

General Fund

"Transforming to Meet the Nation's Needs"

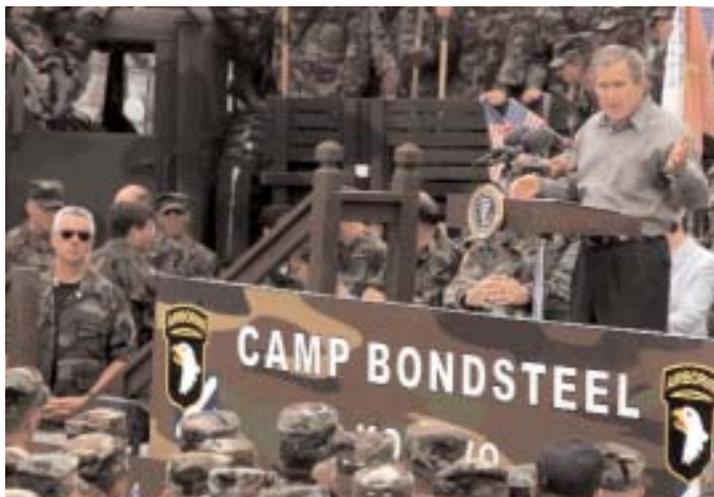


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General Fund—Overview

Founded in 1776 to fight our first war, the Army celebrated its 225th birthday in 2001. Throughout its history, the Army has been structured to meet national needs as defined by our civilian leadership and the times at hand. Six years after its founding, the Army was downsized by the Continental Congress to just 80 men, 25 of whom were assigned to Fort Pitt and 55 to West Point and "other magazines." We have, since that modest beginning, been in a constant state of change, evolving through the years to fight in many wars and conflicts, from the fields of Gettysburg to the beaches of Normandy, the jungles of Vietnam, and the deserts of Iraq. The one thing that has not changed is our commitment to America. Indeed, the Army is a strategic instrument of national policy, and it is the most formidable land force on earth. Our 480,000 active soldiers, 350,000 National Guardsman, 205,000 Army Reservists, and 216,000 civilian employees stand ready to serve whenever and wherever required.



President George W. Bush speaks to U.S. soldiers and troops from other NATO nations at Camp Bondsteel in Kosovo on July 24, 2001. The President is visiting the Task Force Falcon soldiers to show support for the troops in Kosovo. (DoD photo by Staff Sgt. Clinton J. Evans, U.S. Army)

The events of September 11, 2001, demonstrate how the nature of battle is changing. We must today be able to project power anywhere in the world, including to the most remote, desolate, landlocked, and infrastructure-poor areas on earth. Anticipating this need, two years ago we announced a new vision for the Army, calling for a strategic transition from our Cold War design to that of a force able to meet the emerging challenges of the 21st century. We must at all times also be ready to carry out our current missions. Even as we are transforming the ways that we organize, staff, equip, and train our force and as we develop our future leaders, our soldiers are in the field fighting terrorism. It is only by bringing our vision to reality that we can best ensure that when this battle is won, we will be ready to go on and win the next.

"We are determined that before the sun sets on this terrible struggle, our flag will be recognized throughout the world as a symbol of freedom on the one hand, of overwhelming power on the other."

General George C. Marshall
Army Chief of Staff

This is not the first time the Army and America have faced such a challenge. General Marshall's words, spoken early in World War II, will prove as true now as they were then.



Mission and Organization

Mission

The Army has a non-negotiable contract to fight and decisively win America's wars and, through land force dominance, to establish conditions for lasting peace. As the world's most dominant land force, the Army enables America to seek first to avoid war

through deterring aggression on the part of potential adversaries. Should deterrence fail, the Army is organized and trained for prompt and sustained combat, as directed by law.

"It is the intent of Congress to provide an Army that is capable, in conjunction with the other Armed Forces, of preserving the peace and security...of the United States... supporting the national objectives... and overcoming any nations responsible for aggressive acts that imperil the peace and security of the United States. [The Army] shall be organized, trained, and equipped primarily for prompt and sustained combat incident to operations on land...[and] is responsible for the preparation of land forces necessary for the effective prosecution of war except as otherwise assigned and, in accordance with integrated...mobilization plans, for the expansion of the peacetime components of the Army to meet the needs of war."

Section 3062, Title 10, United States Code



A California Guard Black Hawk drops a load of water on one of the many wildfires that plagued the state last year.

At home and abroad, the Army is required also to support the civil authorities, providing assistance and management capability in times of crisis. Our missions can range in scope from counter-drug operations to providing relief to victims of natural and man-made disasters.

A versatile Army, we are organized and prepared both to fight America's wars and to respond to the nation's peacetime needs.

What the Army Does and How We Do It

While the Army accomplishes its mission today and prepares for future mission, we are also in pursuit of a vision. First announced more than two years ago, the Army vision is composed of three clear elements: people, readiness, and transformation.

People

Our people are at the core of our ability to accomplish our mission, and their well-being is paramount: their physical, material, and mental states directly affects the Army's ability to fight and win America's wars. This is a readiness issue. It is critical that we preserve our ability to attract and retain the qualified personnel whom we can develop into tomorrow's leaders.

The well-being of our personnel affects the Army's readiness through its influence on the bond between leaders and subordinates. Soldiers must trust that their leaders are doing all that they can to sustain their well-being and that of their families. With the



security of knowing that their families are provided for, our soldiers can focus on their mission. Further, they are also more likely to remain with us, giving us greater ability to retain high-quality people. In FY 2001, the Army continued to enhance the well-being of its members through expanded educational opportunities, increased compensation, better healthcare, and improved housing.

"Above all, we must realize that no arsenal, or no weapon in the arsenals of the world, is so formidable as the will and moral courage of free men and women. It is a weapon our adversaries in today's world do not have."

President Ronald Reagan

It is essential that we have the best force possible to accomplish our mission. We believe that better educated soldiers are more competent and confident. Thus, during FY 2001, we continued to invest in Army University Access Online, or "eArmyU," a program that provides soldiers with 100 percent tuition funding for anytime, anyplace distance learning. Available at Forts Benning, Hood, and Campbell, the program also provides a technology package of laptop computer, printer, and Internet service provider account to enable soldiers to pursue post-secondary academic degrees and certificates.

"Platforms and organizations don't defend this nation; people do."

General Eric K. Shinseki
Army Chief of Staff

Compensation is also critical to a soldier's well-being. Our people serve with selfless devotion, but they should not be expected to sacrifice the well-being of their families in their service to America. In January 2001, Congress provided a much-needed 3.7 percent pay raise followed by a one-time adjustment targeted to mid-grade enlisted soldiers.



Today's soldiers are well educated, fit, and ready for any challenge.

FY 2001 also saw improvements in our provision of healthcare. With a few exceptions, active duty families no longer have to make TRICARE Prime co-payments for the care that they receive from civilian providers. TRICARE Prime Remote is furthermore being extended to family members who choose to live with soldiers assigned to remote locations. We are improving beneficiary education, in part through use of the Internet, and have achieved 83 percent satisfaction with accessibility to care and 88 percent satisfaction with quality of care. The net result for our soldiers and their families is lower out-of-pocket expenses, increased benefits, and greater sense of well-being.



Perhaps the most important quality-of-life issue, however, is housing. In FY 2001, we expanded our partnership with private industry in a residential community initiative that seeks to improve Army housing by capitalizing on private sector expertise, resources, and market-based incentives.

These and other factors contribute to our ability to attract and retain high-quality people, and the results of our efforts in these areas are encouraging. In FY 2001, for the second consecutive year, we reached our recruiting goal, signing up 35,000 new active soldiers and more than 41,000 Army Reservists. The improved well-being of our soldiers and families, coupled with innovative recruiting tools such as GoArmy.com and GoArmyReserve.com, are helping to ensure that we maintain a high-quality force ready to accomplish any mission.

"... at the battalion level and below, this is where I see the heart of readiness. ... Unless squads and platoons and companies can do what they need to do ... you're not ready."

General Eric K. Shinseki
Army Chief of Staff

Readiness

The Army's top priority is to maintain warfighting readiness. As our "go-to-war" force, the active component must be capable of undertaking immediate combat operations anywhere in the world. Our ability to do this depends in large part on the nature of our current engagements around the globe with our allies, partners, and even our potential adversaries. Forward-stationed and forward-deployed soldiers in the field advance American interests and support theater

engagement plans while training for combat. These forces promote stability, strengthen our nation's influence overseas, and facilitate our access to trouble spots in times of crisis.

On any given day, the Army has over 125,000 soldiers and 15,000 civilian employees forward-stationed in more than 100 countries around the world. In FY 2001, we deployed more than 27,000 additional soldiers on a daily average for operations and military exercises in 70 countries. These soldiers and civilians are supporting assigned missions such as enforcing United Nations sanctions against Iraq, conducting stability operations in the Persian Gulf, and performing peacekeeping operations in Bosnia and the Sinai.

In instances where contingency operations become long-term commitments, as has happened in Bosnia, our mission tempo, both training and operational, can strain our forces. While we have manpower shortfalls in our active component combat forces, through our Manning Initiative we have successfully filled all personnel authorizations in our active divisions and cavalry regiments. In FY 2001, we brought in more than 34,000 soldiers to early-deploying units, those that most directly support the divi-



sions in combat. As a result, these units are achieving higher readiness, with some reaching the highest level of personnel readiness (C1) for the first time in five years.

We are nonetheless increasingly relying on reserve component forces. As FY 2001 drew to a close, we had almost 2,000 National Guard and Army Reserve soldiers serving in Bosnia, Kosovo, Saudi Arabia, and Kuwait. To ensure that the 1995 Dayton Peace Accords are not violated, National Guard soldiers armed with automatic weapons are, for the first time, patrolling the Bosnian countryside. A total of 176 infantry and armor soldiers from North Carolina's enhanced 30th Infantry Brigade and 170 infantry soldiers from Oklahoma's 45th Infantry Brigade are engaged in this very important duty, patrolling alongside active Army soldiers of the 3rd Infantry Division from Fort Stewart, Georgia.



Members of North Carolina Army National Guard man a checkpoint in a mock Bosnia town during a training exercise at Fort Bragg, North Carolina, in preparation for deployment to Bosnia.

Transformation

In 1990, Operation Desert Shield exposed an operational weakness in the capabilities of the Army's heavy and light forces. Our heavy armored forces, tailored for the Cold War, were formidable on the battlefield, but were slow to deploy to where they were needed. Our light forces could readily deploy to the battlefield, but when they got there were not lethal or survivable enough for modern, conventional warfare. We faced a clear need to transform into a more strategically responsive force, able to get to any battlefield quickly and able to dominate across the spectrum of military operations when we get there.

"The dangers of this new century are quite different from the familiar dangers of the past century."

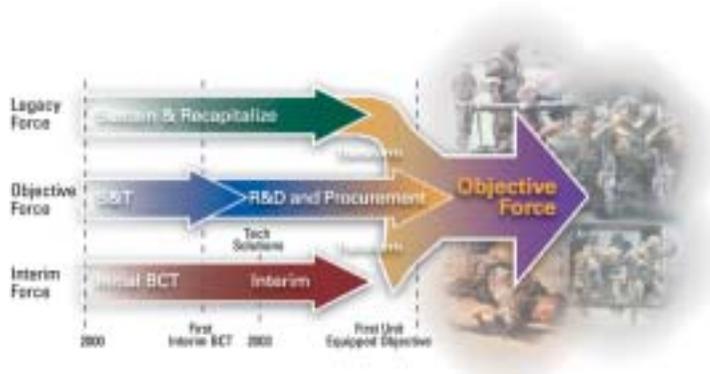
Thomas E. White
Secretary of the Army

To successfully address this need, we must transform the entire Army, from installations to leader development programs. We will change doctrine, training, leaders, organizations, material, and our people. Everything will be impacted. Army Knowledge Management (AKM) is a key initiative to meeting this challenge. This comprehensive strategy to transform the Army into a network-centric, knowledge-based force will result in decision dominance by battlespace commanders and business stewards. It emphasizes the enterprise management of the information technology infrastructure in synch with the Global Information Grid, with



a view toward reducing the footprint and improving operations through the use of best business and governance practices and the emphasis on innovative human capital strategies. It is a key component of Army transformation.

Figure 1: Transformation Strategy



To achieve this transformation, we envision the creation of and transition through three forces: the Legacy Force, the Objective Force, and the Interim Force (see figure 1).

The development of the Objective Force is our goal, but it is a long-term project. For the next 10 to 15 years, it is the Legacy Force that will fight and win America's wars. The Legacy Force is a more capable force than that which fought Desert Storm, enhanced by the modernization, when appropriate, of obsolete equipment and the repair and refit of aging equipment. New command and control systems assist commanders to see, understand, and act decisively on the battlefield.

In FY 2001, the 4th Infantry Division demonstrated the results of our efforts to digitize our divisions; we will continue to digitize and upgrade selected legacy units until transition to the Objective Force is complete.

The Objective Force, our ultimate goal, is a system of integrated capabilities comprising space, air, and ground and direct and indirect fire. It will be seamlessly connected with command, control, communications, intelligence, surveillance, and reconnaissance. It will make the fullest use of technology and organizational adaptations to revolutionize our land-power capabilities. To accomplish this transformation this decade we are applying AKM. This comprehensive strategy emphasizes the enterprise management of the information technology infrastructure in synch with the Global Information Grid, with a view toward reducing the logistics footprint and improving operations. We are seeking to establish innovative partnerships with industry. Investment in the program is more than \$1 billion per year; monthly reviews by the Chief of Staff monitor the potential returns on that investment and ensure that resources are concentrated on the most promising programs.

The Interim Force will fill the gap identified during Desert Shield until the Objective Force is fully fielded. Creation of this force will require the establishment of between six and eight Interim Brigade Combat Teams, equipped with more than 2,000 new Light Armored Vehicles and a Mobile Gun System. The Interim Force will ultimately serve as the vanguard of the Objective Force. Even as the Interim Force is being put in place, we are continuing to refine the doctrine, leadership training, and other elements necessary to ensure its success on the battlefield.



Sources of Funds

The Army's funding comes primarily from the Defense Appropriations Act and the Military Construction Act. In FY 2001, we used our resources to maintain the progress we recently achieved in readiness, quality-of-life programs such as housing and education, and modernization. We maintained our legacy systems and provided operational training that is unmatched anywhere in the world. We also invested in preparations for the future.

In FY 2001, we began the process of transforming the Army into a force that will be strategically dominant at every point on the spectrum of operations. It is through this investment that we seek to assure the ability of the active component, the Army Reserve, the National Guard, and the civilian component of the Army to accomplish all that will be required of them in the future.

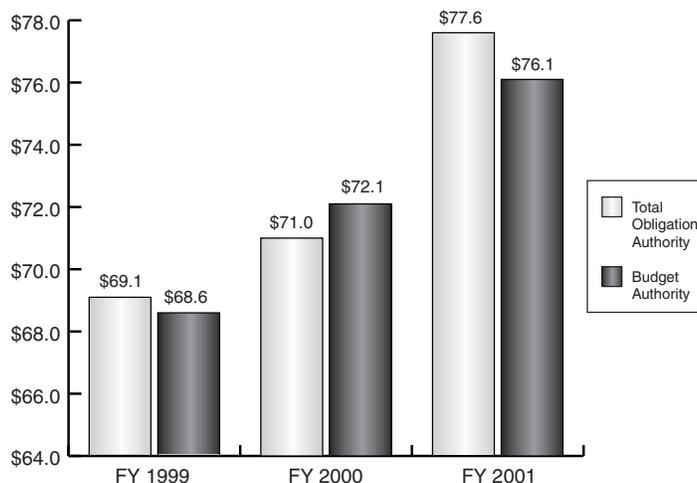
How the Organization Supports the Mission

The Army is an organization of integrated headquarters, staffs, commands, and units operating as a system to accomplish its Title 10 functions. Because of the size and complexity of the Army and its mission, it requires an approach that affords flexibility to its separate parts while enabling the leadership to retain command and control. The Army has three distinct subsystems: production, combat, and integrating. Each subsystem operates within a given environment to assure effectiveness.

The Production Subsystem

The Army is charged with forming organizations of people and machines "for the effective prosecution of war." Primarily, the production subsystem supports the combat subsystem. Through a number of diverse organizations, the production subsystem obtains the "raw materials" that the Army needs, recruiting untrained people, searching for new technologies, and dealing with the producers of required materiel.

Figure 2: Budget Resources (Current Year Dollars)



At the 120th Adjutant General Battalion Reception Center, SSG Sonya Gomez checks recruits' records before the new soldiers join their basic-training companies.



Other elements of this subsystem then convert these raw materials into "intermediate goods." For example, training centers and schools turn untrained people into tank crewmen, infantrymen, and mechanics. Schools convert ideas and knowledge into doctrine, tactics, and training methods to enhance the capability of the combat subsystem. Laboratories, arsenals, and procurement and test

organizations convert technology and contractor effort into weapons and equipment for combat.

The two major components of the production subsystem are the Training and Doctrine Command and the Army Materiel Command. The former produces the training, doctrine, and tactics needed to fight and win America's wars. The latter provides the materiel solutions needed by the warfighting units of the combat subsystem.

The Combat Subsystem

The combat subsystem converts the "intermediate goods" of the production subsystem into the mission-ready units that will fight our wars. It melds together individual soldiers, pieces of equipment, and doctrine to produce combat readiness. It stays abreast of potential threats and the needs of the unified combatant commanders to whom it provides ready forces.



Members of the 501st MP Co. help an injured reporter after the town of Krivenik was hit by mortar fire.

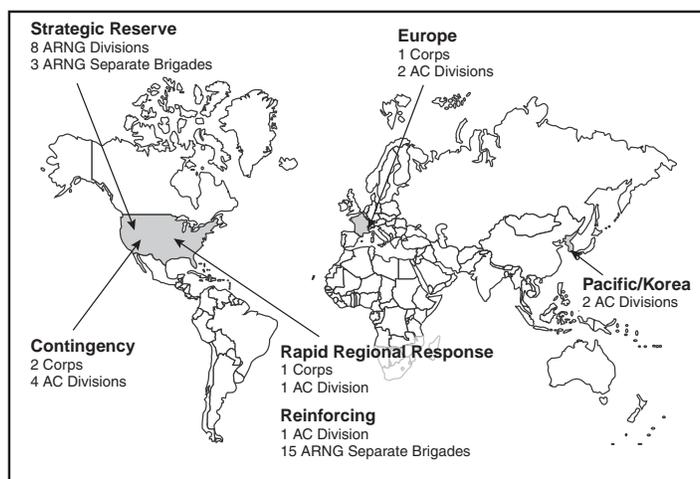
pieces of equipment, and doctrine to produce combat readiness. It stays abreast of potential threats and the needs of the unified combatant commanders to whom it provides ready forces.

The combat force structure is organized into corps and divisions placed under the peacetime command of the major Army commanders. The commanders are charged with keeping their assigned forces ready to fight whenever and wherever needed. These corps and divisions are either forward-deployed, prepared for rapid response or contingencies, or held for strategic reserve. Figure 3 shows the stationing of our major combat forces.

The active, reserve, and civilian components of the Army each play an integral part in enabling the combat subsystem to accomplish its goal of providing combat-ready forces. The active component forms the nucleus of the initial combat forces in a crisis. The reserve components reinforce and augment the active

forces, either by unit or by individual replacements. The civilian component complements this subsystem by providing critical support and sustainment.

Figure 3: Combat Force Stationing in FY 2001



The Integrating Subsystem

The integrating subsystem ties the other two subsystems together and decides what must be done to ensure that the Army can accomplish its mission. Integration is the primary function of the Secretary of the Army and of the Army Chief of Staff. The Honorable Thomas E. White assumed duties as the 18th Secretary of the Army in May 2001; General Eric K. Shinseki has served as the 34th Chief of Staff since June 1999. Together they lead the Headquarters Department of the Army (HQDA) in ensuring that the major tasks required of the Army are accomplished.

HQDA is composed of two elements: the Army Secretariat (the civilian leadership) focuses on managing the business of the Army, and the Army Staff (military leadership) is responsible for planning, developing, executing, reviewing, and analyzing Army programs.

In performing its integrating function, HQDA determines the nature of the Army's mission requirements in conjunction with the Congress, the Department of Defense, and the other military services, and by assessing the nature of the threats faced by the nation. HQDA then charts a course for the Army, securing the necessary resources and allocating them to best accomplish the mission. HQDA continually monitors the performance of the other subsystems and effects change when performance does not meet requirements.



Management Integrity

"... [T]he stewardship of scarce public resources is a bedrock principle."

Thomas E. White
Secretary of the Army

If we are to remain the best fighting force in the world, the Army must maintain effective control over its resources. All commanders and managers have an inherent management control responsibility. We have evaluated our management controls and have found that, except as indicated, we have reasonable assurance that effective controls are in place.

In the 18 reporting years of the Federal Managers Financial Integrity Act, HQDA reported a total of 224 material weaknesses.

At the beginning of FY 2001, we had only nine remaining identified material weaknesses. During the course of the year, one new weakness was identified and one was corrected. We are now working to correct the final nine.

Corrected Weaknesses

Individual Augmentation for Contingency Operations and Exercise Deployments

Previously, the Army could not tell how many people were involved in individual augmentation missions, where they were, or how long the mission was expected to last. Individual augmentees often received late notification, and in the case of low-density/high-usage personnel, were repeatedly tasked. Correcting this weakness was important to improve our ability to take care of our people.

Over the last two years, the Army has established an Individual Augmentation Branch, established new policies and procedures for conducting current operations, and activated a Worldwide Individual Augmentation System. In June 2001, the U.S. Army Audit Agency validated that this weakness had been corrected. This marked an important step forward in the way that we take care of people.

Continuing Challenges

We continue to work on correcting the remaining eight identified material weaknesses. Below, we describe our efforts on the four most significant ones.

Financial Reporting of Real Property and General Equipment

The Army does not meet Federal Accounting Standards for financial reporting of real property (land, buildings, and structures) and general equipment. To become compliant, Army records must capture the correct acquisition date and cost, which current Army sys-



tems were not designed to do. Correcting this weakness will require two major efforts. First, the costs recorded in Army equipment and logistics systems must be validated and reported, and where they are determined to be inaccurate, estimates of historical costs and the associated accumulated depreciation must be developed and reported. The Army, as part of a Department of Defense initiative, has been working diligently to determine the recorded costs; validate the existence and completeness of all property items; and, where costs are not recorded, develop reasonable estimates of historical costs. This will help the Army establish property, plant, and equipment values in accordance with generally accepted accounting methods.

Second, a CFO-compliant system must be implemented for reporting. The Army is consequently implementing the Defense Property Accountability System (DPAS) for reporting general equipment. DPAS will replace existing non compliant systems and will bring the Army into compliance with Federal Accounting Standards for general equipment. For real property, the Army Office of the Assistant Chief of Staff for Installation Management is assessing options to either modify or replace its current real property accountability systems.

Failure to meet this standard for financial reporting does not mean the Army lacks property accountability. However, the Army's inability to identify an item's acquisition date and cost prevents the computation of depreciation expense and the determination of book value for financial reporting. These shortcomings are major factors in our inability to obtain an unqualified audit opinion on our annual financial statements. We anticipate correcting this weakness for general equipment during FY 2002.

Pollution Prevention

The Army's pollution prevention program is not yet effectively integrated into all Army mission areas. Pollution prevention must be an integral part of the Army's acquisition and systems engineering processes, and all Army organizations must plan, program, budget, and execute their portion of the Army pollution prevention program. Our inability to meet these responsibilities properly has resulted in a failure to identify pollution prevention requirements and lost opportunities to resolve those requirements. Such opportunities could reduce the costs associated with weapons system acquisition, logistics, training, occupational health, safety, and environmental contamination and restoration.

Opportunities also exist to achieve potential operational cost savings, to reduce health risks, and to reduce hazardous waste streams. The future costs and potential liabilities associated with environmental compliance and restoration are likely to increase if these issues are not addressed and resolved.



We are taking action to focus on the integration, across the Army, of pollution prevention and on ways in which Army communities can improve long-term cost avoidance through pollution prevention. In FY 2001, we addressed the pollution prevention requirements defined in the Program Objective Memorandum to ensure that our efforts to meet these requirements are adequately funded. We also began to integrate pollution prevention fully in weapons system development programs. Finally, we implemented a training program within the Army Acquisition Corps to ensure that pollution prevention is fully considered as a way of avoiding unnecessary costs. We expect to correct this weakness in FY 2002.

Manpower Requirements Determination

The Army is working to establish effective manpower programs for managing and controlling our Tables of Distribution and Allowances (TDAs) workload, organizations, and manpower staffing, including reductions in force. We are seeking to link workload, manpower requirements, and dollars so that we can reliably predict future manpower requirements based on workload. Once this has been successfully achieved, we will be able to provide managers with the information needed to improve work performance and increase organizational efficiency, while better determining and supporting staffing needs, manpower budgets, and personnel reductions.

In FY 2001, we provided the Major Commands with the ability to view their manpower and costing position via the Internet. We also fully integrated workload-based military, civilian, and contractor manpower requirements into the Total Army Analysis model. Most of our work is completed, and we expect to correct this weakness in FY 2003.



The Army is capitalizing on new technologies to maintain total asset visibility of goods while in transit.

In-Transit Equipment Visibility

Systems interface and logistics process problems cause a significant portion of the in-transit records displayed by the Continuing Balance System-Expanded (CBS-X) to be invalid. The equipment involved is received and reported as on-hand by the receiving units, but the receipt transactions do not close out the shipment (in-transit) records. As a result, the Army lacks reliable data on the value of equipment in transit, and the value of in-transits reported on the Army's financial statements is misstated by a significant but unknown amount. Some units have also experienced unnecessary delays when requisitioning equipment because invalid in-transit records have caused requisitions to be rejected.

requisitioning equipment because invalid in-transit records have caused requisitions to be rejected.



We plan to correct the identified process problems, and in so doing to reduce error rates to an acceptable level. We will not aim for a completely error-free posture, as we believe that any attempt to do so would be neither practical nor cost-effective. We expect to correct this weakness in FY 2002.

Summary

The Army is aggressively seeking to identify material weaknesses and to correct them. We recognize that an effective program for reviewing and improving management controls is vital to good stewardship. We take our stewardship responsibilities very seriously.



Future Financial Trends and Business Events

As the Army transforms to a 21st-century force, we must face the challenge of matching resources to requirements as we seek to realize our vision for people, readiness, and transformation.

Emerging Challenges and Trends

The Requirements Gap

The requirements gap exposed in Desert Storm has yet to be corrected. As Iraq overran Kuwait City and moved south to threaten the airfields and ports that our heavy forces would need in order to gain entry to the region, we responded by sending a brigade of light infantry to block Iraq's further advance. This force lacked both a robust anti-tank and artillery capability. It is not a battle we would have designed. Iraq's heavy mechanized forces were advancing against light infantry because we couldn't get our own heavy, more lethal forces there quickly enough. That condition has yet to be corrected.

"We must build ... a future force that is defined less by size and more by mobility and swiftness."

President George W. Bush

The Army that fought Desert Storm is essentially the Army of today. While it remains a magnificent army, it was designed for the Cold War that ended more than 10 years ago. The missions that we must perform today include the provision of humanitarian assistance, the evacuation of noncombatants from the most remote corners of the world, peacekeeping, and the conduct of a major theater war. This demands that we transform into a flexible force that is light enough to get there quickly, lethal enough to overwhelm any enemy, and survivable enough to stay the course.

High Operational Demands

The U.S. Army is the most capable army in the world. The emerging requirement to accomplish increasingly long-term contingency missions will challenge the readiness and tempo of our personnel and units, major weapons systems, and infrastructure. We

have maintained the readiness of our forward-deployed and "first-to-fight" forces at the expense of our non divisional and reserve component units and the institutional Army. We expect that excessive operational demands will continue to take their toll and will force our continued reliance on the reserve component.



1LT Steve Cunningham of the 9th Inf. crawls beneath barbed wire during training at Camp Casey, Korea.



Aging Work Force

The Army must transform its work force. An increasing number of our civilian personnel are nearing retirement age, presenting a problem that has been exacerbated by recent personnel reductions and hiring freezes. Indeed, the hiatus of new civilian personnel hires has created a shortage of civilians to fill the leadership positions that soon will be vacated by retirees.

Increasing Cost to Maintain Near-Term Readiness

The nature of our mission, to fight and win America's wars, demands that we maintain near-term readiness. This limits our ability to recapitalize the force, which in turn makes it difficult to maintain aging equipment to high readiness standards. Since 1995, operations and sustainment costs have risen by more than 35 percent. Seventy-five percent of our major combat systems will exceed their design life by 2010. These aging systems must be maintained to ensure near-term readiness, but the cost to maintain them is rising as they break down more frequently and become more difficult to repair.



4th ID soldiers and equipment begin moving into the desert maneuver area at the National Training Center to begin battle.

Deteriorating Infrastructure

The need to maintain near-term readiness will also continue to put pressure on our ability to recapitalize our aging facilities. We must find ways to maintain, modernize, and transform the training platforms and ranges that prepare the force; the depots and arsenals that maintain and equip the force; and the power projection platforms and information infrastructure that support the force when deployed. Taking care of installation infrastructure is absolutely essential to maintaining readiness.

We would prefer to divest ourselves of excess infrastructure and to use the resulting savings to maintain critical facilities or fund other priorities. Until we can do this, we will be forced to draw from our training funds to sustain our facilities. We have an \$18 billion backlog of work for sustaining, restoring, and modernizing our current facilities and a \$25 billion deficit in unfunded new facility requirements across the Future Years Defense Plan. Resolution of this situation will require a long-term commitment to fully fund sustainment and to focus restoration and modernization funding on selected facility types.



Business Initiatives

The challenges and trends described in the previous section do not permit maintenance of the status quo. Without change, our current programs will over time become more expensive to maintain. It is essential that we transform our business practices to take care of our people, to sustain readiness, and to complete our transformation into a force for the 21st century.

The Army has several business initiatives in place to introduce the necessary changes. The Residential Communities Initiative (RCI), for example, deals directly with our infrastructure challenges. Even more sweeping is the ongoing effort to transform our logistics processes. These efforts are vital to closing the requirements gap and to reducing the cost of readiness.

In addition, Secretary White has established the Business Initiatives Task Force to coordinate with the Department of Defense and to identify improvement opportunities. We will, in the coming months, be implementing several of the initiatives identified by this group.

Ongoing Initiatives

Residential Communities Initiative

Because housing management is not a core activity and because it is readily found in the private sector, the Army is implementing an aggressive program to attract private sector expertise and capital to create modern residential communities and improve the quality of

Army family housing. Through the RCI, the Army is leveraging appropriated funds and government assets by entering into partnerships with private sector residential community development firms to obtain the financial and management expertise necessary to build, replace, maintain and repair, and operate Army family housing. By leveraging the expertise and resources of our development partners and by applying market-based incentives, we expect to dramatically improve the well-being of Army families.

The Army competitively selects private sector partners that demonstrate the requisite skills and experience in real estate development and property management and that have the appropriate financial capability. The

Army and its partners then negotiate a business plan for each specific RCI project, and set forth the terms of the developer's long-term relationship with the Army. The plan defines the scope of

"[Y]ou have to decide what is core to the United States Army. ... Then you take all the non-core activities, just like you would in the business world, ... and see if there is a value proposition ... that you can get from the private sector, so you can lay off the risks associated with non-core activities to the private sector."

Thomas E. White
Secretary of the Army



development, management processes, financial structure, and timeline for improving residential communities. The partner assumes ownership of family housing units and is responsible for operating, managing, and renovating existing units and for constructing new and/or replacement units, using processes and standards agreed to by the Army. The partner's income on the project comes from rents paid by military personnel from their basic allowance for housing. A typical partnership agreement will be for a 50-year period.

The Army scoring/investment costs, when required, come from the Family Housing Improvement Fund (FHIF). The Army transfers funds to the FHIF from the Army Family Housing-Construction appropriation after Congress approves the business plan. The RCI program operations and implementation costs are paid from the Army Family Housing-Operations appropriation.

Four pilot projects will privatize more than 15,000 family housing units at Forts Carson, Hood, Lewis, and Meade. Forts Carson and Hood have transitioned to privatized operations, and agreements will be concluded at Forts Lewis and Meade in early 2002. The Army has initiated 23 additional projects, with 53,000 housing units to be privatized by 2002-2006.

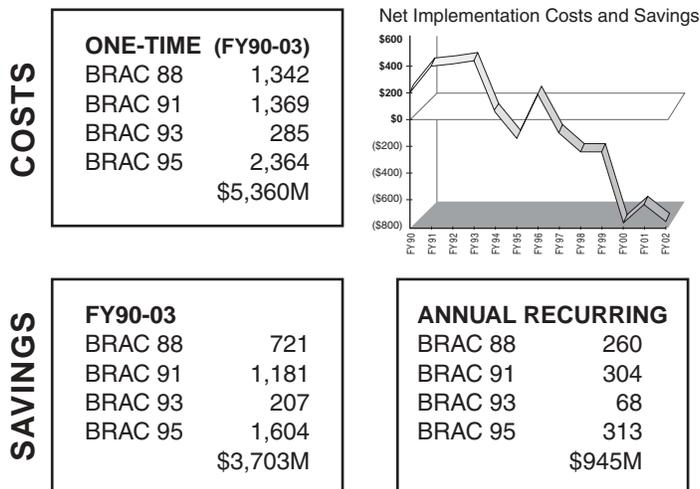
Infrastructure Reduction and Replacement

The Army has excess infrastructure that is inadequate for mission requirements. It also has significant requirements for modern infrastructure to support a transforming force. Efforts to address this challenge include programs to eliminate excess infrastructure, to replace or refurbish infrastructure that no longer meets requirements, and to build infrastructure to meet new requirements. Eliminating excess infrastructure will reduce the burden of facilities maintenance and will support the provision of appropriate modern infrastructure to improve the capabilities of the objective force.

Base Realignment and Closure (BRAC) is the most powerful tool for reshaping and eliminating excess infrastructure. Having completed the actions authorized under the first four BRAC rounds, the Army is preparing to study and recommend additional actions with the BRAC authority authorized by Congress beginning in FY 2005. Since 1997, the annual recurring savings from BRAC have exceeded the cost of implementing authorized actions.

The Facilities Reduction Program (FRP) is another effective way to streamline

Figure 4: BRAC Costs and Savings



Army infrastructure. FRP aims to improve the utilization of permanent facilities, consolidate operations into the best facilities, and dispose of the worst facilities. From 1992 to 1999, the Army disposed of approximately 49 million square feet (MSF) of excess infrastructure. FRP will eliminate an additional 13 MSF of excess infrastructure by the end of FY 2003. The savings achieved through both BRAC and FRP can help provide funds for other programs.

Transforming Logistics

We are transforming Army logistics from a system based predominantly on redundancy of mass to one based on velocity, mobility, and information. Our move to a Distribution-Based Logistics System (DBLS) is one of our most important initiatives, representing a fundamental change in our approach to logistics management. DBLS will comprise a set of reengineered processes, innovative policies, and advanced information systems. The result will be a seamless logistics system that relies on velocity and precision to link readiness management, distribution management, and asset management.

Velocity Management

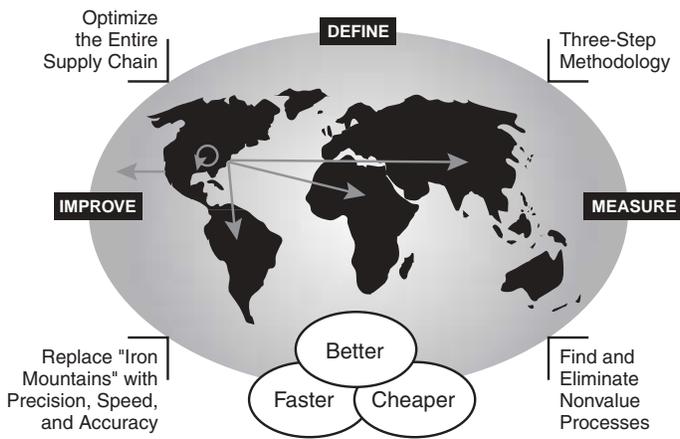
Following a study of logistics management at Motorola and Caterpillar, the Army adopted a commercial business practice referred to as velocity management. This practice uses a three-step methodology to define an issue, measure performance, and improve the process used. Our goal is to improve the performance of our major logistics processes, such as repair and supply, in terms of speed, accuracy, and reliability. We also expect to reduce costs.

Using velocity management, we are measuring our performance to identify problem nodes in the supply chain on which we can then focus our improvement efforts. Correcting these problems will enhance the efficiency of the supply chain and will enable us to supplant our reliance on supply mass with fast and accurate issue information and inventory levels. This will reduce costs and increase our mobility. Velocity management has over the past decade enabled us to reduce total inventory by more than 50 percent.

Figure 5: Velocity Management

Velocity Management

A Process Improvement Program Based on Best Business Practice



Improving Our Metrics

In the past, we measured the performance of the supply system in terms of Order Ship Time (OST). This measured the time between



when a Supply Support Activity initiated a demand to the time that the Supply Support Activity received the item requested. It did not account for how long the supply support activity took to process the customer's request or how long it took the supply support activity to deliver the item to the customer. Our new metric is Customer Wait Time (CWT), which measures the amount of time from the issuance of a customer order to the satisfaction of that order. We will ultimately achieve the ability to measure performance wait time at every node in the supply chain and to measure its impact on the repair cycle. By reducing CWT, we will improve readiness.

The Army is also undertaking an Equipment Downtime Analysis (EDA) to measure how the performance of each supply and maintenance node affects equipment readiness rates. EDA uses holistic analysis of the maintenance system and supply chain to uncover readiness issues. Ultimately, this too will allow us to focus our efforts to correct those areas causing the greatest impact on readiness. This will improve our ability to sustain readiness, while at the same time reducing total support costs.

Improved Policies: Dollar Cost Banding

The Army requires more than 1.4 million repair parts to support its equipment. Choosing the right mix to be stocked at each Supply Support Activity has a major impact on the cost of readiness and on our effort to increase mobility. In calculating which parts to stock, the Army historically used the same criteria whether the item cost \$10 or \$500,000. A study by the Rand Corporation revealed that the majority of parts that resulted in deadlined equipment cost less than \$100. Under Dollar Cost Banding, the Supply Support Activity can increase the stockage of these less expensive deadlining parts while decreasing stockage of more expensive, non deadlining items, and can do so without affecting the total cost of repair parts inventory. In effect, the Army gets more readiness for the same cost.

The results thus far have been encouraging in terms of both support and mobility. The 1st Corps Support Command at Fort Bragg has experienced a 176 percent increase in the range of spare parts available; the 82nd Airborne Division at Fort Bragg has experienced an 11 percent reduction in required storage space; and the 3rd Infantry Division at Fort Stewart experienced a 13 percent increase in its order fill rate, thereby reducing customer wait time.

Web-Based Logistics

The Army envisions that the use of global Internet/intranet technology, and specifically the development of a single enterprise database, will make our logistics business processes more effective and efficient and will reduce process costs. Access to a unified



database could provide real-time logistics information to managers at all levels, thereby improving precision in the logistics support arena. Our long-range objective is to integrate sustainment providers and customers into a single system, through use of a common, enterprise-wide data model in the Global Combat Service Support-Army (GCSS-A) system and the Wholesale Logistics Modernization Program (WLMP).

Army Knowledge Management

Army Knowledge Management is a strategy to transform the Army into a network-centric, knowledge-based force. As such, it is an integral part of Army Transformation. AKM will improve decision dominance by warfighters in the battlespace and by business stewards in our organizations and practices.

AKM includes the Army Knowledge Online (AKO) initiative to provide a single point of access to Army data, information, and knowledge. We are moving from decentralized C4/IT investment management to an enterprise portfolio management focus, to centrally manage more than \$5 billion in annual IT funding. This central focus began in 2001 and will improve each year as policies and governance mechanisms are refined to ensure program integration, implementation of best practices, provision of web-enabled business solutions, and improved IT infrastructure management.

We will provide all soldiers, civilians, and appropriate contractors with access to AKO and a single lifetime email address. By using the AKO portal, this audience of 1.2 million people will gain access to expanded educational opportunities, producing better educated, more competent soldiers and civilians. Accessing the global reach of the worldwide web will boost morale of our forward deployed forces, and permit capturing and sharing the knowledge of our aging work force. As newly web-enabled automated systems come on-line, commanders will be able to access current data on readiness, largely unreachable in conventional systems. The portal is integral to web-based logistics transformation, providing a single access point to logistics data for forward-deployed forces and enables access to CONUS resources and systems.

Business Initiatives Task Force Initiatives

Pooling Cell Phone Minutes

In many locations, each individual cell phone user is allocated his or her own block of minutes, even though most users do not use all their minutes. By pooling available minutes at the organization or installation level, we expect to lower costs and waste fewer unused minutes. This initiative has been tested at one Air Force installation, where the monthly savings approached \$10,000. The savings that this initiative is expected to make represent funds that can be freed up for use on readiness of infrastructure support, at the discretion of the local commander.



Recovery Auditing

Recovery auditing is an initiative that addresses the issue of potential overpayments to contractors. It calls for civilian audit firms to be hired to audit contracts for possible overpayments. The auditing firm would be paid a percentage of all recovered overpayments. By recovering such overpayments we can reduce the cost of near-term readiness and of modernization; we can additionally apply the recovered funds to other programs.

Web-Based Invoicing

This initiative addresses invoicing and payments associated with government contracts, calling for the conversion from a paper-based process to a web-enabled process. This would reduce processing time; provide for more timely payment, thus reducing penalties incurred by the government; and result in reduced operating costs from the Defense Finance and Accounting Service, which charges less for electronic transactions than for paper ones.

Modified Waiver Procedures for Hiring Military Personnel

Statutes impose a 180-day waiting period before the Department of Defense can hire retired military personnel. The waiting period can be waived, but DoD policy is that waivers must be approved at Major Command level. This proposal calls for a change in that policy to allow Service secretaries to delegate waiver authority as they see fit, probably to installation level. This would provide a more responsive system, able to hire qualified people who might otherwise go elsewhere because of the delays involved. (This proposal would not affect the legislative prohibition that addresses civilian positions established within the last two years.) This would enable us to bring in experienced and qualified leaders to fill the growing gap caused by civilian retirements.

Through these initiatives and many others, the Army is seeking to streamline the way it does business. By continuing to emphasize initiatives such as these, the Army can improve its business efficiency, freeing up resources that can be otherwise invested in people, readiness, and transformation.



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