

GAO Highlights

Highlights of [GAO-16-543](#), a report to the Subcommittee on Readiness and Management Support, Committee on Armed Services, U.S. Senate

Why GAO Did This Study

Industrial Operations' activities support combat readiness by providing depot maintenance and ordnance services to keep Army units operating worldwide. To the extent that these activities do not complete work ordered and funded by fiscal year-end, the work and related funding will be carried over into the next fiscal year. DOD established a formula based on new orders from customers for determining the allowable carryover as defined by DOD's Financial Management Regulation. GAO was asked to review issues related to carryover.

GAO's objectives were to determine (1) the extent to which Industrial Operations' actual carryover differed from allowable amounts and reasons for differences; (2) the extent to which Industrial Operations' budgeted carryover differed from actual carryover, reasons for differences, and actions Army is taking to improve related budgeting; and (3) the key drivers for orders with large carryover balances and the extent to which the Army is taking actions to reduce carryover. GAO reviewed carryover guidance, analyzed carryover and related data, and interviewed Army officials.

What GAO Recommends

GAO recommends that DOD improve the budgeting and management for carryover by establishing procedures for correctly calculating the allowable carryover, improving budget estimates on carryover, and addressing in its draft regulation scope of work and parts issues that affect carryover. DOD concurred with GAO's recommendations and cited related actions planned or under way.

View [GAO-16-543](#). For more information, contact Asif A. Khan at (202) 512-9869 or khana@gao.gov.

June 2016

ARMY WORKING CAPITAL FUND

Army Industrial Operations Could Improve Budgeting and Management of Carryover

What GAO Found

GAO's analysis of Army Industrial Operations (Industrial Operations) reports showed that Industrial Operations actual adjusted carryover exceeded its allowable carryover amount from fiscal years 2013 through 2015 by \$195 million, \$1.1 billion, and \$854 million, respectively. This occurred because Industrial Operations performed less work (i.e., earned less revenue) than orders accepted due to staff reductions of more than 5,000 over the 2-year period for fiscal years 2013 and 2014 caused by budgetary uncertainty and the across-the-board spending reductions referred to as sequestration. GAO also determined that the Army did not correctly calculate the allowable carryover amounts for fiscal years 2013 and 2014 as specified by the Department of Defense (DOD) Financial Management Regulation because the Army did not use the most recent data available to perform the calculations. Based on GAO's calculations, Industrial Operations exceeded the allowable amounts by \$44 million less in fiscal year 2013 and \$27 million more in fiscal year 2014 than reported.

Industrial Operations' actual adjusted carryover also significantly exceeded budgeted adjusted carryover from fiscal years 2013 through 2015. While its budgeted adjusted carryover would have been under the allowable amount by \$174 million and \$1.2 billion for fiscal years 2013 and 2014, respectively, and over the allowable amount by \$186 million for fiscal year 2015, the actual adjusted carryover amount exceeded the allowable amounts all 3 fiscal years because Industrial Operations (1) accepted more new orders than budgeted and (2) performed less work (earned less revenue) than budgeted.

Actual and Budgeted Army Industrial Operations' New Orders and Revenue for Fiscal Years 2013 through 2015

Dollars in millions

Fiscal year	New orders			Revenue		
	Actual	Budget	Difference	Actual	Budget	Difference
2013	5,375	5,092	283	5,061	6,268	(1,207)
2014	4,772	4,401	371	4,543	6,024	(1,481)
2015	4,474	3,984	490	4,529	4,661	(132)

Source: GAO analysis of Army Industrial Operations' budgets. | GAO-16-543

To address budget concerns, the Army has implemented actions intended to improve budget information. However, Industrial Operations has not been able to provide reliable budget information on carryover to decision makers from fiscal years 2013 through 2015.

GAO identified four key drivers for large Industrial Operations carryover balances: (1) work was scheduled to carry over at the end of the fiscal year as part of the normal course of business, (2) work on crash-damaged aircraft was difficult to predict and required nonstandard repairs that necessitated long lead time parts to perform the work, (3) work did not have a well-defined scope of work for repairing the assets, and (4) parts were not available to perform work. The Army is taking actions to reduce carryover. One of those actions is to develop a regulation that consolidates and updates guidance for Industrial Operations. However, this regulation has not yet been completed, issued, and implemented.