



COMPTROLLER

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MESSAGE FROM THE CHIEF FINANCIAL OFFICER

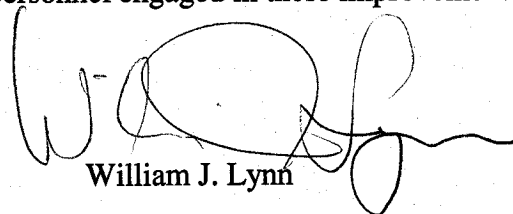
Included herein are the Department of Defense (DoD) Agency-wide Financial Statements for FY 1998. The statements address the Department's assets and liabilities as of September 30, 1998, and include a description of the Department's continuing financial management improvement efforts.

Improving financial management and business processes remains a primary commitment and principal challenge at all levels within the Department. During FY 1998, the Department made progress in its efforts to comply with the Statements of Federal Financial Accounting Standards. However, much improvement is needed in the Department's finance and accounting systems. The Department's initial Biennial Financial Management Improvement Plan, dated September 1998, details our plans to provide state-of-the-art financial management.

Changes needed to solve our financial management challenges go far beyond the DoD financial community. As a result, the Department is actively pursuing improvements in not only financial but also nonfinancial systems, such as inventory and logistics, that are needed to support the accuracy and audibility of the Department's financial statements. Unfortunately, due to the size and scope of the systems efforts required, the Department will not realize the full benefit of the ongoing systems initiatives for several years.

In the interim, the Department, in collaboration with the Office of Management and Budget, the General Accounting Office, and the Office of the Inspector General, DoD, has developed strategies to address ten major issues identified by the audit community. The Department is attempting to develop interim solutions to address these issues prior to the implementation of the longer term systems improvements. These strategies and their timetables demonstrate the Department's resolute commitment to improve financial management and to achieve a clean audit opinion on the Department's financial statements.

Senior leadership throughout the Department is committed to good stewardship and improved financial management. In addition, I continue to be encouraged by the perseverance and commitment of the Department's personnel engaged in these improvement efforts.



William J. Lynn