

UNITED STATES DEPARTMENT OF DEFENSE

SUMMARY OF PERFORMANCE AND FINANCIAL INFORMATION REPORT

FISCAL YEAR 2015



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SUMMARY OF PERFORMANCE AND FINANCIAL INFORMATION

The [Department of Defense](#) (DoD) is pleased to present this Summary of Performance and Financial Information report for fiscal year (FY) 2015. This report provides a high-level summary of the information presented in the United States Department of Defense Agency Financial Report Fiscal Year 2015 ([DoD AFR FY 2015](#)) and the DoD Annual Performance Report, the latter report incorporated and submitted with the Department's budget request for FY 2017.

DEPARTMENT OVERVIEW

The Department is charged with the mission to ensure the security of the United States and its citizens, or as phrased in the Constitution, to "provide for the common defense." The Department is committed to protecting the people of the United States, defending our national interests, and providing America's military with the resources to accomplish its mission.

Today, the context in which we provide this security is extremely challenging. Global disorder has increased, while some of the military advantages we have traditionally enjoyed have started to erode, for example through the rapid technological change enjoyed by both state and non-state adversaries. Violent extremist organizations continue to deny vulnerable populations their right to live in security and at peace, and some states provide support to such organizations or otherwise seek to challenge international norms.

The Department maintains a force that is second-to-none in the world and serves as a bulwark to keep the nation secure in the face of these challenges. This force exists because of the men and women who choose to serve in order to guarantee the security and the freedoms of their fellow citizens. The Department has an obligation to ensure they are properly trained and equipped.

The Department sets its strategic direction through the [Quadrennial Defense Review](#) (QDR), which was provided to Congress in March 2014. The QDR is a legislatively-mandated report, issued every four years, that evaluates the threats and challenges to our enduring national interests that the nation will likely confront over the next 20 years. It is the key strategic document against which the Department's priorities and requests for resources are aligned. The QDR, consistent with the President's National Security Strategy, affirms the global leadership role of the United States and sets a course that will help bring the military into balance over the next decade. The QDR outlines the Department's strategic priorities which include: rebalancing our focus and our forces to the Asia-Pacific region to preserve peace and stability; maintaining a strong commitment to security and stability in Europe and the Middle East; and sustaining a global approach to countering violent extremists and terrorist threats, with an emphasis on the Middle East and Africa. It highlights the importance of strengthening our alliances and partnerships globally.



Ash Carter
Secretary of Defense

Against the backdrop of emerging challenges to U.S. national interests, the Department is resetting and reconstituting the Joint Force after 13 years of war. The Department continues to make key investments in the future force, with an emphasis on restoring readiness, balancing the force, and achieving institutional reform. We are placing a greater emphasis on research and development to help us maintain our competitive edge. We are also prioritizing investments in key strategic capabilities, namely nuclear deterrence; space systems; power projection; missile defense; cyber; and intelligence, surveillance, and reconnaissance.

We will also draw from the brightest innovators within the commercial sector to find technologies that will give troops an edge on the battlefield of the future, and the pace at which we have established a presence in Silicon Valley exemplifies our determination to infuse Defense with non-traditional talent and leading edge technology.

Finally we must show that we are taking effective action to make the best possible use of every taxpayer dollar. That means we must strive to manage the Defense enterprise efficiently and effectively, and reform our business and acquisition practices. These efforts are imperative to maintain readiness on all fronts for both the geopolitical challenges we know about today, and those to come.

ORGANIZATION

DoD maintains and uses armed forces to support and defend the Constitution and ensure the security of the United States, its possessions, and areas vital to its interest. This mission depends on our military and civilian personnel and equipment being in the right place, at the right time, with the right capabilities, and in the right quantities to protect our national interests. The Department's real property infrastructure includes over 562,000 facilities (buildings and structures) located on 4,800 sites worldwide covering over 24.9 million acres. To protect the security of the United States, the Department operates 14,597 aircraft and 284 battle force ships.

The [Secretary of Defense](#) is the principal assistant and advisor to the President in all matters relating to the Department, and he exercises authority, direction, and control over the Department. The Department currently is composed of the Office of the Secretary of Defense, the [Joint Chiefs of Staff](#), the Joint Staff, the [DoD Office of Inspector General](#) (DoD OIG), the Military Departments, the Defense Agencies, the DoD Field Activities, the Combatant Commands, and such other offices, agencies, activities, organizations, and commands established or designated by law, the President, or the Secretary of Defense.

The Department is one of the nation's largest employers, with civilians, personnel on active duty, and the Selected Reserve of National Guard and Reserve forces. Our military service members and civilians operate in every time zone and in every climate. There also are more than two million military retirees and family members receiving benefits.

FINANCIAL RESOURCES

The FY 2015 DoD budget balanced capacity, capability, and readiness to protect the security interests of the United States within the funding constraints of the [Bipartisan Budget Agreement](#). The DoD FY 2015 enacted discretionary budget authority totaled \$560.5 billion, composed of \$496.3 billion in the base budget, \$64.2 billion in support of Overseas Contingency Operations, and \$0.1 billion for other emergency funding.

Figure 1 displays the DoD FY 2015 budget authority by Title.

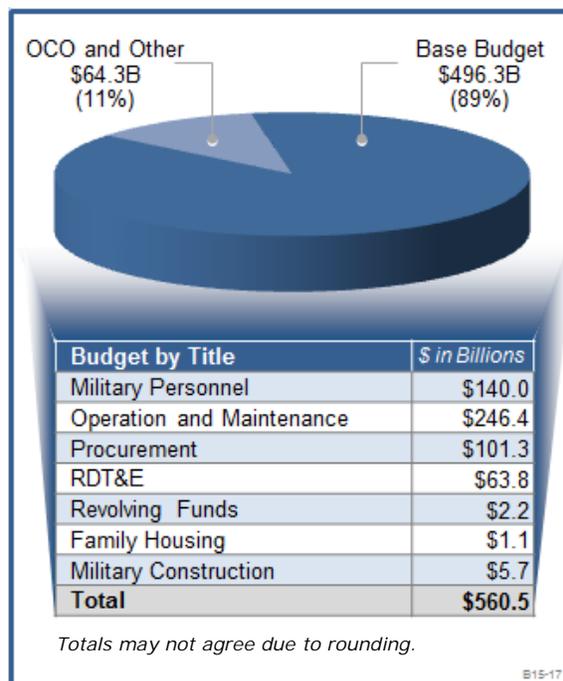
Despite decreasing resources, the Department must continue to maintain its decisive technological edge. In FY 2015, the Department invested in emerging military capabilities, such as new and expanded cyber capabilities, nuclear deterrence, space, precision strike, and operationally responsive and persistent intelligence, surveillance, and reconnaissance assets.

The Department also continued investments in modernization efforts to ensure that U.S. military forces are equipped with the most technologically innovative weapons available. For ground forces, this includes the development of the Armored Multi-Purpose Vehicle and the Joint Light Tactical Vehicle. For maritime forces, the FY 2015 request included funding for two Virginia-class fast attack submarines and two DDG-51 AEGIS destroyers, in addition to funding to continue construction of the U.S.S. John F. Kennedy and procurement of three Littoral Combat Ships. For air dominance, the budget included development and production of three different variants of the F-35 Joint Strike Fighter; the next generation aerial refueling tanker, the KC-46A; the Navy's advanced E-2D Hawkeye fleet defense aircraft; and the multi-mission P-8A Poseidon patrol aircraft. To protect the homeland and regional forces, the budget included continued development and fielding of ballistic missile defense systems. The budget also put emphasis on innovation by providing \$12 billion for science and technology efforts.

The force structure reductions that began with the FY 2013 budget continue. In accordance with the revisions to the January 2012 [Defense Strategic Guidance](#), the FY 2015 budget reflected the choices made to achieve a modern, ready, and balanced force to meet the full range of potential military requirements. The Army and Marine Corps, in particular, made progress toward achieving their targeted active end states of 450,000 and 182,000, respectively.

We recognize the demands that continue to be placed on the all-volunteer force and members' families who give so much to defend the ideals and free institutions we often take for granted. Their dedication reminds us that preserving America's liberties often comes with a heavy cost. We provide support through variety of Military Family Assistance programs designed to improve military life, such as child care, non-medical counseling, and Morale, Welfare and Recreation programs. The military healthcare system provides services to 9.4 million beneficiaries, including military retirees and their families, dependent survivors, and certain eligible Reserve Component members and their families. We seek to control healthcare costs and reasonable health care benefit reform as part of a balanced approach to cost containment, which is essential to fund the warfighting capabilities needed to maintain the Joint Force and to send

FIGURE 1. DoD FY 2015 BUDGET AUTHORITY



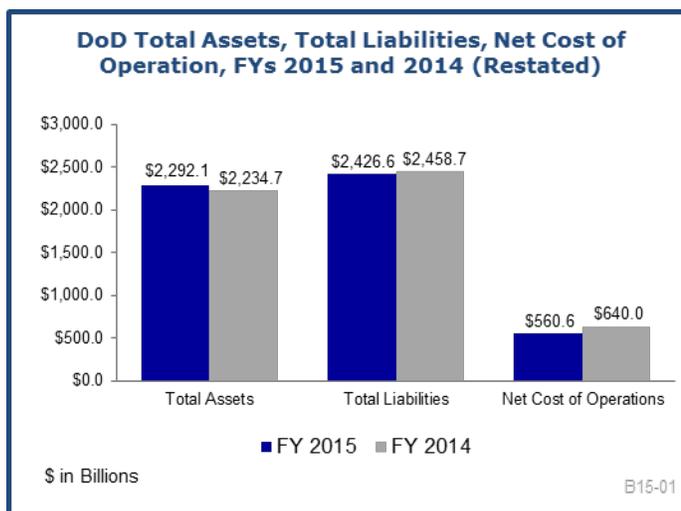
our personnel into combat with the best possible training and equipment.

FINANCIAL MANAGEMENT OVERVIEW

The Department's principal financial statements include the Statement of Budgetary Resources, Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position. The DoD Balance Sheet reflects the Department's financial position as of September 30, 2015, and reports amounts available to provide future economic benefits (Assets) owned or managed by the Department, amounts owed (Liabilities) requiring use of available assets. As of September 30, 2015, the Department reported \$2.3 trillion in total assets that primarily are comprised of Investments; Fund Balance with Treasury; and General Property, Plant, and Equipment, which includes military equipment and buildings, structures, and facilities used to support the Department's mission requirements. The Department reported \$2.4 trillion in total liabilities, mainly military retirement and employment benefits.

The Department reported gross cost of \$656.5 billion on its Statement of Net Cost, related to operations, readiness, and support activities; military personnel and retirement programs; procurement; research, development, test and evaluation programs; and construction programs. These costs were offset by earned revenue of \$68.5 billion in these same programs and \$27.4 billion in reported gains from changes in actuarial assumptions for military retirement and health benefits, for a total net cost of \$560.6 billion for FY 2015. Figure 2 displays the DoD FY 2015 financial statements overview.

FIGURE 2. DoD FY 2015 FINANCIAL STATEMENTS OVERVIEW



FINANCIAL MANAGEMENT IMPROVEMENT INITIATIVES

FY 2015 was a pivotal year for the Department. Each Military Department began an Independent Public Accountant (IPA) limited-scope audit of its General Fund Schedule of Budgetary Activity (SBA) for its FY 2015 appropriations. Additionally, most of the material other Defense organizations went under SBA examination or completed mock audits of their current year budgetary activities. Going under IPA audit or examination is an essential part of the DoD Financial Improvement and Audit Readiness (FIAR) strategy and is consistent with the feedback received from Government Accountability Office, DoD IG, and some members of Congress. Audits highlight dependencies between organizations and remaining deficiencies so corrective actions can be implemented and full audit readiness can be achieved. Going under audit also means an important culture change is underway, requiring both military and civilian personnel across the Department to learn and understand the business of being audited. During FY 2015, about 90 percent of the current year DoD General Fund appropriations were under audit. The remaining General Fund appropriations not currently under audit are undergoing examinations or audit readiness activities.

Over the next two years, the Department will continue to expand the scope of audits, while sustaining a stronger, more disciplined environment, until full audit readiness is achieved. Lessons learned from other federal agencies suggest that the first years of auditing the full financial statements will not result in a positive opinion, but the Department is committed to resolving all issues until a positive opinion can be achieved and sustained.

The DoD Financial Management (FM) Certification Program, an enterprise-wide framework to ensure the Department has a well-trained workforce to solve constant budget challenges and enable achievement of auditable financial statements, hit full stride in FY 2015. Initial implementation for civilians and active duty Components members was completed in September 2014, and implementation in the Guard and Reserve Components was completed in March 2015. As of the end of FY 2015, over 10,100 members had achieved their required FM certifications, with thousands more scheduled to complete certification in FY 2016. Over 192,000 FM web-based course completions were recorded as of September 30, 2015 and over 30,000 of these course completions were FIAR focused.

We also remain dedicated to performing our mission while operating efficiently, reducing costs, and effectively managing taxpayer dollars. Continuing the agency reforms advanced in previous budgets, the Department proposed approximately \$93 billion in cost reductions over the period FY 2015 through FY 2019 (Future Years Defense Program) from the amount of funds requested in the Department’s FY 2015 President’s budget. Majority of these savings include \$38 billion by streamlining business practices and support services; \$30 billion saved by reducing contract support levels to commensurate with reduction in force structure; \$9 billion saved by terminating or restructuring weapons programs, where the most important capabilities could be met by other means; \$8 billion saved by reducing the civilian workforce to align with reduction in force structure and \$5 billion saved by reducing headquarters management staffs by 20 percent.

PERFORMANCE MANAGEMENT

This section of the report summarizes the Department of Defense’s fiscal year 2015 performance reported in the annual financial report and annual performance report. In July 2015, the DoD published the [FY 2015-2018 DoD Agency Strategic Plan](#), which presents the Department's strategic goals, objectives, and a performance management framework used to evaluate effectiveness and better inform management decisions. Performance data is then used to continuously improve operations in support of specific goals and missions. The Department is committed to enterprise-wide performance management. DoD will continue to pursue improvement opportunities and act as careful stewards of taxpayer dollars. The following table summarizes the progress update of the Departments agency’s priority goals, published on [performance.gov](#).

<i>Transition to Veterans</i>	<i>FY 2014 Result</i>	<i>FY 2015 Result</i>	<i>FY 2015 Trend</i>
			
<p>Goal Statement: By September 30, 2015, DoD will improve the career readiness of Service Members’ transitioning to Veteran status.</p> <p>Progress Update: The Department of Defense has made great progress towards achieving the “Transition to Veteran” agency priority goal.</p>			

Progress Update (continued):

In 2015, the four performance indicators associated with this goal performed at planned levels of performance or better. As DoD reflects on the VOW to Hire Act of 2011 and other initiatives established to ensure our Nation's Service men and women successfully transition to civilian life, we have determined that continued attention is needed to ensure lasting success for this priority goal. We continue to assess the performance indicators and will make appropriate adjustments as we implement policies and practices that focus on career readiness and supporting Service members and their families.

<i>Reform the DoD Acquisition Process</i>	<i>FY 2014 Result</i>	<i>FY 2015 Result</i>	<i>FY 2015 Trend</i>
			↑

Goal Statement: By September 30, 2015, DoD will improve its acquisition process.

Progress Update: The Department of Defense has made progress towards the "Reform the DoD Acquisition Process" agency priority goal. The Department continued to assess the 2015 performance results and ensured appropriate corrective actions were taken.

In 2015, for Major Defense Acquisition Programs there were no Nunn-McCurdy cost breaches, and the median cycle time change from the approved baseline as well as the average rate of cost growth met or exceeded performance expectations. The Department continues work to improve competition through the Better Buying Power initiatives by including competition as a recurring agenda item at Business Senior Integration Group meetings. Senior leaders and acquisition executives continue to focus on competitions results, trends and guidance/best practices to increase competition.

On September 16, 2015, the Undersecretary of Defense for Acquisition, Technology, and Logistics, Mr. Frank Kendall, released the third annual report on the Performance of the Defense Acquisition System to provide data and analysis so the Department of Defense can see how it is doing, measure the effectiveness of ongoing efforts to improve acquisition, and learn from past experience. This third annual report is available to view at:

<http://www.acq.osd.mil/fo/docs/Performance-of-Defense-Acquisition-System-2015.pdf>

<i>DoD Financial Audit Readiness</i>	<i>FY 2014 Result</i>	<i>FY 2015 Result</i>	<i>FY 2015 Trend</i>
			↓

Goal Statement: Achieve audit readiness for all DoD financial statements by September 30, 2017.

Progress Update: The Department of Defense is committed to achieve its audit readiness goals. The Department will continue to assess and make appropriate adjustments as we work to achieve the "DoD Financial Audit Readiness" agency priority goal. To provide a more direct focus on progress indicators for specific critical path/risk areas aligned to ensuring the Departments' financial statements are audit ready by 2017, DoD will revise the current performance indicators and add additional indicators to the 2016-2017 "DoD Financial Audit Readiness" agency priority goal.

Progress Update (continued):

Although the results of the SBA audits are not positive and prove that certain capabilities and control environment required for audit need enhancement, the remediation efforts will be closely monitored to ensure the Department will produce continuous improvement as positive audit opinions emerge across the Department over time. The following reports provide insight into the progress the Department is making towards Financial Audit Readiness.

Financial Improvement and Audit Readiness (FIAR) Bi-annual status reports can be found at: <http://comptroller.defense.gov/fiar/plan.aspx>. DoD Annual Financial Reports can be found at: <http://comptroller.defense.gov/FinancialManagement/reports/afr2015.aspx>

Improve DoD Energy Performance – FY 2015 Results Pending Availability

Goal Statement: By September 30, 2015, the DoD will improve its facility energy performance. ***FY 2015 annual results are pending.***

MANAGEMENT CHALLENGES

Each year, the DoD IG prepares a statement summarizing the most serious management and performance challenges facing the Department and provides a brief assessment of the Department's progress in addressing these challenges. For FY 2015, the DoD IG identified challenges in the following eight categories:

- Financial Management: Achieving financial statement audit readiness, modernizing financial systems, and conducting complete and accurate improper payment reviews.
- Acquisition Processes and Contract Management: Enhancing the acquisition workforce, identifying opportunities to reduce costs and achieve efficiencies in weapon system acquisition; and providing consistent, effective oversight in its contracting efforts.
- Joint Warfighting and Readiness: Achieving a modern, ready, and balanced force with a decreasing budget; drawing down forces from Afghanistan and resetting equipment and personnel; returning to full-spectrum training; rebalancing force structure and investments.
- Cyber Security: Executing cyber security initiatives; and building and operationalizing the Cyber Mission Force.
- Health Care: Providing quality care for 9.4 million beneficiaries within fiscal constraints while facing increased user demand and legislative imperatives; eliminating health care fraud; and maintaining medical readiness of the total force.
- Training and Equipping Afghan, Iraqi, and New Syrian Security Forces: Continuing to develop the Afghan National Security Forces' capability to take ultimate responsibility for Afghanistan's security; and continuing to develop the Iraqi Army and the New Syrian Forces to defeat ISIL.

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- The Nuclear Enterprise: Managing the risks between sustainment, modernization and strategic force reduction; modernizing nuclear forces to meet future national security need; and exploring and implementing improvements to the governance process.
 - Insider Threat: Optimizing security (information, physical and personnel) and counterintelligence.

Detailed information about each of these challenges, along with a brief assessment of the Department's progress in addressing these challenges, is available in the Agency Financial Report. While these challenges are significant, the Department believes we do have the necessary resources, information, and controls to provide for a strong national security.

LOOKING FORWARD

Against the unexpected geopolitical developments of Russian aggression, ISIL activism, North Korean provocation, and broader geopolitical turmoil across the Middle East region, the strategic priorities identified in the QDR 2014 remain our Department's priorities: rebalancing to the Asia-Pacific region, maintaining a strong commitment to security and stability in Europe and the Middle East, sustaining a global counterterrorism campaign, strengthening key alliances and partnerships, and prioritizing key modernization efforts. We are at a pivotal moment in the post-Cold War world. Russia is modernizing both its nuclear and its conventional military capabilities, and updating its warfighting doctrine. While China's rise is welcomed, its increasing assertiveness in the South China Sea is out of step with international norms and increasing demand for our engagement in the Asia-Pacific region. Meanwhile, the military's technological edge, which we have relied upon for so long, is eroding. This is a major strategic challenge facing not only the Department, but also, America's leadership in the world.

To maintain our warfighting dominance, the Department has launched the Defense Innovation Initiative and Third Offset Strategy, an ambitious Department-wide effort overseen by Deputy Secretary Work to identify and invest in innovative ways to sustain and advance America's military dominance for the 21st century. The current strategic and budgetary environment compels us to think creatively about how we can restore the readiness of the force, while we remain globally engaged. The Department seeks to achieve full spectrum combat readiness by FY 2023 for the Army and the Air Force, the Navy's fleet response plan by 2020, and the Marine Corps' Force Posture Plan by 2020.

Finally, we will be looking to preserve our most enduring and competitive advantage – our people. Under the Force of the Future Initiative, the Department intends to improve the recruitment and retention of the brightest and most committed young men and women and make Defense the most rewarding environment it can be, for those who choose to serve.

DEPARTMENT OF DEFENSE

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