



DOD FINANCIAL INDICATORS

Problem:

The Department of Defense began the implementation of a balanced scorecard management tool to align organizational execution with broad Department strategy. As recommended by the Defense Business Practice Implementation Board in an earlier study, the Department was in need of a standard set of financial indicators and metrics for incorporation into the scorecard. While the Department in the past relied on standard financial statements as the basis for its financial reporting, no corresponding set of measures, indices, or ratios had been established.

Response:

The Defense Business Board was formally tasked by the Under Secretary of Defense (Comptroller) in October, 2002, with providing recommendations on the identification, development and use of meaningful financial indicators, ratios, and analyses for the Department of Defense. The Board relied on private sector best practices in the development and implementation of the metrics. The use of these tools will be critical to the Secretary of Defense's efforts at Department-wide transformation, particularly as they relate to financial management.

Recommendations:

Working with the Accounting & Finance Policy and Analysis Directorate and the Program and Budget Directorate, the Task Group reviewed the current presentation of DoD financial information in the Department's financial statements, and provided recommended metrics for immediate, senior level use and future best practices analysis and performance assessment.

As depicted in the chart below, the Task Group identified 13 individual metrics, each of which falls into one of four financial performance areas. The first 5 of the 13 metrics were identified as priority measures to be used immediately by senior management. The other 8 metrics remain important, but it was recommended that attention to them may be more appropriate at a level below the most senior managers in the Department.

Operating Results	Liability Management	Cash Management	Asset Management
<ul style="list-style-type: none"> 1 Budgetary Resources to Apportionments to Allotments 2 Obligations to Total Budgetary Resources Ratio 3 Potential Canceled Budget Authority 	<ul style="list-style-type: none"> 4 Percentage of Uncovered Liabilities 	<ul style="list-style-type: none"> 5 Solvency Ratio for the Working Capital Fund 	<ul style="list-style-type: none"> 10 Quick Ratio 11 Expenditures to Assets Ratio 12 Capital Asset Growth Ratio 13 Over 180 Days Accounts Receivable Percentage
<ul style="list-style-type: none"> 6 Unobligated Balances to Total Budget Ratio 7 Net Cost of Operations Growth Ratio 8 Overhead to Total Cost Ratio 	<ul style="list-style-type: none"> 9 180 Days Accounts Payable Percentage 		

High Level Indicators for Senior Management

Action:

In January of 2003 the recommendations of the Task Group were delivered to the Senior Executive Council and accepted by the Under Secretary of Defense (Comptroller) for incorporation into the metrics development work under his direction.