtaining auditable financial statements, starting with the Statement of Budgetary

Resources (SBR). Improving the reliability of information on the existence and completeness of mission-critical assets – such as Military Equipment, Real Property, Inventory, Operating Materials and Supplies, and General Equipment – will ensure that dependable information is available to those who manage assets. The benefits of focusing improvements on budgetary and asset existence and completeness information is highlighted in Figure 4.

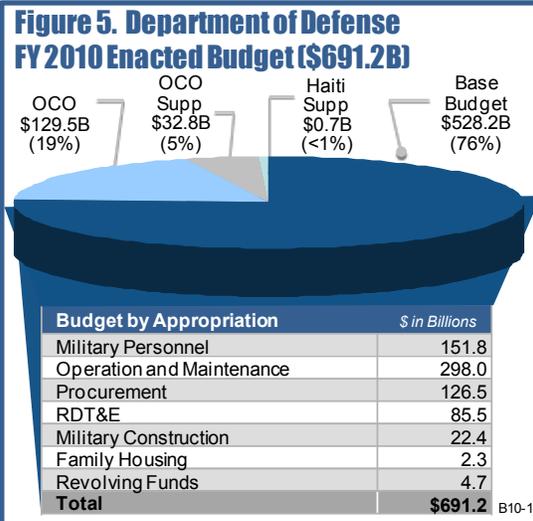
Figure 4. Benefits of Auditable Budgetary and Asset Existence and Completeness Information

Budgetary Information	Asset Information
<ul style="list-style-type: none"> More effective use of budgetary resources Operational efficiencies through use of accurate cost and financial information Reduces improper payments Reduces Antideficiency Act violations Improves linkage between budget to execution information 	<ul style="list-style-type: none"> Improves asset visibility Improves the reliability and accuracy of the logistics supply chain and inventory systems Improves the ability to timely acquire, maintain and retire assets Ensures better control over assets Reduces unnecessary reordering of assets

Financial Analysis

The Department received enacted appropriations of \$691.2 billion in FY 2010 (Figure 5).

The Department used much of its FY 2010 resources to responsibly draw down the military forces in Iraq as it concluded Operation Iraqi Freedom and transitioned to Operation New Dawn. In Afghanistan, U.S. Forces worked with Afghan Security Forces and international partners to build a country that will not be a safe haven for terrorists. In addition, the Department used resources to maintain readiness to conduct missions abroad as well as to modernize and recapitalize equipment that greatly improve combat capabilities.

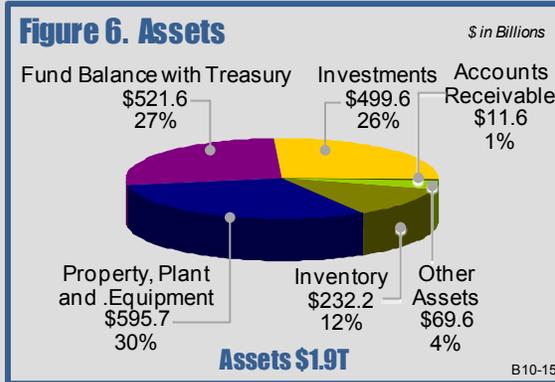


Significant steps to ensure progress in achieving FIAR goals include:

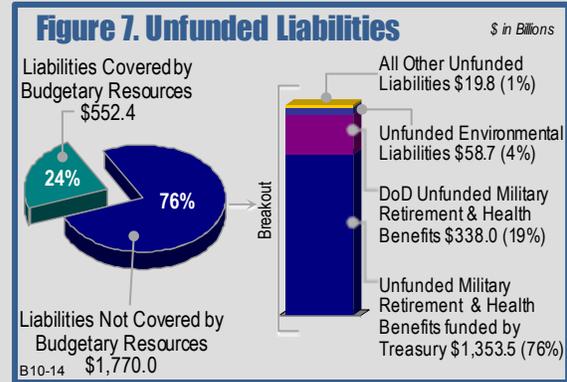
- Redefining the FIAR strategy to focus improvement efforts on the information most used to manage;
- Setting long-term and interim goals;
- Increasing resources (people and dollars) for FIAR activities within the Office of the USD(C) and Component entities;
- Expanding the FIAR Governance Board to include most senior DoD financial leaders, functional community representatives, and DCMO, and the Military Department CMOs;
- Developing a phased-improvement methodology, identifying essential key tasks within each phase; and
- Formally issuing DoD-wide FIAR guidance that explains, in detail, the FIAR strategy and FIAR methodology.

Financial Analysis (Continued)

The \$1.9 trillion in assets in Figure 6 represents amounts the Department owns and manages consisting primarily of General Property, Plant, and Equipment. Amounts reflect the construction and maintenance of housing, wounded warrior facilities and schools, and recapitalization of other medical facilities as well as Military Equipment necessary to modernize and recapitalize equipment to maintain and improve combat capabilities.



The Department's liabilities of \$2.3 trillion primarily consist of future military retirement and health benefits to honor the commitments made to those who serve our country. Figure 7 identifies 82 percent of this liability as either covered with existing assets (24%) or funded in the future by the U.S. Treasury (58%), leaving \$416.5 billion (18%) that will require future DoD resources.



Path Forward

Protecting the American people and advancing our Nation's interests is a mission the Department does not take lightly. Recognizing that the U.S. is a Nation at war, the U.S. and its allies and partners remain engaged in a broader war – a multifaceted political, military and moral struggle – against al-Qaeda and its allies around the world. As a global power, the strength and influence of the U.S. intertwine deeply with the fate of the broader international system – a system of alliances, partnerships, and multinational institutions that our country has helped build and sustain for more than sixty years. The U.S. military must, therefore, be prepared to support broad national goals of promoting stability in key regions, providing assistance to nations in need, and promoting the common good.

With these realities in mind, the Department must rebalance the capabilities of America's Armed Forces to prevail in today's wars while building the capabilities needed to deal with future threats. The Department also must reform DoD's institutions and processes to better support the urgent needs of the warfighter; buy weapons that are effective, affordable, and truly needed; and spend taxpayer

dollars wisely and responsibly.

Years of war have demanded that America's Armed Forces rapidly innovate and adapt—the Department's institutional base must do the same. The Secretary is taking actions that enable the Department to redirect resources away from lower-priority programs and activities to address needs that are more pressing. Where it has not been possible to set initiatives in motion to meet certain future operational needs, the Secretary has identified vectors for evolving the force, calling on DoD Components to devote sustained efforts toward developing new concepts and capabilities to address those needs. Assessments of future operating environments will continue, with an eye toward refining our understanding of future needs. At the same time, the Department will continue to look aggressively for savings in underperforming programs and activities, divestiture, technology substitution, less-pressing mission and program areas, and other accounts, so that more resources can be devoted to filling these gaps.

The Department also is assessing other areas requiring particular attention. Reforming security as-

sistance will be necessary to meet urgent warfighter needs and to create new and more responsive mechanisms for security assistance. Improving how we buy will transform how the Department matches requirements with mature technologies, maintains disciplined systems engineering approaches, institutionalizes rapid acquisition capabilities, and implements more comprehensive testing. Our efforts must also include reforming the U.S. export control system for the 21st century, and spurring continued improvements in the provision of rapid logistical support to our forces abroad. Strengthening the industrial base will maintain our strategic advantage by establishing a consistent, realistic, and long-term strategy for shaping the structure and capabilities of the defense technology and industrial bases—a strategy that better accounts for the rapid evolution of commercial technology, as well as the unique requirements of ongoing conflicts.

While focusing on balancing the ca-

pabilities to fight today's wars, the Department's leadership remains committed to improving financial management processes, controls, and systems. The size and complexity of DoD's business operations and the rapid pace of change in the business environment make it imperative to create a more agile, responsive, and efficient organization. The Department stands strong and committed to transforming the DoD's institutions and processes, including our financial management practices, to better support the urgent needs of the warfighter; buy weapons that are effective, affordable, and truly needed; and spend taxpayer dollars wisely and responsibly.

“In order to help defend and advance our national interests, the Department of Defense balances resources and risk among four priority objectives: prevail in today's wars, prevent and deter conflict, prepare to defeat adversaries and succeed in a wide range of contingencies, and preserve and enhance the All-Volunteer Force.”

Excerpt from 2010 QDR

WELCOME TO THE DEPARTMENT OF DEFENSE

We are interested in your feedback
regarding the content of this report.

Please feel free to send your comments
or requests for copies of this report to

DoDAFR@osd.mil

or

United States Department of Defense
Office of the Under Secretary of Defense (Comptroller)
1100 Defense Pentagon
Washington, DC 20301-1100

You may also view this document at:
<http://comptroller.defense.gov/afr/>

