Annual
Financial Statements

Fiscal Year 2006

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Fiscal Year 2006

Department of Defense Chemical and Biological Defense Program

CHEMICAL AND BIOLOGICAL DEFENSE PROGRAM (CBDP)

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

FISCAL YEAR 2006

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This MD&A is prepared in accordance with the direction contained in OMB Circular A-136, *Financial Reporting Requirements*, Section II.2; FASAB Concept #3; and FASAB Standard #15. All required MD&A sections are identified in bold lettering above.

Message from the Special Assistant for Chemical and Biological Defense and Chemical Demilitarization Programs

I am pleased to present the Chemical Biological Defense Program (CBDP) Management's Discussion and Analysis (MD&A) for Fiscal Year (FY) 2006. This report summarizes the Program's mission, organization, programmatic achievements, financial status, and business priorities for the past year.

The mission of the CBDP is to provide passive defense chemical and biological capabilities in support of the National Military Strategies. The CBDP has a unique joint program structure. As the Special Assistant for Chemical and Biological Defense and Chemical Demilitarization Programs, I exercise oversight of the CBDP and report to the Assistant to the Secretary of Defense for Nuclear, Chemical and Biological Defense Programs (ATSD (NCB)). The Joint Requirements Office under the J-8 of the Joint Staff validates the operational requirements. Defense Threat Reduction Agency (DTRA) manages and executes the Science and Technology program and also conducts funds management. An Army Joint Program Executive Officer manages the advanced development and procurement activities. The Army's Deputy Undersecretary (Test and Evaluation) serves as the Joint Test and Evaluation Executive.

Underlying CBDP programmatic achievements is our commitment to organizational excellence and sound financial management. The CBDP achieved an unqualified audit opinion on its FY 2006 financial statements. This audit result indicates that the financial statements are a reliable representation of the CBDP financial position for FY 2006.

As required by Section 1116(e) of Title 31 of the U.S.C., the financial and performance information contained in this report is complete and reliable. The CBDP is also in substantial compliance with the requirements contained in the Federal Managers' Financial Integrity Act and Federal Financial Management Improvement Act.

It is the Program's responsibility to ensure that U.S. chemical and biological defense capabilities are the best in the world and that the returns to the American people who support these activities with their tax dollars meet their highest expectations. The dedication and commitment of the Program's diverse organizational elements makes all this possible.

Jean D. Reed
Special Assistant
Chemical and Biological Defense and
Chemical Demilitarization Programs

1.0 Mission and Organization

The Chemical and Biological Defense Program (CBDP) was initiated in fiscal year (FY) 1994 to consolidate, coordinate, and integrate chemical and biological (CB) defense requirements and programs of the Military Departments into a single defense program, in accordance with the FY94 National Defense Authorization Act (P.L. 103-160, Section 1703). The CBDP was implemented through a Joint Service Agreement for nearly ten years, but was replaced by an April 22, 2003 Defense Acquisition Executive (DAE) memorandum which defined the roles and responsibilities for program management. The CBDP roles and responsibilities were institutionalized during FY06 in an update to DoD Directive 5134.8, "Assistant to the Secretary of Defense for Nuclear and Chemical and Biological Defense Programs (ATSD (NCB))," and DoD Instruction 5160.5, "Responsibilities for Research, Development, and Acquisition of Chemical Weapons and Chemical and Biological Defense".

1.1 Mission

The mission of the joint CBDP is to provide passive defense Chemical and Biological (CB) capabilities in support of the National Military Strategies. The program must ensure all capabilities are integrated and coordinated within the interagency community. The program has four corporate goals that provide direction for the development, acquisition, and fielding of CB equipment that meets warfighter requirements while reducing acquisition costs and time of development. The four goals are:

1. Develop CB defense capabilities to meet Joint Acquisition Objectives at reduced costs and on schedule.

2. Develop and support a scientific and technology base program that integrates Department of Defense (DoD) and other Federal Agency CB defense research efforts.

3. Oversee the DoD CB defense modeling and simulation efforts.

4. Improve DoD CB defense management practices – become a high performance organization.

1.2 Organization and Resources

The CBDP can be characterized as a virtual program with functional responsibilities shared among several DoD offices, organizations, and agencies. The CBDP operates under the authority, direction, and control of the Under Secretary of Defense for Acquisition, Technology and Logistics (USD (AT&L)). The Assistant to the Secretary of Defense for Nuclear and Chemical and Biological Defense Programs (ATSD (NCB)) has the role and responsibility within the office of the USD (AT&L) to oversee the operations and funds management of the CBDP. The primary functional responsibilities within CBDP include acquisition management oversight by the DAE (the USD(AT&L) serves as the DAE), operational requirements validation assigned to a Chairman's Controlled Activity under the

J8 of the Joint Staff, Science and Technology management and funds management assigned to the Defense Threat Reduction Agency (DTRA), Advanced Development and Procurement activities managed by an Army Joint Program Executive Officer, and a Test and Evaluation Executive Agent in Headquarters, Department of the Army.

To execute its mission, CBDP receives two appropriations; Defense-wide Research Development Test & Evaluation (RDT&E) and Defense-wide Procurement. RDT&E appropriations fund research to exploit leading edge technologies to ensure that U.S. forces are equipped with world-class capabilities to defend against CB threats. RDT&E funding includes a comprehensive science and technology base program to ensure continued advances in CB defense capabilities through the far-term, as well as technologies in advanced development that provide leading edge tools to enhance CB defense capabilities for U.S. forces in all CB defense missions in the near-term. The CBDP Procurement appropriation funds a variety of CB defense systems intended to provide U.S. forces with the best available equipment to survive, fight and win in CB contaminated environments. Figure 1 depicts the management structure and funds flow for the CBDP.

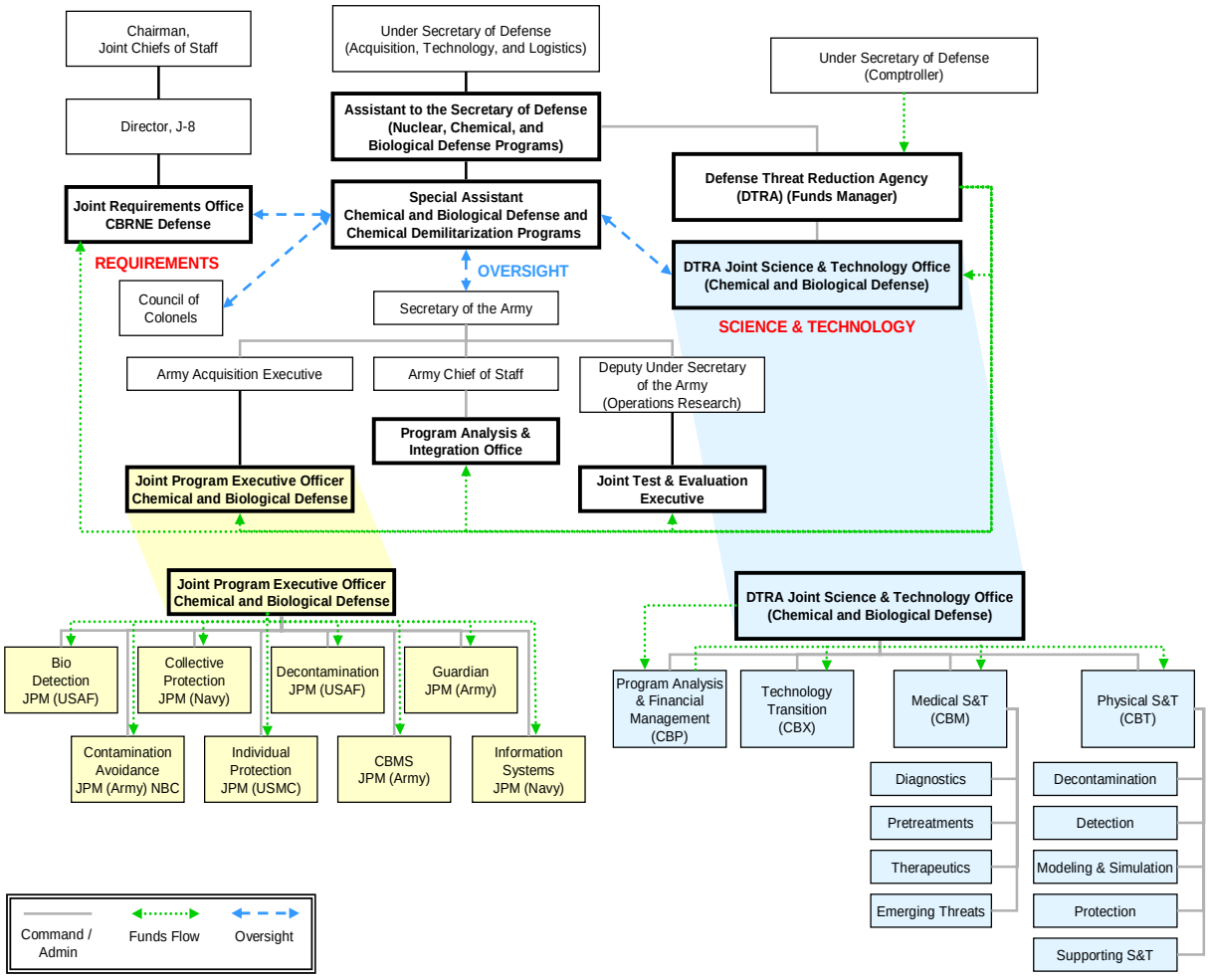

Figure 1. CBDP Management Structure and Funds Flow

The CBDP supports, through its Research and Development and Procurement functions, all 2.4 million of the DoD military personnel in both their warfighting and Homeland Security tasks and missions. Additionally, with the establishment in FY 2002 of its Installation Force Protection program (named Guardian), CBDP was funded to equip the first 200 of approximately 600 DoD installations with CB detection and warning and reporting capability through FY 2009. During FY 2006, the program completed the equipping of 55 22-person Weapons of Mass Destruction-Civil Support Teams (WMD-CST). These teams are organized in the National Guard (one per state or federal territory) and exist to support their respective Governor in Consequence Management response for the civil populace, under Title 32 of the US Code.

The major programs of the CBDP are executed by approximately 1,763 individuals across the Military Services and select Defense Agencies. This breaks out to a total of 498 military and 1,265 civilians. The FY 2006 budget authority for CBDP is in the table below.

Appropriation	FY 2006 Budget Authority (in Millions)
RDT&E	$1,355.0
Procurement	1,086.9
Total	$2,441.9

1.3 Locations

The CBDP utilizes the resources from DoD organizations operating in a matrix support structure to execute its program. The CBDP operating elements are affiliated with other DoD organizations that are located throughout the U.S. The joint test and evaluation and OSD oversight offices are located in the Pentagon in Arlington, Virginia. The Joint Requirements Office for Chemical, Biological, Radiological, and Nuclear (JRO-CBRN) Defense is located outside the Pentagon in Arlington, Virginia. The Joint Science and Technology Office in DTRA is located at Ft. Belvoir, Virginia. The headquarters of the Joint Program Executive Office (JPEO) is located in Falls Church, Virginia, with eight subordinate Joint Program Managers (JPMs) located across the country; the Information Systems JPM at San Diego, California; the Decontamination JPM and the Individual Protection JPM at Quantico, Virginia; the Collective Protection JPM at Washington, DC; the NBC Contamination Avoidance and Biological Detection JPMs at Edgewood, Maryland; the Chemical and Biological Medical Systems JPM at Frederick, Maryland; and the Guardian JPM collocated with the JPEO in Falls Church, Virginia.

2.0 Performance Goals, Objectives, and Results

2.1 Strategies and Resources

In July 2003, the JRO-CBRN Defense completed a CBRN Defense Baseline Capabilities Assessment. Prior assessments focused on systems rather than on capabilities. In order to validate the process, the initial baseline assessment focused on the traditional warfighter mission, or passive defense capabilities. Future assessments will establish a baseline for all DoD CBRN defense missions, including force protection, consequence management, and homeland security, while updating the assessment of passive defense capabilities. In addition, the baseline capability assessment establishes an integrated joint functional concept that supersedes the concepts of Avoid, Protect, and Decontaminate that are outlined in Joint Publication 3-11, Joint Doctrine for Operations in Nuclear, Biological, and Chemical (NBC) Environments. Figure 2 defines the Joint CBRN defense joint functional concepts—Sense, Shape, Shield, and Sustain. The joint functional concepts represent an integrated network of capabilities to support the warfighter. No single system, technology, or approach is sufficient to defend against the spectrum of CBRN agents, delivery systems, and adversaries, which may use these weapons to counter U.S. superiority in conventional forces.

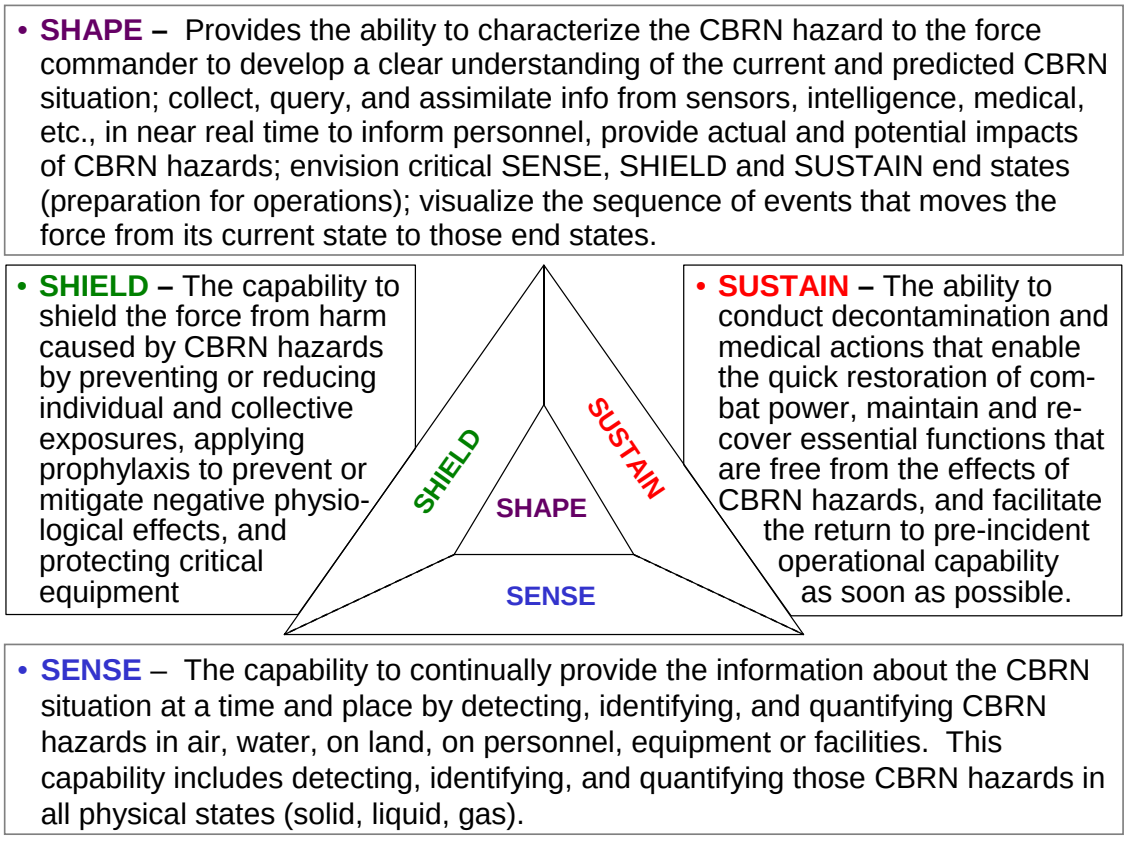

Figure 2. Joint CBRN Defense Joint Functional Concepts

Figure 3 identifies CBRN defense operational goals. Each operational goal is directly associated with one of the Joint Functional Concepts. In turn, specific projects and programs

within advanced development and procurement are associated with one or more of the operational goals. The programs and their associated defense operational goals are depicted in the following list.

Sense	Shape	Shield	Sustain
1. Point Detection (Chemical, Biological, and Radiological) 2. Stand-off Detection 3. NBC Reconnaissance (Chemical, Biological, and Radiological)	4. Integrated Early Warning 5. Battlespace Management 6. Battlespace Analysis	7. Respiratory and Ocular Protection 8. Percutaneous Protection 9. Expeditionary Collective Protection 10. Medical Prophylaxes	11. Individual Decontamination 12. Equipment Decontamination 13. Fixed Site Decontamination 14. Medical Diagnostics 15. Medical Therapeutics

Figure 3. CBRN Defense Operational Goals

2.2 Performance Assessments

The DoD pursues an investment strategy that seeks to reduce overall program risk by balancing risk in each of the following areas.

- *Force management risk* results from issues affecting the ability to recruit, retain, train, and equip sufficient numbers of quality personnel and sustain the readiness of the force while accomplishing its many operational tasks.
- *Operational risk* stems from factors shaping the ability to achieve military objectives in a near-term conflict or other contingency.
- *Future challenges risk* derives from issues affecting the ability to invest in new capabilities and develop new operational concepts needed to dissuade or defeat mid- to long-term military challenges.
- *Institutional risk* results from factors affecting the ability to develop management practices, processes, metrics, and controls that use resources efficiently and promote the effective operation of the Defense establishment.

In order to measure the performance of individual programs within the overall CBDP, programs are assessed to determine how each actually performed in comparison to the stated program targets. Analysis of program data is only part of the assessment process. The next step in the assessment is a comparison of the results of the data analysis against performance goals, operational goals, corporate goals, and the overall CBDP mission.

The DoD adopted the balanced scorecard concept to provide a managed risk strategy for the CBDP. Since its establishment in 1994 following Congressional passage of the FY94 National Defense Authorization Act (50 U.S. Code, Section 1522), CBDP has integrated research, development and acquisition (RDA) funds into defense-wide accounts that are overseen by a single office within the Office of the Secretary of Defense.

The CBDP prepared a draft performance plan to align itself more closely with the tenets of the Government Performance and Results Act (GPRA). Specifically, the plan:

- Established explicit and outcome-oriented goals linked to warfighters' ability to survive, fight, and win in a CB environment;
- Identified quantitative and/or qualitative performance measures that can be used to assess the progress of CBDP towards goal achievement;
- Described how performance data is validated;
- Described how RDT&E activities of participating DoD and non-DoD organizations are coordinated to achieve program goals; and
- Identified human capital, financial, and resource challenges or external factors that limit the ability of the program to achieve its goals.

2.3 CBDP Performance Plan

The major portions of the CBDP draft performance plan linked performance goals with performance measurements in terms of those systems and programs, which support the warfighter requirements and goals.

Section 2.4 analyzes performance goals and measurements that support the advanced development and procurement of CB defense systems in support of Corporate Goal 1. This section focuses on programs that support core warfighter operational goals.

Section 2.5 analyzes the science and technology base of the program to include basic and applied research and advanced technology development, which support essential capabilities meeting warfighter requirements in support of Corporate Goal 2.

Section 2.6 analyzes performance goals and measurements that support the advanced development and procurement of CB defense systems in support of Corporate Goal 1. In contrast to Section 2.4, Section 2.6 focuses on programs related to antiterrorism, force protection, installation protection, and homeland security support activities.

Section 2.7 analyzes management practices in support of Corporate Goal 3: Oversee DoD CB defense modeling and simulation efforts and Corporate Goal 4: Improve DoD CB defense management practices – become a high performance organization. Performance goals, which support each corporate level goal of the CBDP, establish a measurable path to incremental achievement of specific goals. These performance goals are supported and evaluated by measurable outputs, which are assessed using performance measures. Performance measures quantify the output of the CBDP for key measures associated with providing a ready force, capable of conducting operations in CB contaminated environments.

Advanced development and procurement within the CBDP are critical means of ensuring that the U.S. military has the capability to operate effectively and decisively in the face of biological or chemical warfare threats at home or abroad. Advanced development and procurement specifically support Corporate Goal 1: Develop chemical and biological defense capabilities to meet Joint Acquisition Objectives at reduced costs and on schedule. The operational goals—Sense, Shape, Shield, and Sustain—outlined in Section 2.1 provide the link between the programs described below and the overall mission of CBDP. The draft

performance plan addresses the following detailed information for each operational goal in this section:

- A list of current and future materiel solutions,

- Procurement data, including:
  (1) An assessment of procurement targets vs. actual accomplishments for FY05, and
  (2) Procurement targets for FY06 and FY07.

- RDT&E data, including:
  (1) An assessment of RDT&E targets vs. actual accomplishments for FY05, and
  (2) RDT&E targets for FY06.

- An overall assessment for activities supporting each operational goal.

The following sections will address performance measurements for the procurement targets and actual results listed in the draft performance plan.

2.4 Advanced Development and Procurement

2.4.1 OPERATIONAL GOAL 1: SENSE

2.4.1.1 Performance Goal 1.1 – Point Detection (Chemical, Biological, and Radiological)

2.4.1.1.1 Current Procurement Targets – Point Detection (Chemical)

	FY05		FY06	FY07
System	**Target**	**Actual**	**Target**	**Target**
Automatic Chemical Agent Detector and Alarm	4,895	5,271	266	1,045
Improved Chemical Agent Monitor	686	700	0	0
Joint Chemical Agent Detector	0	0	526	5,474
Joint Biological Point Detection System	133	137	175	167
Interim Biological Agent Detector System (IBADS)*	(-9)	(-9)	n/a	n/a
Multi-Function Radiacs	5,975	4,700	6,975	7,225

*Completed decommissioning of nine shipboard IBADS in FY05.

2.4.1.2 Performance Goal 1.2 – Standoff Detection

2.4.1.2.1 Current Procurement Targets – Standoff Detection (Chemical and Biological)

	FY05		**FY06**	**FY07**
Systems	**Target**	**Actual**	**Target**	**Target**
Joint Service Lightweight Standoff Chemical Agent Detector	4	4	42	75
Joint Biological Standoff Detection System	0	0	18	0

2.4.1.3 Performance Goal 1.3 – Nuclear, Biological, and Chemical (NBC) Reconnaissance (Chemical, Biological, and Radiological)

2.4.1.3.1 Current Procurement Targets – NBC Reconnaissance Systems

	FY05		**FY06**	**FY07**
Systems	**Target**	**Actual**	**Target**	**Target**
NBC Reconnaissance Vehicle	8	8	0	10

2.4.1.4 Overall Assessment of FY05 Advanced Development and Procurement Activities for the "Sense" Operational Goal.

Advanced development and procurement efforts in the FY05 "Sense" operational goal were effective. The program is building on an existing and fielded set of capabilities to provide improved CB detection to the warfighter. DoD provides an integrated collection of programs, research through procurement, to attain performance goals. Procurement and research performance goals for "Sense" have been met and exceeded in Point Detection, Standoff Detection and NBC Reconnaissance.

2.4.2 OPERATIONAL GOAL 2: SHAPE

For purposes of the performance goals, battlespace management and battlespace analysis are not identified separately from integrated early warning.

2.4.2.1. Performance Goal 2.1 – Integrated Early Warning

2.4.2.1.1 Current Procurement Targets – Integrated Early Warning

Systems	FY05		FY06	FY07
	Target	**Actual**	**Target**	**Target**
Joint Warning and Reporting Network (JWARN)	45	25	25	30
Joint Effects Model	0	0	2,413	2,452

2.4.2.2 Overall Assessment of FY05 Advanced Development and Procurement Activities for the 'Shape' Operational Goal.

Advanced development and procurement efforts in the FY05 "Shape" operational goal were effective, although SHAPE programs have been impacted by delays in the Joint Tactical Radio System (JTRS) and the Joint Global Command and Control System (GCCS-J). The program is building on an existing and fielded set of capabilities to provide improved battlespace management/analysis and integrated early warning to the warfighter in the context of chemical and biological defense. DoD provides an integrated collection of programs, research through procurement, to attain performance goals.

Overall, performance goals for "Shape" have been met. Research performance goals have been exceeded with JWARN Block II and in the field of warfighter risk management tools via the Joint Effects Model (JEM) and Joint Operational Effects Federation (JOEF).

2.4.3 OPERATIONAL GOAL 3: SHIELD

2.4.3.1 Performance Goal 3.1 – Respiratory and Ocular Protection

2.4.3.1.1 Current Procurement Targets – Respiratory and Ocular Protection

System	FY05		FY06	FY07
	Target	**Actual**	**Target**	**Target**
Joint Service General Purpose Mask	65,861	6,000	120,00	196,000
Joint Service Aircrew Mask	0	0	550	3,699
Joint Service Mask Leakage Tester	240	182	182	113

2.4.3.2 Performance Goal 3.2 – Percutaneous Protection

2.4.3.2.1 Current Procurement Targets – Percutaneous Protection

System	FY05		FY06	FY07
	Target	Actual	Target	Target
Joint Service Lightweight Integrated Suit Technology (JSLIST) Overgarment	284,745	284,745	122,644	91,039
Joint Protective Aircrew Ensemble	26,649	17,580	37,404	38,408

2.4.3.3 Performance Goal 3.3 – Expeditionary Collective Protection

2.4.3.3.1 Current Procurement Targets – Expeditionary Collective Protection

System	FY05		FY06	FY07
	Target	Actual	Target	Target
Ship Collective Protective Shelter Backfit (protective zones backfitted)	4	3	3	3
Chemical and Biological Protective Shelter	100	152	21	39
Joint Collective Protection Equipment	2,213	2,407	0	0
Collective Protection Field Hospitals	0	0	1	0

2.4.3.4 Performance Goal 3.4 – Medical Prophylaxes

2.4.3.4.1 Current Procurement Targets – Medical Prophylaxes

System	FY05		FY06	FY07
	Target	Actual	Target	Target
Anthrax Vaccine Doses	2,803,685	3,066,112	1,180,337	1,101,000
Smallpox Vaccine Doses	460	500,260	394	592

2.4.3.5 Overall Assessment of FY05 Advanced Development and Procurement Activities for the ‘Shield’ Operational Goal.

Advanced development and procurement efforts in the FY05 “Shield” operational goal were effective. The program is building on an existing and fielded set of capabilities to provide improved CB protection to the warfighter. DoD provides an integrated collection of programs, research through procurement, to attain performance goals. Targeted procurement and research performance goals for “Shield” have been met and exceeded in Respiratory and Ocular Protection, Percutaneous Protection, Expeditionary Collective Protection, and Medical Prophylaxis.

2.4.4 OPERATIONAL GOAL 4: SUSTAIN

2.4.4.1 Performance Goal 4.1 – Individual Decontamination

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2.4.4.1.1 Current Procurement Targets – Individual Decontamination

System	FY05		FY06	FY07
	Target	**Actual**	**Target**	**Target**
M291 Skin Decontamination Kit	40,260	40,260	0	0

2.4.4.2 Performance Goal 4.2 – Equipment Decontamination

2.4.4.2.1 Current Procurement Targets – Equipment Decontamination

System	FY05		FY06	FY07
	Target	**Actual**	**Target**	**Target**
Joint Service Transportable Decontamination System – Small Scale	0	0	70	195
Joint Service Family of Decontaminant Systems (Note: FY2006 funding realigned to a separate JSTDS-SS program)	298	298	0	0
Joint service Personnel/Skin Decontamination System (JSPDS)	0	0	0	173,000

2.4.4.3 Performance Goal 4.3 – Medical Diagnostics.

2.4.4.3.1 Current Procurement Targets – Medical Diagnostics

Systems	FY05		FY06	FY07
	Target	**Actual**	**Target**	**Target**
Joint Biological Agent Identification and Diagnostic System	141	141	158	22

2.4.4.4 Overall Assessment of FY05 Advanced Development and Procurement Activities for the 'Sustain' Operational Goal.

Advanced development and procurement efforts in the FY05 "Sustain" operational goal were effective. The program is building on an existing and fielded set of capabilities to provide improved CB decontamination and post-contamination medical support to the warfighter. DoD provides an integrated collection of programs, research through

procurement, to attain performance goals. Targeted procurement and research performance goals for "Sustain" have been met and exceeded in Individual, Equipment and Fixed Site Decon as well as Medical Diagnostics and Therapeutics.

2.5 Science and Technology Base

The science and technology (S&T) base of the CBDP provides essential capabilities to develop technological advantage over any potential adversaries and prevent technological surprise. Within S&T there are three budget activities and three research areas, and project funding codes for each. The approach for identifying and developing quantitative performance goals and measures on an annual basis is not always well suited for evaluating the progress of S&T efforts. The long-term nature of many of these efforts makes the identification of quantitative measures on an annual basis meaningless (e.g., number of breakthroughs in basic science made last year). However, using an approach similar to the performance plans of other federal research centers—including the National Academies of Science, the National Institutes of Health, and the National Science Foundation—there are a variety of qualitative and quantitative performance measures that may be used to demonstrate progress of S&T efforts towards outcomes, which fulfills the requirements of the GPRA.

The basic performance measure established for S&T efforts is the independent expert panel review. The CBDP has adopted this practice using an independent panel of scientists from outside the Department to provide an assessment of the funding and research areas within the program. This process, known as the Technology Area Review and Assessment (TARA), has been conducted annually by the CBDP. The TARA panel provides a presentation of their findings and recommendations to the Defense Science and Technology Advisory Group, the senior leaders within the Department responsible for S&T within DoD.

2.5.1 CB Defense Science and Technology Planning

To ensure U.S. military preeminence in the long term, the Department must continue to focus investments on new generations of defense technologies. The Defense Science and Technology Strategy, with its supporting Basic Research Plan, Joint Warfighting Science and Technology Plan, and Defense Technology Area Plan, is the foundation of the S&T program. The Office of the Secretary of Defense, the Joint Staff, the military departments, and the defense agencies collaboratively develop the S&T program. Objectives of S&T planning are to:

- ensure projects support warfighter requirements,
- identify gaps in existing defense and commercial research,
- ensure collaborative planning and execution of the S&T program,
- reduce undesired duplication of effort,
- provide the basis for independent expert panel reviews.

2.5.2 DoD CB Defense Science and Technology Base Program

This section provides the objectives and metrics for the overall CB defense S&T program. An overall assessment is provided below. Actual and planned performance on specific projects is detailed in the following sections on S&T.

2.5.2.1 Metric Description. The metric for S&T base projects is a qualitative assessment of the results of basic research, applied research, and advanced technology development compared to their intended purposes. This qualitative methodology for measuring the outcomes of the S&T base is allowed by the GPRA (31 USC 1115(b)) as an alternative to the quantitative performance measures. Qualitative performance measures are assessed by an independent panel as well as by the accomplishment of specific project targets identified and detailed in each of the project areas. The assessment includes an evaluation of the information provided to determine whether it is sufficient to allow for an accurate, independent determination of the program activity's performance. An important element of the research efforts— particularly for basic and applied research—is the evaluation and elimination of unsuccessful technologies. While not always identified as a specific target, the scientific method contributes to increased knowledge by eliminating efforts that will not contribute to project objectives.

2.5.2.2 Validation and Verification Methodology. The basic performance measure established for S&T efforts is the independent expert panel review.[1] This complies with White House guidance to ensure that independent assessments of research programs evaluate both the quality of programs and progress of research towards stated goals.[2] The CBDP has adopted the TARA, which is conducted annually by CBDP. The TARA panel provides a presentation of their findings and recommendations to the Defense Science and Technology Advisory Group, the senior leaders within the Department responsible for S&T within DoD. In 2006, the JSTO-CBD conducted an alternative process for S&T review. The results of this Alternative TARA are still under review.

2.5.2.3 Assessment of CB Defense Science and Technology Outcome Measure

Overall, the DoD CBDP S&T base has been effective. Most areas have been rated green by the TARA panel. In addition, there were several technologies that completed successful demonstrations over the past year, and as detailed in the following sections, there are several examples of technology transitions to advanced development.

2.5.3 Basic Research (Program Element 0601384BP)

This program element (PE) funds the Joint Service core research program for CB defense (medical and non- medical). The basic research program aims to improve the operational performance of present and future DoD components by expanding knowledge in relevant fields for CB defense. Moreover, basic research supports a Joint Force concept of a lethal, integrated, supportable, highly mobile force with enhanced performance by the individual soldier, sailor, airman, or marine. Specifically, the program promotes theoretical and experimental research in the chemical, biological, medical, and related sciences. Research areas are determined and prioritized to meet Joint Service needs as stated in mission area analyses and Joint operations requirements, and to take advantage of scientific

[1] *Evaluating Federal Research Programs: Research and the Government Performance and Results Act*, Washington, D.C: National Academy Press, 1999.

[2] See memorandum from The White House, Neal Lane and Jacob J. LE, "Follow-On Guidance for FY 2001 Interagency Research and Development Activities," June 8, 2000.

opportunities. Basic research is executed by academia and government research laboratories. Funds directed to these laboratories and research organizations capitalize on scientific talent, specialized and uniquely engineered facilities, and technological breakthroughs. The work in this program element is consistent with the Joint Service Nuclear, Biological, and Chemical (NBC) Defense Research, Development, and Acquisition (RDA) Plan. Basic research efforts lead to expeditious transition of the resulting knowledge and technology to the applied research (PE 0602384BP) and advanced technology development (PE 0603384BP) activities. This project also covers the conduct of basic research efforts in the areas of real- time sensing and diagnosis and immediate biological countermeasures. The projects in this PE include basic research efforts directed toward providing fundamental knowledge for the solution of defense- related problems and new- improved military capabilities, and therefore, are correctly placed in Budget Activity 1.

2.5.4 CB Defense Basic Research (Project CB1)

This project funds basic research in chemistry, physics, mathematics, life sciences, and fundamental information in support of new and improved detection technologies for biological agents and toxins; new and improved detection technologies for chemical threat agents; advanced concepts in individual and collective protection; new concepts in decontamination; and information on the chemistry and toxicology of threat agents and related materials.

2.5.4.1 CB1 Performance Goal (Outcome). The goal of the CB defense non-medical basic research program is to increase scientific understanding of the mechanisms and processes involved in the detection, protection against, and decontamination of chemical and biological warfare agents.

2.5.4.1.1 Assessment of CB Defense Basic Research. Basic research efforts in FY05 for project CB1 were effective. The program completed most major targets and all congressionally directed programs were successfully executed during FY05. Additional work was performed in the area of Brooks City Base Biotechnology, Fluorescence Activated Sensing Technology (FAST), Biodetection Research, and Detection of Biological Agents in Water. Extensive research continues to be conducted in several research areas to include Biological Agent Identification Detection, Integrated CB Detection, Shelter Protection, and Chemical Threat Agents. These research areas are intended to support several major operational goals detailed in the draft performance plan. Several new research projects were initiated in FY05, in the areas of Decontamination and Information Systems Technology.

2.5.4.2 Medical Biological Defense Basic Research (Project TB1)

This project funds basic research on the development of vaccines and therapeutic drugs to provide effective medical defense against validated biological threat agents including bacteria, toxins, and viruses. This project also funds basic research employing biotechnology to rapidly identify, diagnose, prevent, and treat disease due to exposure to biological threat agents. Categories for this project include current S&T program areas in medical biological defense capability areas (Pretreatments, Diagnostics, and Therapeutics) and directed research

efforts. Categories under this project address the Joint Requirements Office (JRO) critical capability gaps identified in the baseline capability assessment performed in FY03.

2.5.4.2.1 TB1 Performance Goal (Outcome). The goal of medical biological defense basic research is to increase scientific understanding of the mechanisms and processes involved in the pathogenesis of diseases caused by biological warfare (BW) agents, and the preventive, therapeutic, and diagnostic sciences underlying the technologies to counter these threats.

2.5.4.2.2 Assessment of Medical Biological Defense Basic Research. Basic research efforts from FY04 and extensive research in FY05 continue to be conducted in several research areas to include Bacterial Therapeutics, Diagnostic Technologies, Toxin Therapeutics, and Viral Therapeutics. These research efforts are intended to support several major operational goals detailed in Section 2 of the draft performance plan. Several new research projects and studies were initiated in FY06, in the areas of Vaccine Technology Development, Vaccine Research Support, and Multivalent Vaccines.

2.5.4.3 Medical Chemical Defense Basic Research (Project TC1**)**

This project emphasizes understanding of the basic action mechanisms of nerve, blister (vesicating), blood, and respiratory agents. Basic studies are performed to delineate mechanisms and sites of action of identified and emerging chemical threats to generate required information for initial design and synthesis of medical countermeasures. In addition, these studies are further designed to maintain and extend a science base. Categories for this project include S&T program areas in medical chemical defense capability areas (Diagnostics, Therapeutics and Emerging Threats). Categories under this project address JRO critical capability gaps identified in the baseline capability assessment performed in FY03.

2.5.4.3.1 TC1 Performance Goal (Outcome). The goal of medical chemical defense basic research is to increase scientific understanding of the mechanisms, processes, and effects of chemical warfare (CW) agents and the science involved in the detection, protection against, and decontamination of CW agents.

2.5.4.3.2 Assessment of Chemical Biological Defense Basic Research. Basic research efforts in FY05 for project TC1 were effective. The program completed most major targets. These research areas are intended to support several major operational goals detailed in Section 2 of the draft performance plan. The program continued work in all identified areas in FY06.

2.5.5 Applied Research (Program Element 0602384BP)

The use of chemical and biological weapon systems in future conflicts is an increasing threat. Funding under this PE sustains a robust program, which reduces the danger of a chemical and/or biological (CB) attack and enables U.S. forces to survive and continue operations in a CB environment. The medical program focuses on development of vaccines, pretreatments, therapeutic drugs, and on casualty diagnosis, patient decontamination, and medical management. In the physical sciences area, the emphasis is on continuing improvements in CB defense materiel, including contamination avoidance, decontamination, and protection systems. This program also provides for applied research in the areas of real-time sensing and immediate biological countermeasures. This PE also provides concept and

technology demonstrations of new system concepts that will shape the development for environmental monitoring, medical surveillance, and data mining/fusion/analysis subsystems. The work in this PE is consistent with the Chemical Biological Defense Program Research, Development, and Acquisition (RDA) Plan. Efforts under this PE transition to or provide risk reduction for Advanced Technology Development (PE: 0603384BP), Advanced Component Development and Prototypes (PE: 0603884BP) and System Development and Demonstration (PE: 0604384BP). This project includes non-system specific development directed toward specific military needs and therefore is correctly placed in Budget Activity 2.

2.5.5.1 Chemical and Biological Defense Applied Research (Project CB2)

This project addresses the urgent need to provide all services with defensive materiel to protect individuals and groups from threat CB agents in the areas of detection, identification and warning, contamination avoidance via reconnaissance, individual and collective protection, and decontamination. The project provides for special investigations into CB defense technology to include CB threat agents, operational sciences, modeling, CB stimulants, and NBC survivability. Of special interest are two Defense Technology Objectives described as follows: (1) The fate of CW agents following deposition onto natural and man-made materials found in operation environments including battlefields and air bases and (2) toxicological effects resulting from low-level exposure to CW agents as well as the relationships between concentration and total exposure as measured by the product of concentration and time. This project focuses on horizontal integration of CB defensive technologies across the Joint Services. The DTOs provide a means to shape the development of selected technologies within this project. Research in this PE also supports JRO for CB Defense Baseline Capability Assessment.

2.5.5.1.1 CB2 Performance Goal (Outcome). The goal of the CB defense non-medical applied research program is to increase scientific understanding of the mechanisms and processes involved in chemical and biological warfare (CBW) agents and potential applications of this information for the development of advanced technologies for the detection, protection against, and decontamination of CBW agents.

2.5.5.1.2 Metric Description. The metric for CB2 is described in the draft performance plan. Applied research includes several specific Defense Technology Objectives (DTOs) and Annexes A–D of the 2005 *DoD CB Defense Program Annual Report to Congress.*

2.5.5.1.3 Assessment of Chemical and Biological Defense Applied Research. Applied research efforts in FY05 for project CB2 were at least minimally effective. Many areas of CB defense applied research were successful. The assessment is based on two factors: (1) several DTOs in this area were rated yellow by the TARA and one was rated red. All efforts have developed plans to address concerns identified and will be re-assessed. (2) Several technologies successfully transitioned to advanced development. Extensive research continues to be conducted in several research areas supporting several major operational goals detailed in Section 2 of the draft performance plan. Several new research projects and studies also were initiated. Additionally, execution continued on several congressionally added projects, including the CB Defense Initiatives Fund.

2.5.5.2 Medical Biological Defense Applied Research (Project TB2)

This project funds applied research on the development of vaccines, therapeutic drugs, and diagnostic capabilities to provide an effective medical defense against validated biological threat agents including bacteria, toxins, and viruses. Innovative biotechnological approaches and advances will be incorporated to obtain medical systems designed to rapidly identify, diagnose, prevent, and treat disease due to exposure to biological threat agents. Categories for this project include DTOs; S&T programs in medical biological defense capability areas (Pretreatments, Diagnostics, Therapeutics and Emerging Threats); and directed research efforts, including the Chemical and Biological Defense Initiative (CBDI) fund. Categories under this project address JRO critical capability gaps identified in the baseline capability assessment performed in FY03. The specific critical capability gaps addressed are Gap #14 (Medical Prophylaxes - Lack of multi-valent vaccines), Gap #22 (Medical Therapeutics - Limited anti-viral/ toxin development), Gap #24 (Medical Therapeutics - Lack of FDA Approval for CBRN), Gap #35 (Diagnostics - Lack of portability), Gap #36 (Diagnostics - FDA Approval) and Gap #38 (Diagnostics - Reagent Verification).

2.5.5.2.1 TB2 Performance Goal (Outcome). The goal of CB defense medical biological defense applied research is to increase scientific understanding of the mechanisms and processes involved in the pathogenesis of BW agents in order to develop preventive and therapeutic protection and diagnostic technologies for BW agents.

2.5.5.2.2 Metric Description. The metric for TB2 is described in the draft performance plan. Applied research includes several specific DTOs, which are described in Chapter 2 and Annexes E of the 2005 *DoD CBRN Defense Program Annual Report to Congress.*

2.5.5.2.3 Assessment of Medical Biological Defense Applied Research. Applied research efforts in FY05 for project TB2 were effective. Many areas of medical biological defense applied research were successful. The assessment for success is based on the assessment of the TARA panel that all DTOs in this area were rated green in FY05. Extensive research continues to be conducted in several research areas supporting several major operational goals detailed in Section 2 of the draft performance plan. Several new research projects and studies also were initiated in FY05.

2.5.5.3 Medical Chemical Defense Applied Research (Project TC2)

This project funds medical chemical defense applied research and emphasizes the prevention of chemical casualties. Categories under this project address JRO critical capability gaps identified in the baseline capability assessment performed in FY03.

2.5.5.3.1 TC2 Performance Goal (Outcome). The goal of medical chemical defense applied research is to increase scientific understanding of the mechanisms of action and effects of CW agents in order to demonstrate and develop technologies for preventive and therapeutic protection and diagnostics.

2.5.5.3.2 Metric Description**.** The metric for TC2 is described in the draft performance plan. Applied research includes several specific DTOs, which are described in Chapter 2 and Annexes E of the 2005 *DoD CBRN Defense Program Annual Report to Congress.*

2.5.5.3.3 Assessment of Medical Chemical Defense Applied Research. Applied research efforts in FY05 for project TC2 were effective. Many areas of medical chemical defense applied research were successful. The assessment for success is based on the assessment of the TARA panel that most DTOs in this area were rated green. Extensive research continues to be conducted in several research areas supporting several major operational goals detailed in Section 2 of the draft performance plan. Several new research projects and studies also were initiated in FY05.

2.5.5.4 Medical Radiological Defense Applied Research (Project TR2)

This project funds applied research on the development of pretreatments to provide an effective medical defense against validated radiological threats. Innovative technical approaches and advances will be incorporated to obtain medical systems designed to provide enhanced protection against exposure to radiological threats. Program objectives focus on mitigating the health consequences from exposures to ionizing radiation that represent a significant threat to US forces under current tactical, humanitarian, and counter terrorism mission environments. New protective and therapeutic strategies will broaden the military commander's options for operating within nuclear or radiological environments by minimizing both short- and long-term risks of adverse health consequences. Accurate models to predict casualties will promote effective command decisions and force structure planning to ensure mission success. This project addresses JRO critical capability gaps identified in the baseline capability assessment performed in FY03. The specific critical capability gap addressed is gap #16 (Medical Prophylaxes - FDA Approval for radiological prophylaxes).

2.5.5.4.1 TR2 Performance Goal (Outcome). TR2 is minimally effective when it identifies candidate capabilities and technologies for medical radiological defense. TR2 is successful when it supports development of capabilities for FDA approval or when it supports development of a DOD strategic plan for medical radiological defense.

2.5.5.4.2 Metric Description**.** The metric for TR2 in FY06 is to identify and test, from a prioritized list of approximately 20 agents, two candidates for efficacy in a rodent model; the degree of protection at a radiation dose that normally causes approximately 90% lethality within 30 days (Lethal Dose (LD) 90/30).

2.5.5.4.3 Assessment of Medical Radiological Defense Applied Research. This effort was a new start in FY06.

2.5.6 Advanced Technology Development (Program Element 0603384BP)

This program element (PE) demonstrates technologies that enhance the ability of U.S. forces to defend against, and survive chemical and biological (CB) warfare. This program element (PE) funds advanced technology development for Joint Service and Service-specific requirements in both medical and physical sciences CB defense areas. The medical program aims to produce drugs, vaccines, and medical devices as countermeasures for CB threat

agents. Specific areas of medical investigation include: prophylaxis, pretreatment, antidotes and therapeutics, personnel and patient decontamination, and medical management of casualties. In the physical sciences area, the focus is on demonstrations of CB defense technologies, including biological detection, chemical detection, and decontamination. These demonstrations, conducted in an operational environment with active user and developer participation, integrate diverse technologies to improve DoD Chemical/Biological Warfare (CBW) defense and deterrence. These demonstrations are leveraged by the Counterproliferation Support Program and include remote Biological Detection. Also research efforts are planned to evaluate technologies for Weapons of Mass Destruction Civil Support Teams (WMD-CSTs). Work conducted under this PE transitions to and provides risk reduction for System Integration/Demonstration (PE 0603884BP/PE 0604384BP) activities. The work in this PE is consistent with the Joint Service CB Defense Research, Development, and Acquisition (RDA) Plan. This PE also provides for the conduct of advanced technology development in the areas of real-time sensing, accelerated BW operational awareness, and the restoration of operations following a BW/CW attack. This program is dedicated to conducting proof-of-principle field demonstrations, and tests of system-specific technologies to meet specific military needs.

2.5.6.1. Chemical and Biological Defense Advanced Technology Development (Project CB3)

This project demonstrates technology advancements for joint service application in the areas of chemical and biological agent detection and identification, decontamination, modeling and simulation, and individual/collective protection which will speed maturing of advanced technologies to reduce risk in system-oriented integration/demonstration efforts. This project funds S&T to advance technology development.

2.5.6.1.1 CB3 Performance Goal (Outcome). The goal of the CB defense non-medical advanced technology development program is to increase scientific understanding and demonstrate advanced capabilities of the mechanisms and processes involved in the detection, protection against, and decontamination of CBRN agents.

2.5.6.1.2 Metric Description. The metric for CB3 is described in the draft performance plan. Advanced technology development includes several specific DTOs, which are described in Chapter 2 and Annexes A–D of the 2005 *DoD CBRN Defense Program Annual Report to Congress.*

2.5.6.1.3 Assessment of Chemical and Biological Defense Advanced Technology Development. Advanced Technology Development efforts in FY05 for project CB3 were effective. Many areas of CB defense advanced technology development were successful. The assessment for success is based on the assessment of the TARA panel that most DTOs in this area were rated green. Extensive development continues to be conducted in several research areas supporting several major operational goals detailed in Section 2 of the draft performance plan. Several new research projects and studies also were initiated in FY06.

2.5.6.2 Counterproliferation Support Advanced Technology Development (Project CP3)

The mission of the Counterproliferation Program (CP) is to address shortfalls in the DoD capability to defend against and counter the proliferation of Weapons of Mass Destruction (WMD). By focusing on near term results, the CP accelerates delivery of new tools, equipment, and procedures to combat forces. Under the passive defense pillar, CP enhances the efforts of CBDP. Efforts include planning and development of Advanced Concept Technology Demonstrations (ACTD), such as the CBRN Unmanned Reconnaissance (CUGR) in addition to Joint Warfighter Experiments (JWE). Beginning in FY06 efforts under this project have moved to project TT3.

2.5.6.2.1 CP3 Performance Goal (Outcome). The goal of the counterproliferation support advanced technology development program is to demonstrate advanced capabilities and concepts involved in the detection, protection against, and decontamination of CBW agents.

2.5.6.2.2 Metric Description. The metric for CP3 is described in the draft performance plan. Advanced technology development includes several specific projects that are identified as DTOs, which are detailed and assessed separately. DTOs funded under this project include the Contamination Avoidance as Sea Ports of Debarkation (CASPOD) ACTD.

2.5.6.2.3 Assessment of Counterproliferation Support Advanced Technology Development. Advanced Technology Development efforts in FY05 for project CP3 were effective.

2.5.6.3 Medical Biological Defense Advanced Technology Development (Project TB3)

This project funds preclinical development of safe and effective prophylaxes and therapies (vaccines and drugs) for pre- and post-exposures to biological threat agents. This project also supports the advanced technology development of diagnostic devices to rapidly diagnose exposure to biological agents in clinical samples. A broad range of technologies involved in the targeting and delivery of prophylactic and therapeutic medical countermeasures and diagnostic systems is evaluated so that the most effective countermeasures are identified for development. Entry of candidate vaccines, therapeutics, and diagnostic technologies into development is facilitated by the development of technical data packages that support the Food and Drug Administration (FDA) Investigational New Drug (IND) and licensure processes and DoD acquisition regulations. Categories for this project include DTOs; S&T program areas in medical biological defense capability areas (Pretreatments, Diagnostics, Therapeutics and Emerging Threats), directed research efforts; and efforts to transition promising medical biological defense technologies from the Defense Advanced Research Projects Agency (DARPA). Categories under this project address JRO critical capability gaps identified in the baseline capability assessment performed in FY03.

2.5.6.3.1 TB3 Performance Goal (Outcome). The goal of the medical biological defense advanced technology development program is to increase scientific understanding and demonstrate advanced capabilities of the mechanisms and processes involved in the preventive and therapeutic countermeasures and diagnostics for BW agents.

2.5.6.3.2 Metric Description. The metric for TB3 is described in the draft performance plan. Advanced technology development includes several specific DTOs, which are described in Chapter 2 and Annex E of the 2005 *DoD CBRN Defense Program Annual Report to Congress*.

2.5.6.3.3 Assessment of Medical Biological Defense Advanced Technology Development. Advanced technology development efforts in FY05 for project TB3 were effective. Many areas of medical biological defense applied research were successful. Extensive research continues to be conducted in several research areas supporting several major operational goals detailed in Section 2 of the draft performance plan. Several new research projects and studies also were initiated in FY06.

2.5.6.4 Medical Chemical Defense Advanced Technology Development (Project TC3)

This project supports the investigation of new medical countermeasures to include prophylaxes, pretreatments, antidotes, skin decontaminants and therapeutic drugs to protect U.S. forces against known and emerging chemical warfare threat agents. Capabilities are maintained for reformulation, formulation, and scale-up of candidate compounds using current good laboratory practices. Analytical stability studies, safety and efficacy screening, and preclinical toxicology studies are performed prior to full-scale development of promising pretreatment or treatment drug compounds. Entry of candidate pretreatment/prophylaxes, therapeutics, and diagnostic technologies into development is facilitated by the development of technical data packages that support the Food and Drug Administration (FDA) Investigational New Drug (IND) application and licensure processes and DoD acquisition regulations. Categories for this project include DTOs, S&T program areas in medical chemical defense capability areas (Pretreatments, Diagnostics, Therapeutics and Emerging Threats), and directed research efforts (Low Level Chemical Warfare (CW) agent exposure and Non-Traditional Agents (NTAs)). Categories under this project address JRO critical capability gaps identified in the baseline capability assessment performed in FY03.

2.5.6.4.1 TC3 Performance Goal (Outcome). The goal of the medical chemical defense advanced technology development program is to increase scientific understanding and demonstrate advanced capabilities of the mechanisms and processes involved in the preventive and therapeutic countermeasures and diagnostics for CW agents.

2.5.6.4.2 Metric Description. The metric for TC3 is described in the draft performance plan. Advanced technology development includes several specific DTOs, which are described in Chapter 2 and Annex E of the 2005 *DoD CBRN Defense Program Annual Report to Congress.*

2.5.6.4.3 Assessment of Medical Chemical Defense Advanced Technology Development. Advanced technology development efforts in FY05 for project TC3 are effective. Many areas of medical chemical defense applied research were successful. The assessment for success is based on the assessment of the TARA panel that all DTOs in this area were rated green. Extensive research continues to be conducted in several research areas supporting several major operational goals detailed in Section 2 of the draft performance plan. Several new research projects and studies also were initiated in FY06.

2.5.6.5 Techbase Technology Transition (Project TT3)

This project supports technology transition efforts. These efforts test and demonstrate technologies being developed for transition from the Joint Science and Technology Office (JSTO) to the Joint Program Executive Officer (JPEO). This project, which was initiated in FY06, is funded by realignment of funds: BA6, Anti Terrorism; BA3, CB3 funds for Technology Readiness Evaluations; BA3, CP3 funds for Counter Proliferation Support Program, ACTD Planning and Development; and BA3, CM3 Homeland Defense, Civil Support Teams. The WMD-CST program (formerly Project CM3 - FY05 and earlier) funds Pre-Systems Acquisition in support of Consequence Management teams around the nation. The Technology Transition program supports Advanced Technology Demonstrations and planning for Advanced Concept Technology Demonstrations in the Experimentation and Technology Demonstration group. The Force Protection program demonstrates and tests technology for Force Protection/Installation Protection and specifically for PM Guardian's Installation Protection Program. The Technology Readiness Assessment program provides for testing on technologies transitioning out of the Physical Sciences and Medical Science and Technology programs to meet specific criteria postulated by the JPEO in Technology Transition Agreements or tests technologies provided in response to a Broad Agency Announcement in order to satisfy an acquisition strategy for a Joint Program Manager working with the JPEO.

2.5.6.5.1 TT3 Performance Goal (Outcome). The goal of the Techbase Technology Transition project is to support technology transition efforts and to test and demonstrate technologies being developed for transition from the JSTO to the JPEO.

2.5.6.5.2 Assessments for Techbase Technology Transition efforts began in FY06.

2.5.6.6 Techbase Medical Radiological Defense Advanced Technology Development (Project TR3)

This project funds preclinical development of safe and effective prophylaxes for pre-exposure to radiological threats. A broad range of technologies involved in the targeting and delivery of prophylactic medical countermeasures is evaluated so that the most effective countermeasures are identified for development. Entry of candidate pretreatment technologies into development is facilitated by the development of technical data packages that support the Food and Drug Administration (FDA) Investigational New Drug (IND) and licensure processes and DoD acquisition regulations. Program objectives focus on mitigating the health consequences from exposures to ionizing radiation that represent a significant threat to US forces under current tactical, humanitarian, and counter terrorism mission environments. Findings from basic and developmental research are integrated into highly focused advanced technology developments studies to produce the following: (1) protective therapeutic studies; (2) novel biological markers and delivery platforms for rapid, field-based individual dose assessment; and (3) experimental data needed to build accurate models for predicting casualties from complex injuries involving radiation and other battlefield insults. This project addresses JRO critical capability gaps identified in the baseline capability assessment performed in FY03. The specific critical capability gap addressed is gap #16 (Medical Prophylaxes - FDA Approval for radiological prophylaxes).

2.5.6.6.1 TR3 Performance Goal (Outcome). The specific goals for this effort are under development.

2.6 CBRN Defense Homeland Security and Force Protection

Programs to provide CBRN defense in support of homeland security and force protection are integrated into several program elements of the DoD CBRN Defense Program. Specific efforts include programs and systems to equip the National Guard WMD Civil Support Teams, Joint Service Installation Pilot Program, and the Installation Protection Program. Descriptions of these capabilities are also provided in Annex F of the DoD CBRN Defense Program Annual Report to Congress.

2.6.1 WMD Civil Support Team Advanced Technology Development (Project CM3)

This project funds Pre-Systems Acquisition in support of Consequence Management teams around the nation. National Guard Weapons of Mass Destruction Civil Support Teams (WMD CSTs) are being established in every state. These teams were created based upon the Defense Reform Initiative Directive #25 (DRID #25), Integrating National Guard and Reserve Component Support for Response to Attacks Using WMD. The role of the CSTs were further codified in the National Security Strategy of October 1998, which builds upon the National Guard's ties to the communities throughout the nation, and its long-standing tradition of responding to national emergencies. The strategy allows the National Guard to provide forces and resources that the emergency manager requires to manage the potentially catastrophic effects of a WMD situation. The National Guard, as the lead organization for military support to local and state authorities, leverages its geographic dispersion across the nation to reduce response times, and allow for the majority of the country to be protected. As a result of Presidential and Secretary of Defense directives, the Department of Defense established the WMD CSTs to rapidly respond in support of a local incident commander to assess a suspected WMD incident scene, advise them of appropriate courses of action that will protect local populations from loss of life, injury, and significant property damage, and facilitate the development of their RFAs based on CSTs knowledge of available local, state and federal resources that can assist in the mitigation of a WMD emergency.

2.6.1.1 CM3 Performance Goal (Outcome). The goal of the WMD-CST advanced technology development program is to demonstrate advanced capabilities and concepts involved in the detection, protection against, and decontamination of CBRN agents.

2.6.1.2 Metric Description. The metric for CM3 is focused on providing improved capabilities to the WMD Civil Support Teams. Success accomplishment of research will result in transitioning of projects to the CSTs and support of the DoD homeland security mission.

2.6.1.3 Assessment of WMD-CST Advanced Technology Development. This effort is effective. All targets have been met.

2.6.2 WMD-CSTs and Installation Protection (Projects CM4, CM5, CM6, and AT6)

This project funds component level testing of COTS CB detection equipment in support of WMD CST operations. Complimentary development efforts continue into CM5 for the Analytical Laboratory System (ALS) Block I and Unified Command Suite (UCS) Increment I upgrades. In addition, this project funds the development of COTS Training Devices in support of the WMD CST mission and initiation of the Military Mail Screening Program (MMSP).

The Force Protection - CB Installation Protection Program (CBIPP) consists of an integrated Chemical, Biological, Radiological, and Nuclear (CBRN) installation protection and response capability. This capability includes detection, identification, warning, information management, individual and collective protection, restoration, and medical surveillance, protection and response. The communications network will leverage existing capabilities and be integrated into the base operational command and control infrastructure. The program will develop and procure the CBRN systems, emergency responder equipment sets, New Equipment Training (NET), Contractor Logistics Support, spares, and associated initial consumable items required to field an integrated installation protection capability for DoD installations.

The WMD-CST supports the acquisition and delivery of an integrated chemical, biological, and nuclear analytical detection and rapid response capability for the National Guard Bureau's CSTs and the United States Army Reserve (USAR) Chemical Reconnaissance and Decontamination Platoons. Capabilities include a state of the art Command, Control, Communications, Computer, and Intelligence (C4I) system that enables secure communications with Federal, State, and Local authorities from a WMD incident site. The program also provides CSTs and Reconnaissance/ Decontamination platoons with individual protection, detection, survey and communications monitoring capability.

Major end items for this COTS based acquisition program include the Analytical Laboratory System (ALS), and the Unified Command Suite (UCS) for the WMD CSTs. The ALS provides a mobile laboratory platform that incorporates advanced analytical detection technology for the identification of CW agents, Toxic Industrial Chemicals (TICs), Toxic Industrial Materials (TIMs), and Biological Warfare (BW) agents. The UCS provides secure communications interoperability with the ALS and reach back capability to federal, state, and local authorities from the incident site.

The Project CM6 Homeland Defense funding provides resources to successfully execute the Consequence Management RDA program. WMD-CSTs and U.S. Army Reserve Reconnaissance and Decontamination assets would receive the systems developed and procured under this program.

The growing threat of the use of CB agents in acts of terrorism places DoD installations and personnel at a higher risk. With that in mind, this budget item provides DoD with the means to address the threat of CB terrorism to DoD installations and personnel. It attempts to address the requirements identified in Presidential Decision Directive (PDD) 39 and PDD 62. Funding provides for the development of combating CB terrorism planning, training, and exercise technologies; and the sustainment of those technologies in the outyears, as appropriate. Sponsors of projects funded under this budget item would include DTRA, Joint Staff J-34, Assistant Secretary of Defense Special Operation Low-Intensity Conflict (ASD (SO/LIC)), United States Army Edgewood Chemical and Biological Command

(ECBC), United States Army Chemical School, Fort Leonard Wood (USACMLS), the Technical Support Working Group, and other organizations involved with combating CB terrorism.

2.7 Overview of CBDP Management Practices

In Chapter 1 of the Annual Report to Congress on CBDP, the management and oversight structure of CBBP is described. In this year's report, the reorganization of the management and oversight structure is outlined as the structure is being implemented pursuant to the Implementation Plan for the Management of the DoD Chemical and Biological Defense Program approved April 22, 2003. As the CBDP has matured over the past decade, this reorganization brings management efficiencies that will facilitate program management.

This section of the report focuses on management practices in support of Corporate Goal 3: Oversee DoD CB defense modeling and simulation efforts and Corporate Goal 4: Improve DoD CBRN defense management practices – become a high performance organization.

In support of Corporate Goal 3, this section outlines the management and oversight activities associated with the oversight of DoD NBC defense modeling and simulation efforts. Technical and operational accomplishments are described in other parts of the Annual Report.[3]

Activities in support of CBDP management activities are detailed in Budget Activity 6 (RDT&E Management Support) of the President's Budget Submission. Specific management projects (and project reference) are as follows:

- Joint Doctrine and Training Support (DT6)
- Dugway Proving Ground (DW6)
- RDT&E Management Support (MS6)
- Joint Point Test (O49)
- Small Business Innovative Research (SBIR)

2.7.1 CB Defense Management and Oversight Outcome Measures

2.7.1.1 Metric Description. The metric for management and oversight is a qualitative assessment. This qualitative methodology for measuring the outcomes is allowed by the GPRA (31 USC 1115(b)) as an alternative to the quantitative performance measures. Successful oversight allows for the application of performance-based measures to ensure to appropriate balance among the complex and interrelated family of chemical and biological defense systems. The balance must be continually reviewed to ensure the appropriate mix of capabilities for contamination avoidance, protection, and restoration, and among competing missions of passive defense, force protection, and consequence management, and also among the balance of near-term needs (procurement) versus long-term technological advancements

[3] See Chapter 2 and Annex B of Volume 1 and programs associated with Operational Goal 2 in Section 2 of Volume 2 for research, development, and acquisition accomplishments. See Chapter 4 of Volume 1 for accomplishments associated with operations, training, and readiness.

(S&T base). An important element of the management and oversight success is what is not accomplished. That is, it is the role of management at times to make investment decisions and select among competing technologies, sometimes eliminating technologies that may have met the operational requirements though not as effectively as selected programs, and sometime this means the elimination of funding for unsuccessful programs. Another key management metric is the successful coordination of research, development, and acquisition efforts among the many federal agencies pursuing similar efforts though for different missions (e.g. homeland security.)

2.7.1.2 Assessment of CB Defense Management and Oversight Outcome Measure. Overall, CBDP management and oversight has been effective, though many areas within the overall structure have required improvement to provide a more efficient approach. Continued reports on the management and oversight process will be provided as the new structure is implemented.

2.7.2 Chemical and Biological Defense (RDT&E Management Support) (Program Element 0605384BP)

This program element provides research, development, testing and evaluation management support to CBDP. This effort includes support to the DoD response to Chemical CB terrorism; funds joint doctrine and training support; funds sustainment of technical test capability at Dugway Proving Ground (DPG); and funds financial/program management support. Additionally, this program element funds the Joint Concept Development and Experimentation program (O49), which provides a response to Combatant Commanders and Services regarding joint tests and research assessments.

Anti-terrorism funding (AT6) provides DoD with a process and means to conduct assessments of installation vulnerabilities to CB threats.

WMD-CST (CM6) provides management funds to execute the Consequence Management Research Development Acquisition (RDA) program.

Joint Training and Doctrine Support (DT6) funds development of Joint Doctrine and Tactics, Techniques, and Procedures for developing CB defense systems. The training and doctrine efforts also fund CB modeling and simulation to support the warfighter.

The Major Range and Test Facility Base (MRTFB) is a set of test installations, facilities, and ranges which are regarded as "national assets." These assets are sized, operated, and maintained primarily for DoD test and evaluation missions. However, the MRTFB facilities and ranges are also available to commercial and other users on a reimbursable basis. DW6 program funding provides for CB defense testing of DoD materiel, equipment, and systems from concept through production, to include a fully instrumented outdoor range capability for testing with simulants that can be precisely correlated to the laboratory testing with live agents at MRTFBs. It finances a portion of the required institutional test operating costs. Institutional test operating costs include institutional civilian and contractor labor; repair and maintenance of test instrumentation, equipment, and facilities; and replacement of test equipment.

The management support program (MS6) provides management support for the DoD CBDP to allow program overview and integration of overall medical and non-medical programs by the ATSD(NCB); execution management by DTRA; integration of Joint requirements, management of training and doctrine by JRO; Joint RDA planning, input to the Annual Report to Congress and Program Objective Memorandum (POM) development by the Program Analysis and Integration Office (PA&IO); review of joint plans and the consolidated CB Defense POM Strategy by Army in its Executive Agent role.

The management support program also funds the Joint Test Infrastructure Working Group (JTIWG) program to provide a mechanism to address test infrastructure and technologies needed to support Developmental Testing (DT) and Operational Testing (OT) of CB defense systems and components throughout the systems' acquisition life cycle, as required in the RDA Plan. The JTIWG program funds a series of methodology, instrumentation, and associated validation programs to provide test infrastructure and technologies for testing RDA systems needed to support all services.

The Joint Concept Development and Experimentation Program (O49) funds provide planning, conducting, evaluating, and reporting on joint tests (for other than developmental hardware) and accomplishment of operational research assessments in response to requirements received from the Services and the Combatant Commanders for already fielded equipment and systems.

This Budget Activity also funds the Small Business Innovative Research (SBIR) program. The overall objective of the CBD SBIR program is to improve the transition or transfer of innovative Chemical CBD technologies between DoD components and the private sector for mutual benefit. The CBD program includes those technology efforts that maximize a strong defensive posture in a CB environment using passive and active means as deterrents. These technologies include CB detection; information assessment (identification, modeling, and intelligence); contamination avoidance; and protection of both individual soldiers and equipment.

2.7.2.1 CB Defense (RDT&E Management Support) (Project DT6 – Joint Doctrine and Training Support)

The activities of this project directly support the Joint Service CB defense program; in particular, the development of Joint Chemical, Biological, Radiological, and Nuclear (CBRN) defense capability requirements and the improvement of CBRN defense related doctrine, education, training, and awareness at the Joint and Service levels. This effort funds (1) development, coordination, and integration of Joint CBRN defense capability requirements; (2) development/revision of medical and non-medical CBRN defense Multi-Service Tactics, Techniques, and Procedures (MTTP), Joint Doctrine and Tactics, Techniques, and Procedures (JTTP); (3) the United States Army Chemical School Joint Senior Leader Course (USACMLS JSLC); (4) assistance in correcting training and doctrine deficiencies covered in DODIG and GAO reports; (5) support of current and planned CBRN defense studies, analysis, training, exercises, and wargames; determine overlaps, duplication, and shortfalls; and build and execute programs to correct shortfalls in all aspects of CBRN defense also all DoD mission areas.

2.7.2.2 CB Defense (RDT&E Management Support) (Project DW6 – Major Range and Test Facility Base)

This project provides the technical capability for testing CB defense materiel, equipment, and systems from concept through production at DPG, an MRTFB. Increased funding, beginning in FY06 reflects the DoD realignments to comply with National Defense Authorization Act (NDAA) for FY 2003 (Public Law 107-314 - December 2002), Sec 232, requiring Major Range and Test Facility Bases to be fully funded and that DoD test customers be charged for direct costs only.

DPG, a MRTFB, is the reliance center for all DoD CB defense testing and provides the United States' only combined range, chamber, toxic chemical lab, and bio-safety level three test facility. Total institutional test operating costs are to be provided by the service component IAW DoD 3200.11.

DPG uses state-of-the-art chemical and life sciences test facilities and test chambers to perform CB defense testing of protective gear, decontamination systems, detectors, and equipment while totally containing chemical agents and biological pathogens. DPG also provides a fully instrumented outdoor range capability for testing with simulants that can be correlated to the laboratory testing with live agents.

Projects programmed for testing at DPG include: Joint Service Lightweight Stand-off Chemical Agent Detector (JSLSCAD); Joint Service Lightweight Nuclear Biological Chemical Reconnaissance System (JSLNBCRS); Joint Service Lightweight Integrated Suit Technology (JSLIST) Additional Sources Qualification 2 (JASQ 2); JSLIST Block II Glove Upgrade and Alternate Foot Solution (AFS); Joint Biological Point Detection System (JBPDS); Joint Chemical Agent Detector (JCAD); Joint Service Sensitive Equipment Decontamination (JSSED); Technical Readiness Evaluation for Biological Stand-off Detection Systems; Joint Service General Purpose Mask (JSGPM); Joint Warning and Reporting System (JWARN) Block II Phase II; Chemical, Biological, Radiological, and Nuclear (CBRN) Unmanned Ground Reconnaissance (CUGR); Joint Protective Aircrew Ensemble (JPACE); and Joint Biological Stand-off Detection System (JBSDS).

2.7.2.3 CB Defense (RDT&E Management Support) (Project MS6 – RDT&E Management Support)

This project provides management support for CBDP. It includes program oversight and integration of overall medical and non-medical programs by the ATSD (NCB) defense programs through the Special Assistant for Chemical and Biological Defense and Chemical Demilitarization, and the Director, DTRA. Funds execution management is provided by DTRA.

The project also funds development, coordination and integration of joint Chemical, Biological, Radiological and Nuclear (CBRN) defense capability requirements, including assistance and support to the Combatant Commanders and Services to improve CBRN defense related doctrine, education, training, and awareness by JRO Joint CBRN defense RDA planning, input to the CBD Annual Report to Congress, and program guidance development by PA&IO.

The project includes programming support for the Joint Service CB Information System (JSCBIS) which serves as a budgetary and informational database for CBDP. Funding is provided for the CB Archive Information Management System (CBAIMS) a means to collect, assemble, catalog and archive CBD information from multiple service locations into a central repository and library.

Funding is also provided for the Joint Test and Evaluation (T&E) Executive, who is responsible for identifying, developing, and managing test infrastructure and technology requirements to support Developmental Testing (DT) and Operational Testing (OT) of CBD systems, as outlined in the RDA Plan. The Joint T&E Executive guides JPEO planning and coordination with the Operational Test Activities to develop a series of methodology, instrumentation, and associated validation efforts that provide test infrastructure and technologies for testing RDA systems needed to support all services, and to ensure the adequacy of testing for RDA systems in alignment with acquisition schedules and associated decision points.

Funding is also provided to develop Test Operating Procedures (TOPs) to standardize and document new test procedures and to update existing test procedures. All test infrastructure and technology programs will be centrally managed and coordinated with the Joint Service community to ensure that all Services' test and acquisition program needs are met.

2.7.2.4 CB Defense (RDT&E Management Support) (Project O49 – Joint Concept Development and Experimentation Program)

The objectives of the Joint Concept Development and Experimentation (JCDE) program are to plan, conduct, evaluate, and report on joint tests and experiments (for other than developmental hardware) and accomplish operational research assessments in response to requirements received from the Combatant Commanders and the Services. This program will provide ongoing input to the Combatant Commanders and Services for development of doctrine, policy, training procedures, and feedback into the RDT&E cycle.

2.7.2.5 CB Defense (RDT&E Management Support) (Small Business Innovative Research (SBIR))

The SBIR Program is a congressionally mandated program established to increase the participation of small business in federal research and development (R&D). Currently, each participating government agency must reserve 2.5% of its extramural R&D for SBIR awards to competing small businesses. The goal of the SBIR Program is to invest in the innovative capabilities of the small business community to help meet government R&D objectives while allowing small companies to develop technologies and products which they can then commercialize through sales back to the government or in the private sector.

SBIR CBD projects are executed in two phases. Phase I consists of a technology concept feasibility study, and those technologies which are found to be feasible are then demonstrated in Phase II. Selection of Phase I proposals is based upon their scientific and technical merit. Only those Phase I awardees which achieved success in Phase I, as determined by the Army project technical monitor, are invited to submit a Phase II proposal.

The CBDP is committed to minimizing the funding gap between Phase I and Phase II activities. All CBD Phase II proposals will receive expedited reviews and be eligible for interim funding (refer to top for information on the Phase I Option).

2.7.2.5.1 SBIR Performance Goal (Outcome). The goal of the CB defense SBIR program is to transfer innovative CBD technologies between DoD components and the private sector for mutual benefit in all areas of CBD research.

2.7.2.5.2 SBIR Performance. Since SBIR efforts represent a contracting process rather than a goal in itself, the targets for future years are determined based on the progress of research in ongoing and planned research areas. SBIR topics are updated every six months and reflect a broad range of CBD research activities.

CBD SBIR FY04 Statistics:

Phase I SBIR topics were evaluated for relevancy to technical need and mission requirements prior to public release. From 271 proposals submitted in response to twenty published topics, an estimated 25 Phase I awards with a total value of $1.75 million was issued during 3QFY04. Approximately 13 successfully completed Phase I contracts transitioned to Phase II, in addition to continued funding for ten ongoing (in-progress) Phase II contracts. Phase II contracts account for approximately $8.95 million FY04 CBD SBIR funds. Prototypes delivered at the conclusion of the Phase II period-of-performance will be assessed for their ability to meet CBD program requirements and allow for transition of new technologies to the warfighter.

CBD SBIR FY05 Statistics:

In FY05, SBIR proposals were solicited for 24 CBD topics, and 239 proposals were received. 22 proposals were selected for Phase I contracts, and seven Phase II contracts were awarded in FY05. Abstracts of funded SBIR CBD projects are available on the OSD SBIR website, at http://www.dodsbir.net/selections/default.htm. The budget for SBIR CBD Phase I and Phase II contracts in FY05 was $5.86 million.

2.7.2.5.3 Assessment of SBIR. CBD SBIR efforts were successful in FY04 and FY05, based on the large number of proposals received, contracts awarded, SBIR efforts transitioned to SBIR Phase II, and technologies leveraged to advanced key CB defense S&T programs.

3.0 Analysis of Financial Statements and Stewardship Information

Financial Statements Overview

As of September 30, 2006, the financial condition of CBDP was sound, with sufficient funds to meet program needs, and adequate control of these funds in place to ensure effective financial management.

The financial statements have been prepared to report the financial position and results of operations for the CBDP, pursuant to the requirements of Title 31, United States Code, Section 3515 (b). The statements should be read with the understanding that they are for a component of the United States government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation that provides resources to do so.

Financial Statement Highlights

With CBDP providing footnote narratives to explain performance, the FY 2006 financial statements were produced by the Defense Finance and Accounting Service (DFAS). In December 2003 the Under Secretary of Defense (Comptroller) directed that the CBDP prepare stand-alone financial statements for FY 2004. Prior to FY 2004, the CBDP financial results were included in the financial statements of the Defense Threat Reduction Agency.

3.1 Assets

The CBDP total assets were approximately $1.966 billion as of September 30, 2006. This is an increase of $388 million from September 30, 2005, and is mainly due to an increase in the Funds Balance with Treasury caused by an increase in appropriations received for FY 2006. The assets reported on the CBDP Balance Sheet are summarized in the accompanying table.

Asset Summary (in thousands)	FY 2006	FY 2005
Fund Balance with Treasury	$1,912,286	$1,526,962
Accounts Receivable, Net	174	5,511
General Property, Plant, and Equipment	13,476	0
Other Assets	39,834	45,190
Total Assets	$1,965,770	$1,577,663

Fund Balance with Treasury represents the CBDP largest asset. The balance accounts for 97% of CBDP total assets. The balance increased approximately 25% between FY 2005 and FY 2006 as the result of an increase in appropriations relative to expanding business requirements for the Transformation Medical Technology Initiative, improvements to the test and evaluation infrastructure, and enhancements to the technology base and acquisition programs.

For FY 2006 Accounts Receivable represent less than 1% of CBDP total assets. The decrease of $5.3 million from FY 2005 is attributable to a decrease in FY 2006 in the sales to

DoD and other government agencies of reagents used in chemical and biological laboratory analyses, biological detection equipment, and handheld assays to detect biological agents.

General Property, Plant, and Equipment also represent less than 1% of CBDP total assets. The increase of $13.5 million from FY 2005 is attributable to a change in presentation for general equipment and buildings, structures, and facilities that were not reported in FY 2005. The Fox Training Systems are the primary general equipment.

The value of Other Assets, about 2%, accounts for the remaining CBDP total assets. The decrease of $5.4 million is due to a reduction in advance contract financing payments on procurement contracts. These contracts are for systems that have multiple applications for the detection, warning, and protection against biological and chemical agents.

3.2 Liabilities

The CBDP liabilities were $42.9 million as of September 30, 2006, a decrease of 40% from the previous year. The decrease is due to the decrease in Accounts Payable. The liabilities are summarized in the following table.

Liability Summary (in thousands)	FY 2006	FY 2005
Accounts Payable	$30,604	$69,195
Other Liabilities	12,309	2,153
Total Liabilities	$42,913	$71,348

Accounts Payable is the largest liability for CBDP. The balance accounts for 71% of total liabilities. The decrease in Accounts Payable since September 30, 2005, is attributable to a decrease in workload and prices of subsystems and parts for chemical and biological protective, detection, and reconnaissance systems that were being integrated into various Military Department platforms during FY 2006. The primary systems affected were the Joint Biological Point Detection System and the Joint Service Lightweight Standoff Chemical Agent Detector.

Other Liabilities accounts for 29% of total liabilities. The net increase in Other Liabilities over the previous year is primarily an increase of $10.8 million in noncurrent contingent liabilities for contract financing payments for the integration of chemical and biological detection systems on multiple Military Department platforms, such as shelters, ships, and trailers.

3.3 Net Position

The CBDP net position at the end of FY 2006 was about $1.923 billion. Net position is the sum of the unexpended appropriations and cumulative results of operations at the end of FY 2006.

Unexpended appropriations represent amounts of authority, which are unobligated and have not been rescinded or withdrawn, and amounts obligated for which legal liabilities for payments have been incurred. The unexpended appropriations increased $456 million from $1.456 billion in FY 2005 to $1.912 billion in FY 2006. The 31% increase is proportional to the additional appropriations received during FY 2006 for mission-related goods and services.

Cumulative results of operations represent the difference, since inception of an activity, between expenses and losses and financing sources, including appropriations, revenue and gains. In FY 2006 the CBDP cumulative results of operations was $10.8 million, as compared to $50.8 million in FY 2005, a 79% decrease. The $40 million decrease is due mainly to an increase in the expenditure rate of appropriated funds during FY 2006.

3.4 Net Cost of Operations

The Consolidated Statement of Net Cost shows that the net cost of operations for CBDP for FY 2006 was $1.354 billion, an increase of $84.5 million (7%) from FY 2005. The net increase occurred in the research, development, test and evaluation programs primarily for improvements to the Major Range and Test Facility Base at Dugway Proving Grounds, Utah.

3.5 Budget Authority

This is the authority provided by law to incur financial obligations that will result in outlays. Specific forms of budget authority include; appropriations, borrowing authority, contract authority and appropriation transfers from other agencies. The Combined Statement of Budgetary Resources shows that the amount of budget authority CBDP had for FY 2006 was $2.442 billion. This is a $514 million (27%) increase from FY 2005.

3.6 Obligations

An obligation is a binding agreement that will result in outlays, immediately or in the future.

Budgetary resources must be available before obligations can be incurred legally. The Combined Statement of Budgetary Resources shows that obligations made during FY 2006 were $2.053 billion, an increase of $306 million (18%) from FY 2005.

3.7 Outlays

An outlay is a payment to liquidate an obligation (other than the repayment of debt principal).

Outlays generally are equal to cash disbursements, but also are recorded for cash-equivalent transactions, such as interest accrued on issues of public debt. Outlays are the measure of government spending. The Combined Statement of Budgetary Resources shows that outlays made during FY 2006 were $1.373 billion, an increase of $109 million (9%) from FY 2005.

4.0 Analysis of Systems, Controls and Legal Compliance

4.1 Systems and Controls

The Chemical and Biological Defense Program (CBDP) relies on the implementation of business processes and financial systems of its DoD Component providers of accounting and financial services. Currently, the primary providers use legacy accounting systems and non-financial feeder systems that have not been integrated by DoD Components to support CBDP. The CBDP, through its components, is participating in the Office of the Secretary of Defense Financial Management Transition Team plan for Defense Agencies Initiative (DAI) to acquire a Joint Financial Management Improvement Plan (JFMIP) certified Commercial-off-the-shelf (COTS) system similar to those used by industry. The CBDP components are actively participating in the requirements generation stage comprised of multiple Working Integrated Product Teams (WIPTs). These WIPTs will identify specific functional requirements for the COTS software. The software systems have been limited to two potential selections, either the Defense Enterprise Accounting and Management System or the General Fund Enterprise Business System. Both of these systems have at their core an industry accounting system which meets the JFMIP compliance requirements.

The CBDP senior management evaluated the system of internal accounting and administrative control in effect during the fiscal year (FY) ending September 30, 2006, as a component of the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics. For FY 2006, organizational components of CBDP evaluated the system of internal accounting and administrative control with respect to the organizational structure each component was affiliated and those reports were not included in the CBDP evaluation. Under the current organizational structure, CBDP has three entities (the Joint Test and Evaluation Executive, the Program Analysis and Integration Office, and the Joint Program Executive Officer) that report on compliance to the management control program through the U.S. Army statement of assurance. Additionally, the Joint Requirements Office reports through the Joint Chiefs of Staff and the Joint Science and Technology Office reports through the Defense Threat Reduction Agency. For FY 2006, CBDP produced a separate statement of assurance for financial reporting that included the evaluations of the CBDP components' contribution to overall controls.

4.2 Legal Compliance

The CBDP has worked aggressively to comply with laws made by Congress to ensure that the Federal Government provides the best possible service to the American people. Among these laws are:

- Chief Financial Officers Act of 1990
- Government Performance and Results Act of 1993
- Federal Financial Management Improvement Act of 1996
- Prompt Payment Act of 1982
- Federal Managers' Financial Integrity Act of 1982

Chief Financial Officers Act of 1990

The Chief Financial Officers Act (CFO Act) requires Federal agencies to prepare auditable annual financial statements. In FY 2004, the Under Secretary of Defense (Comptroller) directed that CBDP prepare stand-alone financial statements and have them audited. In FY 2006, an independent audit firm audited the CBDP financial statements for FY 2005 and FY 2006. The independent audit firm rendered a qualified opinion on the FY 2005 financial statements and an unqualified opinion on the FY 2006 financial statements.

Government Performance and Results Act

The Government Performance and Results Act (GPRA) of 1993 requires a recurring cycle of performance reporting for Federal agencies. This cycle involves five-year strategic plans, annual performance plans, and annual performance reports. CBDP prepared a plan in FY 2006 assessing and reporting on performance results for FY 2005, with target goals for FY 2006 and FY 2007.

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act (FFMIA) of 1996 requires Federal agencies to report on their compliance with Federal financial management system requirements, Federal accounting standards, and the U.S. Government Standard General Ledger. For FY 2006, CBDP financial systems were not substantially compliant with FFMIA. Pending final DoD decisions regarding the implementation of a Business Management Modernization Program application, CBDP continues to build and sustain financial and accounting crosswalks to support integrated systems reporting.

Prompt Payment Act

The Prompt Payment Act of 1982, as amended, provides Government-wide guidelines for establishing due dates on commercial invoices and provides for interest payment on invoices paid late. During FY 2006, CBDP through its network of supporting finance and accounting offices effectively used electronic fund transfers to minimize the number of late payments.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (FMFIA) requires Federal agencies to assess the effectiveness of management, administrative and accounting controls, and of financial management systems. Using self-assessments as the basis, this Act requires Agency heads to provide an annual statement of assurance on the effectiveness of the management controls and to include material weaknesses found in management controls that warrant reporting to a higher level. The CBDP works to improve the management control effectiveness of its operations, programs and financial systems. For FY 2006, CBDP senior management evaluated the system of internal accounting and administrative control within the

Office of the Special Assistant for Chemical and Biological Defense and Chemical Demilitarization Programs [OSA (CBD & CDP)] that was included in the Statement of Assurance that was submitted to the Under Secretary of Defense for Acquisition, Technology and Logistics June 22, 2006. The evaluation is based on information gathered from various sources including managers' personal knowledge of day-to-day operations and existing controls, management program reviews, and other management-initiated evaluations.

4.3 Management Assurances

For FY 2006, CBDP senior management evaluated the system of internal accounting and administrative control within OSA (CBD & CDP) in accordance with the guidance in Office of Management and Budget (OMB) Circular No. A-123 (Revised), "Management Accountability and Control." The OMB guidelines were issued in consultation with the Comptroller General of the United States, as required by the Federal Managers' Financial Integrity Act of 1982. Included was an evaluation of whether the system of internal accounting and administrative control for CBDP is in compliance with standards prescribed by the Comptroller General.

The results of this evaluation indicated that the system of internal accounting and administrative control of the OSA (CBD & CDP) in effect during the fiscal year that ended September 30, 2006, taken as a whole, complies with the requirement to provide reasonable assurance that the following objectives were achieved.

- The obligations and costs are in compliance with applicable laws,
- Funds, property and other assets are safeguarded against waste, loss, unauthorized use or misappropriation, and
- Revenues and expenditures applicable to OSA (CBD & CDP) operations are properly recorded and accounted for to permit the preparation of reliable accounting, financial and statistical reports and to maintain accountability over the assets.

The CBDP also conducted an assessment of the effectiveness of internal control over financial reporting in the focus areas of Fund Balance with Treasury and Appropriations Received. The assessment was conducted in compliance with OMB Circular A-123, Appendix A, under the oversight of the Senior Assessment Team. The CBDP provided a statement of assurance that the internal control over financial reporting was operating effectively as of June 30, 2006, for the two focus areas. Areas not inside the two focus areas were not assessed and, therefore, no statement of assurance could be asserted for those focus areas.

4.3.1 Systemic Weaknesses

A systemic weakness is defined as a material weakness that affects management controls across organizational and program lines and usually affects multiple DoD components. The audit of the FY 2005 financial statements completed in FY 2006 identified four systemic weaknesses throughout CBDP.

1. DoD Financial Management Systems and Processes - Various information technology systems used in processing CBDP financial transactions are not integrated and, consequently, incapable of providing complete transaction details without extensive manual effort. There has been significant effort on the part of the Office of the Under Secretary of Defense (Comptroller) and the Defense Finance and Accounting Service (DFAS) to identify a future finance and accounting system which would support the Defense agencies. The CBDP is monitoring the Defense Agency Initiative, which is working to address this material weakness for Defense agencies, for applications to the information technology systems used in support of CBDP.

2. Processes Affecting Fund Balance With Treasury – The CBDP has not implemented a process to ensure that expenditures and accounts payable are recorded in the period in which they occur. The CBDP is participating with DFAS in a multi-phase DoD program to enhance system functionality for improving expenditure reconciliation and reporting. The first of several initiatives is expected to be implemented in the 1st Quarter, FY 2007.

3. Accounting Entries - Significant elements of CBDP financial statements are developed from sources other than the general ledger. CBDP is participating with DFAS to minimize unsupported accounting entries and is tracking progress through the financial metrics program. Correction of this weakness is contingent upon the full implementation of the DoD business enterprise architecture, new systems, and business processes.

4. Intragovernmental Eliminations – The CBDP makes accounting entries to bring various components of the principal financial statements into agreement with various governmental trading partners and financial feeder systems. The CBDP is participating with DFAS in efforts to reconcile variances among trading partners and feeder systems to CBDP accounting systems. Correction of this weakness is also contingent upon the full implementation of the DoD business enterprise architecture, new systems, and business processes.

4.3.2 Material Weaknesses

A material weakness is defined as a weakness in management internal controls that warrant reporting to a higher level. CBDP did not report any material weaknesses in FY 2006. However, the audit of the FY 2005 financial statements completed in FY 2006 identified three material weaknesses in preparing those statements. The CBDP took action to address each of the material weaknesses during FY 2006 that were reported to the Office of the Under Secretary of Defense (Comptroller). According to the independent auditor, CBDP FY 2005 financial statements had material weaknesses related to internal control, financial reporting, and management of undelivered orders.

1. Internal Control – The CBDP did not have a process to identify, coordinate and track internal control weaknesses. CBDP established points of contact in each of its

components during FY 2006, and each of those components reported statements of assurance through respective commands. The CBDP completed a stand-alone statement of assurance for financial reporting for FY 2006 for two focus areas concerning Fund Balance with Treasury and Appropriations Received and reported no material weaknesses. Senior management also provided direction for implementing an applicable management internal control program for CBDP and prepared a draft instruction for implementing the internal controls in accordance with new OMB guidance Program-wide.

2. Financial Reporting – Program offices in CBDP were not receiving reports to monitor the results of financial activity within respective programs. Currently, DFAS makes budget execution reports and quarterly financial statements available to CBDP program offices that provide financial information on the execution of individual programs. During FY 2006, DFAS has generated more detail reports on financial activities, such as, cash and debt management reports, that are being made available for program offices to better manage financial activities.

3. Management of Undelivered Orders – CBDP did not have sufficient, accessible documentation to support the valuation of undelivered orders in FY 2005. During FY 2006, CBDP made several process improvements to make data and documentation more accessible and readily available for independent audits. Those improvements included establishing audit liaisons among DFAS and program offices, early entrance conferences with functionaries to identify audit requirements, streamlined reporting channels among diverse components, and increased electronic visibility for tracking audit requests and responses.

5.0 Possible Future Effects of Existing Events and Conditions

Given that the U.S. military possesses conventional superiority in most aspects of its warfighting capabilities, the United States is likely to be challenged by adversaries possessing a wide range of capabilities, including asymmetric means, such as Weapons of Mass Destruction (WMD). The mission of the CBDP is to provide chemical and biological defense capabilities to effectively execute the National Strategy for Combating WMD. The CBDP must execute its mission in a dynamic security environment that has a wide range of challenges and risks.

Furthermore, advances in biotechnology and in other areas of science also leave us vulnerable to the possibility that we will always be several steps behind a sophisticated adversary, who may vary his choice of threat agents faster than we can develop threat-specific responses. Therefore, the CBDP capability-based approach will continue to focus on assessing known, emerging and future threats, investing in strategic technologies, and developing, characterizing, and sustaining the capabilities required for the range of U.S. military operational tempos and for asymmetrical threat risk mitigation.

In recognition of these challenges, the Department of Defense's Strategic Planning Guidance directed the development of funding options to reduce risk for CBDP. The Department's ongoing Combating WMD Enhanced Planning Process (EPP) Study has assessed capability gaps identified in the Defense Baseline Capabilities Assessment and related infrastructure recapitalization for medical and non-medical laboratories and key WMD testing and evaluation (T&E) facilities. The results of the Combating WMD EPP Study could significantly enhance funding across Fiscal Years (FY) 2006 – 2011 for the CBDP approach to rapid technology development and recapitalization of test instrumentation and methodologies. The magnitude of the impact on the program's FYDP funding profile is likely to be on the order of a 50 % increase to the overall profile, with the inclusion for the first time in the program's history of significant military construction funding.

6.0 Other Management Information, Initiatives, and Issues

The CBDP provides continuous oversight of DoD organizations entrusted with the implementation and execution of its programs to influence process improvements and innovations in management techniques. For greater insight and effectiveness, CBDP completed an assessment in July 2006 to define a mission and strategy for the organization using the Balanced Scorecard methodology. During the process, 17 internal processes were identified as key to establishing the success of the organization. In consonance with the assessments, two primary CBDP components are addressing the President's Management Agenda (PMA) and the Government-wide initiatives intended to improve the quality of their performance and delivery of services to the public: (1) Strategic Management of Human Capital, (2) Competitive Sourcing, (2) Improved Financial Performance, (4) Expanded Electronic Government, and (5) Budget and Performance.

The JPEO and the DTRA component of CBDP have taken steps leading to improvements in all five PMA initiatives, and have integrated actions into CBDP broader goals of continuous improvements under the Balanced Scorecard technique. The JPEO and DTRA have made the Administration's strategy for improving the management and performance of government an integral part of its business operations, performance measurement processes, and capabilities. For example, JPEO and DTRA have addressed each of the five initiatives with an approach to maximize value to the public.

Strategic Human Capital Management

The JPEO and DTRA continue to implement the human capital initiative. The JPEO and DTRA efforts in this area are based on building a workforce of the future, recruiting new, skilled workers, and actively working to retain people with essential technical capabilities. This also means implementing extensive training and development programs to equip employees with the skills they will need to meet future challenges.

Competitive Sourcing

The JPEO and DTRA have successfully controlled its operating costs by maximizing the use of competitively awarded service contracts consistent with Federal Acquisition Regulations, the Federal Activities Inventory Reform (FAIR) Act, and OMB Circular A-76. The DTRA competitively contracts for technical services, information technology support, certain editing and publishing services, mailroom and general labor services, cleaning and building maintenance services, audit and financial services, and security services. The JPEO and DTRA will continue to evaluate competitive alternatives and efficient service contracting options to maximize efficiency and minimize cost.

Improving Financial Performance

The JPEO and DTRA participate in three primary initiatives to improve financial performance: the Business Management Modernization Program, Financial Improvement Initiative, and the Financial Management Balanced Scorecard. These initiatives directly

respond to financial improvement plans required by OMB's guidance for the Chief Financial Officer Financial Management 5-Year Plan and Financial Management Systems Plan, as well as the Federal Financial Management Improvement Act's requirement for remediation plans.

The CBDP received a qualified opinion on its audited balance sheet in FY 2004 and its financial statements in FY 2005. The CBDP had a significant accomplishment for FY 2006, receiving an unqualified opinion on its financial statements. The achievement of a "clean" audit opinion is the primary measure of success and criteria for OMB's "GREEN" standing within this PMA initiative. The CBDP continues to improve fiscal management and cost control by overseeing key financial management performance indicators and implement efficiency, control, and effectiveness improvements within its components.

Expanding Electronic Government

The JPEO and DTRA are taking active roles in many of the initiatives for expanding electronic government. The JPEO and DTRA consider e-Government goals during the initiation phase of IT projects and in the investment review process. In recent years, CBDP has committed significant resources to e-Government modernization initiatives. The JPEO and DTRA are working closely with the DoD Business Management Modernization Program (BMMP) to develop and implement a new, integrated technology solution for the Department.

The CBDP components are working toward certified and accredited systems for security controls. The JPEO and DTRA are analyzing alternatives and initiatives to integrate e-Government into the CBDP business environment. The JPEO and DTRA recognize the importance of leveraging new technologies to create modern information technology delivery systems that are architecture-based to better communicate across directorates, mission and support areas, and external stakeholders.

Budget and Performance Integration

The JPEO and DTRA continue to work toward budget and performance integration, as well as use of this integrated data for management decision-making. Managers and executives conduct quarterly program reviews to address financial program execution information. For both CBDP components, efforts are underway to integrate performance metrics into all phases of the CBDP planning, programming, budgeting, and execution process.

7.0 Limitations of Financial Statements

In accordance with OMB Circular A-136, *Financial Reporting Requirements*, we are disclosing the following limitations of the CBDP FY2006 financial statements.

The CBDP financial statements were prepared to report the financial position and results of operations of CBDP, pursuant to the requirements of 31 U.S.C. 3515 (b). While the financial statements were prepared from the books and records of CBDP in accordance with generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by OMB, the statement is in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

To the extent possible, the financial statements have been prepared in accordance with Federal accounting standards. At times, CBDP is unable to implement all elements of the standards due to financial management systems limitations. The DoD is in the process of implementing system improvements to address those limitations. There are other instances when the Agency's application of the accounting standards is different from the auditor's application of the standards. The financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Department of Defense

Chemical and Biological Defense Program

Management's Discussion and Analysis (MD&A)

Fiscal Year 2006

TAB B

PRINCIPAL FINANCIAL STATEMENTS

Department of Defense
Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program
CONSOLIDATED BALANCE SHEET
As of September 30, 2006 and 2005
(Amounts in Thousands)

	2006 Consolidated	2005 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)		
Entity	$ 1,912,286	$ 1,526,962
Accounts Receivable (Note 4)	78	5,506
Total Intragovernmental Assets	$ 1,912,364	$ 1,532,468
Accounts Receivable,Net (Note 4)	$ 97	$ 4
General Property, Plant and Equipment, Net (Note 6)	13,476	-
Other Assets (Note 5)	39,834	45,191
TOTAL ASSETS	$ 1,965,771	$ 1,577,663
LIABILITIES (Note 7)		
Intragovernmental:		
Accounts Payable (Note 8)	$ 16,941	$ 27,252
Other Liabilities (Note 9)	16	25
Total Intragovernmental Liabilities	$ 16,957	$ 27,277
Accounts Payable (Note 8)	$ 13,665	$ 41,942
Other Liabilities (Note 9)	12,292	2,129
TOTAL LIABILITIES	$ 42,914	$ 71,348
NET POSITION		
Unexpended Appropriations - Other Funds	$ 1,912,051	$ 1,455,555
Cumulative Results of Operations - Other Funds	10,806	50,760
TOTAL NET POSITION	$ 1,922,857	$ 1,506,315
TOTAL LIABILITIES AND NET POSITION	$ 1,965,771	$ 1,577,663

The accompanying notes are an integral part of these statements.

Department of Defense
Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program
CONSOLIDATED STATEMENT OF NET COST
As of September 30, 2006 and 2005
(Amounts in Thousands)

	2006 Consolidated	2005 Consolidated
Program Costs		
Gross Costs	$ 1,353,330	$ 1,281,562
(Less: Earned Revenue)	1,063	(11,694)
Net Program Costs	$ 1,354,393	$ 1,269,868
Cost Not Assigned to Programs	-	-
(Less: Earned Revenue Not Attributable to Programs)	-	-
Net Cost of Operations	$ 1,354,393	$ 1,269,868

The accompanying notes are an integral part of these statements.

Department of Defense
Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
As of September 30, 2006 and 2005
(Amounts in Thousands)

	2006 Consolidated	2005 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 50,760	$ 62,421
Prior Period Adjustments:	-	-
Beginning balances, as adjusted	$ 50,760	$ 62,421
Budgetary Financing Sources:		
Appropriations used	$ 1,300,810	$ 1,275,448
Other Financing Sources:		
Imputed financing from costs absorbed by others	57,644	334
Other	(44,016)	(17,576)
Total Financing Sources	$ 1,314,438	$ 1,258,206
Net Cost of Operations	1,354,392	1,269,867
Net Change	$ (39,954)	$ (11,661)
Ending Balances	$ 10,806	$ 50,760
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 1,455,554	$ 1,313,725
Prior Period Adjustments:	-	-
Beginning balances, as adjusted	$ 1,455,554	$ 1,313,725
Budgetary Financing Sources:		
Appropriations received	$ 1,786,858	$ 1,432,823
Appropriations transferred-in/out	(477)	5,188
Other adjustments (rescissions, etc)	(29,073)	(20,734)
Appropriations used	(1,300,811)	(1,275,448)
Other Financing Sources:	-	-
Total Financing Sources	$ 456,497	$ 141,829
Net Cost of Operations	-	-
Net Change	$ 456,497	$ 141,829
Ending Balances	$ 1,912,051	$ 1,455,554

The accompanying notes are an integral part of these statements.

Department of Defense
Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program
COMBINED STATEMENT OF BUDGETARY RESOURCES
As of September 30, 2006 and 2005
(Amounts in Thousands)

	2006 Combined	2005 Combined
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES		
Unobligated balance, brought forward, October 1	$ 181,289	$ 166,120
Recoveries of prior year unpaid obligations	497,526	334,788
Budget authority		
Appropriation	1,786,858	1,432,823
Spending authority from offsetting collections		
Earned		
Collected	4,182	6,168
Change in receivables from Federal sources	(5,244)	5,526
Change in unfilled customer orders		
Without advance from Federal sources	6,874	(2,017)
Subtotal	$ 1,792,670	$ 1,442,500
Nonexpenditure transfers, net, anticipated and actual	(477)	5,188
Permanently not available	(29,073)	(20,734)
Total Budgetary Resources	$ 2,441,935	$ 1,927,862

The accompanying notes are an integral part of these statements.

Department of Defense
Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program
COMBINED STATEMENT OF BUDGETARY RESOURCES
As of September 30, 2006 and 2005
(Amounts in Thousands)

	2006 Combined	2005 Combined
Status of Budgetary Resources:		
Obligations incurred:		
Direct	$ 2,048,580	$ 1,736,548
Reimbursable	4,222	10,025
Subtotal	2,052,802	1,746,573
Unobligated balance:		
Apportioned	371,435	170,904
Unobligated balance not available	17,698	10,385
Total status of budgetary resources	$ 2,441,935	$ 1,927,862
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	$ 1,354,801	$ 1,213,116
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(8,051)	(4,541)
Total unpaid obligated balance	$ 1,346,750	$ 1,208,575
Obligations incurred net	$ 2,052,802	$ 1,746,573
Less: Gross outlays	(1,377,243)	(1,270,100)
Less: Recoveries of prior year unpaid obligations, actual	(497,526)	(334,788)
Change in uncollected customer payments from Federal sources	(1,630)	(3,509)
Obligated balance, net, end of period		
Unpaid obligations	$ 1,532,833	$ 1,354,801
Less: Uncollected customer payments from Federal sources	(9,680)	(8,051)
Total, unpaid obligated balance, net, end of period	$ 1,523,153	$ 1,346,750
Net Outlays		
Net Outlays:		
Gross outlays	$ 1,377,243	$ 1,270,100
Less: Offsetting collections	(4,181)	(6,168)
Net Outlays	$ 1,373,062	$ 1,263,932

The accompanying notes are an integral part of these statements.

Department of Defense
Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program
CONSOLIDATED STATEMENT OF FINANCING
As of September 30, 2006 and 2005
(Amounts in Thousands)

	2006 Consolidated	2005 Consolidated
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	$ 2,052,802	$ 1,746,573
Less: Spending authority from offsetting collections and recoveries	(503,338)	(344,466)
Net obligations	$ 1,549,464	$ 1,402,107
Other Resources		
Imputed financing from costs absorbed by others	$ 57,645	$ 334
Other	(44,018)	(17,576)
Net other resources used to finance activities	$ 13,627	$ (17,242)
Total resources used to finance activities	$ 1,563,091	$ 1,384,865
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
Undelivered Orders	$ (246,125)	$ (130,855)
Unfilled Customer Orders	6,874	(2,017)
Resources that fund expenses recognized in prior periods	(19)	(295)
Resources that finance the acquisition of assets	(26,724)	-
Other resources or adjustments to net obligated resources that do not affect net cost of operations		
Other	44,018	17,576
Total resources used to finance items not part of the net cost of operations	$ (221,976)	$ (115,591)
Total resources used to finance the net cost of operations	$ 1,341,115	$ 1,269,274

The accompanying notes are an integral part of these statements.

Department of Defense
Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program
CONSOLIDATED STATEMENT OF FINANCING
As of September 30, 2006 and 2005
(Amounts in Thousands)

	2006 Consolidated	2005 Consolidated
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
Increase in annual leave liability	$ 29	$ 594
Other	-	-
Total components of Net Cost of Operations that will require or generate resources in future periods	$ 29	$ 594
Components not Requiring or Generating Resources:		
Depreciation and amortization	$ 13,248	$ -
Other	-	-
Total components of Net Cost of Operations that will not require or generate resources	$ 13,248	$ -
Total components of net cost of operations that will not require or generate resources in the current period	$ 13,277	$ 594
Net Cost of Operations	$ 1,354,392	$ 1,269,868

The accompanying notes are an integral part of these statements.

TAB C

NOTES TO PRINCIPAL FINANCIAL STATEMENTS

NOTES TO PRINCIPAL FINANCIAL STATEMENTS

ORGANIZATION

The Defense Threat Reduction Agency (DTRA) was established in 1998 bringing together the organizational elements within the Department of Defense (DoD) that were involved in reducing the global threats from weapons of mass destruction. The creation of DTRA included the Chemical and Biological Defense Program (CBDP). The DTRA first fiscal year (FY) of operations was 1999. On December 18, 2003, the OSD Comptroller ordered that CBDP would have financial statements separate from DTRA. Beginning with the first quarter of FY 2004, the Defense Finance and Accounting Service (DFAS) is reporting separate financial statements for DTRA and CBDP. The accompanying financial statements report on CBDP.

MISSION

The CBDP mission is to ensure that the United States (U.S.) military has the capability to operate effectively and decisively in the face of chemical, biological, radiological or nuclear (CBRN) threats in warfighter missions (passive defense, force protection, and consequence management) and homeland security missions. In addition, the CBDP mission is to advance national interest within the CBRN defense arena by working effectively with other federal agencies, state and local governments, Congress, and the private sector.

Note 1.	Significant Accounting Policies

Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Chemical and Biological Defense Program (CBDP), as required by the "Chief Financial Officers Act of 1990," expanded by the "Government Management Reform Act of 1994," and other appropriate legislation. The financial statements have been prepared from the books and records of CBDP in accordance with "DoD Financial Management Regulation," the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, and to the extent possible generally accepted accounting principles (GAAP). The accompanying financial statements account for all resources for which CBDP is responsible.

The CBDP is unable to fully implement all elements of GAAP and OMB Circular A-136, due to limitations of its financial management processes and systems and nonfinancial systems and processes that feed into the financial statements. The CBDP derives its reported values and information for major asset and liability categories, largely from nonfinancial systems, such as inventory systems and logistic systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of Federal appropriations rather than preparing financial

statements in accordance with GAAP. The CBDP currently has seven auditor identified financial statement material weaknesses: (1) elements of the financial statements are developed from sources other than the general ledger, (2) entries are processed to force financial data to agree with various data sources and various components of the principal financial statements, (3) the various information technology systems used in processing CBDP financial transactions are not integrated, (4) no process exists to identify, coordinate and track internal control weaknesses in the entities that execute CBDP activities, (5) no process exists to ensure that expenditures and accounts payable are recorded in the period in which they occur, (6) program offices responsible for obligating CBDP funds are not provided with results of their financial activity, and (7) management of undelivered orders is inadequate.

The CBDP continues to implement process and system improvements addressing these limitations many of which are detailed below.

The DoD or Government-wide finance and accounting process and system deficiencies reported in Performance and Accountability Reports affect four of the seven material weaknesses reported by the audit of CBDP fiscal year (FY) 2005 financial statements. Those four deficiencies were included in the Financial Improvement and Audit Readiness plan developed by the Office of the Under Secretary of Defense (Comptroller) to reflect necessary actions at the Office of the Secretary of Defense and Department-level to correct the system weaknesses.

For the internal control material weakness, CBDP initiated a plan of action to develop and implement a Management Internal Control Program that includes operating elements that are funded through CBDP and the new requirements of OMB A-123, Appendix A, for the FY 2006 Statement of Assurance.

The CBDP initiated actions for distribution or electronic access to financial reports generated by the Defense Finance and Accounting Service (DFAS), and other accounting service providers, which are necessary for program offices to monitor financial activity. Standard operating procedures are being developed to institutionalize the process.

To address a material weakness concerning undelivered orders, CBDP initiated a plan of action to develop procedures that expedite responses to audit requests and train CBDP and support service staff on audit procedures. Additionally, procedures are being developed to provide joint program managers in CBDP with obligation and disbursement data required to manage undelivered orders.

Appropriations and Funds

The CBDP receives its appropriations and funds as general funds. The CBDP uses these appropriations and funds to execute their missions and report on resource usage.

General funds are used for financial transactions funded by congressional appropriations, including research and development and procurement.

Basis of Accounting

For FY 2006, CBDP financial management systems are unable to meet all of the requirements for full accrual accounting. Many of CBDP financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of GAAP for federal agencies. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by GAAP. Most of CBDP legacy systems were designed to record information on a budgetary basis.

The CBDP has undertaken efforts to determine the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with GAAP. One such action is the current revision of its accounting systems to record transactions based on the United States Standard General Ledger (USSGL). Until all of CBDP financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by GAAP, CBDP financial data will be based on budgetary transactions (obligations, disbursements, and collections), transactions from nonfinancial feeder systems, and adjustments for known accruals of major items such as payroll expenses and accounts payable.

In addition, CBDP identifies program costs based upon the major appropriation groups provided by the Congress. Current processes and systems do not capture and report accumulated costs for major programs based upon the performance measures as required by the Government and Performance and Results Act (GPRA). The CBDP is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," with the need to keep the financial statements from being overly voluminous.

Revenues and Other Financing Sources

The CBDP receives congressional appropriations as financing sources for general funds on either an annual or multi-year basis. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. The CBDP recognizes revenue as a result of costs incurred or services provided to other federal agencies and the public. Full cost pricing is CBDP standard policy for services provided as required by OMB Circular A-25. The CBDP recognizes revenue when earned within the constraints of current system capabilities. In other instances, revenue is recognized when bills are issued.

The CBDP does not include nonmonetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and the Statement of Financing. The U.S. has cost sharing agreements with other countries. Examples include countries where there is a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port.

Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. However, because CBDP financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items such as payroll expenses, accounts payable, and unbilled revenue. The CBDP expenditures for capital and other long-term assets are recognized as operating expenses based on depreciation.

Accounting for Intragovernmental Activities

Preparation of reliable financial statements requires the elimination of transactions occurring among entities within DoD or between two or more federal agencies. However, CBDP cannot accurately identify most of its intragovernmental transactions by customer because CBDP systems do not track buyer and seller data needed to match related transactions. Seller entities within DoD provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances. Intragovernmental balances within DoD are then eliminated. The CBDP properly eliminates the revenue results from sales of capitalized assets within DoD. The DoD is developing long-term system improvements that will include sufficient edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished effectively with existing or foreseeable resources.

The Department of the Treasury Financial Management Service (FMS) is responsible for eliminating transactions between DoD and other federal agencies. The Treasury Financial Manual, Part 2 – Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government" and the Treasury's "Federal Intragovernmental Transactions Accounting Policy Guide," provide guidance for reporting and reconciling intragovernmental balances. While CBDP is unable to fully reconcile intragovernmental transactions with all federal partners, CBDP is able to reconcile balances pertaining to benefit program transactions with the Office of Personnel Management (OPM). The DoD proportionate share of public debt and related expenses of the federal government are not included. The federal government does not apportion debt and its related costs to federal agencies. The DoD financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

Transactions with Foreign Governments and International Organizations

Each year, CBDP sells defense articles and services to foreign governments and international organizations under the provisions of the "Arms Export Control Act of 1976." Under the provisions of the Act, DoD has authority to sell defense articles and

services to foreign countries and international organizations generally at no profit or loss to the U.S. Government. Payment is required in advance.

Funds with the U.S. Treasury

The CBDP monetary financial resources are maintained in U.S. Treasury accounts. The disbursing offices of DFAS, the Military Services, the U.S. Army Corps of Engineers (USACE) and the Department of State financial service centers process the majority of CBDP cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports that provide information to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS sites and the USACE Finance Center submit reports to the Department of the Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. The Department of the Treasury records this information to the applicable Fund Balance with Treasury (FBWT) account. Differences between CBDP recorded balances in FBWT accounts and Treasury's FBWT accounts sometimes result and are subsequently reconciled.

Accounts Receivable

As presented in the Balance Sheet, accounts receivable include accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies (per Code of Federal Regulations 4 CFR 101).

The CBDP estimates uncollectible accounts receivable from the public on a case-by-case basis.

General Property, Plant and Equipment

The Department is moving away from a standard capitalization threshold for all categories (e.g. real property, military equipment, etc.) of General Property, Plant, and Equipment (PP&E) to one that is specific for each individual category.

The capitalization threshold was revised from $100,000 to $20,000 for real property. The current $100,000 capitalization threshold remains unchanged for the remaining General PP&E categories.

General PP&E assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years and the acquisition cost equals or exceeds the DoD capitalization threshold of $100,000. The DoD also requires capitalization of improvement costs over the DoD capitalization threshold of

$100,000 for General PP&E. The DoD depreciates all General PP&E, other than land, on a straight-line basis.

Prior to FY 1996, General PP&E was capitalized if it had an acquisition cost of $15,000, $25,000, and $50,000 for fiscal years 1993, 1994, and 1995, respectively, and an estimated useful life of two or more years. General PP&E previously capitalized at amounts below $100,000 were written off General Fund financial statements in FY 1998.

When it is in the best interest of the government, CBDP provides government property to contractors to complete contract work. The CBDP either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor-procured General PP&E exceeds the DoD capitalization threshold, it must be reported on the CBDP Balance Sheet.

The DoD is developing new policies and a contractor reporting process that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, CBDP reports only government property in the possession of contractors that is maintained in CBDP property systems. The DoD has issued new property accountability and reporting requirements that require DoD Components to maintain, in their property systems, information on all property furnished to contractors. This action and other DoD proposed actions are structured to capture and report the information necessary for compliance with Federal accounting standards.

Advances and Prepayments

The CBDP records payments in advance of the receipt of goods and services as advances or prepayments and reports them as assets on the Balance Sheet. The CBDP recognizes advances and prepayments as expenses when it receives the related goods and services.

Other Assets

The CBDP conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, CBDP provides financing payments.

Other assets include those assets, such as military and civil service employee pay advances, travel advances, and contract financing payments, that are not reported elsewhere on the CBDP Balance Sheet.

Contract financing payments are defined in the Federal Acquisition Regulation (FAR), Part 32, as authorized disbursements of monies to a contractor prior to acceptance of supplies or services by the Government. These payments are designed to alleviate the potential financial burden on contractors performing on certain long-term contracts and facilitate competition for defense contracts. Contract financing payment clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advance and interim payments, progress

payments based on cost, and interim payments under certain cost-reimbursement contracts. Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion, which the Defense Federal Acquisitions Regulations Supplement (DFARS) authorizes only for construction of real property, shipbuilding, and ship conversion, alteration, or repair. Progress payments for real property and ships are reported as Construction in Progress in Note 10.

Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The CBDP recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, and possible claims and assessments. The CBDP loss contingencies could arise as a result of pending or threatened litigation or claims and assessments that occur due to events such as aircraft, ship and vehicle accidents, medical malpractice, property or environmental damages, and contract disputes.

Accrued Leave

The CBDP reports as liabilities civilian earned leave except sick leave that has been accrued and not used as of the Balance Sheet date. Sick leave is expensed as taken. The liability reported at the end of the accounting period reflects the current pay rates.

Net Position

Net Position consists of unexpended appropriations and cumulative results of operations.

Unexpended Appropriations represent the amounts of authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred.

Cumulative Results of Operations represent the net difference, since inception of an activity, between expenses and losses and financing sources (including appropriations, revenue, and gains). Beginning with FY 1998, the cumulative results also include donations and transfer in and out of assets without reimbursement.

Comparative Data

Financial statement fluctuations greater than 2% of total assets on the Balance Sheet or 10% from the previous period presented are explained within the notes to the financial statements.

Unexpended Obligations

The CBDP obligates funds to provide goods and services for outstanding orders not yet delivered. The financial statements do not reflect this liability for payment for goods and services not yet delivered.

Undistributed Disbursements and Collections

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to a specific obligation, payable, or receivable in the activity field records as opposed to those reported by the U.S. Treasury. These amounts should agree with the undistributed amounts reported on the departmental accounting reports. In-transit payments are those payments that have been made to other agencies or entities that have not been recorded in their accounting records. These payments are applied to the entities' outstanding accounts payable balance. In-transit collections are those collections from other agencies or entities that have not been recorded in the accounting records. These collections are also applied to the entities' accounts receivable balance.

The DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of federal and nonfederal accounts payable and accounts receivable. Unsupported undistributed disbursements are recorded in accounts payable. Unsupported undistributed collections are recorded in other liabilities. The CBDP follows this procedure.

Note 2.	**Nonentity Assets**

As of September 30	2006	2005
(Amounts in thousands)		
Nonfederal Assets		
Accounts Receivable	$ 2	$ -
Total Nonfederal Assets	$ 2	$ -
Total Nonentity Assets	$ 2	$ -
Total Entity Assets	$ 1,965,769	$ 1,577,663
Total Assets	$ 1,965,771	$ 1,577,663

Fluctuations

The increase of $2 thousand in total nonentity assets is attributable to interest due in the 4th Quarter, FY 2006, on refunds receivable for two overpayments totaling $95 thousand that were made to the National Academy of Sciences for support for the resident research associateship program with the U.S. Army Medical Research and Materiel Command. The interest is payable to the Department of the Treasury. The Defense Finance and Accounting Service-Columbus Debt Management Office initiated setoffs against payable invoices to collect the debt, including interest, which is expected to be collected in the 1st Quarter, FY 2007.

Note 3. Fund Balance with Treasury

As of September 30	2006	2005
(Amounts in thousands)		
Fund Balances		
Appropriated Funds	$ 1,912,286	$ 1,526,962
Total Fund Balances	$ 1,912,286	$ 1,526,962
Fund Balances Per Treasury Versus Agency		
Fund Balance per Treasury	$ -	$ -
Fund Balance per CBDP	1,912,286	1,526,962
Reconciling Amount	$ (1,912,286)	$ (1,526,962)

Fluctuations

The increase of $385.3 million (25%) in the total fund balance is primarily attributable to an increase in appropriations received of $341 million in the 2nd Quarter, FY 2006, for three major Chemical and Biological Defense Program (CBDP) initiatives; research and development of Transformation Medical Technology, improvements to the test and evaluation infrastructure, and enhancements to the technology base and acquisition programs. The CBDP had an increase in appropriations for the Transformation Medical Technology Initiative to develop a broad-spectrum of defenses against intracellular bacterial pathogens and hemorrhagic fevers, most notably new viral vaccines. Increases in institutional funding to cover operating and modernization costs, in compliance with Public Law 107-314, will improve the CBDP Major Range and Test Facility Base at Dugway Proving Grounds, Utah. Additionally, increases in appropriations will enhance advanced chemical and biological detection systems, materials for filtration and protection, and decontaminants.

Other Disclosures

The Department of the Treasury reports fund balances at the basic symbol level. The Treasury Index 97 for CBDP general funds are allotted at basic symbol and limit level. Due to the current systems in place, the reconciliation of the fund balance with treasury (FBWT) account at the basic symbol level for CBDP makes it difficult to determine the cause(s) of the overall reconciling difference.

Status of Fund Balance with Treasury

As of September 30	2006	2005
(Amounts in thousands)		
Unobligated Balance		
Available	$ 371,435	$ 170,904
Unavailable	17,698	10,385
Obligated Balance not yet Disbursed	$ 1,532,833	$ 1,354,801
Nonbudgetary FBWT	$ -	$ -
NonFBWT Budgetary Accounts	$ (9,680)	$ (8,051)
Total	$ 1,912,286	$ 1,528,039

Fluctuations

The increase of $384.2 million (25%) in the total status of FBWT is primarily attributable to increases of $200.5 million in the unobligated balance available and $178 million in the obligated balance not yet disbursed. The unobligated balance available and the obligated balance not yet disbursed increased because the appropriations received increased $341 million in the 2nd Quarter, FY 2006, and the rate of obligations and expenditures decreased while operating under Continuing Resolution Authority during the 1st Quarter, FY 2006. The obligated balance not yet disbursed is distributed among the mission-related goods and services that include chemical protective clothing; the force protection program; and contamination avoidance, primarily the Joint Biological Point Detection System, in the 4th Quarter, FY 2006.

Other Information

The CBDP had no unobligated balances restricted to future use and not apportioned for current use.

Definitions

The Status of FBWT consists of unobligated and obligated balances. These balances reflect the budgetary authority remaining for disbursements against current or future

obligations. In addition, the Status of FBWT includes various accounts that affect either budgetary reporting or FBWT, but not both.

Unobligated Balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. Unobligated Balance is classified as available or unavailable and is associated with appropriations expiring at fiscal year end that remain available only for obligation adjustments until the account is closed.

Obligated Balance not yet Disbursed represents funds that have been obligated for goods that have not been received or services that have not been performed.

Nonbudgetary FBWT includes entity and nonentity FBWT accounts which do not have budgetary authority, such as unavailable receipt accounts or clearing accounts.

NonFBWT Budgetary Accounts include budgetary accounts that do not affect FBWT, such as contract authority, borrowing authority, and investment accounts. This category reduces the Status of FBWT. The amount that appears for FY 2006 is the amount reported in the U.S. Standard General Ledger Account 4221, Unfilled Customer Orders Without Advance.

Disclosures Related to Problem Disbursements and In-Transit Disbursements

As of September 30	2004	2005	2006	(Decrease)/ Increase from FY 2005 to 2006
(Amounts in thousands)				
Total Problem Disbursements, Absolute Value				
Unmatched Disbursements (UMDs)	$ 703	$ 2,860	$ 704	$ (2,156)
Negative Unliquidated Obligations (NULO)	152	119	153	34
Total In-transit Disbursements, Net	$ 16,303	$ 14,081	$ 20,469	$ 6,388

Fluctuations

Unmatched Disbursements

The CBDP reported a decrease of $2.2 million (75%) in unmatched disbursements (UMDs) in the 4th Quarter, FY 2006. The UMDs decreased in the 4th Quarter, FY 2006, because of processing improvements. The CBDP is intensifying its research in

coordination with DFAS to clear these accounts. The CBDP had $611 thousand in aged UMDs reported by DFAS-Cleveland.

Negative Unliquidated Obligations

The CBDP reported an increase of $34 thousand (29%) in negative unliquidated obligations (NULOs) in the 4th Quarter, FY 2006. The CBDP continues to intensify research in coordination with the Marine Corps and DFAS to clear these accounts and expects to reduce these problem disbursements in the 1st Quarter, FY 2007. The CBDP had no aged NULOs.

In-transit Disbursements

The CBDP reported an increase of $6.4 million (45%) in in-transit disbursements in the 4th Quarter, FY 2006. The CBDP is intensifying research in coordination with the Department of the Army and DFAS to clear these accounts and expects to reduce these disbursements during the 1st Quarter, FY 2007. The CBDP has $64.9 thousand in aged in-transits.

Other Information Related to Problem Disbursements

The problem disbursements represent the absolute value of CBDP funds that have been reported by a disbursing station to the Department of the Treasury, but have not yet been matched against the specific source obligation that gave rise to the disbursements. These payments have been made using available funds and are based on valid receiving reports for goods and services delivered under valid contracts.

A UMD occurs when a payment is not matched to a corresponding obligation in the accounting system. Absolute value is the sum of the positive values of debit and credit transactions without regard to the sign (plus or minus).

A NULO occurs when a payment is made against a valid obligation, but the payment is greater than the amount of the obligation recorded in the official accounting system. These payments have been made using available funds and are based on valid receiving reports for goods and services delivered under valid contracts.

The in-transits represent the net value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity and have not been posted to the accounting system.

Note 4.	Accounts Receivable

As of September 30	2006			2005
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
(Amounts in thousands)				
Intragovernmental Receivables	$ 78	N/A	$ 78	$ 5,506
Nonfederal Receivables (From the Public)	$ 97	$ -	$ 97	$ 4
Total Accounts Receivable	$ 175	$ -	$ 175	$ 5,510

Fluctuations

Intragovernmental Receivables

The decrease of $5.4 million (99%) in intragovernmental accounts receivable is primarily attributable to the decrease in sales of biological handheld assays and laboratory chemical reagents in the 1st and 2nd Quarter, FY 2006. The Chemical and Biological Defense Program (CBDP) had sales of biological handheld assays and laboratory chemical reagents to the Pentagon Force Protection Agency, the Department of Homeland Security, the United States Secret Service, and the Department of the Army in the 3rd and 4th Quarter, FY 2005, that were collected in the 1st and 2nd Quarter, FY 2006.

Nonfederal Receivables

The increase of $93 thousand (2,203%) in nonfederal receivables (from the public) is attributable to refunds plus interest due for two overpayments made to the National Academy of Science for support for the resident research associateship program with the U.S. Army Medical Research and Materiel Command. The Defense Finance and Accounting Service-Columbus Debt Management Office initiated setoffs against payable invoices to collect the debt, which is expected to be collected in the 1st Quarter, FY 2007.

Aged Accounts Receivable

As of September 30	2006		2005	
	Intragovern-mental	Nonfederal	Intragovern-mental	Nonfederal
(Amounts in thousands)				
Nondelinquent				
Current	$ 78	$ -	$ 5,506	$ -
Delinquent				
91 to 180 days	$ -	$ 97	$ -	$ 4
Total	$ 78	$ 97	$ 5,506	$ 4

Other Information Related to Accounts Receivable

The CBDP had $97 thousand in nonfederal delinquent accounts receivable consisting of refunds plus interest due for two overpayments made to the National Academy of Science for support for the resident research associateship program with the U.S. Army Medical Research and Materiel Command. The Defense Finance and Accounting Service-Columbus Debt Management Office initiated setoffs against payable invoices to collect the debt, which is expected to be collected in the 1st Quarter, FY 2007.

Delinquent categories in source reports are not consistent in the aged accounts receivable schedules for FY 2005 and FY 2006. Consequently, delinquent accounts receivable for the broad category of 1 to 90 days in the source reports were included in the 61 to 90 days delinquent category for FY 2005 in the aged accounts receivable schedule for comparative purposes.

Note 5.	Other Assets

As of September 30	2006	2005
(Amounts in thousands)		
Intragovernmental Other Assets		
Total Intragovernmental Other Assets	$ -	$ -
Nonfederal Other Assets		
Outstanding Contract Financing Payments	$ 39,833	$ -
Other Assets (With the Public)	1	45,191
Total Nonfederal Other Assets	$ 39,834	$ 45,191
Total Other Assets	$ 39,834	$ 45,191

Fluctuations

The decrease of $5.4 million (12%) in total other assets is primarily attributable to a decrease in contract financing payments. In the first three quarters of FY 2006, Northrop Grumman, General Dynamics, and Centech had a decrease in workload and value of the parts that were purchased for use in the integration of chemical and biological detection systems on multiple Military Department platforms, such as shelters, ships, and trailers. The Chemical and Biological Defense Program also had a suspension in the contract financing payments made to General Dynamics for quality issues in the 1st Quarter, FY 2006.

Other Information Related to Other Assets

Contract terms and conditions for certain types of contract financing payments convey certain rights to the Department that protect the contract work from state or local taxation, liens or attachment by the contractor's creditors, transfer of property, or disposition in bankruptcy; however, these rights should not be misconstrued to mean that ownership of the contractor's work has transferred to the Government. The government does not have the right to take the work, except as provided in contract clauses related to termination or acceptance, and the Department is not obligated to make payment to the contractor until delivery and acceptance of a satisfactory product.

The contract financing payments balance of $39.8 million had a change in presentation in the 4th Quarter, FY 2006, and is comprised of $29 million in contract financing payments and an additional $10.8 million in estimated future funded payments that will be paid to the contractor upon future delivery and Government acceptance of a satisfactory product.

The other assets (with the public) are comprised entirely of travel advances for FY 2006. The contract financing payments were included in the other assets (with the public) for FY 2005.

Note 6.	General PP&E, Net

As of September 30	2006					2005
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
(Amounts in thousands)						
Major Asset Classes						
Buildings, Structures, and Facilities	S/L	20 or 40	$ 3,638	$ (883)	$ 2,755	$ -
General Equipment	S/L	5 or 10	23,086	(12,365)	10,721	-
Total General PP&E			$ 26,724	$ (13,248)	$ 13,476	$ -

Legend for Valuation Methods:
S/L = Straight Line

Fluctuations

The increase of $13.5 million in the net book value of total general property, plant, and equipment (PP&E) is primarily attributable to an increase of $10.7 million (79%) in the net book value of general equipment. The general equipment primarily consists of Fox Training Systems, located at Fort Hood, Texas, and Fort Polk, Louisiana, that have a net book value of $7.6 million. Other general equipment in the possession of Bioport Corporation and Avon Rubber and Plastics, Incorporated, are fermenters, holding tanks, and bonding and seal glue systems with net book values totaling $2 million. The presentation for total general PP&E was changed in the 4th Quarter, FY 2006. The total general PP&E was not disclosed in the FY 2005 schedule.

Other Information Related to General PP&E

The CBDP has no restrictions on the use or convertibility of general PP&E (i.e.; outside the Continental U.S. real property).

The CBDP reports no military equipment, heritage assets, or stewardship land.

Note 7. Liabilities Not Covered by Budgetary Resources

As of September 30	2006	2005
(Amounts in thousands)		
Intragovernmental Liabilities		
Other	$ 2	$ -
Total Intragovernmental Liabilities	$ 2	$ -
Nonfederal Liabilities		
Accounts Payable	$ 18	$ 12
Other Liabilities	588	583
Total Nonfederal Liabilities	$ 606	$ 595
Total Liabilities Not Covered by Budgetary Resources	$ 608	$ 595
Total Liabilities Covered by Budgetary Resources	$ 42,306	$ 70,753
Total Liabilities	$ 42,914	$ 71,348

Other Information Related to Liabilities not Covered by Budgetary Resources

The intragovernmental liabilities other is comprised entirely of interest payable to the Department of the Treasury.

The nonfederal liabilities other liabilities is comprised entirely of accrued unfunded annual leave.

Definitions

Liabilities Not Covered by Budgetary Resources.

Liabilities not covered by budgetary resources are those liabilities that are not legally obligated with realized budgetary resources as of the Balance Sheet date. Realized budgetary resources include the following:

- New budget authority.
- Spending authority from offsetting collections (credited to an appropriation or fund account).
- Recoveries of unexpired budget authority through downward adjustments of prior-year obligations.
- Unobligated balances of budgetary resources at the beginning of the year or net transfers of prior-year balances during the year.

- Borrowing authority or permanent indefinite appropriations, which have been enacted and signed into law as of the Balance Sheet date, provided that the resources may be apportioned by the Office of Management and Budget without further action by Congress or without a contingency first having to be met.

Note 8.	**Accounts Payable**

As of September 30	2006			2005
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
(Amounts in thousands)				
Intragovernmental Payables	$ 16,941	$ N/A	$ 16,941	$ 27,252
Nonfederal Payables (to the Public)	13,665	-	13,665	41,942
Total	$ 30,606	$ -	$ 30,606	$ 69,194

Fluctuations

Intragovernmental Payables

The decrease of $10.3 million (38%) in intragovernmental accounts payable is attributable to an adjustment of $ 19.5 million recommended during the audit of the Chemical and Biological Defense Program (CBDP) financial statements in the 4th Quarter, FY 2006. The adjustment was the result of documentation not being available at the time of the audit to support the intragovernmental accounts payable reviewed.

Nonfederal Payables

The decrease of $28.3 million (67%) in nonfederal payables (to the public) is attributable primarily to an adjustment of $ 15.5 million recommended during the audit of the CBDP financial statements in the 4th Quarter, FY 2006. The adjustment was the result of documentation not being available at the time of the audit to support the nonfederal accounts payable reviewed. An additional decrease of $12.7 million in nonfederal payables is attributable to a decrease in workload and prices of subsystems and parts in the 1st through 4th Quarters, FY 2006, for chemical and biological protective, detection, and reconnaissance systems that were being integrated into various Military Department platforms. The primary systems affected were the Joint Biological Point Detection System and the Joint Service Lightweight Standoff Chemical Agent Detector.

Other Information Related to Accounts Payable

The preparation of financial statements in conformity with generally accepted accounting principles requires CBDP to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from the estimates. The CBDP estimate and the audit adjustment resulted in a $27.9 million net decrease in total accounts payable for the 4th Quarter, FY 2006.

Note 9.	Other Liabilities

As of September 30	2006			2005
	Current Liability	Noncurrent Liability	Total	Total
(Amounts in thousands)				
Intragovernmental				
Other Liabilities	$ 14	$ 2	$ 16	$ 25
Total Intragovernmental Other Liabilities	$ 14	$ 2	$ 16	$ 25
Nonfederal				
Accrued Funded Payroll and Benefits	$ 560	$ -	$ 560	$ 1,057
Accrued Unfunded Annual Leave	588	-	588	583
Capital Lease Liability	-	-	-	-
Other Liabilities	370	10,774	11,144	489
Total Nonfederal Other Liabilities	$ 1,518	$ 10,774	$ 12,292	$ 2,129
Total Other Liabilities	$ 1,532	$ 10,776	$ 12,308	$ 2,154

Fluctuations

Intragovernmental Other Liabilities

The decrease of $9 thousand (36%) in total intragovernmental other liabilities is attributable to a decrease in the 4th Quarter, FY 2006, in accrued funded employee payroll benefit contributions for civilian employees in the Chemical and Biological Defense Program (CBDP). The CBDP had a net decrease in the civilian staff of 21 employees as a result of a re-organization and changes in personnel between the 1st and 4th Quarters, FY 2006.

Nonfederal Other Liabilities

The increase of $10.2 million (477%) in total nonfederal other liabilities is attributable primarily to an increase of $10.8 million in noncurrent contingent liabilities for contract financing payments in the 4th Quarter, FY 2006. The CBDP made contract financing payments to multiple contractors, primarily Northrop Grumman, for the integration of chemical and biological detection systems on multiple Military Department platforms, such as shelters, ships, and trailers.

Other Information Related to Other Liabilities

Nonfederal Other Liabilities

Nonfederal other liabilities balance includes $10.8 million in estimated future contract financing payments that will be paid to the contractor upon delivery and Government acceptance of a satisfactory product. In accordance with contract terms, specific rights to the contractor's work vests with the Government when a specific type of contract financing payments is made, thereby, protecting taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as the rights of ownership. The Department is under no obligation to pay the contractor for amounts greater than the amounts authorized in the contract until delivery and Government acceptance of a satisfactory product. Because it is probable that the contractor will complete its efforts and deliver a satisfactory product to the Department and the amount of potential future payments are estimable; the Department has recognized a contingent liability for estimated future payments, which are conditional pending delivery and Government acceptance of a satisfactory product.

Composition of Intragovernmental Other Liabilities

Other liabilities are comprised of interest due to the Department of the Treasury on refund receivables and accrued funded employee payroll benefit contributions.

Composition of Nonfederal Other Liabilities

Other liabilities are comprised of noncurrent contingent liabilities for contract financing payments and employer contributions and payroll taxes payable.

Note 10.	General Disclosures Related to the Statement of Net Cost

Intragovernmental Costs and Exchange Revenue		
As of September 30	2006	2005
(Amounts in thousands)		
Intragovernmental Costs	$ 778,015	$ 477,422
Public Costs	575,315	804,140
Total Costs	$ 1,353,330	$ 1,281,562
Intragovernmental Earned Revenue	$ 1,063	$ (11,694)
Total Earned Revenue	$ 1,063	$ (11,694)
Net Cost of Operations	$ 1,354,393	$ 1,269,868

Fluctuations

The increase in the net cost of operations of $84.5 million (7%) is primarily attributable to an increase in intragovernmental costs in the 4th Quarter, FY 2006. The Chemical and Biological Defense Program (CBDP) had an increase in intragovernmental costs to improve the Major Range and Test Facility Base at Dugway Proving Grounds, Utah. Additionally, CBDP had increases in intragovernmental costs for chemical protective clothing and enhancements to advanced chemical and biological detection systems, materials for filtration and protection; and decontaminants.

Abnormal Balance

The abnormal balance of $1.1 million in intragovernmental earned revenue is attributable to corrections for accruals that resulted from system coding errors that occurred in September 2005. The system coding errors primarily affected reimbursements due from the Department of Homeland Security for a biological contamination demonstration conducted on a set of buildings at Dugway Proving Grounds, Utah. The Department of Homeland Security was billed before the large-scale contamination demonstration was conducted in June 2006. The correction of the accrual created the abnormal balance. The contamination demonstration at Dugway Proving Grounds cost $546 thousand, which was correctly billed to the Department of Homeland Security.

Other Information Related to the Statement of Net Cost

Heritage Assets

The CBDP reports no heritage assets or stewardship land.

Other Disclosures

The Consolidated Statement of Net Cost (SoNC) in the Federal Government is unique because its principles are driven on understanding the net cost of programs and/or organizations that the federal government supports through appropriations or other means. This statement provides gross and net cost information that can be related to the amount of output or outcome for a given program and/or organization administered by a responsible reporting entity.

The amounts presented in the SoNC are based on obligations and disbursements and, therefore, may not in all cases report actual accrued costs. The accounting systems that support CBDP generally record transactions on a cash basis and not on an accrual basis as required by generally accepted accounting principles. Therefore, the accounting systems that support CBDP do not capture actual costs. As such, information presented in the SoNC is based on budgetary obligations, disbursements, and collection transactions, as well as nonfinancial feeder systems; and then adjusted as necessary, to record known accruals for major items such as payroll expenses and accounts payable.

Intragovernmental costs and revenue are related to transactions made between CBDP and other DoD component entities within the Federal Government.

Public costs and revenue are exchange transactions made between CBDP and a nonfederal entity.

The CBDP entities' systems do not capture cost data in a manner that enables the Department of Defense (DoD) to determine if the cost was incurred to generate intragovernmental revenue. The DoD is in the process of improving its financial and feeder systems and will be addressing this issue. Additionally, the identification of intragovernmental revenue and expenses is a government-wide problem. The Office of Management and Budget and the Department of Treasury have efforts underway to develop government-wide guidance to enable accurate reporting of intergovernmental transactions.

For the majority of intraagency sales, DoD accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. The CBDP intragovernmental expenses are adjusted to match the intragovernmental revenue reported by the sellers.

Note 11.	Disclosures Related to the Statement of Changes in Net Position

As of September 30	2006		2005	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
(Amounts in thousands)				
Imputed Financing				
Civilian CSRS/FERS Retirement	$ 192	$ 0	$ 193	$ 0
Civilian Health	107	0	140	0
Civilian Life Insurance	1	0	1	0
IntraEntity	57,345	0	0	0
Total Imputed Financing	$ 57,645	$ 0	$ 334	$ 0

Fluctuations

The increase of $57.3 million in total imputed financing is attributable primarily to the imputed costs for military and civilian personnel costs borne by components in support of the Chemical and Biological Defense Program (CBDP) throughout FY 2006. The CBDP had a change in presentation for FY 2006 and did not populate the FY 2005 schedule for imputed military and civilian personnel costs.

Information Related to the Statement of Net Position

Imputed Financing

The amounts remitted to Office of Personnel Management (OPM) for employees covered by Civil Service Retirement System, Federal Employee Retirement System, Federal Employees Health Benefits Program, and the Federal Employee Group Life Insurance Program do not fully cover the Government's cost to provide these benefits. An imputed cost is recognized as the difference between the Government's cost of providing these benefits to the employees and contributions made by and for them. The OPM provides the cost factors to the Defense Finance and Accounting Service (DFAS) for computation of imputed financing cost. The DFAS provides the costs to the Office of the Under Secretary of Defense (Personnel and Readiness) for validation. The reporting components receive approved imputed benefit costs for inclusion in their financial statements.

Composition of Other Financing Sources

The other line of the other financing sources is comprised of CBDP gains.

Note 12.	Disclosures Related to the Statement of Budgetary Resources

As of September 30	2006	2005
(Amounts in thousands)		
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 1,530,176	$ 1,284,051

Other Disclosures

There is no direct correlation between line 1 reported above to any specific line on the Statement of Budgetary Resources (SBR). The net amount of budgetary resources obligated for undelivered orders contains the following accounts: Undelivered orders-obligations prepaid/advanced, undelivered orders- obligations unpaid, and downward/upward adjustments of prior year unpaid undelivered orders.

The SBR includes intraentity transactions because the statements are presented as combined and combining.

Apportionment Categories for Obligations Incurred

The Office of Management and Budget Circular A-136 specifically requires disclosure of the amount of direct and reimbursable obligations incurred against amounts apportioned under categories A, B, and exempt from apportionment. This disclosure should agree with the aggregate of the related information as included in each reporting entity's Report on Budget Execution (Standard Form 133) and lines 8A and 8B in the SBR.

	Report on Budget Execution (In Thousands)	Statement of Budgetary Resources (In Thousands)
Direct Obligations, Category A	$2,072,085	$2,048,580
Reimbursable Obligations	4,222	4,222
Total Obligations	$2,076,307	$2,052,802

Direct Obligations, Category A Statement of Budgetary Resources is $23.5 million less than the Report on Budget Execution as a result of an audit recommended adjustment.

The CBDP has no amounts apportioned under category B and exempt from apportionment.

Appropriations Received

There are no differences in the appropriations received on the SBR and the Statement of Changes in Net Position.

The CBDP has no permanent indefinite appropriations.

Note 13. Disclosures Related to the Statement of Financing

Information Related to the Statement of Financing

The objective of the Statement of Financing (SOF) is to reconcile the difference between budgetary obligations and the net cost of operations reported. The Office of Management and Budget Bulletin A-136 requires SOF to be presented on a consolidated basis. The following SOF lines are presented as combined instead of consolidated due to interagency budgetary transactions not being eliminated:

- Obligations incurred
- Less: Spending Authority from Offsetting Collections and Recoveries
- Obligations Net of Offsetting Collections and Recoveries
- Less: Offsetting Receipts
- Net Obligations
- Undelivered Orders
- Unfilled Customer Orders

Due to the Department of Defense financial system limitations, budgetary data is not in agreement with proprietary expenses and assets capitalized. Differences between budgetary and proprietary data are a previously identified deficiency. However, CBDP required no adjustment on the other line of components not requiring or generating resources of SOF to bring it into balance with the Statement of Net Cost.

Liabilities Not Covered by Budgetary Resources

The amount and relationship between the amount reported as a liability not covered by budgetary resources on the balance sheet and the amount reported as components requiring or generating resources in future periods on the statement of financing is a timing issue related to the established procedure of recording the annual leave adjustment on an annual basis. The CBDP had an adjustment in the 4th Quarter, FY 2006.

The difference between the amount reported as Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the amount reported as Components Requiring or Generating Resources in Future Periods on SOF consists primarily of unfunded annual leave ($578 thousand).

Composition of Other Budgetary Resources Obligated

Other budgetary resources obligated line is comprised of CBDP gains.

Composition of Other Resources Used to Finance Items Not Part of the Net Cost of Operations

The other line of other resources used to finance items not part of the net cost of operations is comprised of CBDP losses.

TAB D

SUPPORTING CONSOLIDATING/COMBINING STATEMENTS

Department of Defense
Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program
CONSOLIDATING BALANCE SHEET
As of September 30, 2006 and 2005
(Amounts in Thousands)

	Procurement	Research, Development Test & Evaluation	Component Level	2006 Consolidated	2005 Consolidated
ASSETS (Note 2)					
Intragovernmental:					
Fund Balance with Treasury (Note 3)					
Entity	$ 946,250	$ 966,036	$ -	$ 1,912,286	$ 1,526,962
Accounts Receivable (Note 4)	204	59	(185)	78	5,506
Total Intragovernmental Assets	$ 946,454	$ 966,095	$ (185)	$ 1,912,364	$ 1,532,468
Accounts Receivable, Net (Note 4)	$ -	$ 97	$ -	97	$ 4
General Property, Plant and Equipment, Net (Note 6)	11,834	1,642	-	13,476	-
Other Assets (Note 5)	39,094	740	-	39,834	45,191
TOTAL ASSETS	$ 997,382	$ 968,574	$ (185)	$ 1,965,771	$ 1,577,663

The accompanying notes are an integral part of these statements.

Department of Defense
Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program
CONSOLIDATING BALANCE SHEET
As of September 30, 2006 and 2005
(Amounts in Thousands)

	Procurement	Research, Development Test & Evaluation	Component Level	2006 Consolidated	2005 Consolidated
LIABILITIES (Note 7)					
Intragovernmental:					
Accounts Payable (Note 8)	$ 1	$ (7,842)	$ 24,782	$ 16,941	$ 27,252
Other Liabilities (Note 9)	-	16	-	16	25
Total Intragovernmental Liabilities	$ 1	$ (7,826)	$ 24,782	$ 16,957	$ 27,277
Accounts Payable (Note 8)	$ 9,644	$ 4,021	$ -	$ 13,665	$ 41,942
Other Liabilities (Note 9)	11,641	651	-	12,292	2,129
TOTAL LIABILITIES	$ 21,286	$ (3,154)	$ 24,782	$ 42,914	$ 71,348
NET POSITION					
Unexpended Appropriations - Other Funds	$ 966,909	$ 970,109	$ (24,967)	$ 1,912,051	1,455,555
Cumulative Results of Operations - Other Funds	9,187	1,619	-	10,806	50,760
TOTAL NET POSITION	$ 976,096	$ 971,728	$ (24,967)	$ 1,922,857	$ 1,506,315
TOTAL LIABILITIES AND NET POSITION	$ 997,382	$ 968,574	$ (185)	$ 1,965,771	$ 1,577,663

The accompanying notes are an integral part of these statements.

Department of Defense
Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program
CONSOLIDATING STATEMENT OF NET COST
As of September 30, 2006 and 2005
(Amounts in Thousands)

	Procurement	Research, Development Test & Evaluation	Component Level	2006 Consolidated	2005 Consolidated
Program Costs (Note 10)					
Gross Costs	$ 530,881	$ 803,614	$ 18,835	$ 1,353,330	$ 1,281,562
(Less: Earned Revenue)	1,327	(264)	-	1,063	(11,694)
Net Program Costs	$ 532,208	$ 803,350	$ 18,835	$ 1,354,393	$ 1,269,868
Cost Not Assigned to Programs	-	-	-	-	-
(Less: Earned Revenue Not Attributable to Programs)	-	-	-	-	-
Net Cost of Operations	$ 532,208	$ 803,350	$ 18,835	$ 1,354,393	$ 1,269,868

The accompanying notes are an integral part of these statements.

Department of Defense
Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program
COMBINING STATEMENT OF BUDGETARY RESOURCES
As of September 30, 2006 and 2005
(Amounts in Thousands)

	Procurement	Research, Development Test & Evaluation	2006 Combined	2005 Combined
BUDGETARY FINANCING ACCOUNTS				
BUDGETARY RESOURCES				
Unobligated balance, brought forward, October 1	$ 92,365	$ 88,924	$ 181,289	$ 166,120
Recoveries of prior year unpaid obligations	278,929	218,597	497,526	334,788
Budget authority				
Appropriation	722,215	1,064,643	1,786,858	1,432,823
Spending authority from offsetting collections				
Earned				
Collected	3,108	1,074	4,182	6,168
Change in receivables from Federal sources	(4,434)	(810)	(5,244)	5,526
Change in unfilled customer orders				
Without advance from Federal sources	5,303	1,571	6,874	(2,017)
Subtotal	$ 726,192	$ 1,066,478	$ 1,792,670	$ 1,442,500
Nonexpenditure transfers, net, anticipated and actual	(433)	(44)	(477)	5,188
Permanently not available	(10,166)	(18,907)	(29,073)	(20,734)
Total Budgetary Resources	$ 1,086,887	$ 1,355,048	$ 2,441,935	$ 1,927,862

The accompanying notes are an integral part of these statements.

Department of Defense
Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program
COMBINING STATEMENT OF BUDGETARY RESOURCES
As of September 30, 2006 and 2005
(Amounts in Thousands)

	Procurement	Research, Development Test & Evaluation	2006 Combined	2005 Combined
Status of Budgetary Resources:				
Obligations incurred:				
Direct	$ 947,609	$ 1,100,971	$ 2,048,580	$ 1,736,548
Reimbursable	2,383	1,839	4,222	10,025
Subtotal	$ 949,992	$ 1,102,810	$ 2,052,802	$ 1,746,573
Unobligated balance:				
Apportioned	124,909	246,526	371,435	170,904
Unobligated balance not available	11,986	5,712	17,698	10,385
Total status of budgetary resources	$ 1,086,887	$ 1,355,048	$ 2,441,935	$ 1,927,862

The accompanying notes are an integral part of these statements.

Department of Defense
Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program
COMBINING STATEMENT OF BUDGETARY RESOURCES
As of September 30, 2006 and 2005
(Amounts in Thousands)

	Procurement	Research, Development Test & Evaluation	2006 Combined	2005 Combined
Change in Obligated Balance:				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	749,276	605,525	1,354,801	1,213,116
Less: Uncollected customer payments from Federal sources, brought forward, October 1	$ (7,036)	$ (1,015)	$ (8,051)	$ (4,541)
Total unpaid obligated balance	742,240	604,510	1,346,750	1,208,575
Obligations incurred net	$ 949,992	$ 1,102,810	$ 2,052,802	$ 1,746,573
Less: Gross outlays	(603,079)	(774,164)	(1,377,243)	(1,270,100)
Obligated balance transferred, net				
Less: Recoveries of prior year unpaid obligations, actual	(278,929)	(218,597)	(497,526)	(334,788)
Change in uncollected customer payments from Federal sources	(869)	(761)	(1,630)	(3,509)
Obligated balance, net, end of period				
Unpaid obligations	817,259	715,574	1,532,833	1,354,801
Less: Uncollected customer payments from Federal sources	(7,904)	(1,776)	(9,680)	(8,051)
Total, unpaid obligated balance, net, end of period	$ 809,355	$ 713,798	$ 1,523,153	$ 1,346,750
Net Outlays				
Net Outlays:				
Gross outlays	$ 603,079	$ 774,164	$ 1,377,243	$ 1,270,100
Less: Offsetting collections	(3,107)	(1,074)	(4,181)	(6,168)
Net Outlays	$ 599,972	$ 773,090	$ 1,373,062	$ 1,263,932

The accompanying notes are an integral part of these statements.

Department of Defense
Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program
CONSOLIDATING STATEMENT OF FINANCING
As of September 30, 2006 and 2005
(Amounts in Thousands)

	Procurement	Research, Development Test & Evaluation	2006 Consolidated	2005 Consolidated
Resources Used to Finance Activities:				
Budgetary Resources Obligated				
Obligations incurred	$ 949,992	$ 1,102,810	$ 2,052,802	$ 1,746,573
Less: Spending authority from offsetting collections and recoveries	(282,906)	(220,432)	(503,338)	(344,466)
Obligations net of offsetting collections and recoveries	$ 667,086	$ 882,378	$ 1,549,464	$ 1,402,107
Less: Offsetting receipts	-	-	-	-
Net obligations	$ 667,086	$ 882,378	$ 1,549,464	$ 1,402,107
Other Resources				
Imputed financing from costs absorbed by others	$ -	$ 57,645	$ 57,645	$ 334
Other	(44,002)	(16)	(44,018)	(17,576)
Net other resources used to finance activities	$ (44,002)	57,629	$ 13,627	$ (17,242)
Total resources used to finance activities	$ 623,084	$ 940,007	$ 1,563,091	$ 1,384,865

The accompanying notes are an integral part of these statements.

Department of Defense
Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program
CONSOLIDATING STATEMENT OF FINANCING
As of September 30, 2006 and 2005
(Amounts in Thousands)

	Procurement	Research, Development Test & Evaluation	Component Level	2006 Consolidated	2005 Consolidated
Resources Used to Finance Items not Part of the Net Cost of Operations					
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided					
Undelivered Orders	$ (128,378)	$ (136,582)	$ 18,835	$ (246,125)	$ (130,855)
Unfilled Customer Orders	5,303	1,571	-	6,874	(2,017)
Resources that fund expenses recognized in prior periods	-	(19)	-	(19)	(295)
Resources that finance the acquisition of assets	(23,912)	(2,812)	-	(26,724)	-
Other resources or adjustments to net obligated resources that do not affect net cost of operations					
Other	44,002	16	-	44,018	17,576
Total resources used to finance items not part of the net cost of operations	$ (102,985)	$ (137,826)	$ 18,835	$ (221,976)	$ (115,591)
Total resources used to finance the net cost of operations	$ 520,099	$ 802,181	$ 18,835	$ 1,341,115	$ 1,269,274

The accompanying notes are an integral part of these statements.

Department of Defense
Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program
CONSOLIDATING STATEMENT OF FINANCING
As of September 30, 2006 and 2005
(Amounts in Thousands)

	Procurement	Research, Development Test & Evaluation	Component Level	2006 Consolidated	2005 Consolidated
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:					
Components Requiring or Generating Resources in Future Period:					
Increase in annual leave liability	$ 29	$ -	$ -	$ 29	$ 594
Other	-	-	-	-	-
Total components of Net Cost of Operations that will require or generate resources in future periods	$ 29	$ -	$ -	$ 29	$ 594
Components not Requiring or Generating Resources:					
Depreciation and amortization	$ 12,078	$ 1,170	$ -	$ 13,248	$ -
Other	-	-	-	-	-
Total components of Net Cost of Operations that will not require or generate resources	$ 12,078	$ 1,170	$ -	$ 13,248	$ -
Total components of net cost of operations that will not require or generate resources in the current period	$ 12,107	$ 1,170	$ -	$ 13,277	$ 594
Net Cost of Operations	$ 532,206	$ 803,351	$ 18,835	$ 1,354,392	$ 1,269,868

The accompanying notes are an integral part of these statements.

TAB E

REQUIRED SUPPLEMENTAL STEWARDSHIP INFORMATION

Investments In Research and Development

Yearly Investment in Research and Development
For Fiscal Years (Preceding 4th Fiscal Year) through FY2006
(In Millions of Dollars)

Categories	**FY02**	**FY03**	**FY04**	**FY05**	**FY06**
Basic Research	35.565	47.370	46.256	51.332	39.598
Applied Research	101.024	149.899	148.711	147.751	144.682
Development					
Advanced Technology Development	54.241	82.116	93.878	138.384	147.202
Demonstration and Validation	84.496	81.965	94.764	128.650	103.580
Engineering and Manufacturing Development	114.510	144.624	157.534	163.770	181.992
Research, Development, Test and Evaluation and Management Support	36.052	48.298	38.093	62.540	60.063
Operational Systems Development	-	-	-	0.047	2.609
Total	425.888	554.272	579.236	692.474	679.726

Narrative Statement

See attached.

CBDP Narrative Statement:

"Basic Research is the systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications, processes, or products in mind. Basic Research involves the gathering of a fuller knowledge or understanding of the subject under study. Major outputs are scientific studies and research papers."

"Applied Research is the systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met. It is the practical application of such knowledge or understanding for the purpose of meeting a recognized need. This research points toward specific military needs with a view toward developing and evaluating the feasibility and practicability of proposed solutions and determining their parameters. Major outputs are scientific studies, investigations, research papers, hardware components, software codes, and limited construction of, or part of, a weapon system to include nonsystem specific development efforts."

"Development takes what has been discovered or learned from basic and applied research and uses it to establish technological feasibility, assessment of operability, and production capability. Development is comprised of five stages defined below:

1. Advanced Technology Development is the systematic use of the knowledge or understanding gained from research directed toward proof of technological feasibility and assessment of operational and producibility rather than the development of hardware for service use. Employs demonstration activities intended to prove or test a technology or method.

2. Advanced Component Development and Prototypes evaluates integrated technologies in as realistic an operating environment as possible to assess the performance or cost reduction potential of advanced technology. Programs in this phase are generally system specific. Major outputs of Advanced Component Development and Prototypes are hardware and software components, or complete weapon systems, ready for operational and developmental testing and field use.

3. System Development and Demonstration concludes the program or project and prepares it for production. It consists primarily of preproduction efforts, such as logistics and repair studies. Major outputs are weapons systems finalized for complete operational and developmental testing.

4. Research, Development, Test, and Evaluation Management Support is support for installations and operations for general research and development use. This category includes costs associated with test ranges, military construction maintenance support for laboratories, operation and maintenance of test aircraft and ships, and studies and analyses in support of the Research and Development program.

5. Operational Systems Development is concerned with development projects in support of programs or upgrades still in engineering and manufacturing development, which have received

approval for production, for which production funds have been budgeted in subsequent fiscal years."

The following are representative program examples for each of the above major categories:

Basic - This program funds the Joint Service core research program for chemical and biological (CB) defense (medical and non-medical). The basic research program aims to improve the operational performance of present and future Department of Defense (DoD) components by expanding knowledge in relevant fields for CB defense. Moreover, basic research supports a Joint Force concept of a lethal, integrated, supportable, highly mobile force with enhanced performance by the individual soldier, sailor, airman, or marine. Specifically, the program promotes theoretical and experimental research in the chemical, biological, medical, and related sciences. Research areas are determined and prioritized to meet Joint Service needs as stated in mission area analyses and Joint operations requirements, and to take advantage of scientific opportunities. The program funds laboratories and research organizations to capitalize on scientific talent, specialized and uniquely engineered facilities, and technological breakthroughs. The work in this program element is consistent with the DoD Chemical and Biological Defense Program (CBDP) Research, Development, and Acquisition (RDA) Plan. Basic research efforts lead to expeditious transition of the resulting knowledge and technology to the applied research and advanced technology development activities. This project also covers the conduct of basic research efforts in the areas of real-time sensing and diagnosis and immediate biological countermeasures. The projects in this Program Element include basic research efforts directed toward providing fundamental knowledge for the solution of defense-related problems and new-improved military capabilities.

Applied Research - Funding sustains a robust program, which reduces the danger of a CB attack and enables U.S. forces to survive and continue operations in a CB environment. The medical program focuses on development of vaccines, pretreatment, and therapeutic drugs, and on casualty diagnosis, patient decontamination, and medical management. In the non-medical area, the emphasis is on continuing improvements in CB defense materiel, including contamination avoidance, decontamination, and protection systems. The program provides for conduct of applied research in the areas of real-time sensing and immediate biological countermeasures. The program provides concept and technology demonstrations of new system concepts that will shape the development for environmental monitoring, medical surveillance, and data mining/fusion/analysis subsystems. The work is consistent with the DoD CBDP RDA Plan. Efforts under this program transition to and provide risk reduction for Advanced Technology Development, Advanced Component Development and Prototypes and System Development and Demonstration.

Development - This program demonstrates technologies that enhance the ability of U.S. forces to defend against, and survive CB warfare. This program funds advanced technology development for Joint Service and Service-specific requirements in both medical and non-medical CB defense areas. The medical program aims to produce drugs, vaccines, and medical devices as countermeasures for CB threat agents. Specific areas of medical investigation include: prophylaxis, pretreatment, antidotes and therapeutics, personnel and patient decontamination, and medical management of casualties. In the non-medical area, the focus is on demonstrations of CB defense technologies, including biological detection, chemical detection, and

decontamination. These demonstrations, conducted in an operational environment with active user and developer participation, integrate diverse technologies to improve DoD CB Warfare defense and deterrence. These demonstrations are leveraged by the Counterproliferation Support Program and include remote biological detection. Also research efforts are planned to evaluate technologies for Weapons of Mass Destruction Civil Support Teams (WMD-CSTs). Work conducted under this program transitions to and provides risk reduction for System Integration/Demonstration activities. The work in this program is consistent with the DoD CBDP RDA Plan. This program also provides for the conduct of advanced technology development in the areas of real-time sensing, accelerated biological warfare (BW) operational awareness, and the restoration of operations following a CB Warfare attack. This program is dedicated to conducting proof-of-principle field demonstrations, and tests of system-specific technologies to meet specific military needs.

Operational forces have an immediate need to survive, safely operate, and sustain operations in a CB agent threat environment across the continuum of global, contingency, special operations/low intensity conflict, counternarcotics, and other high risk missions. This program supports the Advanced Component Development and Prototypes (ACD&P) of CB defensive equipment, both medical and non-medical. DoD missions for Homeland Security and for civil support operations have recently expanded and have resulted in providing focus to develop technologies to support CB counterterrorism initiatives. These projects have been structured to consolidate Joint and Service-unique tasks within four commodity areas: contamination avoidance, force protection (individual and collective), decontamination, and medical countermeasures. This program is enhanced using Counterproliferation Support Program funding. ACD&P is conducted for an array of chemical/biological/toxin detection and warning systems to include decontamination capabilities, such as the sorbent technology, the Joint Service Family of Decontamination Systems (JSFDS), and the Joint Service Sensitive Equipment Decontamination (JSSED) programs. ACD&P is also conducted for the transition of biological detection components (major thrusts include: (1) early warning; (2) collector concentrators; (3) generic detection; and (4) improved reagents for the future Joint Biological Point Detection System (JBPDS) Block II, and Joint Biological Standoff Detection System, (JBSDS). In the medical chemical/biological defense area, ACD&P is conducted for improved medical equipment, vaccines, and drugs essential to counteracting lethal and human performance degrading effects of CB agent threats. Specific items include improvements to nerve agent antidotes, topical skin protectants, anticonvulsants, biological agent diagnostics, and vaccines to protect against various BW agents. This program focuses on efforts associated with advanced technology development used to demonstrate general military utility to include ACD&P in the areas of Non-Traditional Agents and CB defense equipment.

Operating forces have a critical need for defense against worldwide proliferation of CB warfare capabilities and for medical treatment of casualties in medical treatment facilities. This program supports the System Development and Demonstration of CB defensive equipment, both medical and non-medical. These projects have been restructured to consolidate Joint and Service-unique tasks within four commodity areas: contamination avoidance, force protection (individual and collective), decontamination, and medical countermeasures. The consolidation will provide for development and operational testing of equipment for Joint Service as well as Service-unique requirements. Contamination avoidance efforts under this system development program will

provide U.S. forces with real-time hazard assessment capabilities. They include advanced multi-agent point and remote chemical detection systems for ground, aircraft, and shipboard applications; automated warning and reporting systems; integrated radiation detection and monitoring equipment; and enhanced battlefield reconnaissance capabilities. Force protection efforts will increase protection levels while decreasing physical and psychological burdens imposed by protective equipment. They include improved aircrew respiratory protection, lightweight integrated suit technology, and shipboard collective protection equipment. WMD-CST efforts provide for testing and development of a Unified Command Suite and an Analytical Laboratory Platform for these teams. The medical chemical defense system development program funds improved medical equipment and drugs essential to counteracting lethal and performance-degrading effects of chemical threats and medical equipment essential to meeting medical requirements on the integrated battlefield with emphasis on decreased size/weight and high mobility, yet supporting large numbers of combat casualties. Additionally, foreign medical materiel may be procured for exploitation of advanced technology and development to meet medical defense goals. This program supports the development of prophylactic and therapeutic drugs and rapid identification and diagnostic systems. The DoD BD mission requires the detection of validated biological threat agents to provide early warning capabilities on mobile and fixed platforms. This program will provide theater protection through the development of point and stand-off detection systems. The detection system concept will provide detection, identification, warning, and sample collection for verification that a biological agent attack has occurred. This program also provides for the development of biological defense medical programs. The DoD BD medical mission will address: (1) protective vaccines - vaccination capability against the most probable biological threat agents; (2) identification - clinical identification of biological threat agents through medical evaluation and laboratory analysis to augment early warning capabilities.

This program provides research, development, testing and evaluation management support to the DoD CBDP. This effort includes support to the DoD response to CB terrorism; funds joint doctrine and training support; funds sustainment of technical test capability at Dugway Proving Ground; and funds financial/program management support. Additionally, this program funds the Joint Concept Development and Experimentation program, which provides a response to Combatant Commanders and Services regarding joint tests and research assessments.

This program provides operational systems development for the DoD CBDP. This program provides funds for the Detector Modification program to upgrade systems that have been fielded or have received approval for full rate production and anticipate production funding in subsequent years. These efforts support the upgrade of fielded detectors against emerging and changing chemical threat agents and toxic industrial chemicals.

TAB F

REQUIRED SUPPLEMENTAL INFORMATION

Fiscal year 2006 quarter 4

Required Supplemental Information - Part A

AT97 - Other Defense Organizations General Funds
Under Secretary of Defense (Acquisition, Technology, and Logistics)
CBDP - Chemical Biological Defense Program

Schedule, Part A DoD Intra-governmental Asset Balances. ($ Amounts in Thousands)	Treasury Index:	Fund Balance with Treasury	Accounts Receivable	Loans Receivable	Investments	Other
Department of the Treasury	20	$1,912,286				
Army General Fund	21		$2			
Homeland Security	70		$0			
Department of Health and Human Services	75		$10			
Other Defense Organizations General Funds	97		$65			$0
Navy Working Capital Fund	97-4930.002		$0			
Totals might not match reports.	**Totals:**	**$1,912,286**	**$77**			**$0**

Fiscal year 2006 quarter 4

Required Supplemental Information - Part B

AT97 - Other Defense Organizations General Funds
Under Secretary of Defense (Acquisition, Technology, and Logistics)
CBDP - Chemical Biological Defense Program

Schedule, Part B DoD Intra-governmental entity liabilities. ($ Amounts in Thousands)	Treasury Index:	Accounts Payable	Debts/Borrowings From Other Agencies	Other
Navy General Fund	17	$4,586		
Army General Fund	21	$6,463		
Office of Personnel Management	24			$14
Other Defense Organizations General Funds	97	$5,202		
Other Defense Organizations Working Capital Funds	97-4930	$122		
Army Working Capital Fund	97-4930.001	$22		
Navy Working Capital Fund	97-4930.002	$545		
The General Fund of the Treasury	99			$2
Totals might not match reports.	**Totals:**	**$16,940**	**$0**	**$16**

Fiscal year 2006 quarter 4

Required Supplemental Information - Part C

AT97 - Other Defense Organizations General Funds
Under Secretary of Defense (Acquisition, Technology, and Logistics)
CBDP - Chemical Biological Defense Program

Schedule, Part C DoD Intra-governmental revenue and related costs. ($ Amounts in Thousands)	Treasury Index:	Earned Revenue
Army General Fund	21	$40
Homeland Security	70	$16
Department of Health and Human Services	75	($650)
Department of Energy	89	$1
Other Defense Organizations General Funds	97	$846
Navy Working Capital Fund	97-4930.002	$11
The General Fund of the Treasury	99	($1,327)
Totals might not match reports.	**Totals:**	**($1,063)**

TAB G

FY 2006 AUDIT OPINION

LEONARD G. BIRNBAUM AND COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

WASHINGTON OFFICE

6285 FRANCONIA ROAD

ALEXANDRIA, VA 22310-2510

(703) 922-7622

FAX: (703) 922-8256

LESLIE A. LEIPER
LEONARD G. BIRNBAUM
DAVID SAKOFS
CAROL A. SCHNEIDER
DORA M. CLARKE

WASHINGTON, D.C.
SUMMIT, NEW JERSEY
REDWOOD CITY, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT

To the Special Assistant, Chemical and Biological Defense and Chemical Demilitarization Programs,

We have audited the Chemical and Biological Defense Program's (CBDP) Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and Consolidated Statement of Financing as of, and for the year ended September 30, 2006 (collectively the Principal Financial Statements); we have examined internal control over financial reporting in place as of September 30, 2006; and we have examined compliance with laws and regulations. CBDP's Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and Consolidated Statement of Financing as of, and for the year ended September 30, 2005 were audited by us, and we expressed a qualified opinion on them in our report dated May 1, 2006.

In our opinion, the CBDP's 2006 Principal Financial Statements are presented fairly in all material respects.

We found:

- no material conflicts with CBDP's 2006 report on management controls prepared as required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA).
- Matters related to internal control over financial reporting that we considered to be material weaknesses and reportable conditions, and
- Instances of noncompliance with selected provisions of applicable laws and regulations.

Each of these conclusions is discussed in more detail below. This report also discusses the scope of our work.

PRINCIPAL FINANCIAL STATEMENTS

In our opinion, the CBDP's 2006 Principal Financial Statements, including the notes thereto, present fairly, in all material respects, CBDP's financial position as of September 30, 2006, and the net cost of operations, the changes in net position, the use of budgetary resources,

and the use of financing resources for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had CBDP accrued expenses incurred prior to September 30, 2005 but paid subsequently, CBDP's Principal Financial Statements, including the notes thereto, present fairly, in all material respects, CBDP's financial position as of September 30, 2005, and the net cost of operations, the changes in net position, the use of budgetary resources, and the use of financing resources for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INTERNAL CONTROL

We considered CBDP's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the Principal Financial Statements. Since the majority of CBDP's financial recording and reporting, including the issuance of financial statements, are performed by the Defense Finance and Accounting Service (DFAS), our consideration of internal control included those aspects of internal control of DFAS which were relevant to CBDP. We limited our internal control testing to those controls necessary to achieve the objectives described in the Office of Management and Budget's (OMB) Bulletin 06-03, *Audit Requirements for Federal Financial Statements.* We did not test all internal controls relevant to operating objectives as broadly defined in FMFIA, such as those controls relevant to assuring efficient operations. Since our objective was not to provide assurance on internal control, we do not provide an opinion on internal control.

The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the following objectives are met:

- transactions are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over assets;
- funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition;
- transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements and other laws and regulations that the Office of Management and Budget (OMB), Department of Defense management, or the Inspector General have identified as being significant and for which compliance can be objectively measured and evaluated; and
- data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information.

Our consideration of internal control would not necessarily disclose all matters of internal control over financial reporting that might be reportable conditions. Under standards issued by

the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect CBDP's or DFAS' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts, which would be material in relation to the financial statements being audited or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted several matters that we considered to be material weaknesses, as defined above:

- significant elements of the financial statements are developed from sources other than the general ledger,

- entries are processed to force financial data to agree with various data sources and various components of the Principal Financial Statements,

- the various information technology systems used in processing CBDP's financial transactions are not integrated and, consequently, incapable of providing complete transaction details without extensive manual effort,

- no process exists to identify, coordinate and track internal control weaknesses in the entities that execute the CBDP activities,

- Program Offices responsible for obligating CBDP funds are not provided with results of their financial activity,

- no process exists to ensure that expenditures and accounts payable are recorded in the period in which they occur, and

- management of undelivered orders is inadequate.

In addition, the DoD OIG has identified the following design deficiencies by DFAS which are relevant to DFAS' processing of financial data for the CBDP which we consider to be reportable conditions as defined above:

- trial balance data manually migrated into DDRS-AFS may not be accurate, authorized, and complete, and the data from the SF-133, or other feeder systems may not be input accurately into DDRS,

- when performing maintenance to USSGL accounts valid and accurate changes are not always made to DDRS reference tables, Department reporting tables, and other critical system components, and the changes may not be input and processed timely,

- DDRS does not have systems or processes for determining the quality and integrity of data flowing through the system, and balances may not be input and updated completely and accurately,

- journal vouchers may not be supported by adequate documentation and approved prior to entry into DDRS.

We noted certain other issues related to internal control as implemented by CBDP which we have communicated to CBDP's management in a separate letter dated November 3, 2006.

COMPLIANCE WITH LAWS AND REGULATIONS

CBDP's management is responsible for complying with laws and regulations applicable to its operations. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of CBDP's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin 06-03, *Audit Requirements for Federal Financial Statements*. Since CBDP's financial recording and reporting, including the issuance of financial statements, are performed by DFAS, we considered compliance with laws and regulations by DFAS which were relevant to CBDP. However, the objective of our audit of the Principal Financial Statements, including our tests of compliance with selected provisions of applicable laws and regulations, was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Reportable instances of noncompliance are failures to follow requirements, or violations of prohibitions in statutes or regulations, that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements or that sensitivity warrants disclosure thereof.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed the following instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States and OMB Bulletin 06-03:

The inadequacies of internal control over financial reporting are a failure to comply with:

- the Budget and Accounting Procedures Act of 1950, which requires an accounting system that provides full disclosure of the results of financial operations, adequate financial information needed in the management of operations and formulation and execution of the budget, and effective control over income, expenditures, funds, property, and other assets;

- the Federal Managers' Financial Integrity Act of 1982, which requires implementation of internal accounting and administrative controls that provide reasonable assurance that (1) obligations and costs are in compliance with applicable laws, (2) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation, and (3) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports to maintain accountability over the assets;

- the Chief Financial Officers Act of 1990, which requires the development and maintenance of an integrated accounting and financial management system that (1) complies with applicable accounting principles, standards and requirements, and internal control standards, (2) complies with such policies and requirements as may be prescribed by the Director, OMB, (3) complies with any other requirements applicable to such systems, and (4) provides for (i) complete, reliable, consistent, and timely information that is prepared on a uniform basis and that is responsive to the financial information needs of management, (ii) the development and reporting of cost information, (iii) the integration of accounting and budgeting information, and, (iv) the systematic measurement of performance; and

- OMB Circular A-127, *Financial Management Systems*, which requires agencies to establish and maintain an accounting system that provides for (1) complete disclosure of the financial results of the activities of the agency, (2) adequate financial information for agency management and for formulation and execution of the budget, and (3) effective control over revenue, expenditures, funds, property, and other assets.

- Federal Acquisition Regulation Part 17.5, *Interagency Acquisitions under the Economy Act* which requires that, before placing an Economy Act order for supplies and services with another Government agency, the requesting agency prepare a Determination and Findings memorandum.

In addition, the DoD OIG has identified the following reportable noncompliance with laws and regulations by DFAS which are relevant to DFAS' processing of financial data for CBDP.

- DoD financial management systems do not properly account for assets and liabilities in accordance with SFFAS No.1;
- DoD financial management systems do not account for accounts receivable and accounts payable in accordance with SFFAC No. 1; and
- DoD financial management systems do not implement the United States Standard General Ledger at the transaction level.

RESPONSIBILITIES AND METHODOLOGY

CBDP management has the responsibility for:

- ensuring that the Principal Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America;
- ensuring that effective internal control is established and maintained; and
- complying with laws and regulations.

Our responsibility is to express an opinion on the Principal Financial Statements based on our audit.

Auditing standards generally accepted in the United States of America require that we plan and perform the audit to obtain reasonable assurance about whether the Principal Financial Statements are free of material misstatement and presented fairly in accordance with accounting principles generally accepted in the United States of America. We considered CBDP's and DFAS' internal control for the purpose of expressing our opinion on the Principal Financial Statements and not to provide an opinion on internal control. We are also responsible for testing compliance with selected provisions of applicable laws and regulations that may materially affect the financial statements.

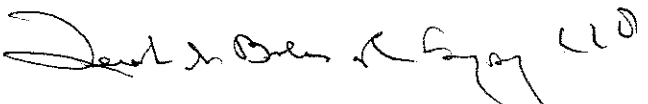
In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the Principal Financial Statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the Principal Financial Statements;
- obtained an understanding of the internal control over financial reporting;
- obtained an understanding of internal control over performance measures,
- tested, or obtained evidence of, compliance with selected provisions of laws and regulations that may materially affect the Principal Financial Statements; and
- performed other procedures as we considered necessary in the circumstances.

Except with respect to accrued expenses incurred prior to September 30, 2005 but paid subsequently, our audits were conducted in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained

in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin 06-03. We believe that our audits provide a reasonable basis for our opinion.

The Management Discussion and Analysis and Required Supplementary Information are not a required part of the Principal Financial Statements, but are supplementary information required by OMB Circular A-136, *Financial Reporting Requirements,* DoD Financial Management Regulation 1700.14-R Volume 6B and the Federal Accounting Standards Advisory Board. We have applied certain limited procedures which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Leonard G. Birnbaum and Company, LLP

Alexandria, Virginia
November 3, 2006