



The U.S. Department of Defense - 2008 Report to Our Citizens

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OVERVIEW

The U.S. Department of Defense (DoD) is a global enterprise that occupies more than 600,000 facilities in some 5,000 locations and 163 countries around the world. Its mission is to keep America safe.

With more than 1.3 million men and women on active duty (669,281 civilian personnel; 1.1 million National Guard and Reserve, and approximately two million retirees and other beneficiaries), the Department of Defense is not just the Nation's largest employer, but the largest and most complex organization in the world.

The Department of Defense is also the largest financial entity in the world, and the largest ever to be audited end-to-end.

The Department of Defense is responsible for providing the military forces needed to deter war and protect the security of the United States. The major elements of these forces are the Army, Navy, Air Force, and Marine Corps. 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 Joint Chiefs of Staff, three Military Departments, nine Unified Combatant Commands, the DoD Inspector General, fifteen Defense Agencies, and seven DoD Field Activities.

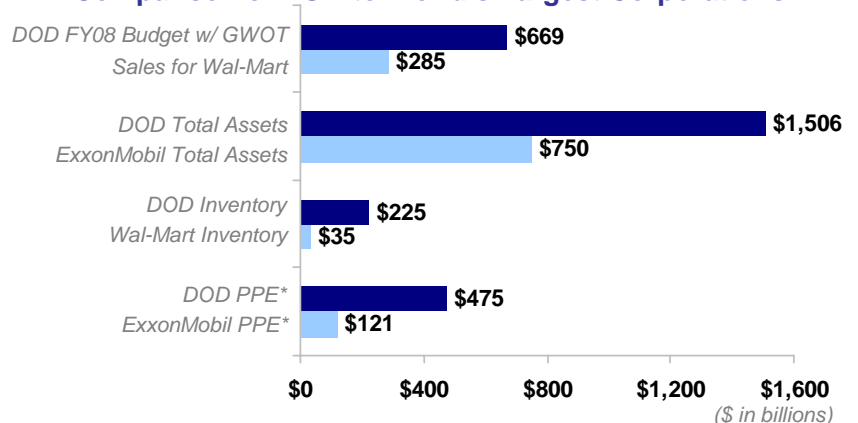
The Office of the Secretary of Defense helps the Secretary plan, advise, and carry out the nation's security policies as directed by both the Secretary of Defense and the President. Four key advisers work with the Secretary of Defense in critical areas of policy, finance, force readiness, and purchasing. Basically, they manage ideas, money, people, and material.

World's Largest Financial Entity

In 2007 alone the Department of Defense:

- Processed over 145 million pay transactions
- Processed 14 million commercial invoices;
- Disbursed out \$424 billion in payroll;
- Managed \$21 billion in foreign military sales; and
- Maintained 57 million general ledger accounts

Comparison of DOD to World's Largest Corporations



*PPE = Property, Plant, and Equipment, Sources: FY2007 DOD and Corporate Balance Sheets, 2007 Fortune 2000 Global Rankings



Our Mission

OUR MISSION

Defending the Nation against its enemies is the first and most fundamental obligation of the federal government, and the primary mission of the Department of Defense.

In peacetime, the Department fulfills that mission by anticipating threats and challenges to the Nation's security; and training and equipping the forces needed to deter aggression and advance U.S. interests around the globe. In times of war, the mission is fulfilled by achieving victory over enemies who threaten our freedom and way of life.

The Department of Defense is also responsible for deterring, detecting and, if necessary, defeating attacks upon the U.S. homeland, its citizens, and key infrastructure from air, sea, space and cyberspace, for working with civil authorities to help prevent or recover from attacks or natural disasters should they occur.

In addition to defending the Nation and maintaining a worldwide presence, the Department is tasked with such things as bringing aid and humanitarian assistance to our own citizens, as we did with Hurricanes Katrina and Rita in 2006 and the California wildfires last year, as well as the victims of worldwide disasters, such as the tsunami in Asia, and the earthquake in Pakistan in 2005.



Recent Major DoD Disaster Response Efforts

\$ in Millions

Southeast Asian Tsunami	67.3
Pakistan Earthquake	92.8
Guatemala Mudslide	4.2
Indonesia Earthquake	3.2
Philippine Mudslide	3.5
Algeria Flooding	0.5
Lebanon Evacuation	0.2
Katrina/Rita Hurricanes	5.3

Financial Management

FINANCIAL MANAGEMENT

In 2004, the Department of Defense embarked upon a comprehensive plan to improve financial management, modernize its financial systems and processes, and prepare the Department for audit. These efforts have yielded significant success. Accomplishments include:

A Focus on Warfighter Pay:

- 100% accuracy of payroll and Thrift Savings Program accounts for past two years
- Over 99% military and civilian pay accuracy

Improving Accuracy of Accounts:

- 96% reduction in inaccurate accounting entries since 1999

Progress Towards A Clean Audit:

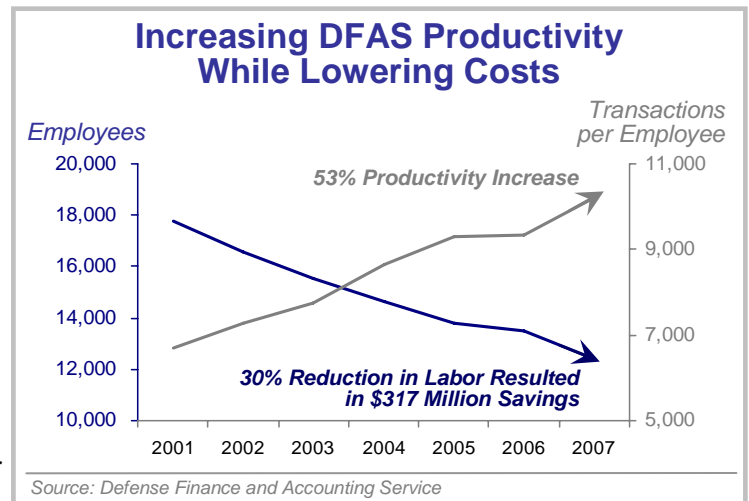
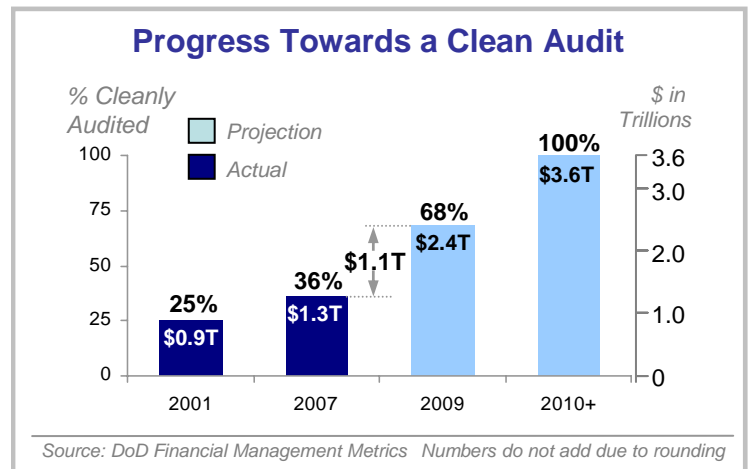
- To date, the Department has cleanly audited \$1.3 trillion of assets and liabilities
 - Ready to achieve a clean audit of \$2.4 trillion of assets and liabilities in 2009

Accounts Payable & Receivable Improvements:

- Saved \$282 million in interest payments since 2001 through prompt payment despite two-fold increase in number of payments
- Reducing amounts owed to the DoD by 42% since December 2005
- 53% productivity increase realized by Defense Finance and Accounting Service resulting in a \$317 million savings since 2001

Financial Oversight Improvements:

- DoD has reduced self-identified internal control weaknesses from 116 in 2001 to 19 in 2007
- In FY 2007 alone, Defense Contracting Audit Agency saved \$2.4 billion and the Inspector General identified \$697 million available for other warfighter use
- Business system improvements prevented \$452 million in duplicate payments



The Department is also investing in its financial management workforce by establishing a first-of-its-kind Chief Financial Officer Academy. Today, more than half of Comptroller staff members have at least one professional certification. This stronger financial management workforce has contributed significantly to the Department's financial improvement efforts.

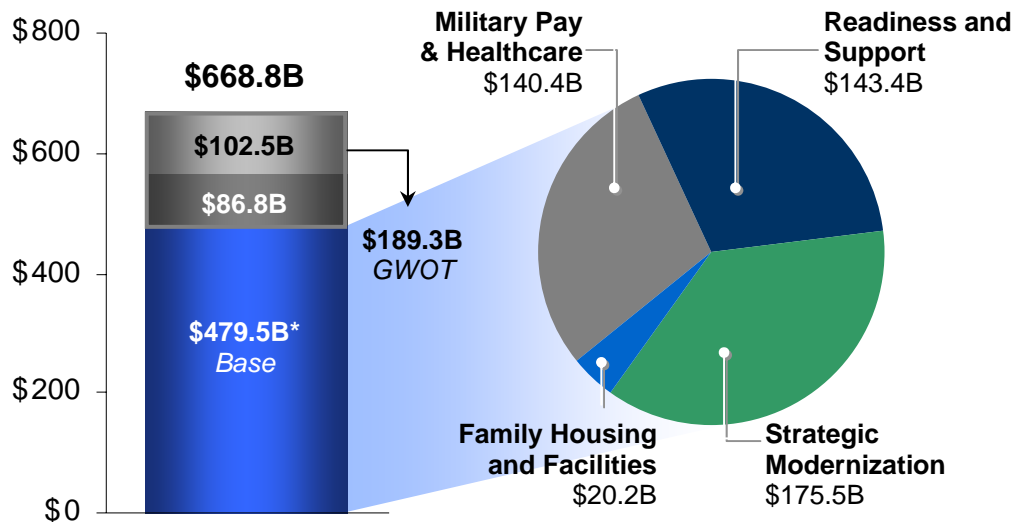


Future Challenges

FISCAL YEAR 2008 BUDGET

The fiscal 2008 Defense base budget sustains the President's commitment to ensure a high state of military readiness and ground force strength; to enhance the combat capabilities of the United States Armed Forces; to continue the development of capabilities that will maintain traditional U.S. superiority against potential threats; and to continue the Department's strong support for service members and their families.

FY08 DoD Base Budget Breakout



* Includes \$338M of indefinite account adjustments (\$308M of Medicare-Eligible Retiree Health Care Fund), which are not part of the conference mark

STRENGTHENING NATIONAL SECURITY THROUGH ENTERPRISE TRANSFORMATION AND SOUND FINANCIAL MANAGEMENT

In 2007, Secretary of Defense Robert M. Gates talked about the DoD's ongoing modernization effort. "The very idea of transformation," he said, "has gone well beyond its original technological associations. It now stands for a process of constant evaluation, adaptation, and change."

"These kinds of changes are difficult for any large institution that has been doing things a certain way for a long time," he said, "but the Department is committed to preparing for future challenges."

Those challenges include financial as well as military modernization. Indeed, it can be said that success in all other areas depends upon sound and reliable financial management to better support the Department's warfighting mission and to maximize the value of every dollar spent.

While much work remains to be done, the Office of the Under Secretary of Defense (Comptroller) has made tremendous progress in transforming the Department's long-outmoded business operations into a single, integrated and comprehensive 21st century system that is doing its part to strengthen national security through sound financial management, improved operational efficiency, and a world class financial workforce that is delivering for the warfighter.

