



Highlights of [GAO-03-668](#), a report to the Chairman, Subcommittee on Defense, Committee on Appropriations, House of Representatives

Why GAO Did This Study

The Space and Naval Warfare Systems Command (SPAWAR) has hundreds of millions of dollars of funded work that its working capital fund activities did not complete before the end of the fiscal year. Reducing the amount of workload carryover at fiscal year-end is a key factor in the effective management of Department of Defense (DOD) resources and in minimizing the “banking” of funds for work to be performed in subsequent years. GAO was asked to analyze SPAWAR’s carryover balances. GAO assessed the accuracy of the budgeted amounts, the accuracy of the reported actual carryover balance, and the reliability of underlying financial data on which reported actual carryover is based.

What GAO Recommends

GAO is making several recommendations aimed at improving the accuracy and reliability of SPAWAR’s and other working capital fund activities’ budgeted and reported actual year-end carryover amounts. GAO is also making recommendations to improve SPAWAR’s tri-annual review process so that these reviews can serve to verify the reliability of underlying financial data. DOD concurred with 12 of the 14 recommendations and partially concurred with 2. For these 2 recommendations, DOD agreed with GAO’s intent to ensure that obligated and unobligated balances are reviewed regularly to ensure effective use of funds.

www.gao.gov/cgi-bin/getrpt?GAO-03-668.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Gregory D. Kutz at (202) 512-9505 or kutzg@gao.gov.

NAVY WORKING CAPITAL FUND

Backlog of Funded Work at the Space and Naval Warfare Systems Command Was Consistently Understated

What GAO Found

The budgeted and reported actual amounts of SPAWAR gross carryover were consistently understated, resulting in the Congress and DOD decision makers not having reliable information to decide on funding levels for working capital fund customers. First, GAO found that SPAWAR centers’ budgeted gross carryover for fiscal years 1998 through 2002 was significantly less than the reported actual year-end gross carryover.

SPAWAR Systems Centers’ Budgeted and Reported Actual Gross Workload Carryover

Dollars in millions

Fiscal year	Budgeted carryover	Actual carryover	Actual exceeds budgeted carryover
1998	\$377	\$530	\$153
1999	332	563	231
2000	358	613	255
2001	567	875	308
2002	610	896	286

Sources: Navy budget and accounting reports.

Note: Gross carryover is the dollar value of work that has been ordered and funded (obligated) by customers but not completed by working capital fund activities at the end of the fiscal year.

Budgeted gross carryover was understated primarily due to problems with estimating the underlying customer order data. For example, for fiscal year 2002, SPAWAR’s budgeted amount for customer orders was 88 percent less than the reported actual orders received.

Second, SPAWAR’s reported actual carryover balances were also unreliable and adjusted downward by hundreds of millions of dollars. These adjustments understated carryover and resulted in Navy reports to the Congress showing that SPAWAR carryover balances for fiscal years 1998 through 2002 did not exceed DOD’s 3-month carryover standard. SPAWAR was able to report reduced carryover balances for the following reasons.

- As GAO previously reported, the DOD guidance for calculating the number of months of carryover allowed carryover to be adjusted and understated. DOD agreed with GAO’s previous recommendation and in December 2002 changed its carryover guidance.
- SPAWAR centers used accounting entries to manipulate the amount of customer orders for the sole purpose of reducing reported carryover below the 3-month standard. For example, the centers did this for at least \$50 million at the end of fiscal year 2001. SPAWAR officials issued guidance in September 2002 discontinuing this practice.

Finally, SPAWAR had not taken key steps to verify the underlying financial data on which reported actual carryover is based. The SPAWAR centers had only recently begun conducting the required tri-annual reviews of such data, which DOD has required since 1996. However, the reviews were ineffective, including the exclusion of slightly less than half of their reported actual carryover from the review process.