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Highlights

Highlights of [GAO-09-415](#), a report to the Subcommittee on Readiness and Management Support, Committee on Armed Services, U.S. Senate

Why GAO Did This Study

From fiscal years 2004 through 2008, new orders received by the eight Army ordnance activities increased from \$788 million to \$1.5 billion. To the extent that the ordnance activities do not complete work at year end, the ordered and funded work is carried over into the next fiscal year. While past congressional defense committees recognized the need for carryover, the committees have on occasion raised concerns that carryover may be more than needed. GAO was asked to determine (1) whether the reported actual total carryover increased or decreased from fiscal years 2004 through 2008 and, if the carryover increased, the actions the Army is taking to reduce it; (2) the primary reasons for carryover at the eight ordnance activities; and (3) whether carryover amounts exceeded ceilings for fiscal years 2006, 2007, and 2008, and whether the methodology used to calculate the ceiling for the ordnance activities was reasonable. GAO analyzed reported carryover and related data at the eight activities.

What GAO Recommends

GAO is making three recommendations to the Department of Defense (DOD) that are aimed at (1) improving the budgeting for carryover and (2) updating the DOD Financial Management Regulation that contains guidance on carryover. DOD concurred with all three recommendations and has taken or plans to take action to implement them.

To view the full product, including the scope and methodology, click on [GAO-09-415](#). For more information, contact Asif A. Khan at (202) 512-9095 or khana@gao.gov.

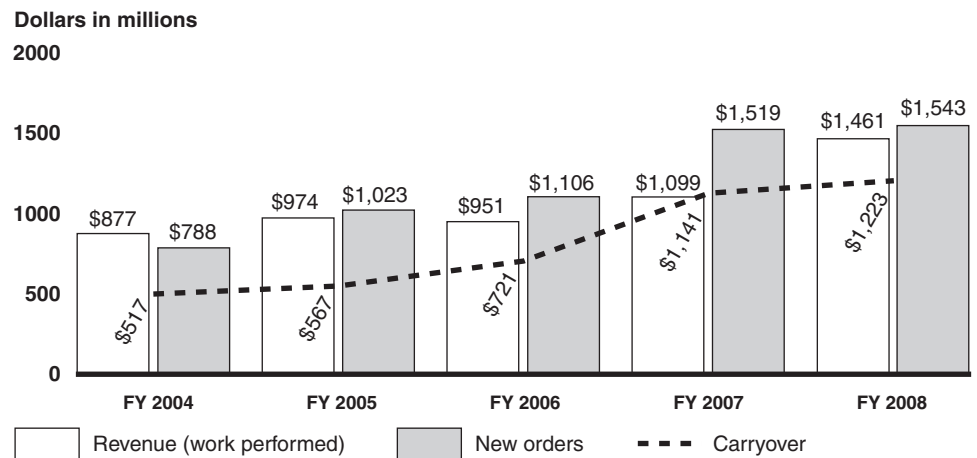
ARMY WORKING CAPITAL FUND

Actions Needed to Improve Budgeting for Carryover at Army Ordnance Activities

What GAO Found

From fiscal years 2004 through 2008, the Army ordnance activities' carryover increased from \$517 million to \$1.2 billion—about 10 months of work. The carryover increased because new orders outpaced work performed. The carryover more than doubled even though the ordnance activities increased the number of employees by 20 percent and the direct labor hours of work performed by 30 percent from fiscal years 2004 through 2008.

Analysis of New Orders and Revenue on Army Ordnance Carryover



Source: GAO analysis of DOD data.

GAO analysis of reports and discussions with Army officials identified three primary reasons for carryover: (1) the Army ordnance budget underestimated the amount of new orders by \$479 million, \$696 million, and \$688 million in fiscal years 2006, 2007, and 2008, respectively; (2) the activities accepted all orders received during the fiscal year regardless of the effect on carryover; and (3) the lead time to obtain some material or parts could be a year or longer because of the time needed to award contracts and for the vendors to produce the material or parts. As a result, the activities often did not work on items until the second year and, for items with longer lead times, the third year.

The ordnance activities reported that they exceeded the carryover ceiling by \$98 million in fiscal year 2006 and \$180 million in fiscal year 2007. In fiscal year 2008, the activities reported they were under the ceiling by \$145 million due to a DOD change in the methodology used to calculate the ceiling. Otherwise, the activities would have exceeded the ceiling by \$79 million. The methodology change allowed the ordnance activities to use the second-year outlay rates for calculating the carryover ceiling for procurement-funded orders, which more accurately considers the source of funds used for the carried over work and reflects the lead time needed to obtain material.