



Highlights of [GAO-06-530](#), a report to the Chairman, Subcommittee on Defense, Committee on Appropriations, House of Representatives

## Why GAO Did This Study

According to the Department of Defense's (DOD) fiscal year 2006 budget estimates, working capital fund activity groups (depot maintenance, ordnance, and research and development) will have about \$6.3 billion of funded work that will be carried over from fiscal year 2006 into fiscal year 2007. The congressional defense committees recognize that these activity groups need some carryover to ensure smooth work flow from one fiscal year to the next. However, the committees have previously raised concern that the amount of carryover may be more than is needed. GAO was asked to determine (1) if the military services' carryover calculations were in compliance with DOD's new carryover policy and (2) if customers were submitting orders to working capital fund activities late in the fiscal year and, if so, the effect this practice has had on carryover.

## What GAO Recommends

GAO makes recommendations to DOD to (1) improve the military services' calculations of the allowable amount of carryover and actual carryover, (2) improve the reporting of carryover information to Congress and DOD decision makers, and (3) ensure that the military services follow the DOD regulation concerning the acceptance of orders placed with working capital fund activities. DOD concurred with all the recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-06-530](http://www.gao.gov/cgi-bin/getrpt?GAO-06-530).

To view the full product, including the scope and methodology, click on the link above. For more information, contact McCoy Williams at (202) 512-9095 or [Williamsm1@gao.gov](mailto:Williamsm1@gao.gov).

# DEFENSE WORKING CAPITAL FUND

## Military Services Did Not Calculate and Report Carryover Amounts Correctly

### What GAO Found

The military services have not consistently implemented DOD's revised policy in calculating carryover. Instead, the military services used different methodologies for calculating the reported actual amount of carryover and the allowable amount of carryover since DOD changed its carryover policy in December 2002.

- The military services did not consistently calculate the allowable amount of carryover that was reported in their fiscal year 2004, 2005, and 2006 budgets because they used different outlay rates for the same appropriation.
- The Air Force did not follow DOD's regulation on calculating carryover for its depot maintenance activity group, which affected the amount of allowable carryover and actual carryover by tens of millions of dollars and whether the actual carryover exceeded the allowable amount as reported in the fiscal year 2004, 2005, and 2006 budgets.
- The Army depot maintenance and ordnance activity groups' actual carryover was understated in fiscal years 2002 and 2003 because carryover associated with prior year orders was not included.
- While the Navy generally followed DOD's policy for calculating carryover, the Navy consolidated the reporting of carryover information for research and development activities. The Navy budgets no longer provide information to show if any of the five research and development subactivity groups individually exceeded the carryover ceiling as the Navy budgets did prior to the change in the carryover policy.

As a result, carryover data provided to decision makers who review and use the data for budgeting are erroneous and not comparable across the three military services. For example, the Air Force reported to Congress that the actual fiscal year 2002 carryover for depot maintenance was \$87 million less than the ceiling. If the Air Force followed DOD's policy, GAO's calculations show its carryover would have exceeded the ceiling by \$216 million.

Carryover is greatly affected by orders accepted by working capital fund activities late in the fiscal year that generally cannot be completed by fiscal year end, and in some cases cannot even be started prior to the end of the fiscal year. GAO's analysis of 68 fiscal year-end orders identified four key factors contributing to orders generally being issued by customers late in the fiscal year and being accepted by the working capital fund activities during the last month of the fiscal year. These reasons included (1) funds provided to the customer late in the fiscal year to finance existing requirements, (2) new work requirements identified at year end, (3) problems encountered in processing orders, and (4) work scheduled at year end. GAO's analysis showed that over half of the orders reviewed were not completed at the end of the next fiscal year, generating a second year of carryover on the same order. As a result, some orders may not have been the most effective use of DOD resources at that time and may not have complied with all of the order acceptance provisions cited in the DOD Financial Management Regulation.