



Message from the Chief Financial Officer



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The fiscal year (FY) 2006 Performance and Accountability Report highlights for the President, the Congress, and the American people, the continuing commitment of the Department of Defense to sound financial management of the resources entrusted to us for the defense of the Nation.

Indeed, since the Financial Improvement and Audit Readiness Plan (FIAR) and the Enterprise Transition Plan were released in 2005, the Department has made clear and measurable progress resolving material weaknesses, improving financial practices, strengthening internal controls, and modernizing business systems and processes. We have reduced the cost of operations, increased speed and efficiency, improved financial accountability and, most importantly, positively impacted our primary mission: supporting the brave men and women of America's Armed Forces who are today fighting to defend the Nation and its citizens against the threat of global terrorism.

In FY 2006, four new priority areas were added to our focused effort to improve financial information and achieve audit readiness. In addition to Military Equipment, Real Property, Medicare-Eligible Retiree Health Care Fund, and Environmental Liabilities, which represent a significant portion of the Department's assets and liabilities, Accounts Payable, Accounts Receivable, Inventory, and Operating Material and Supplies, were added this past September.

Also in FY 2006, financial statements for the Army Corps of Engineers were audited, and the Department of the Air Force asserted that its Fund Balance with Treasury is ready for audit. We completed a baseline valuation for all military equipment programs, which represent 25 percent of the Department's assets, and completed an initial inventory and estimate for the Department's environmental liabilities.

In addition, the Standard Financial Information Structure, a common business language that will facilitate the accurate compilation and reporting of financial information, was implemented, and an incremental approach to implementing the Office of Management and Budget Circular A-123, Appendix A, developed. This new approach will leverage, to the greatest extent possible, initiatives such as the FIAR Plan and other management tools and documentation. Additional accomplishments and a discussion of the Department's short-term goals can be found in Section 1, Management's Discussion and Analysis, of this report.

In recognition of these and other efforts, the Office of Management and Budget raised the Department's progress score on the President's Management Agenda for Improved Financial Performance to "green." The Department's status score for Improved Financial Performance continues to be rated "red," however the "green" progress score indicates that the Department is making steady progress in financial management.

While our work is far from complete, I am grateful to the Department's leaders, managers and, most of all, employees for their dedicated efforts to advance business transformation and improve the financial management of the Department of Defense.


Tina W. Jonas

