

Fiscal Year

2003

The United States Army
Annual Financial Statement

Our Army at War – Relevant and Ready



Table of Contents

Secretary of the Army Message	i
Assistant Secretary of the Army Message (Financial Management and Comptroller)	iii
Assistant Secretary of the Army Message (Civil Works)	v
Army Year in Review	vii
General Fund	1
Army Working Capital Fund	33
Civil Works Fund	61
Principal Statements and Related Notes	87

2003

The United States Army
Annual Financial Statement



For 228 years, the Army has served America in peace and war. Today, our Nation is once again at war. We are engaged in a global campaign against terrorism. Notwithstanding our war on terrorism, we are simultaneously working to transform the Army into a more agile fighting force with a Joint and Expeditionary mindset ready to support the U.S. Joint Team.

The Army is about people - Soldiers, families, and civilians. With more than 1.2 million individuals, including those of the active and reserve components, civilians, and contractors, the Army serves America throughout the world. We have over 360,000 Soldiers currently deployed in 120 countries, including more than 157,000 Soldiers conducting combat operations. Nearly 230,000 of the Soldiers deployed overseas are active duty troops, supported by 60,000 from the Army Reserve and 75,000 from the National Guard. We are truly one Army.

Our battlefield successes in Iraq and Afghanistan validate America's investment in the training, leading, sustaining, and caring of our force. After a lightning ground attack into Baghdad and an overwhelming military victory by coalition forces, our Soldiers now are assisting the Iraqis to build a free and democratic society. In turn, this will help make the world a safer place. In Afghanistan, the Army continues to root out remnants of al Qaeda and the Taliban. As in Iraq, the objective here is to win the peace and to create a safe environment in which the Afghan people will be able to rebuild their country.

Even while engaged in combat, we must continue to transform the Army. The global environment is changing, and we must change with it, integrating people, systems, and knowledge into a force equipped to deal with new and unseen challenges. This past summer we certified the Army's first Stryker Brigade at the U.S. Army Joint Readiness Training Center at Fort Polk, Louisiana - a milestone on the road to the Future Force. To capitalize on this new fighting capability, this brigade is currently being deployed to Iraq for a yearlong tour of duty.

To guide our immediate path, we have identified sixteen focus areas. The broad areas target training and equipping Soldiers and growing leaders, providing relevant and ready land power capability to the Combatant Commander and the Joint Team, and enabling our Current and Future Force. These sixteen focus areas will provide a framework for balancing the Army's core competencies and capabilities. Within the Year in Review section, you will read about other transformation successes involving Future Combat Systems, the Installation Management Agency, the Logistics Modernization Program and the Army Corps of Engineers 2012. All of these actions are important steps to meeting our current needs and developing the Future Force.

Lastly, applying our resources in a prudent manner is critical both to winning the war on terrorism and transforming the Army. We are working hard with Department of Defense to modernize our business processes and systems in consonance with the Business Management Modernization Program and the Business Initiatives Council. Our goal is to provide relevant and reliable information to Army decision makers with which they can make sound decisions on the effective application of resources. Earning an unqualified audit opinion on our financial statements will attest to the quality of the financial information we provide managers. Thus, an unqualified audit opinion remains a priority across the Army.

I welcome your interest in the Army and its programs. In these challenging and unpredictable times, Americans can be assured that the Army is ready to protect and defend the Constitution and our national freedoms. Our leadership is committed to the honest and efficient stewardship of the resources that public funds provide. We stand ready to meet all future challenges as we work to deliver a relevant and ready Army to the Nation.

A handwritten signature in black ink, reading "R.L. Brownlee". The signature is written in a cursive, flowing style.

R.L. Brownlee
Acting Secretary of the Army



Once again, at the close of a fiscal year, the world has changed dramatically. In large measure that difference is due to the U.S. military and particularly our Army.

The war on terrorism remains a global fight and now features two major fronts: Iraq and Afghanistan. It is a deadly serious business with extreme consequences for those nations, our own country and every person participating in the campaign to combat terror, whether stateside or on the front lines. Though we have rid Iraq of its Baathist dictatorship, there is much yet to be done in order to bring stability and to set the right conditions for the Iraqi people to make their country prosperous once more.

The financial management community is waist-deep in this war and success will depend upon how well we do our jobs. It is our duty to obtain and to manage the funds that enable our soldiers to fight. We must be careful stewards of this money, allocated to us by the Congress but provided by the American people. It is the hard-earned dollars of the American taxpayers that finance the Department of the Army; in return, we have an obligation to provide full accountability of the resources entrusted to us.

To this end, we must root out abuse and simple mismanagement; not a dollar should be wasted, whether the cause be intentional or unintentional. The Army must be able to earn an unqualified opinion. We are making progress towards this goal but more lies ahead in fiscal year 2004. More broadly, relevant and reliable information is vital to the leaders who make Army funding decisions, whether they be among our civilians and uniformed personnel, in the Office of the Secretary of Defense, in the Office of Management and Budget, or on Capital Hill. It is the financial management community's responsibility to supply the most accurate data possible in a timely manner.

The war on terrorism is not the only thing on the Army's plate. We are still fully engaged in Transformation and we will not be diverted from this process, which is so critical to our service's future. Accomplishing both of these missions means sound and innovative financial management is more important than ever. The Army Business Initiative Council (BIC) is one tool that produced success in 2003. We estimate that BIC programs implemented so far will allow the Army to avoid more than \$1 billion in cost over the program years. I congratulate all who have contributed to the BIC and ask that we redouble our efforts in 2004 to reap more resources for our Soldiers from within the top line.

During FY 2003, the Army made progress in modernizing many of our financial management processes and systems. This report includes information on these advances, as well as on all three funds managed by the Army: the General Fund, the Working Capital Fund, and the Civil Works Fund. The compact disc that accompanies this report provides additional information and links to key Army web sites. I believe you will find the report useful in furthering an understanding of our country's Army, its mission, and its people.

A handwritten signature in cursive script that reads "Sandra L. Pack".

Sandra L. Pack
Assistant Secretary of the Army
Financial Management and Comptroller



For 228 years, the U.S. Army Corps of Engineers has been committed to serving the nation in peace and war by providing comprehensive engineering, management, and technical services. Our mandates over time have continually evolved to reflect America's priorities. At Bunker Hill and during the Revolutionary War, the Corps supported our military forces in time of war. Today, the nation's war on terrorism is our main priority and we are mobilizing our resources to help win this war. In this regard, Civil Works Program has established a Homeland Security Office in Corps Headquarters, as we undertake measures to enhance the security of our critical facilities.

In the mid-1820s, the Corps of Engineers conducted a survey of nationally important roads and canals for commercial use, military use, and mail transportation. Today's Civil Works mission does not have a national road component, but it does include water resource development activities in the primary program areas of flood control, navigation, and environmental protection. Additionally, we have a critical role in emergency response. For example, the Corps was heavily engaged in protection and relief work when Hurricane Isabel struck the east coast in late summer 2003. The Corps remains vigilant, and we take great pride in lending assistance to the efforts of local communities during times of disaster.

The Corps of Engineers possesses an impressive body of knowledge on water resources, and we must exploit that knowledge and associated skills to ensure that the Federal government's responsibilities to the nation, both at home and abroad. Our nation's water resources are finite, and in managing those resources we are increasingly challenged to reach decisions that appropriately balance the social and economic benefits of development with the need to protect the environmental. As science and engineering continue to advance, we will seek to leverage new developments to achieve an optimal balance of these factors for the benefit of the nation.

Looking to the future, we must seek to do everything within our authorities to ensure that our country's economy remains strong and its natural resources protected. We are dedicated to continuing a national water resources program that serves the best interest of all our citizens.

A handwritten signature in black ink that reads "John Paul Woodley, Jr." The signature is written in a cursive, flowing style.

John Paul Woodley, Jr.
Assistant Secretary of the Army
Civil Works

The United States is at war, and the Army serves the nation by defending the Constitution and our way of life. This is our nonnegotiable contract with the American people: To fight and win our nation's wars, decisively.

A Statement on the Posture of the United States Army
February 11, 2003

The world in which the Army is operating today is no longer a business-as-usual environment. The United States is at war, and nearly 50 percent of Army forces are today in contact with our enemies. They will continue to be so for the foreseeable future. The Army is a proud member of the Joint Force that expertly serves our nation and its citizens. Our culture is to strive always to improve, and today our individual and organizational approach to our work and duties must above all reflect the seriousness and urgency characteristic of an Army at war. Our Soldiers and nation deserve nothing less.

For 228 years, the Army has met the call to serve: to fight and win the nation's wars. During FY 2003 we fulfilled this obligation through deployments in 120 countries, most visibly in America's continuing global fight against terrorism. As always, at the heart of everything we are seeking to achieve is the individual Soldier; his training, readiness, and welfare. In Afghanistan and Iraq, our Soldiers have performed impeccably in the face of great difficulties to achieve their objectives. And at home, they are at the core of our effort to transform the Army into a more responsive, deployable, agile, versatile, lethal, survivable, and sustainable force.

Key transformation activities this year have included the following:

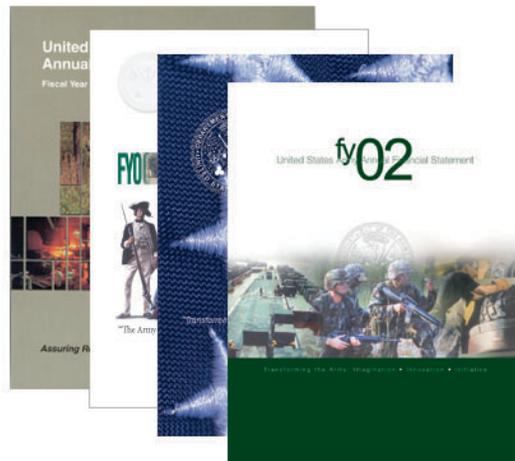
- The engagement of our Soldiers in the war on terrorism, including in Operation Iraqi Freedom, Operation Enduring Freedom in Afghanistan, and smaller deployments in other countries.

2003

The United States Army
Year in Review



A 10th Mountain Division Soldier uses binoculars to look for enemy activity while a fellow Soldier unfurls an American flag near the village of Loy Karezak, Afghanistan. U.S. Army photo by Spc. Gul A. Alisan.



- Establishment of the Installation Management Agency. This represents a profound change in the way that the Army manages its posts and garrisons around the world, and has already started to yield benefits measured in the hundreds of millions of dollars.
- Certification as fit to fight of the Army's first Stryker Brigade, a new, highly mobile intermediate combat force capable of rapid deployment anywhere in the world.
- Achievement of a key milestone in the Future Combat Systems Program, moving into the system development and demonstration phase of the ground weapons systems of the "Army After Next."
- Deployment of the first phase of the Logistics Modernization Program (LMP), which will modernize the Army's national-level logistics business practices and support the Army's growing use of information technology.
- Planning for the shift by the U.S. Army Corps of Engineers to a new regional focus. This will include reorganizing the eight divisional offices and their subordinate districts into more effective regional business centers and formalizing Communities of Practice to enable us to capture and better benefit from lessons learned and to enhance our technical expertise.

These activities are essential to the pursuit of the vision that remains the guiding principle for our

fighting force: People, Readiness, and Transformation. The Army is committed to training and caring for its Soldiers, civilians, and families. We are committed to ensuring that our forces are prepared at all times to deploy and fight. And we are committed to investing in the improvements that will maintain the U.S. Army in its position as the most lethal army in the world.

Just as our Soldiers have standards to guide their training, appearance, and conduct, the Army has financial standards to guide the management of the public funds entrusted to it. The Chief Financial Officer (CFO) Strategic Plan serves as a framework for accountability and to ensure that the Army is fiscally responsible for those funds, and that it delivers quality and value to our customers. This plan also provides a roadmap for measuring financial performance, adhering to Department of Defense guidance and aligning with the President's Management Agenda to lead the Army through the continual improvement of its financial processes.

The Annual Financial Statement is published to report on the Army's financial performance each year. It is organized around the three funds that comprise the Army's financial statements: the General Fund, the Working Capital Fund, and the Civil Works Fund. The next sections describe fund highlights for FY 2003; detailed analysis is provided in subsequent chapters. Throughout the report, comparisons are made between FY 2003 and FY 2002. However, the Army in FY 2002 was an Army at peace while the Army in FY 2003 is an Army at war. The annual results for

each fund include the principal financial statements, notes, and supplementary information at the back of this publication.

General Fund

The General Fund provides the funding that the Army needs to accomplish the many different tasks required of it by the American people. Most important among these tasks is that the Army maintain at all times the readiness to fight and win the nation's wars. During FY 2003, the primary use of this fund was to support the Army vision of People, Readiness, and Transformation.

People

The global war on terrorism placed a heavy demand on Army resources in FY 2003. Troop deployments touched nearly every Army installation and organization, and significant contributions were required also of the Reserves and the National Guard. As of September 30, 2003, about 368,000 of our approximately 1.07 million active duty, Reserve, and National Guard Army troops were on active deployment. Most of the Soldiers deployed were involved in the global war on terrorism, either at home or in one of 120 countries overseas. At the time of this report, more than 167,000 Soldiers are deployed in Iraq and surrounding countries. More than 30,000 are in South Korea, 9,600 are in Afghanistan, 5,100 are in the Balkans, and more than 3,000 are supporting additional peace efforts in locations overseas. A further 28,600 Soldiers are

deployed in the United States as part of the homeland security effort.

At any one time overseas deployments account for approximately 48 percent of the active duty Army, 30 percent of the Reserve force, and 21 percent of the National Guard. Of the 33 active duty Army brigades, 24 (approximately 73 percent) were deployed overseas this year. Fifteen of the 45 National Guard enhanced battalions (33 percent) were also serving overseas.

The outlook for next year is just as challenging. Deployments such as those in support of Operation Iraqi Freedom put considerable pressure on the Army. Troop deployments tie up about three times as many personnel as are actually deployed, because of the need to train and support the units that are scheduled for subsequent rotations. As a result, the Army has recently announced one-year rotations for U.S. troops in Iraq, instead of the more typical six-month deployment. Despite the pressure of these deployments we remain on track to achieve our recruiting goals for FY 2003.

Operation Iraqi Freedom

Operation Iraqi Freedom demonstrated the awesome ability of the modern U.S. Army to the world. Within a week of the outbreak of the ground war in Iraq, U.S. ground forces blocked all key exit routes that could be used by the Iraqi leadership to escape the judgment of their people. Within 3 weeks, resistance in the capital



A soldier from Fort Hood, Texas, greets his family upon returning home.



Capt. Paul Stanton, commander of Co. B, 2nd Battalion, 502nd Infantry Regiment, 101st Airborne Division briefs Gen. Peter J. Schoomaker, the Chief of Staff of the Army and Maj. Gen. David H. Petraeus, commander of the 101st Airborne Division during a foot patrol in Mosul, Iraq, Aug. 21. Gen. Schoomaker visited the 101st Airborne's area of responsibility

city of Baghdad collapsed. Deployed from half a world away, U.S. Army troops led the way to this victory.

The ground war of Operation Iraqi Freedom began on March 20, 2003, when the 3rd Infantry Division (Mechanized) advanced from Kuwait into southern Iraq, bypassing urban areas on its way to Baghdad. After pausing to rearm and refit, the division continued north, crossing the Euphrates River and fighting its way to the international airport in Baghdad. U.S. Marines closed in on the city from the southeast.

In the south, the 101st Airborne Division conducted a battalion air assault. Special operations forces seized Iraq's major gas and oil terminals in the northern Persian Gulf and airfields in western Iraq. In the Kurdish-controlled area of the north, Soldiers of the 173rd Airborne Brigade carried out a night drop onto an airstrip to form a second front. In southeastern Iraq the 1st Marine Expeditionary Force and British forces combined to seize the Faw peninsula and secure Basra and other key objectives. The brigades of the 101st and the 82nd Airborne Divisions seized secondary objectives south of Baghdad. All coherent resistance in Iraq's capital collapsed on April 9, 2003.

The initial ground combat phase of Operation Iraqi Freedom was short and successful, but the next phase of the mission will take longer. Coalition forces in Iraq have been transitioning to post-hostility reconstruction, humanitarian assistance, and security tasks. For example, the U.S. Army Corps of Engineers

(USACE) is supporting the effort to restore oil infrastructure and production to pre-war levels, to repair electrical infrastructure, and to destroy the thousands of tons of munitions abandoned by the former Iraqi regime. The Corps is also assisting the U.S. Agency for International Development and Iraqi ministries, and is helping Iraqi engineers gain knowledge that bypassed them during the past 20 to 25 years, when they were prohibited from almost all contact with the outside world.

Our Soldiers are fully aware that Operation Iraqi Freedom is an engagement for the long term, and they are committed to finishing the job. Our goal nonetheless is to have every Soldier home as soon as possible, as realization of this goal will signify their successful completion of their mission. As Defense Secretary Donald Rumsfeld has said, the "end state is to have no U.S. and no international forces in Iraq ... because it is [the Iraqis'] country."

Other Anti-Terrorist Operations

In addition to Iraq, the Army continued its engagement through FY 2003 in numerous other operations against terrorism, notably in Afghanistan, the Philippines, and the Horn of Africa.

In Afghanistan, the commander of U.S. Central Command has said that our troops will remain there "for the foreseeable future." In just a few months in FY 2002, American and coalition forces overthrew the Taliban regime and destroyed the main force of al Qaeda terrorists. The Army's mission in Operation

Enduring Freedom is now to eradicate the last vestiges of Taliban and al Qaeda resistance and to help the Afghan people rebuild their country. Army forces of up to 2,000 82nd Airborne Division Soldiers, supported by Apache gunships and Black Hawk helicopters, continue to search for terrorist holdouts in remote areas near the Pakistan border; at the same time, dedicated Army professionals are training the Afghan army and police force to assume responsibility for security and order in the country.

Readiness

A famous maxim of Chinese military strategist Sun Tzu is, “In peace prepare for war, in war prepare for peace.” Readiness is in a very real sense the main business of the U.S. Army—indeed, of all military services. While wars may quickly consume huge amounts of resources, over the long term staying ready for war and peacekeeping uses far more. It is therefore essential that we continuously seek ways to be more efficient, productive, and effective in carrying out readiness activities.

Installation Management Agency

Most readiness activities take place on Army installations, ranging in size from major posts like Fort Benning, GA to smaller garrisons such as Camp Casey in South Korea. Many of these installations are akin to small cities, complete with office buildings, housing, hospitals, schools, stores, restaurants, and theaters. Some encompass hundreds of square miles of wilderness for military training and exercises. Base services include the maintenance, operation, and

repair of facilities and of infrastructure such as roads, sewer and water systems, and electricity, and the maintenance of heating, ventilation, and air conditioning. Importantly, these bases also provide health, morale, welfare, and recreational services to Army personnel and their families.

Managing any installation is a major undertaking. Traditionally, the job has gone to a “landlord” that also commands the largest unit at the installation. An installation can have dozens of tenant units that use money from their own budgets to pay for the services that they receive from the base commander’s unit. Under this system the priority of the landlord commander is his or her own unit, rather than the post or garrison, and the landlord unit may use funds assigned for base operations to support its deployment to combat missions. The system additionally disperses management in a environment that would benefit from a more centralized approach.

This landlord-tenant system started to change on October 1, 2003, when the Army opened a centralized Installation Management Agency (IMA). The IMA mission is to ensure the Army is properly trained, fed, equipped, and cared for in an environment that guarantees both combat readiness and the well-being of Soldiers and their families. The new system employs a commander who is responsible exclusively for the operation of the installation, and who reports to the IMA rather than to another unit commander on the post. All units located at an installation will receive a standard level of service, and all base



Operation **ENDURING FREEDOM**

Up to 70 countries are involved in Operation Enduring Freedom. Coalition forces have made important contributions in the war against terrorism across the spectrum of operations, providing vital intelligence, personnel, and equipment and assets for use on the ground, in the air, and at sea. Coalition members also have provided liaison teams, participated in planning, provided bases, granted overflight permission, and have made sizable contributions of humanitarian assistance.

operations (BASOPS) funds will go to the garrison commander and remain at the base.

Under the IMA system unit commanders will be able to focus on their mission and on readiness, instead of on being landlords. The system will enable the Army to establish standards, allocate resources according to those standards, deliver equitable services from installation to installation, and ensure the equal treatment of all units on a base. Operation Iraqi Freedom (OIF) provided the first evidence of the fiscal efficacy of this new, centralized approach. In FY 2001 through FY 2002, base commanders flowed hundreds of millions of BASOPS dollars into paying for the early phases of the deployment of their main units in support of Operation Enduring Freedom and the war on terror. Little of that money was repaid to the bases. In FY 2003, base commanders did the same for Operation Iraqi Freedom, to the tune of about \$600 million. This time, under the new rules of the IMA, when the Army received supplemental money from Congress to fight the war we repaid 99 percent of the diverted funds. According to IMA Major General Anders B. Aadland, this was “a first step into the programming discipline we’d been talking about.”

Transformation

To win its wars and to protect the peace, the U.S. Army must engage in continual transformation. According to Army Chief of Staff General Peter J. Schoomaker, “Old rules no longer apply. It is not business as usual. This state of war requires us to challenge old paradigms, to be flexible and adaptable

to face a cunning and devious enemy.” To be effective, Transformation has to reach all parts of the Army, not just the combat units.

Stryker Brigade Combat Teams

The Army has light, fast, and flexible combat units for initial deployment into an area, and it has heavy combat units that take longer to bring into play but that can defeat anything the enemy throws in their way. Until recently, though, the Army did not have intermediate combat groups that combined the speed and agility of light forces with the firepower of heavy units. New Stryker Brigades filled that gap in FY 2003, when the Army certified the first units of this highly flexible, quick-response, heavy-duty fighting force.

Although a Stryker Brigade may include 3,500 personnel and 400 vehicles, it can deploy rapidly over great distances by air or sea. The brigade can be quickly configured to conduct combat missions across a range of military operations, against different potential threats, and on any terrain. With no more than four days notice, a Stryker Brigade can be on its way anywhere in the world to do anything from combat a terrorist bombing campaign to fight a conventional military foe.

The brigade is built around the Stryker Interim Armored Vehicle, itself an Army Transformation success story. The Stryker is a mid-weight, armored eight-wheeled vehicle that combines firepower, battlefield mobility, survivability, and versatility with



A Stryker Brigade Combat Team convoy in Iraq.

reduced logistics requirements. It can be airlifted by a C130 Hercules cargo aircraft to primitive airstrips and can be sent into combat immediately. The Stryker can be configured 10 different ways, from troop carrier to mobile artillery platform to combat engineering vehicle. It has a range of 300 miles.

Future Combat Systems

As new as it is, the Stryker is only a temporary solution to fill a gap while ground weapons systems development catches up with new technology. In FY 2003, the Department of Defense approved moving the Army's Future Combat Systems (FCS) program into a \$14.9 billion system development and demonstration phase. More than just a vehicle, FCS eventually may be a family of manned and unmanned ground and aerial platforms. It is expected to replace both the Abrams tank and the Bradley Fighting Vehicle.

A revolutionary system, FCS is designed to be the ground force centerpiece for the "Army After Next," for FY 2015 through FY 2020. The FCS will blend the capabilities of several battlefield operating systems into a common platform that will radically change the nature of close combat. FCS elements will be lightweight (no individual element greater than 20 tons), so that at least two will be able to fit into a C130 cargo aircraft. They will provide an overwhelmingly lethal, strategically deployable, self-sustaining, and survivable combat and combat support force, systems, and supporting technologies. FCS will be a single multifunctional system (or system of

systems, capable of integrating a dozen or more individual systems and their operators into a single network), with the objective of being able to deploy to any conflict anywhere in the world in 96 hours, ready to fight.

Working Capital Fund

The Army Working Capital Fund (AWCF) is part of the Defense Working Capital Fund, and is divided into four activity groups: Supply Management, Army; Depot Maintenance; Ordnance; and Information Services. These businesses help the Army to maintain constant readiness by providing the supplies, equipment, ordnance, and information services necessary to support the deployment and projection of lethal force as and when required by the nation. This year the two most significant activities undertaken by the AWCF were the Logistics Modernization Program and the Ground Systems Industrial Enterprise.

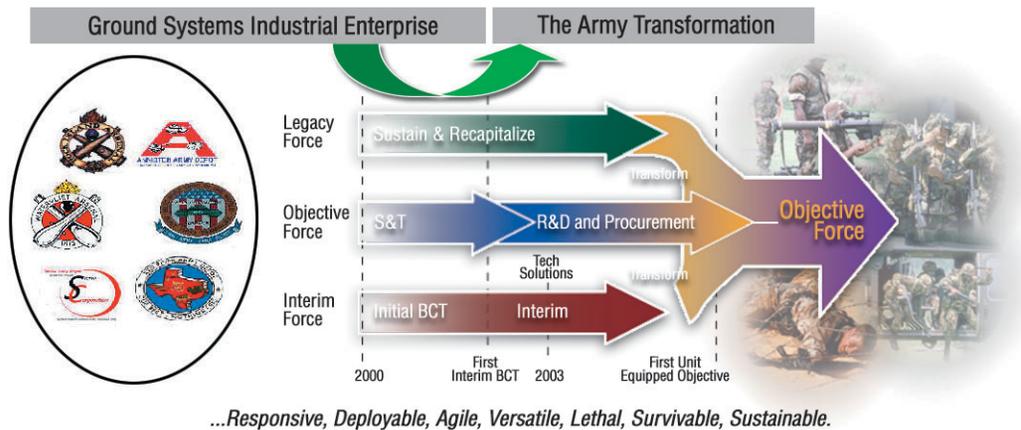
Logistics Modernization Program

Next to combat skills, logistics know-how is probably the most important capability in the military world. Moving troop supplies from the depot or factory to the "tip of the spear" has always been a complicated undertaking, but today's level of complexity defies the imagination. The Army uses millions of different items, including rations, uniforms, industrial and building supplies, spare parts, ammunition, medicines, fuels, and many others. These items often must be moved thousands of miles overnight to support troops on some distant battlefield.



Lt. Col. Mark Dickens and Maj. Rob Key examine an unmanned aerial vehicle in the Pentagon courtyard. "Shadow 200" UAV, was on exhibit Sept. 25 to educate Army members about new short-range surveillance technology.

Figure 1. Ground Systems Industrial Enterprise Visions



Headquartered at Rock Island Arsenal, IL (RIA), the six facilities merged under GSIE are Anniston Army Depot, AL (ANAD); Lima Army Tank Plant, OH (LATP); Red River Army Depot, TX (RRAD); Rock Island Arsenal, IL (RIA); Sierra Army Depot, CA (SIAD); and Watervliet Arsenal; NY (WVA).

Although they were leading edge in their time, the Army’s logistics legacy systems, such as the Commodity Command Standard System (CCSS) and the Standard Depot System (SDS), are nearing obsolescence and must be replaced. These systems use the old batch processing approach, while today’s logistics information flows interactively in near real time. They use 25-year-old technology, 30-year-old processes, and are written in COBOL, now a truly ancient digital language.

On July 7, 2003 the Army successfully completed the initial deployment of the first phase of the Logistics Modernization Program (LMP). LMP is designed to modernize the Army’s national-level logistics business practices and the supporting information technology. LMP was deployed to 12 pilot locations in the first phase, and over the next 12 months the platform will be deployed to other commands, depots, and arsenals countrywide.

The new logistics program is a key component of the Army’s transformation campaign, and will deliver measurable improvements in Army readiness. Most important to the Soldier in the field, LMP will reduce the time between order and delivery and will help eliminate the problem of items being out of stock when ordered. Additionally, the new system will keep an order visible from start to finish, so there will be far fewer “lost orders.” LMP will be a powerful tool for logistics planning, which is important for strategists and tacticians alike. The Army will be able to spend less money buying and storing items in

warehouses, because LMP will improve the ability to order direct from the factory, even in times of crisis. Finally, LMP will reduce the number of people who are needed for logistics management and operations, freeing personnel for other purposes.

Ground Systems Industrial Enterprise

Army arsenals and depots provide essential manufacturing, overhaul, repair, and refitting services for a wide variety of ground weapons systems and platforms. Among the oldest organizations in the Army, many of the depots started out in the early 19th century as the primary manufacturers of rifles, pistols, cannons, and gunpowder. Today, much of this work is done by the private sector, working on contract with the Army. This and other factors have caused the depots to reorganize—indeed, transform themselves—to provide the types of services the modern Army demands.

Formed as a result of provisional stand-up in October 2002, the Ground Systems Industrial Enterprise merges the capabilities of six Army facilities into a single enterprise. As a result of the Army Business Initiatives Council recommendation and directive of the Secretary of the Army, full stand-up and implementation is set for October 1, 2003.

The underlying intention of GSIE is to leverage the assets of the government-owned depots, to provide better maintenance, storage, and outloading services. This will permit the six Army facilities to be more cost-effective, flexible, and agile.

GSIE will operate like a business to the maximum extent possible, will grow by leveraging the capabilities of each installation, will foster more partnering arrangements with industry, will champion financial and workforce reforms, and will increase productivity through initiatives such as lean manufacturing. The GSIE plan of action encompasses four objectives: continuous improvement of the support given to Soldiers, infrastructure reductions, efficiency gains, and increased work throughput.

Most important to the combat commander, the GSIE establishes a closer relationship between the field and the industrial base that supplies and maintains ground weapons systems. The enterprise furthermore will be a focal point of entry for all ground systems support issues and will provide a consolidated, ongoing sustainment structure for ground systems.

Microsoft Suite Buy

The Army has been seeking to consolidate its software purchases and licenses to improve both the security of and the Army-wide access to information. To this end, during the third quarter of FY 2003 the Army signed a six-year contract worth more than \$470 million with Microsoft and its small business reseller. The contract is in concordance with the DoD Enterprise Software Initiative (ESI). The Army has close to 500,000 computer users, and the Enterprise Software Consolidation contract is expected to save \$15 million over the next six years. The first year delivery order, totaling \$78 million, was awarded on May 30, 2003.

“The new contract is particularly relevant to the last of these goals [to reduce the cost of operations]. We’re trying to be more like a corporation, be more business-orientated. Enterprise is about treating the Army as one integrated organization.”

Peggy Henderson,
Acting Deputy Director of Enterprise Systems
Technology Activity

“We need, first, to identify the individual and independent homeland security programs that exist throughout the Corps, and organize them into a single, coherent program. Secondly, we need to establish contact with our customers, stakeholders, and partners to get their views on where USACE needs to focus its homeland security efforts.”

Edward Hecker
Chief, Homeland Security Office

The size of the award highlights the importance of the contract to the Army Knowledge Management (AKM) strategy of supporting Army operations through better access to information. The AKM transformation has three strategic goals: to defend the information network, to support the Objective Force, and to reduce the cost of operations. The aim is have one Army network, one Army portal, a single sign-on capability, a universal directory service, and the ability to support plug and play. The outcome of this will be universal access to information across the Army: Soldiers will be able to go anywhere, anytime, and plug into the system in support of their work.

Civil Works Fund

The Corps of Engineers Civil Works Program has been involved since 1824 in the development, management, protection, and enhancement of America’s water and related land resources. Today the program is responsible for commercial navigation, flood damage reduction, environmental restoration, and related matters. It provides stewardship of America’s water resources infrastructure and associated natural resources, and provides emergency services for disaster relief. The Civil Works Program supports the Army in peacetime pursuits, during national emergencies, and in times of war. Many of the USACE employees helping Iraq to restore its public works programs are using skills they use every day in their work at home. Highlights of the program in FY 2003 include the creation of the Homeland Security Office and planning for a transformed Army Corps of Engineers.

Creation of the Office for Homeland Security

The Department of Homeland Security was created as a new federal agency in response to the terrorist attacks of September 11, 2001. In February 2003, the USACE subsequently established the Office of Homeland Security to fulfill the myriad responsibilities associated with civil emergency management and critical infrastructure protection programs. The new office notably is responsible for coordinating USACE support with elements of the Department of Homeland Security, the Department of Defense, and the Army in the overall homeland security mission.

The USACE oversees numerous infrastructure assets that are potentially vulnerable to terrorist activity. Assuring the security of these assets encompasses detection, protection, and response work. The Corps’ detection work includes activities such as maintaining crime watch programs, performing surveillance, and raising awareness of potential threats. Protection requires the screening of all facilities to establish their importance and the assessment of the vulnerability to attack of these facilities. To assure responsiveness, the Corps must coordinate with state and local law enforcement bodies, with the National Guard, and with federal agencies. Among the most important infrastructure assets overseen by the Corps of Engineers are 75 hydroelectric power projects, 456 major lakes and reservoirs, 237 locks, 25,000 miles of commercially navigable channels, 926 shallow and deep draft harbors, and research and development facilities valued at \$1.2 billion.

USACE 2012

The Army Corps of Engineers has developed a long-term plan to reduce its headquarters infrastructure and to reorient to a teams-based organization. The changes, to be made under the designation USACE 2012, are needed to produce more cost-effective, viable solutions to the water and infrastructure problems that challenge the country today and that will do so over the next decade. The plan aims to unify the organization and thus to eliminate the redundancy of duplicated effort. In doing so, it is expected to deliver cost reductions. Centering the organization on teams furthermore will improve collaboration at and between all levels of the Corps, from the district to the Pentagon. The process will also seek to open channels of communication between the Corps and other governmental agencies, academia, and private industry.

USACE 2012 will strengthen the regional focus and transform the eight existing divisional offices and their subordinate districts into regional business centers. This shift will enable the divisional offices to concentrate their technical expertise and thus to broaden and enhance the range and quality of the services that they deliver to the customer, the American taxpayer. At the Washington Headquarters, teams will assist the regional transformation with administrative and policy support, for example, by fielding policy questions early in the process or by ensuring that a Congressional response on the status of a project reflects the knowledge of the entire team.

The reorganizational program additionally will change the Corps' approach to the budget and authorization process, and will provide overseers in the Pentagon, the Office of Management and Budget, and the Congress with better information on the water resources challenges that the nation faces. USACE 2012 also will formalize the various Communities of Practice within the Corps to ensure that lessons learned are captured and passed on and that technical expertise is maintained and honed.

Hurricane Isabel

Hurricane Isabel, the largest hurricane of FY 2003, made landfall on midday, September 18 on the outer banks of North Carolina. Packing maximum sustained winds of 100 mph, Isabel caused widespread power outages in Virginia, Washington, D.C., Maryland, and New Jersey. Two divisions of the Corps of Engineers were affected: the South Atlantic Division and the North Atlantic Division, in Federal Emergency Management Agency (FEMA) Regions II, III, and VI. The Corps assigned 228 employees to its disaster response effort. The Norfolk District provided the primary contribution to the emergency operations, including the execution of FEMA missions through to financial closeout, within its Civil Works boundaries in the Commonwealth of Virginia. The Baltimore District had similar responsibilities in the State of Maryland and the District of Columbia.

All Corps of Engineers' flood control projects performed as expected, minimizing the damage caused and protecting lives. Requests for ice and



Damage caused by Hurricane Isabel at Kitty Hawk, N.C.

water headed the calls for aid from North Carolina, Virginia, Maryland, Delaware, and the District of Columbia: in the days prior to and following the hurricane FEMA and the Corps moved more than 2 million pounds of ice to North Carolina, Virginia, and D.C. More than 420,000 gallons of drinking water were delivered to Virginia emergency managers.

Isabel came ashore south of the U.S. Army Engineer Research and Development Center's (ERDC) Field Research Facility (FRF) in Duck, NC. The storm was the largest ever measured by the FRF, with 26.5-foot significant wave heights and 92 mph wind gusts.

Army Systems Controls and Legal Compliance

The Army continues to place a high priority on improving its financial management processes and associated systems. To that end, we worked aggressively through FY 2003 toward our goal of

ensuring that our critical feeder systems are compliant with the Chief Financial Officers (CFO) Act and that they will therefore produce the requisite reliable and relevant information. The ongoing replacement or incorporation of Army feeder systems into new or evolving systems means that the number of noncompliant systems continues to diminish. Those critical feeder systems not scheduled for replacement are being evaluated for modification to achieve compliance, with each system being monitored through periodic review of the Army CFO Strategic Plan. This plan fixes responsibility and establishes a timeline for addressing and resolving problems of noncompliance, with periodic status reports going to Army leadership.

The CFO Strategic Plan is one of many initiatives designed to improve business processes throughout the Army. As these business processes improve, so too will the quality of the information that is vital to the Army's decision-makers.