Working Capital Fund

*"Transforming to Meet the Nation's Needs"*

Working Capital Fund—Overview

The Army Working Capital Fund (AWCF) is an integral part of the Army team, providing essential support services to the operating forces of the U.S. Army. Since as early as 1870, the U.S. military has used working capital funds to procure and provide materiel and commercial goods and services to the operating force. Based upon a private sector business model, the use of working capital funds encourages business activities to function in a more efficient and cost-effective manner and provides the flexibility needed for the proper management of these activities as workload conditions change. The AWCF activity groups are indispensable in ensuring that the Army achieves its vision of being "persuasive in peace; invincible in war."

Organization

The AWCF is divided into four activity groups: Supply Management, Army; Depot Maintenance; Ordnance; and Information Services. These activity groups are assigned to the command and control of the Army Materiel Command (AMC), and are managed by one or more of its six major subordinate commands (Figure 6). The Army Materiel Command, in turn, reports activities to the Deputy Chief of Staff, Logistics (DCSLOG) and to the Assistant Secretary of the Army (Financial Management and Comptroller) (ASA(FM&C)). In addition, a corporate board at the Department of Defense level maintains oversight of the DWCF functions. The Depot Maintenance Corporate Board at Army level, looks at internal Army policy and procedures for Depot Maintenance. The Army has an oversight group, the AWCF Requirements Review Group (ARRG) that reviews, evaluates, and makes recommendations on policies, procedures, workloading or related Army resource issues impacting AWCF activities and/or their customers.

Figure 6. AWCF Organizational Chart
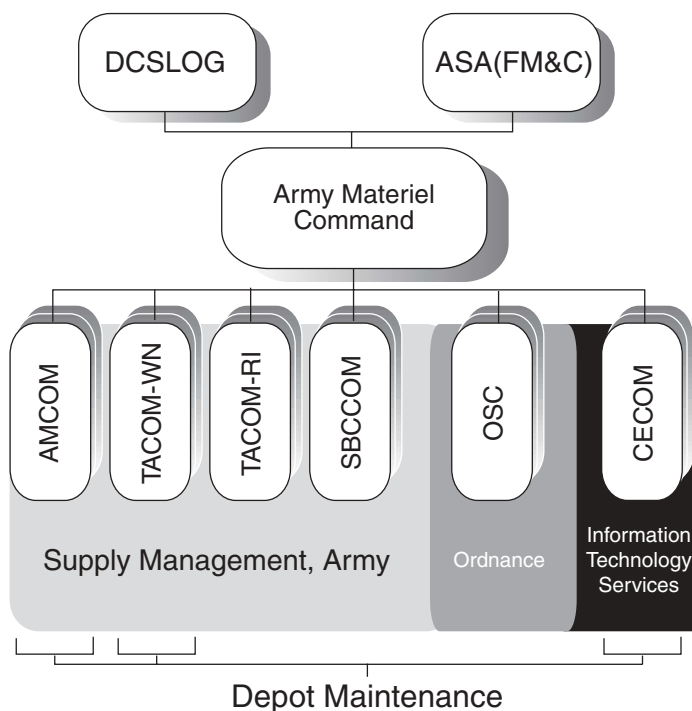
Activity Groups and Their Functions

The four AWCF activity groups provide logistical, maintenance, munitions, and information services in support of Army readiness. A description of each of these activity groups follows.

Supply Management, Army

The Supply Management, Army (SMA) activity group purchases and maintains materiel stocks for sale to its customers, which are primarily Army organizations. The operational readiness of the Army, and in particular its warfighting units, is contingent upon the availability of this materiel. Any prolonged disruption of the work of SMA would diminish the ability of our forces to remain self-sustaining and deadly on the field of war.

The U.S. Army Communications–Electronics Command, supplies communication equipment to the field.

Implementation of the Single Stock Fund (SSF) initiative created dramatic organizational changes in FY 2001. Under SSF, this activity group now consists of a single wholesale division subdivided by commodity, with major subordinate commands under the U.S. Army Materiel Command managing assigned stocks (Table 1). SMA also manages critical war reserve stocks under Army control.

Table 1. Supply Management, Army Activities

Major Subordinate Command	Activity Performed
U.S. Army Aviation and Missile Command (AMCOM)	Manages inventories of aircraft and ground support items, as well as missile systems items
U.S. Army Communications–Electronics Command (CECOM)	Manages inventories of communications and electronics items
U.S. Army Tank and Automotive Command (TACOM) - Warren and Rock Island	*Warren* - Manages inventories of combat, automotive, and construction items *Rock Island* - Manages stocks of weapons, special weapons, and chemical and fire control items
U.S. Army Soldier and Biological Chemical Command (SBCCOM)	Manages ground support item stocks

Depot Maintenance

The Depot Maintenance activity group maintains, repairs, overhauls, and upgrades weapons systems, including both major end items and depot-level repairables. This activity group also stores and distributes war reserve material and other selected items, and provides support to other working capital fund initiatives.

The Depot Maintenance activity group is critical to readiness. The industrial capability provided by this activity ensures that in times of crisis the Army has the ability to repair warfighting equipment quickly and either return it to use or hold it in reserve for future use. The activity group also partners with and competes with private industry to deliver goods and services at the best value to the force. Table 2 lists the five Army depots, their locations, the type of work performed by each, and the Major Subordinate Command of AMC with overall management responsibility for each.

Depot Maintenance employees are put to the test to repair and maintain the Army's equipment.

Table 2. Depot Maintenance Activities

Major Subordinate Command	Location and Activity Performed
AMCOM	**Corpus Christi** Corpus Christi, TX - Maintains, repairs, and overhauls rotary-wing aircraft, engines, and components
AMCOM	**Letterkenny** Chambersburg, PA - Maintains, repairs, and overhauls tactical missile systems
TACOM	**Anniston** Anniston, AL - Maintains, repairs, and overhauls tracked combat vehicles; repairs self-propelled and towed artillery; repairs generator and rail equipment
TACOM	**Red River** Texarkana, TX - Maintains and repairs light armored vehicles and select missile systems
CECOM	**Tobyhanna** Tobyhanna, PA - Manufactures, maintains, tests, and fields communications-electronics systems and equipment; maintains and repairs missile guidance systems

Ordnance

The Ordnance activity group is managed by the Operations Support Command (OSC) and the Soldier Biological and Chemical Command (SBCCOM). It provides DoD with an industrial capability to manufacture, renovate, and demilitarize materiel and to produce and maintain munitions, large-caliber weapons, and a full range of ammunition for the U.S. military and our allies. The

Table 3. Ordnance Activities

Pine Bluff Arsenal

Pine Bluff, AR - Primary materiel responsibilities include chemical, smoke, incendiary, illumination, and other pyrotechnic munitions agents and mixes; chemical defensive/protective items; test equipment; and other items, as assigned. Pine Bluff also provides base support to tenants

Rock Island Arsenal

Rock Island, IL - Primary materiel or industrial capabilities include weapons; artillery; armament for tanks, personnel, and cargo carriers; and tools and tool sets. The arsenal also provides base support to OSC, ACALA, DFAS (Defense Finance and Accounting Service), Defense Reutilization and Marketing Service (DRMS), and health clinics and smaller tenants

Watervliet Arsenal

Watervliet, NY - Primary materiel or industrial responsibilities include mortars, recoilless rifles, cannon for tanks and towed and self-propelled artillery, special tool sets, training devices, and simulators. The arsenal also provides base support to tenants

Crane Ammo Activity

Crane, IN - Produces and renovates conventional ammunition and related components; performs manufacturing, engineering, and product assurance to support production; receives stores; ships, demilitarizes, and disposes of conventional ammunition. Crane is a tenant on a Navy Base; the Letterkenny Munitions Center in Chambersburg, PA, is a cost center under Crane. Both centers store, maintain, and distribute conventional ammunition

McAlester Army Ammo Plant

McAlester, OK - Produces, renovates, demilitarizes, and stores ammunition and related components; loads, assembles, and packs conventional ammo, bombs, warheads, and rockets; and manufactures wood and metal pallets. The plant also provides base support to tenants. The Red River Munitions Center in Texarkana, TX, is a cost center under McAlester—both store, maintain, and distribute conventional ammunition

Blue Grass Army Depot

Richmond, KY - Stores, maintains, distributes, and demilitarizes conventional ammunition; maintains and repairs chemical defensive equipment. The Anniston Munitions Center in Anniston, AL, is a cost center under Blue Grass. Both centers store, maintain, and distribute conventional ammunition

Sierra Army Depot

Herlong, CA - Supports Operational Project Stocks; stores, maintains, distributes, and demilitarizes conventional ammunition

Tooele Army Depot

Tooele, UT - Stores, maintains, distributes, and demilitarizes conventional ammunition

Ordnance activity group operates three arsenals, two ammunition plants, and five ammunition storage depots and munitions centers. With the exception of Pine Bluff Arsenal, which is managed by SBCCOM at Aberdeen Proving Ground, MD, the Operations Support Command manages all other activities. Table 3 lists the names and locations of each of the Ordnance installations and the type of work they perform.

Information Services

The primary mission of the Information Services activity group is to provide for the development and sustainment of automated information and communications systems. Managed by the U.S. Army Communications–Electronics Command (CECOM), the activity group provides a multitude of services, including requirements analysis and definition; system design, development testing, integration, and implementation support; and documentation of services. The group comprises four Central Design Activities (CDA) and the Army Small Computer Program (ASCP). ASCP provides customers with fully competed commercial sources of small and medium-size computers, software, networking infrastructure, and support services. Table 4 lists each of these installations, their location, and the type of work performed.

Through its vast array of manufacturing capabilities, the Ordnance activity group produces diverse ammunition systems.

The Information Services group provides a multitude of support functions.

Table 4. Information Services Activities

Industrial Logistics Systems Center
Chambersburg, PA - Wholesale logistics (Depot Maintenance/Financial Systems)
Logistics Systems Support Center
St. Louis, MO - Wholesale logistics (Supply/Financial Systems)
Software Development Center, Lee
Fort Lee, VA - Retail Logistics Systems
Software Development Center, Washington
Fort Meade, MD - Personnel/Retail Logistics Systems
Army Small Computer Program
Fort Monmouth, NJ - Provides commercial sources of automated data processing equipment and software

How the AWCF Operates
The Revolving Fund Concept

The Army Working Capital Fund is a revolving fund used to finance the continuous flow of goods and services to its customers. A revolving fund derives its name from the cyclical nature of its cash flows.

The budgetary authority for activities funded through the AWCF is derived from the fund's sale of goods and services to other business activities within the Army. The AWCF prices its goods and services to recover the full cost of providing the good or service. In theory, the AWCF should be structured to operate without losses or profits. In practice, it is extremely difficult to plan and execute operations so that the fund breaks even at year-end. Typically, the annual operating results at year-end yield either an operating loss or a profit. Prices are then adjusted for subsequent periods to offset either the gain or the loss, so that over the long-term, the AWCF operates on a full cost recovery basis. The activity groups use the revenue generated from transactions with their customers to pay wages, replace or purchase additional inventory, and cover other related operating expenses. Thus, the AWCF becomes a self-sustaining activity. The business-like practices of the AWCF encourage efficiency and discourage wasteful or unnecessary procurements by AWCF managers, as well as AWCF customers.

U.S. Army Aviation and Missle Command took control of the Corpus Christi Army Depot in FY 1999.

The AWCF Objective

The AWCF uses a private sector retail business model to provide products and services to its customers. The primary objective of using a working capital fund is to establish a customer-provider relationship between military activities and the AWCF activity groups that support them. Because the cost of goods and services consumed is ultimately borne by the customer, the customer is responsible for determining support requirements and with critically evaluating the cost and quality of goods and services that are provided by the activity groups. As such, the customer-provider relationship creates a linkage between the level of support required by military missions and the quality and quantity of the outputs provided by the activity groups.

By passing the cost of goods and services to the customer, the Working Capital Fund ties the funding of support activities to the needs of the military missions. The activity groups must therefore coordinate their inventory levels and labor requirements according

to the needs of their customers' military missions. In so doing, unnecessary inventory and nonessential labor can be reduced, which in turn reduces the costs passed on to the customer.

Source of Funding

Generally, activity groups within a revolving fund receive their initial funding through an appropriation or transfer of resources from existing appropriations of funds. These capital resources are then used to purchase the inventory needed to provide initial goods and services to customers. Financial resources to sustain continuing operations are generated from customer revenue throughout the fiscal year. The table below provides the revenue amounts of the AWCF's four activity groups over the past three years.

Table 5. AWCF Revenues by Fiscal Year

AWCF Revenues by Fiscal Year ($ millions)			
	FY 1999	**FY 2000**	**FY 2001**
Supply Management, Army	$9,648.3	$9,995.9	$6,068.9
Depot Maintenance	1,500.1	1,291.8	1,434.7
Ordnance	416.9	658.1	667.8
Information Services	121.5	134.5	97.8
Total Revenue	**$11,686.8**	**$12,080.3**	**$8,269.2**

Since the AWCF activity groups operate on a break-even basis over the long term, customer rates are established annually at a level that activity group management estimates will recover the cost of products or services provided. Once established, rates are stabilized (held constant) for the applicable fiscal year. This stabilized rate policy serves to protect the business activity's customers from unforeseen cost changes, and enables customers to plan and budget for goods and services provided by the AWCF activity groups without having to take into account the risk of a rate change degrading their purchasing power over the year. This policy also reduces fluctuations in planned workload levels and permits more effective use of the activity group's labor force. Gains or losses in operations that occur as a result of variations in program execution are generally reflected in adjustments to rates in subsequent fiscal years. Occasionally, however, realized losses may be funded by an appropriation, by a transfer from available resources in another DoD account, or by a quarterly rate increase.

Management Integrity

The fundamental stewardship responsibilities of AWCF management are to provide proper stewardship of federal resources and to ensure the provision of efficient, effective, and timely services. AWCF employees must ensure that all resources are used efficiently and effectively to achieve the maximum utilization of public resources consistent with agency missions, in compliance with laws and regulations, and with minimal potential for waste, fraud, and mismanagement.

The AWCF has a system of internal controls to assess its performance in meeting these responsibilities, and provides reasonable assurance to the adequacy of control. However, our auditors have uncovered weaknesses during previous audits of our financial statements. Recently corrected weaknesses, as well as weaknesses that continue to challenge us, are described in the following sections.

Continuing Challenges

Accounts Receivable

Inventory management personnel have the ability to access and change—without the knowledge or approval of the Defense Finance and Accounting Service (DFAS)—the accounts receivable data in the Commodity Command Standard System (CCSS), the automated system used to account for accounts receivable. While inventory management personnel need to have access to and the ability to change logistical data, the ability to change financial accounting information directly, however, allows for data manipulation and the production of unreliable financial data. Commodity Command Standard System (CCSS) is currently being replaced by a new system under the Wholesale Logistics Modernization Program contract. Per the contract specifications, the modernized system will be CFO-compliant. This will include adequate controls on changes to accounts receivable.

Inventory and Related Property, Net

Inadequate internal controls continue to affect the reliability of amounts reported for the Inventory and Related Property, Net account. Reconciliation is a key internal control to make sure transactions process to both the accounting and the logistical records. However, reconciliations of accounting records with logistical records were not conducted in FY 2001; instead, the accounting agency accepted the logistical records as accurate and adjusted the 30 September 2001 accounting records by about $3.9 billion to force records to agree.

In addition, complete physical inventories weren't conducted during FY 2001. Since inventory values are used in computing the

cost of goods sold for the Statement of Net Cost and are reported on the Balance Sheet, the lack of a complete inventory may contribute to material misstatements in inventory values. Complete physical inventories are a key internal control to make sure that inventory quantities and values are reliable.

The Army is taking steps to ensure that both the logistics and financial records are improved. As stated in the audit, problems within these processes have been documented in a remedial action plan, and the Army is moving forward to ensure that the Wholesale Logistics Modernization Program (WLMP) does not duplicate the problems. Additionally, an integrated process team is working to reconcile and cleanse the Commodity Command Standard System (CCSS) databases before it transitions to WLMP. This IPT effort is scheduled to begin in mid-October at the Communication and Electronics Command (CECOM).

Inventory In Transit

The Army continues to have inadequate controls over inventory items in transit. Inventory in transit could not be verified due to the lack of sufficient audit trails and computed balance issues. In addition, due-in records for shipments from contractors were not properly closed out in the Commodity Command Standard System. The primary problem affecting the accuracy of in transits is that Commodity Command personnel do not adequately research and correct contractor shipment notices that have been

Supplies being loaded onto rail-beds for transportation to Bosnia in support of the International Forces (IFOR).

rejected by CCSS. As such, Commodity Command personnel are ultimately forced to resolve uncleared due-in records during the contract closeout process, or to process dummy receipt transactions manually to correct rejected contractor shipment notices.

Accounts Payable

Accounts payable transactions rejected in CCSS were not properly researched and corrected. Accounts payable balances were unreconciled. In addition, aged accounts payable-public balances were not verified, raising questions as to their accuracy

The Army and the Defenses Finance and Accounting Service have been working together to ensure that the accounts payable balance is accurate. The Army issued procedural guidance on January 5, 2001, to ensure that rejected accounts payable are researched and corrected.

Equity Transactions

Inadequate controls exist to ensure that equity transactions affecting the Statement of Changes in Net Position are properly supported. For example, supporting documentation for some transactions that were automatically generated by the CCSS could not be found. In addition, disclosure could not be provided as to why the transactions occurred, nor as to whether or not charges were made to the fund equity account.

The Army recognizes the limitations of the obsolete technology currently used in the Commodity Command Standard System. The Wholesale Logistics Modernization Program is a modern solution set designed to address this particular shortcoming as well as others based on the CCSS technology and business processes.

U.S. Standard General Ledger at the Transaction Level

The Office of Management and Budget requires federal agencies to implement the U.S. Standard General Ledger in their financial systems. Current guidance mandates that the general ledger be implemented at the transaction level. While federal agencies are permitted to supplement their application of the general ledger to meet agency-specific information requirements, the supplement must maintain consistency.

The Army acknowledges that its financial management systems have significant procedural and systemic deficiencies, and has included discussions of those deficiencies in previous annual assurance statements and in management representation letters.

The Army has contracted to have the Commodity Command Standard System and the Standard Depot System replaced under the Wholesale Logistics Modernization Program. The new system will include the U.S. Standard General Ledger required by the Office of Management and Budget.

Management Initiatives

Single Stock Fund

Described by the Chief of Staff, Army as a fundamental element of the Army's Revolution in Military Logistics, the Single Stock Fund is a Headquarters, Department of the Army business initiative designed to improve logistics and financial processes in the Army Working Capital Fund, Supply Management (AWCF-SMA) activity group. SSF represents one of the most revolutionary developments in the logistics arena of the past quarter century.

The Single Stock Fund merges existing wholesale and retail elements of the AWCF-SMA into a single, centrally managed fund, thereby streamlining current operations and eliminating inefficiencies such as multiple points of sale and credit, duplicate ledgers/billing accounts, and duplicative automated systems managing the same inventory.

The Vice Chief of Staff, Army approved the SSF Campaign Plan in November 1997. On 18 October 2000, the Army approved implementation of the first two stages, Milestones 1 and 2. This implementation, completed in April 2001, involved capitalization of 91,000 lines valued in excess of $489 million of secondary item inventory, comprising $451 million of former Retail Stock Fund items and $38 million of former Operations and Maintenance Army retention stocks, into the AWCF-SMA. In this process, 49 retail stock fund general ledgers were closed, with Army Working Capital Fund general ledger accounting now being performed by the Army Materiel Command. The tentative target date to begin implementing Milestone 3, which will extend SSF to the tactical supply support activities, is Jun 2002. Contingent upon successful execution of a field verification of the Milestone 3 functionality, we anticipate an Army leadership direction to implement Milestone 3 Army-wide in Oct 2002.

Wholesale Logistics Modernization Program

The business processes used for the working capital fund have not changed significantly in the last three decades. As a result, logistics processes have become outdated and costly to maintain. The Wholesale Logistics Modernization Program was thus devised to improve the agility, reliability, and responsiveness of the AWCF activities.

Through adoption of private sector supply chain and financial management best practices, WLMP will improve force readiness and mission performance, take advantage of efficiencies in systems operations, improve system maintainability and adaptability, and provide full asset visibility through the integration of logistics and financial data, giving the AWCF an integrated cost accounting system. Through the DFAS Corporate Information Infrastructure (DCII) environment, WLMP additionally will interface with DoD-wide USSGL data to improve accounting and finance reporting for AMC at the AMC, Army, and DoD levels of interest. This is just one illustration of how the Army is progressing toward the use of transaction-driven, USSGL-based accounting systems.

When fully implemented, WLMP will provide a single point of entry for the recording, reporting, and analysis of inventory and related financial data, directly addressing an identified internal control weakness cited in the Army's FY 2000 financial statements. The modernization program will provide a financial information management system while simultaneously providing the logistics community with easy access to online, real-time information at a detail level low enough to enable data to be summarized and sorted. Managers will be able to use these data to perform such functions as Activity-Based Costing and bringing financial data for the AWCF under general ledger control.

Army Workload and Performance System

At the core of any successful organization are its people. The Army Workload and Performance System is a human resources tool designed to analyze workload and to ensure the efficient allocation of resources across the AWCF. Composed of three modules (Performance Measurement, Workforce, and Workload), AWPS has the ability to store information on the skills available within the resource pool and on attrition, labor expenditures, performance data, and work schedules. The system allows managers to use these data to compare actual performance and cost against a planned level, to develop workload forecasts, and to match workforce levels with workload. In addition, AWPS allows managers to create potential future scenarios within the system, allowing users to observe the effects of changes such as Base Realignment and Closure actions or workload increases.

As a result of having implemented AWPS, the Army is better able to estimate and schedule workflow, to monitor performance against projected levels, to control the overhead associated with the products and services provided by the AWCF, and, most

important, to improve responsiveness to customer requests. By taking advantage of the efficiencies inherent in a workload-based system, AWPS contributes to the provision of agile, more responsive support for the warfighter.