



UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100



JMPTROLLER

DEC 18 2003

MEMORANDUM FOR ASSISTANT TO THE SECRETARY OF DEFENSE (NUCLEAR,
CHEMICAL AND BIOLOGICAL DEFENSE PROGRAMS)

SUBJECT: Internal Reporting for Chemical Biological Program Financial Statements

The Department continues to place a high priority on its efforts to achieve an unqualified audit opinion on its financial statements. For fiscal year (FY) 1999, in addition to the Department of Defense Agency-wide financial statements, the Office of Management and Budget required ten of the Department's organizational entities to prepare stand-alone financial statements and have them audited. On January 13, 2000, the Comptroller directed another nine Defense Agencies to prepare stand-alone financial statements. These agencies represented a significant part of the DoD-wide financial statements and have a significant impact on the auditability of the statements. These agencies were also required to have their financial statements audited. One of those agencies was the Defense Threat Reduction Agency (DTRA).

During the audit of DTRA's FY 2002 financial statements, the auditors found that they could not render a clean opinion on consolidated DTRA statements that included the funds of the Nuclear/Chemical/Biological (NCB) program because including NCB in the statements was not consistent with the Standard Federal Financial Concept (SFFAC) Number 2, Entity and Display. Among other criteria, SFFAC No. 2 requires the reporting entity to have programming and budgeting responsibility as well as fiduciary responsibility for debts and deficits. Based on the April 22, 2003, Aldridge memorandum on implementing management of the Chemical Biological Defense Program, DTRA has neither.

We have reviewed the auditors' comments and concur. As a result, the NCB financial statements need to be prepared as stand-alone financial statements beginning the next reporting period. All previous requirements that applied to the DTRA financial statements continue to apply to the NCB financial statements. This directive becomes effective upon receipt.

The point of contact for this matter is Mrs. Mary Braun. She can be reached by e-mail: mary.braun@osd.mil or by telephone at (703) 693-6505.

Dov S. Zakheim

cc: DIR, DTRA