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United States Army Annual Financial Statement  
**Fiscal Year 2001**

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



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

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\*Unless otherwise indicated, all photographs in the FY 2001 Army Annual Financial Statement are courtesy of the U.S. Army.





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



The September 11, 2001 terrorist attacks in New York, Washington, and Pennsylvania changed forever our view of the world. Following the attacks we witnessed the very best of America, through the bravery of our fire, police, rescue, and emergency medical services, and through the thousands of ordinary citizens who helped by providing food, clothing, money, and blood. The Army also was there. In New York City and at the Pentagon, more than 3,000 active, National Guard, and Corps of Engineers soldiers and civilians responded to the call to provide medical and other humanitarian support, traffic control, and debris removal.

The attacks of September 11 provided shocking and very clear evidence of the changing nature of the threats to our country and underscored the importance of transforming the Army into a force that is more strategically responsive and dominant across the full spectrum of military operations. Our transformation not only involves applying the very latest technology across the force, but also includes changing our doctrine, our soldier training, and our leader development to ensure that our Army dominates the warfighting environments of the future.

In addition to transforming how we fight and win the Nation's wars, we are transforming how we conduct our business. We are seeking ways to use our resources more efficiently. We are also working to improve the quality and the timeliness of the financial information that we provide to our leaders so that they can make informed decisions. To that end, we are improving our financial management systems and integrating them with our logistics, personnel, and other management systems. As a result, we continue to make significant progress toward our goal of achieving an unqualified audit opinion on our financial statements.

America's freedom and security are of the utmost importance to its citizens and are necessary for our great nation to flourish. The Army's job is to help keep our country safe and, in turn, to protect our freedom. It is our responsibility to ensure that America continues to have the best Army in the world, paid for without wasting resources. We remain committed to fulfilling our obligations while employing the highest standards of integrity and efficiency.

**Thomas E. White**  
*Secretary of the Army*







The Army is pleased to issue its Annual Financial Statement for fiscal year 2001. For the third consecutive year, we have brought together the information of our three reporting entities: the General Fund, the Working Capital Fund, and the Civil Works Fund. This report includes information on how we are meeting our fiduciary and stewardship responsibilities within each fund.

As a consequence of the events of September 11, we have been unable to produce statements for the General Fund and the Working Capital Fund. In their place, we have provided a management discussion and analysis of these two funds. Additionally, we have prepared the complete management discussion and analysis and the financial statements for the Civil Works Fund. While we have yet to achieve an unqualified opinion on the financial statements for any of our three reporting entities, we firmly believe that we are moving in the right direction to achieve that goal.

One example of our progress is the Army-wide implementation of the Defense Property Accountability System (DPAS). Fully compliant with federal accounting and systems requirements, DPAS replaces outdated property systems that do not meet today's federal mandates. DPAS will enable us to properly account for and report on all Army general equipment. We will complete DPAS fielding during the next fiscal year in time for the 2002 financial statements.

The Army is committed to using sufficient management controls to assure our continued stewardship of Army financial and materiel resources. Moreover, the Army's financial community is committed to providing Army managers with more relevant and reliable information to assess programmatic activities and to enable better decision making. As part of the Army's transformation for the 21st century, we are working diligently to modernize our management systems and improve our federal financial reporting.

Thank you for your interest in our FY 2001 Annual Financial Report. We invite you to visit the Assistant Secretary of the Army (Financial Management and Comptroller) Web site ([www.asafmc.army.mil](http://www.asafmc.army.mil)) for more information on Army financial management activities.

*Sandra L. Pack*

**Sandra Pack**  
**Assistant Secretary of the Army**  
*(Financial Management and Comptroller)*









Since being appointed as the Assistant Secretary on October 3, 2001, it has been an honor and privilege to serve the soldiers, civilians and families that make the United States Army the most powerful and professional Army in the world. In this capacity, it has been especially rewarding to work with the Army Corps of Engineers.

The Corps has a proud history stretching back to the beginning of the country. Over the years, the Corps has evolved to emphasize its major Civil Works responsibilities of today -- conservation and development of the Nation's water resources, including flood control, navigation, environmental restoration and related purposes. All of these tasks are important; all are complex and demanding; and all require prudent management to ensure wise use of taxpayer dollars.

The dedicated military and civilian employees in the Corps have risen to every challenge in the past and will continue to do so in the future. Their dedication was immediately evident to me upon coming on board and seeing the Corps' efforts in responding to the tragic events of September 11, 2001. In New York City and Washington, D.C., Corps employees have been at the center of recovery efforts, particularly in managing debris removal and assessing structural damage.

The Fiscal Year 2001 Annual Financial Statement for the Civil Works Fund reflects solid contributions to our Nation's well-being. I look forward to continuing to serve with the Army and the Corps during this landmark era of change and transformation. I am excited about the challenges inherent in this job and am enthusiastic about the opportunities it presents in serving this great country.

A handwritten signature in black ink, appearing to read "Mike Parker".

**Mike Parker**  
*Assistant Secretary of the Army*  
(Civil Works)





# Year in Review

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



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## Year in Review

The Army is a strategic instrument of national policy that has served our country in peace and war for more than two centuries. Soldiers help America fulfill its global responsibilities and they safeguard our national interests. Their actions help make the world a safer place.

The U.S. Army is the most potent ground fighting force in the world, but we should never forget that our strength lies in the quality of the individual soldier. We must always seek to attract, train, motivate, and retain only the most competent and dedicated people, and we do this first and foremost by giving our soldiers the opportunity to grow with us to their full potential. We furthermore see the well-being of soldiers and their families as a key element to Army readiness. By looking after their families, we make it possible for our soldiers to focus fully on doing the nation's business, whenever and wherever required.

The Army is divided into three separate funding entities: the General Fund, Working Capital Fund, and Civil Works Fund. This annual report describes how these three funding entities support our people, Army readiness, and the transformation of our forces. Following the tragedy of September 11, 2001, the General Fund and Working Capital Fund received a waiver from the requirement to prepare and submit FY 2001 Financial Statements. The complete Financial Statements of the Civil Works Fund have been prepared and are included in this report.



The portion of the Pentagon hit by a hijacked airplane on September 11, 2001, was illuminated as round-the-clock recovery efforts continued.

### General Fund

The General Fund provides funding for the Army mission, a non-negotiable contract to maintain at all times the readiness to fight and win the nation's wars. Each year Congress appropriates funds to the Army so that we may fulfill this contract. Brief descriptions of some of our most notable accomplishments of FY 2001 follow.

**People.** In FY 2001, we made important progress in improving the well-being of our people with a focus on education, compensation, and healthcare.

We continued to invest in Army University Access Online, or eArmyU. This program provides 100 percent tuition funding for





anytime, anyplace distance learning. Currently fielded at Forts Hood, Benning, and Campbell, eArmyU provides to soldiers a laptop computer, printer, and Internet service to enable them to pursue post-secondary degrees and certificates regardless of where they are currently stationed. You can access eArmyU at <http://www.earmyu.com/>.

Healthcare and compensation are also essential to well-being. In FY 2001 we eliminated most TRICARE copays for active duty families seeking the services of civilian health providers. We also extended TRICARE Prime Remote to family members who choose to live with soldiers in remote locations. We addressed the

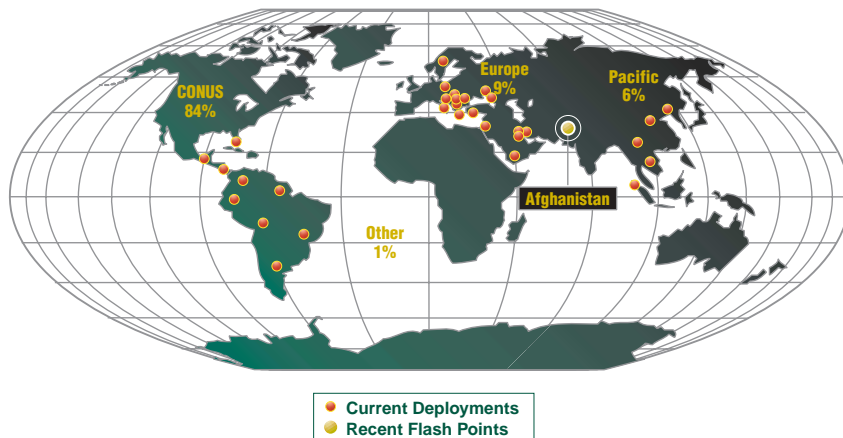


issue of compensation by providing a 3.7 percent increase and a one-time targeted adjustment for mid-grade enlisted soldiers. More information on the TRICARE program can be found at <http://www.tricare.osd.mil/>.

**Readiness.** We continue to forward-station soldiers and civilians all over the world. In FY 2001, we had 125,000 soldiers and 15,000 civilians stationed in more than 100 countries. In addition, we had a daily average of 27,000 additional soldiers engaged in operations and military exercises in 70 countries. These soldiers and civilians are supporting assigned missions such as the enforcement of United Nations sanctions against Iraq, stability operations in the Persian Gulf, and peacekeeping operations in Bosnia and the Sinai.

## Where Your Army Is Today...

Nearly 27,000 soldiers deployed in over 70 countries, plus 125,000 forward-stationed



Engaged Around the World—Protecting national interests, supporting the National Security Strategy, and lending humanitarian assistance at home and abroad.



To improve the readiness of our early deploying units to conduct these and other missions, during FY 2001 we moved 34,000 soldiers to positions in our early deploying units that were previously vacant. This enabled some of these units, which typically support our combat divisions, to achieve C1 personnel ratings for the first time in five years.

We continued through FY 2001 to rely on our reserve components to deal with the high tempo of current operations. We had approximately 2,000 reserve component soldiers deployed in Bosnia, Kosovo, and the Middle East. Significantly, for the first time we also had reserve component soldiers from the North Carolina and Oklahoma Army National Guard performing active patrols in 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.

To address this need, we are transforming the entire Army, from installations to leader development programs. We are changing doctrine, training, leaders, organizations, materiel, and our people. Everything will be impacted.

To achieve this transformation, we will transition through three forces: the Legacy Force, the Objective Force, and the Interim Force. 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. 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 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 (IBCTs), equipped with more than 2,000 new Light Armored Vehicles and a Mobile Gun System.



A Platform Performance demonstration of 35 potential Light Armored Vehicles for new combat infantry brigades was conducted at Fort Knox, Kentucky.





**Management Initiatives.** We recognize that our current programs will over time become more expensive to maintain. It is therefore essential that we transform our business practices so that we can continue to take care of our people, sustain readiness, and complete our transformation into a force for the 21st century.



Improved housing shows our commitment to all soldiers and their families.

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. Four pilot projects will privatize more than 15,000 family housing units at Forts Carson, Hood, Lewis, and Meade. Forts Carson and Hood have already transitioned to privatized operation, and agreements will be concluded at Forts Lewis and Meade in early 2002. We have also initiated

23 further privatization projects that will see 53,000 housing units convert to private management through 2002-2006.

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. 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.

In addition, Army 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 implement several of the initiatives identified by this group.



## Working Capital Fund

The Army Working Capital Fund (AWCF) finances the Army's four working capital businesses: Supply Management, Army; Depot Maintenance, Army; Ordnance; and Information Systems. These businesses help the Army to maintain readiness by providing the equipment, supplies, ordnance, and information systems necessary to support the deployment and projection of lethal force as and when required.

The following are some AWCF business improvement highlights of FY 2001:

**Single Stock Fund.** In FY 2001, the Working Capital Fund undertook a reorganization of its operating structure, implementing the Single Stock Fund (SSF) initiative at the Supply Management, Army activity. Under SSF, the group now consists of a single wholesale division subdivided by commodity, with major subordinate commands under the U.S. Army Materiel Command managing assigned materiel stocks. By eliminating the middleman found in the retail subdivision model, we have increased the speed and efficiency at which we can provide combat support services thereby reducing the cost of service.

**Wholesale Logistics Modernization Program.** In addition to the implementation of the Single Stock Fund, in FY 2001 we began fielding the Wholesale Logistics Modernization Program (WLMP). Through the adoption of private sector supply chain and financial management best practices, WLMP will improve force readiness and mission performance, will enable us to take advantage of efficiencies in systems operations, and will improve system maintainability and adaptability. By combining logistics and financial data in an integrated cost accounting system, it will also provide full asset visibility. WLMP furthermore will interface with DoD-wide U.S. Standard General Ledger (USSGL) data to improve accounting and financial reporting within the Army Materiel Command.

**Army Workload and Performance System.** We completed implementation of the Army Workload and Performance System (AWPS) in FY 2001. AWPS is a human resources tool designed to analyze workload and to ensure the efficient allocation of resources across the AWCF. As a result of implementing AWPS, we are better able to estimate and schedule workflow, monitor per-



Depot Maintenance Activity Group has two primary responsibilities: maintenance and base operations.



formance, and control overhead; we have also improved our responsiveness to customer requests. By taking advantage of the efficiencies inherent in a workload-based system, AWPS thus contributes to the provision of agile, more responsive support for the warfighter.

## **Civil Works Fund**

The U.S. Army Corps of Engineers has served our nation, through peace and war, for more than 200 years. The Corps traces its origins to the construction of the fortifications at Bunker Hill in 1775, service in the Revolutionary War, and then peacetime service opening the Western frontier. Over time our military and civil missions have evolved and continue to evolve to meet the needs of the nation. Today the civil mission includes development and management of navigation, flood and coastal shore damage reduction; environmental protection and restoration; hydroelectric power; recreation; water supply and emergency management programs.

Today, the Corps is the world's largest public engineering, design, and construction management agency. Military and civilian engineers, scientists, and a range of other specialists work hand-in-hand in divisional and district offices throughout the world and at four major laboratories and research centers to provide leadership in engineering and environmental matters.

### ***Summary of Performance Results***

The Civil Works Program is divided into nine outcome-oriented business programs, all of which contribute to the economic well-being and quality of life of our nation. We have established key performance goals for the nine programs, our progress in the pursuit of which demonstrates our focus on achieving congressionally authorized program purposes. The following are highlights of our FY 2001 performance.



**Environment.** Each of our business programs addresses environmental issues, but two are focused specifically on our mission to protect, restore, and manage the environment. The Environmental business program emphasizes environmental stewardship, ecosystem restoration, mitigation, environmental compliance, and research and development. During FY 2001, we continued to improve on our management of 713,374 acres of mitigation lands by achieving 78 percent of prescribed mitigation requirements. We participated in recovery programs for 78 federally listed species, engaging in 491 separate opportunities to benefit these species or their habitats. We also corrected 67 percent of significant environmental findings and 62 percent of major findings in FY 2001 at Corps-operated facilities. Complete correction of those findings, which were left open at the end of FY 2001, will be accomplished in FY 2002 subject to availability of funds. The correction of these findings eliminates the immediate threat the findings pose to the environment.



A Great Blue Heron in South Georgia.

**Recreation.** Most federal lakes were originally built for purposes other than recreation. Public needs and values have changed, however, and we have sought to serve the evolving public interest by adapting our reservoirs for multiple uses, including recreation where there is sufficient legislative authority and economic justification to do so. We operate more than 4,000 recreation sites at 456 water resources projects in 43 states. During FY 2001, the number of visitor-days at our outdoor recreation areas decreased slightly from 212 to 209 million, while our cost per visitor-day increased slightly from \$1.24 to \$1.28. In addition, the recreation program supports 500,000 full-time or part-time jobs and generates annual visitor recreation-related spending of \$15 billion.



Accessible archery at the Corps' Conemaugh River Lake, Saltsburg, Pennsylvania.

## Army Systems Controls and Legal Compliance

The Army has an active, aggressive management control process that has been thoroughly institutionalized at all levels. Administration of the process stresses accountability for establishing effective management controls, for conducting formal evaluations of these controls, and for ensuring that management control deficiencies are reported and corrected.

The Army continues to place a high priority on improving its financial management processes and associated systems. During FY 2001, we built upon the progress made during FY 2000 to bring more of our critical feeder systems into compliance with the Chief Financial Officers Act, with the result that they are better able to produce the reliable and relevant information essential to efficient management. The replacement of Army feeder systems with 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 to determine what corrective action is necessary to achieve compliance.

