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## Message from the Acting Deputy Secretary of Defense

November 15, 2005

The Department of Defense's Performance and Accountability Report represents an important opportunity to inform the American public of the challenges and accomplishments faced by the Department during the past year.

I am proud of the millions of men and women in uniform and the thousands of civilians who support them. Together, they defend the United States by deterring and defeating aggression and coercion in critical regions. Across the globe, they stand united with our allies to preserve and promote freedom in the face of threats from terrorists and unfriendly regimes.

Internally, the Department continues to improve its financial management and internal controls through its Business Management Modernization Program, the Financial Improvement and Audit Readiness initiative, and other initiatives. These initiatives and our corrective action plans and schedules are discussed in greater detail throughout this report.

While our report contains the most accurate and complete financial and performance information available to us, limitations as a result of systemic weaknesses with financial management systems and business operations continue to impair the financial information. Our auditors have determined that our financial statements in their entirety are not auditable. We have noted throughout this report where information is either unavailable or incomplete.

The Department remains committed to effective internal controls, full compliance with established guidelines and standards, and proper stewardship of the resources entrusted to the Department. In 2005, we resolved 22 of our 46 material weaknesses in internal controls and reported 10 new material weaknesses. With the exception of the remaining weaknesses we are addressing, the Department has reasonable assurance that its management controls are effective and I am confident that we can fulfill our mission responsibilities.

The Department of Defense continues to transform itself into a more agile organization able to meet the challenges of the 21<sup>st</sup> century. The Department must continue to improve its financial accountability, shift resources from the bureaucracy to the warfighter, and improve the quality of life of our armed forces—and is committed to do so.

Gordon England





## Overview: How to Use This Report

The Department of Defense (DoD) fiscal year (FY) 2005 Performance and Accountability Report provides the American people, the President, Congress, other Federal departments and agencies, and DoD military members, civilians, and contractors with an overview of DoD's:

- Mission, goals, accomplishments, and challenges;
- Financial and audit results, and
- Resource management and accountability.

The Report covers the 12-month period ending September 30, 2005 and is comprised of the following five parts:

### Part 1: Management's Discussion and Analysis

Management's Discussion and Analysis is a high-level overview of DoD performance and financial information for FY 2005. It describes DoD's performance management model and highlights the Department's FY 2005 annual performance goals and results (detailed in Part 2). Part 1 also provides financial highlights for FY 2005 (detailed in Part 3) and a summary of the Department's status on meeting the President's Management Agenda objectives. Part 1 concludes with a discussion of the Department's compliance with legal and regulatory requirements and DoD's progress on eliminating the high risk areas identified by the U.S. Government Accountability Office.

### Part 2: Performance Information

Performance Information presents the Department's strategic plan, strategic objectives, strategic goals, performance goals, and annual performance results for FY 2005.

### Part 3: Financial Information

Financial Information comprises the Department's principal financial statements, notes to the statements, consolidating and combining statements, and other required information for FY 2005. This section includes a message from the Chief Financial Officer, as well as the DoD Inspector General Auditor's Report with opinion on the FY 2005 financial statements.

### Part 4: Inspector General's Summary of Management Challenges

Inspector General's Summary of Management Challenges presents a summary, prepared by the DoD Inspector General, of the most serious management challenges facing the Department, as well as DoD management's response.

### Appendixes

Appendixes include a glossary of acronyms used in this report and a list of Internet links for further information.

We welcome your feedback regarding the content of this report. To comment or request copies of the Report, please email us at [DoDPAR@osd.mil](mailto:DoDPAR@osd.mil), or write to:

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You may also view this document at [www.dod.mil/comptroller/par](http://www.dod.mil/comptroller/par).



## DoD in Review



As recently as 2001, the Department of Defense was still arranged to fight the wars of the century just past. The Soviet Empire was gone, but our American military was still preparing to fight it. The most likely enemies of the future lacked large armies, navies, and air forces, but we were still arranged to defend against the conventional armies, navies, and the last century. In short, we had won the wars of the past, but were not yet prepared for the unconventional challenges of the future.

In 2001, President George W. Bush charged the Department of Defense with a new mission: to transform both the military and the Pentagon bureaucracy to meet the threats and challenges of the 21st century.

Looking back across the last four years, an extraordinary amount of change has taken place, across the entire U.S. defense establishment. Without a doubt, the status quo has been challenged, and a new architecture of American defense not only envisioned, but planned, developed, constructed and, in many ways, employed.

Some of the change was driven by external events, most notably, the global war on terror. Much was undertaken as a result of the Department's own internal analysis of what was required to prepare the U.S. military and the Department for the future.

Together, they represent possibly one of the most significant periods of accomplishment in the history of the Department of Defense.

While transformation began well before the attacks on America on September 11, 2001, and continues today, the global war on terror is perhaps the best lens through which to view all that has been achieved since January 2001.

First and foremost, al Qaeda, the global terrorist network responsible for the September 11 attacks, has been scattered, its assets seized in more than 160 countries around the world, its financial network exposed and thwarted, its home base and host regime in Afghanistan destroyed, its network fractured, and three quarters of its top leadership killed or captured.



Terrorists and terrorist cells continue to be disrupted or destroyed on a daily basis, and well over 10,000 individuals and enemy combatants have been brought under U.S. control. While Osama bin Laden is still alive, he is a fugitive, hunted by an international coalition, with just a fraction of his earlier ability to plan and perpetrate terrorism on a scale previously possible.

Operation Enduring Freedom, the first battle in the first war of the 21st century, ended in the liberation of 25 million people in Afghanistan, the establishment of an interim representative government and, on October 9, 2004, the first free and open election in five millennia of that country's recorded history.

In Iraq, Operation Iraqi Freedom liberated some 27 million people from an excessively brutal and repressive regime which maintained its grip on power through the worst type of corruption and torture, including the massive slaughter of its own people. It also eliminated a decades-old state sponsor and facilitator of terrorism whose drive to develop or acquire weapons of mass destruction threatened the region and the world.

Today, Saddam Hussein, and many of the leaders of the regime that carried out his orders, are in prison and awaiting trial, and his sons – the next generation of despicable dictators – are dead. On January 30, 2005, thousands of courageous Iraqi leaders stood for election, and millions of Iraqi citizens went to the polls despite direct threats of death and violence, some walking more than 20 miles to exercise their new-found freedom.

Throughout operations in both Afghanistan and Iraq, the U.S. military has adapted quickly to the changing conditions of combat, learned the lessons of current battles, and incorporated them into its techniques, tactics, and procedures. In Operation Enduring Freedom, the keys to victory were flexibility, speed of deployment and

employment, overcoming restricted access to regional bases, integration of ground and air power, and the increased use of precision weapons.

In Operation Iraqi Freedom, the lessons learned in Afghanistan continue to be refined with a focus on advanced joint and combined operations, the importance of intelligence, the need for precision in such a cluttered battle space, and how best to train, equip, and employ Iraqi forces in defense of their country.

While Afghanistan and Iraq remain the central fronts in the war on terror, they are not the only places where freedom is being defended against the forces of terror. Across the globe, the United States is working with like-minded states to combat the threat posed by the spread of weapons of mass destruction and, in particular, to prevent terrorists from acquiring such weapons.



U.S. Special Forces persist in the search for high-value targets, finding and striking them where they are, and new technologies are constantly being developed to counter everything from improvised explosive devices to the enemy's use of the Internet to communicate and execute operational command and control.

At home, the Global War on Terror gave new impetus and urgency to transformation efforts already well underway, and a new determination



to remake the U.S. military into a more agile, efficient, and expeditionary force, ready to meet the unconventional challenges of a new and uncertain time.

Four years ago, U.S. forces were still organized, trained and equipped for the Cold War, ready to face large armies, navies and air forces from mostly static positions. Today, smaller, more agile units take the fight to the enemy.

Where once millions of tons of bombs leveled entire cities, today smart bombs and real-time targeting destroy strongholds while limiting civilian casualties and collateral damage.



Similarly, Cold War programs and weapons systems were canceled or significantly modified, lighter, faster systems added, as well as new technological advancements such as unmanned vehicles, laser communications, and new satellites for advanced command and control. Recently, a restructured Missile Defense Program fielded a limited operating capability to defend the continental United States against rogue attack.

New strategic partnerships have been established with the nations of Central and South Asia, as well as with non-traditional partners such as Pakistan. Going forward, the location of U.S. forces abroad

will reflect these and other realities of the post-Cold War world.

The Department played a major role in humanitarian relief for natural disasters. Hurricanes Katrina and Rita wreaked catastrophic damage on New Orleans and the Gulf Coast, as well as Florida. DoD provided troops to support relief operations through air, sea, and ground operations. The tsunami that struck Southeast Asia after Christmas inflicted extensive damage. The Department is providing assistance to the governments of Indonesia, Sri Lanka, Thailand, and other affected nations as they deal with the effects of the tsunami. U.S. military operations are in support of overall U.S. Government assistance efforts, and are being conducted in coordination with international organizations, non-governmental organizations, and other nations.



Organizationally, the Department stood up needed new organizations and trimmed back in less functional areas. A new Under Secretary for Intelligence was created, as well as new Assistant Secretaries for Homeland Defense and Networks and Information Integration.

A new National Security Personnel System will allow needed flexibility in managing a 21st century workforce, and a new Base Realignment and Closure

process is underway to shed unneeded infrastructure and allocate resources to more appropriate needs.

Many aspects of the Department's basic program, budget, and acquisition processes have been modernized, streamlined and consolidated. A two-year budget cycle has been instituted, and the acquisition process streamlined. Procurement safeguards have been strengthened to preclude duplication among the Military Services. Intrinsic to this process was the establishment early on of the Senior Level Review Group, which consists of the Secretary, Deputy Secretary, Chairman and Vice Chairman of the Joint Chiefs of Staff, Under Secretaries, Service Secretaries, and Service Chiefs of Staff.

Until this group was created, the Military Services used to build budgets separately and often competed with one another for programs and funding. Today, this group brings top planners together, to generate common concepts of operations and programs for the military, which also strengthens joint and combined warfighting operations on the battlefield.

### **Looking ahead, many challenges remain**

In Afghanistan, we must ensure that Taliban remnants and the possibility of terrorism that stems from drug trafficking do not slow the progress that is clearly underway. In Iraq, a functional Iraqi military and police must be established to secure the environment, defeat the insurgency, and give the new government every chance to succeed as a functioning democracy. Another challenge will be to focus appropriately on intelligence, working closely with other government agencies to ensure that our warfighters have what they need to prevail in the global war on terror. This will require improving all aspects of our ability to collect, analyze, disseminate,

integrate and share intelligence to both the battlefield and the boardroom.



Most importantly, we must strike the right balance between the capabilities needed for the war on terror and capabilities needed to manage emerging military competition in other areas.

We must hedge against the emergence of a major military competitor in the decades ahead through the right levels of research and development, as well as intelligent procurement of advanced warfighting and surveillance systems.

We must work with the Department of Homeland Security to ensure we are properly positioned to do our part in preventing, or contending with the aftermath of, a catastrophic attack on the homeland, particularly with regard to terrorism involving weapons of mass destruction.

To take precision targeting to a new level, we must focus resources on persistent surveillance, using both manned and unmanned systems.

All of these, as well as other key issues such as potential changes in roles, missions, and organizations; needed changes in the law; pursuit of key enablers like space, information operations,



surveillance systems, and special programs; changes to our strategic nuclear forces; new approaches for developing a 21st century civilian workforce; and improved business practices of the Department of Defense are being examined in depth.

We are cognizant of the responsibilities inherent in managing nearly 18 percent of the Federal budget and more than 3 percent of the Gross Domestic Product, and even more so of the precious resources

loaned to us by a caring Nation – the 2.2 million active duty, Guard, and Reserve members of the U.S. Armed Forces, along with the civilian workforce.

The Department of Defense has initiated significant change and accomplished a great deal over the past four years and, with the continuing support of the Congress and, most importantly, the American people, we will continue to improve and accomplish our mission in the years to come.