



Report to the Subcommittee on  
Readiness and Management Support,  
Committee on Armed Services, U.S.  
Senate

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June 2016

# ARMY WORKING CAPITAL FUND

## Army Industrial Operations Could Improve Budgeting and Management of Carryover

# 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](mailto: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.

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Figure 1: Summary-Level Formula for Calculating Dollar Amount of Actual Carryover at End of Fiscal Year

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**Abbreviations**

AMC	Army Materiel Command
DLA	Defense Logistics Agency
DOD	Department of Defense
LCMC	Life Cycle Management Command
MATV	MRAP All-Terrain Vehicle
MRAP	Mine Resistant Ambush Protected vehicle

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June 23, 2016

The Honorable Kelly Ayotte  
Chairman  
The Honorable Tim Kaine  
Ranking Member  
Subcommittee on Readiness and Management Support  
Committee on Armed Services  
United States Senate

The Army operates 13 Industrial Operations activities that provide depot maintenance and ordnance services as part of the Army Working Capital Fund.<sup>1</sup> Depot maintenance services include the repair and overhaul of a wide range of vehicles and other military assets, including helicopters, combat vehicles, and air defense systems. Ordnance services include manufacturing, renovating, and demilitarizing munitions and components. From fiscal year 2013 through fiscal year 2015, the annual dollar amount of new orders to perform this work ranged from \$4.5 billion to \$5.4 billion. Many of these military assets and munitions were used to support the Army's efforts in Iraq and Afghanistan.

When Army Industrial Operations (referred to as Industrial Operations in this report) work has been ordered and funded (obligated) by customers (such as the military services) but has not been completed by the end of a fiscal year, it is referred to as carryover.<sup>2</sup> The Department of Defense (DOD) Financial Management Regulation establishes the formula to be

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<sup>1</sup>The 13 Army Industrial Operations' activities are the Anniston Army Depot, Anniston, Alabama; the Blue Grass Army Depot, Richmond, Kentucky; the Corpus Christi Army Depot, Corpus Christi, Texas; the Crane Army Ammunition Activity, Crane, Indiana; the Letterkenny Army Depot, Chambersburg, Pennsylvania; the McAlester Army Ammunition Plant, McAlester, Oklahoma; the Pine Bluff Arsenal, Pine Bluff, Arkansas; the Red River Army Depot, Texarkana, Texas; the Rock Island Arsenal-Joint Manufacturing and Technology Center, Rock Island, Illinois; the Sierra Army Depot, Herlong, California; the Tobyhanna Army Depot, Tobyhanna, Pennsylvania; the Tooele Army Depot, Tooele, Utah; and the Watervliet Arsenal, Watervliet, New York.

<sup>2</sup>An obligation is a definite commitment that creates a legal liability of the government for the payment of goods and services ordered or received, or a legal duty that could mature into a liability by virtue of actions outside of the government's control. Payment can be made immediately or in the future.

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used for calculating and determining the amount of carryover allowed at the end of each fiscal year, which is based in part on the amount of new orders from customers.<sup>3</sup> The congressional defense committees have recognized that some carryover is appropriate to facilitate a smooth flow of work during the transition from one fiscal year to the next. However, past congressional defense committee reports have noted that the level of carryover in military service working capital funds may be more than is needed. Too much carryover could result in the working capital fund receiving funds from customers in one fiscal year but not performing the work until well into the next fiscal year or later. Further, excessive amounts of carryover may result in future appropriations or budget requests being subject to reductions by DOD and the congressional defense committees during the budget review process. For example, according to the explanatory statement accompanying DOD's fiscal year 2013 appropriations, congressional conferees agreed to reduce Army, Navy, Air Force, and Marine Corps fiscal year 2013 operation and maintenance appropriations by a total of \$332.3 million because of concerns about excess carryover.<sup>4</sup>

You asked us to review issues related to Industrial Operations carryover. Our objectives were to determine (1) the extent to which Industrial Operations' actual carryover differed from the allowable amounts from fiscal years 2013 through 2015 and the reasons for any differences; (2) the extent to which Industrial Operations' budgeted carryover differed from actual carryover from fiscal years 2013 through 2015, reasons for any differences, and actions Army is taking to improve related budgeting; and (3) the key drivers for orders with large carryover balances for fiscal years 2014 and 2015 and the extent to which the Army is taking actions to reduce carryover.

To address the first and second objectives, we obtained and analyzed Industrial Operations reports and Army Working Capital Fund budget estimates submitted to Congress that contained information on budgeted and actual carryover and the allowable amount of carryover for fiscal years 2013 through 2015. We analyzed carryover since fiscal year 2013 because we previously reported on Industrial Operations carryover from

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<sup>3</sup>Department of Defense, Financial Management Regulation 7000.14-R, vol. 2B, ch. 9, *Defense Working Capital Fund Budget Justification Analysis* (December 2014).

<sup>4</sup>159 Cong. Rec. S1350-61 (Mar. 11, 2013).

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fiscal years 2006 through 2012.<sup>5</sup> We met with responsible officials from the Army to determine the reasons for any variances between (1) actual carryover and the allowable amount of carryover and (2) budgeted and actual carryover. We also met with these officials to discuss actions the Army was taking to improve budgeting and management of carryover, including the reduction of actual carryover amounts. Further, we identified and analyzed any adjustments made by the Army that increased the allowable carryover amounts or reduced the amount of actual carryover. We reviewed DOD's guidance for granting exceptions to the carryover policy and discussed any exceptions with officials from the Office of the Under Secretary of Defense (Comptroller) and Army headquarters to obtain explanations for the exceptions.

To address the third objective, we met with responsible officials from Army headquarters, Army Materiel Command, and Army depots to identify contributing factors that led to carryover. We focused on carryover balances for fiscal years 2014 and 2015 to identify current issues contributing to carryover. We also performed walk-throughs of four Army depot maintenance operations to observe the work being performed and discussed with officials the causes for workload carrying over from one fiscal year to the next. Further, to corroborate the information provided by Army officials, we obtained and analyzed a total of 80 customer orders consisting of the 40 orders that had the largest dollar amounts of carryover at the end of each of fiscal years 2014 and 2015. Carryover amounts associated with these orders represented 31 percent of the total carryover each year collectively at the four Army depots we visited for fiscal years 2014 and 2015. We also interviewed officials and obtained documentation on the actions the Army is taking to better manage and reduce carryover.

We obtained the financial and logistical data in this report from official budget documents and the Army's logistical system. To assess the reliability of the data, we analyzed carryover and related data, interviewed Army officials knowledgeable about the carryover data, and reviewed customer orders to determine whether they were adequately supported

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<sup>5</sup>GAO, *Army Industrial Operations: Budgeting and Management of Carryover Could Be Improved*, [GAO-13-499](#) (Washington, D.C.: June 27, 2013). We made three recommendations aimed at implementing the planned actions identified by the Army working group to improve the budgeting and management of carryover, and the Army took actions to address our recommendations.

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by documentation. On the basis of procedures performed, we have concluded that these data were sufficiently reliable for the purposes of this report. See appendix I for additional details on our scope and methodology.

We conducted this performance audit from June 2015 to June 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

The 13 Industrial Operations' activities provide services for a variety of customers, including the Army, the Navy, the Air Force, non-DOD agencies, and foreign countries. The majority of the work is for the Army. Operating under the working capital fund concept, Industrial Operations is intended to (1) generate sufficient resources to cover the full costs of its operations and (2) operate on a break-even basis over time.<sup>6</sup> Customers, such as the Army, use appropriated funds (typically operation and maintenance or procurement appropriations) to finance orders placed with Industrial Operations. When an Industrial Operations activity accepts a customer order, the amount of the order is obligated on the customer's records. Upon accepting the order, the Industrial Operations activity can start work on the order, such as beginning the work and ordering the material or parts needed to perform the work.

Industrial Operations provides the Army an in-house industrial capability to (1) conduct depot-level maintenance, repair, and upgrade; (2) produce munitions and large-caliber weapons; and (3) store, maintain, and demilitarize material for DOD. Industrial Operations comprises 13 government-owned and government-operated activities, each with unique core competencies: five maintenance depots (Anniston, Alabama; Corpus Christi, Texas; Letterkenny, Pennsylvania; Red River, Texas; and

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<sup>6</sup>The basic principle of the working capital fund structure in DOD is to create a customer-provider relationship between military operating units and support organizations. Working capital fund activities finance inventories of common supplies and provide working capital for industrial and commercial activities that provide common services within or among DOD entities.



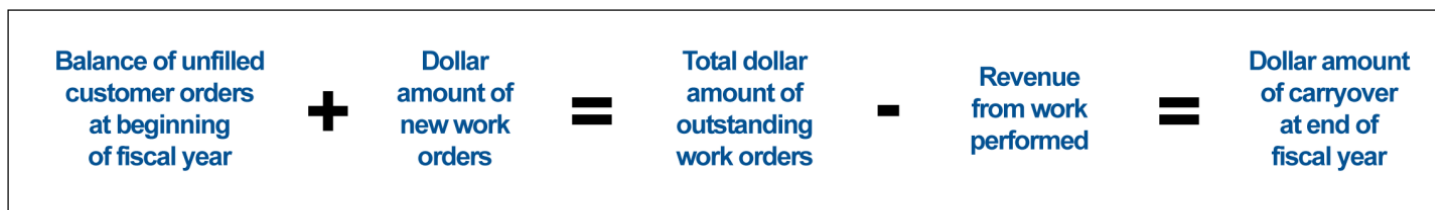
Tobyhanna, Pennsylvania), three arsenals (Pine Bluff, Arkansas; Rock Island, Illinois; and Watervliet, New York), two munitions production facilities (Crane, Indiana, and McAlester, Oklahoma), and three storage sites (Blue Grass, Kentucky; Sierra, California; and Tooele, Utah). The five depots perform the preponderance of the Industrial Operations workload.

Army Materiel Command (AMC) serves as the management command for Industrial Operations. Industrial Operations activities report under the direct command and control of the Army's Life Cycle Management Commands (LCMC), with each activity aligned in accordance with the nature of its mission. For example, the work performed at Anniston and Red River is aligned with the Army's Tank-automotive and Armaments Command LCMC mission of developing, acquiring, fielding, and sustaining ground systems, such as the Mine Resistant Ambush Protected vehicles and Abrams tank. The work performed at Letterkenny and Corpus Christi is aligned with the Army's Aviation and Missile Command LCMC mission of developing, acquiring, fielding, and sustaining aviation, missile, and unmanned vehicle systems, such as the Patriot missile and Black Hawk helicopter.

## Carryover and Its Use

When Industrial Operations work has been ordered and funded (obligated) by customers but has not been completed at the end of a fiscal year, it is referred to as carryover. To calculate the actual carryover for Industrial Operations, the Army uses the summary-level formula shown in figure 1.

**Figure 1: Summary-Level Formula for Calculating Dollar Amount of Actual Carryover at End of Fiscal Year**



Source: GAO analysis of Department of Defense Financial Management Regulation. | GAO-16-543

Some carryover is appropriate in order for working capital fund activities, such as Industrial Operations, to ensure the continuity of operations from

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one fiscal year to the next. For example, if customers do not place orders at the beginning of the fiscal year because of uncertainty about their full-year appropriations,<sup>7</sup> carryover is necessary to ensure that Industrial Operations' activities (1) have enough work to continue operations into the new fiscal year and (2) retain the appropriate number of personnel with sufficient skill sets to perform depot maintenance work. Too little carryover could result in inefficient use of resources with some personnel not having work to perform at the beginning of the fiscal year. On the other hand, too much carryover could result in the working capital fund accepting orders from customers in one fiscal year but not performing the work until well into the next fiscal year or later. Further, excessive amounts of carryover may result in future appropriations or budget requests being subject to reductions by DOD and the congressional defense committees during the budget review process. By limiting the amount of carryover, DOD can use its resources in the most efficient and effective manner and minimize the backlog of work and "banking" of related funding for work and programs to be performed in subsequent years.

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## DOD's Carryover Policy

DOD's Financial Management Regulation 7000.14-R, volume 2B, chapter 9,<sup>8</sup> provides that the allowable amount of carryover each year is to be based on the dollar amount of new orders received that year and the outlay rate of the customers' appropriations financing the work.<sup>9</sup> For example, customer orders financed with a specific appropriation total \$100. If the outlay rate for this appropriation is 60 percent, then the

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<sup>7</sup>In recent years, DOD has often started the year under a continuing resolution, which provides budget authority to federal agencies to continue their operations when Congress and the President have not completed action on the regular appropriation acts by the beginning of the fiscal year.

<sup>8</sup>The DOD Financial Management Regulation directs statutory and regulatory financial management requirements, systems, and functions for all appropriated and nonappropriated, working capital, revolving, and trust fund activities. See Department of Defense, Financial Management Regulation 7000.14-R, *Introduction*, p. I-3 (June 2011).

<sup>9</sup>The outlay rate for appropriations is contained in the DOD Financial Summary Tables, which are published each year. The outlay rates provide a profile of how money appropriated for a program is expected to be spent over time according to the type of program. For example, aircraft procurement is allowed to be spent over a period of several years. Each appropriation category has an outlay profile that specifies the percentage of the appropriation that is expected to be spent in the first year of appropriation, the second year, and so on until 100 percent is spent.

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working capital fund activity group is allowed to carry over \$40 (i.e., \$100 - [\$100 x 60 percent] = \$40). The DOD carryover policy further provides that for orders funded with non-procurement appropriations, work on the current fiscal year's orders is expected to be completed by the end of the following fiscal year. For orders funded with procurement appropriations, however, the DOD Financial Management Regulation requires the first and second year published outlay rates be used to calculate the allowable carryover amount. The Army calculates the allowable amount of carryover for Industrial Operations.

DOD's Financial Management Regulation also provides that (1) nonfederal orders, non-DOD orders, foreign military sales, work related to base realignment and closure, and work in progress are to be excluded from the carryover calculation; (2) exceptions to the carryover policy that have been approved by the Director for Revolving Funds, Office of the Under Secretary of Defense (Comptroller), are to be excluded from the carryover calculation; and (3) the reported actual carryover after applying these exclusions and exceptions (referred to as actual adjusted carryover in this report) is then compared to the amount of allowable carryover to determine whether the actual carryover amount is over or under the allowable carryover amount.

According to the DOD Financial Management Regulation, this carryover policy allows for an analytical-based approach that holds working capital fund activities to the same outlay standard as the general fund and allows for meaningful budget execution analysis. Requests for exceptions to the carryover policy must be submitted by the military services to the Director for Revolving Funds, Office of the Under Secretary of Defense (Comptroller), separate from the budget documents. Office of the Under Secretary of Defense (Comptroller) officials told us that they review requests for exceptions to the carryover policy on a case-by-case basis. Depending on the request, they may ask for additional information to evaluate the request.

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## Industrial Operations Actual Adjusted Carryover Exceeded the Allowable Amount Because It Performed Less Work Than Orders Accepted

Our analysis of Industrial Operations reports shows that Industrial Operations actual adjusted carryover exceeded the allowable carryover amount by \$195 million, \$1,065 million, and \$854 million for fiscal years 2013, 2014, and 2015, respectively. This occurred because Industrial Operations performed significantly less work (earned less revenue) than the amount of orders it accepted. Industrial Operations performed less work because it reduced personnel by more than 5,000 over the 2-year period for fiscal years 2013 and 2014 due to budgetary uncertainty based on the continuing resolution that extended throughout much of fiscal year 2013 and across-the-board spending reductions referred to as sequestration.<sup>10</sup> We also found that the Army's calculations of the allowable carryover amounts for fiscal years 2013 and 2014 were incorrect as specified by DOD's Financial Management Regulation because it did not use data from the most recent DOD Financial Summary Tables to perform the calculations.<sup>11</sup> Based on our 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 in its budgets.

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<sup>10</sup>Sequestration is the cancellation of budgetary resources under a presidential order, as authorized by applicable federal budget statutes. On March 1, 2013, pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), Pub. L. No. 99-177, title II (Dec. 12, 1985), as amended by the Budget Control Act of 2011, Pub. L. No. 112-25 (Aug. 2, 2011), the President ordered the sequestration of \$85.3 billion across the federal government. The Budget Control Act of 2011's amendments established the Joint Committee on Deficit Reduction (Joint Committee), which was tasked with proposing legislation to reduce the deficit by at least an additional \$1.2 trillion through fiscal year 2021. The Joint Committee did not report a proposal and legislation was not enacted. This triggered the sequestration process in section 251A of BBEDCA, known as the Joint Committee Sequestration. Under the Joint Committee Sequestration, BBEDCA required an annual reduction of \$109.3 billion, which was reduced to \$85.3 billion for fiscal year 2013 in January 2013 due to savings achieved under the American Taxpayer Relief Act of 2012. Final appropriations enacted on March 26, 2013 had the effect of reducing this amount to \$80.5 billion. Over \$37 billion of DOD's budgetary resources were sequestered in fiscal year 2013.

<sup>11</sup>DOD Financial Summary Tables are updated annually and provide information on appropriations such as total obligational authority, budget authority, and outlays and obligation rates for appropriations. The outlay rates are used in calculating the allowable carryover amount.

**Work Performed by Industrial Operations Was Less Than Orders Accepted for Fiscal Years 2013 and 2014, Resulting in Adjusted Carryover Exceeding the Allowable Amounts**

Our analysis of Industrial Operations reports showed that Industrial Operations actual adjusted carryover amounts for fiscal years 2013 through 2015 exceeded the allowable amounts for each fiscal year because Industrial Operations performed significantly less work than orders accepted in fiscal years 2013 and 2014. Table 1 shows the amounts of actual adjusted carryover, the allowable amounts, and the actual adjusted carryover amounts over the allowable amounts in Industrial Operations budgets for fiscal years 2013 through 2015.

**Table 1: Army Industrial Operations Actual Adjusted Carryover, Allowable Carryover, and Carryover Amounts over the Allowable Amounts for Fiscal Years 2013 through 2015**

Dollars in millions

Fiscal year	Actual adjusted carryover	Allowable amount	Actual adjusted carryover over allowable amount
2013	4,491	4,297	195
2014	4,445	3,379	1,065
2015	3,988	3,134	854

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

Note: The allowable amounts presented in this table are the amounts shown in the Army Industrial Operations' budgets submitted to Congress. As discussed later in this report, we identified errors in the allowable amounts the Army reported; however, even after adjusting for these errors, the actual adjusted carryover still exceeded the allowable carryover each year.

Our analysis of Industrial Operations reports showed that it performed \$313 million and \$229 million less work than the value of orders accepted in fiscal years 2013 and 2014, respectively. For fiscal year 2015, our analysis showed that it performed \$55 million more work than orders accepted. However, because of the significant backlog of unfilled orders from the prior years— work still needed to be performed in fiscal year 2015—the amount of carryover in fiscal year 2015 still exceeded the allowable amount. Army headquarters and AMC officials stated that significantly less work was performed, resulting in less revenue earned for fiscal years 2013 and 2014, because Industrial Operations reduced personnel by approximately 4,200 in fiscal year 2013 and an additional 900 in fiscal year 2014. Industrial Operations reduced personnel because of budgetary uncertainty related to a continuing resolution that extended throughout much of fiscal year 2013 and sequestration as discussed below.

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- On January 10, 2013, the Deputy Secretary of Defense directed the military departments, including the Army, to take immediate action to help mitigate budget execution risk because of budgetary uncertainty based on the fact that DOD was operating under a continuing resolution and the possibility of the implementation of sequestration in the beginning of March 2013.<sup>12</sup> The Deputy Secretary of Defense directed the military departments to formulate plans to mitigate the effects associated with budgetary uncertainty. The details of the guidance included imposing hiring freezes, releasing temporary employees, not renewing term hires, and consideration of the possibility of furloughs.
  - Pursuant to the DOD guidance, the Army issued implementing guidance to the Army components on January 16, 2013.<sup>13</sup> The guidance directed the Army components to immediately freeze hiring of civilian personnel with the exception of those for mission-critical activities, terminate the employment of temporary employees consistent with mission requirements, consider the possibility of furloughs, review contract workforce levels for potential adjustment in accordance with critical mission requirements, and cancel third and fourth quarter depot maintenance orders and contracts that did not directly support units deployed to a theater of operations or another Army priority.

Consistent with direction from DOD and the Army, Industrial Operations implemented a hiring freeze of civilian employees, restricted overtime, terminated temporary employees consistent with mission requirements, and furloughed civilian employees a total of 6 days in fiscal year 2013. Further, because the fiscal year 2013 full-year DOD appropriations act was not passed by Congress until midway through fiscal year 2013, some orders for work at the Industrial Operations activities that DOD customers likely would have submitted earlier in the year had there been a budget passed were not submitted until late in fiscal year 2013. According to Army headquarters officials, the combination of the personnel reductions, hiring freeze, overtime restrictions, furloughs, and late receipt of orders resulted in the Industrial Operations activities earning over \$1 billion less

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<sup>12</sup>Department of Defense, *Handling Budgetary Uncertainty in Fiscal Year 2013*, Deputy Secretary of Defense Memorandum (Washington, D.C.: Jan. 10, 2013).

<sup>13</sup>Department of the Army, *Fiscal Planning Guidance for Budgetary Uncertainty*, Assistant Secretary of the Army Memorandum (Washington, D.C.: Jan. 16, 2013).

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revenue than planned in fiscal year 2013. These actions resulted in Industrial Operations carryover exceeding the allowable amount by \$195 million in fiscal year 2013. The manpower restrictions imposed on Industrial Operations in fiscal year 2013 continued to negatively affect carryover in fiscal years 2014 and 2015. Army headquarters officials stated that Industrial Operations decided not to rehire the employees released in fiscal year 2013 as the long-term resource outlook indicated that Industrial Operations' workload would continue to decline in the future and it would not have been economical to rehire thousands of personnel solely to reduce carryover in a declining workload environment. Consequently, Industrial Operations' carryover exceeded the allowable amount by \$1,065 million in fiscal year 2014 and \$854 million in fiscal year 2015.

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### The Army Did Not Calculate the Fiscal Years 2013 and 2014 Allowable Carryover Amounts Correctly

Based on our review of documentation of how Army calculated the allowable amounts, we determined that the Army did not use the appropriate outlay rates in its calculation of the allowable carryover amounts for fiscal years 2013 and 2014.<sup>14</sup> The Army used the correct outlay rates for calculating the allowable carryover amount for fiscal year 2015. The correct calculation of the allowable carryover amount is critical because DOD decision makers and the congressional defense committees use this information to determine if the carryover was higher or lower than the allowable carryover amount, which in turn is used to make budgetary decisions that could affect the amount of appropriations the Army receives.

According to an Office of the Under Secretary of Defense (Comptroller) official, the Army should use the most recent DOD Financial Summary Tables, which are updated annually and contain the outlay rates used for calculating the allowable amount of carryover. However, the Army did not do so for the fiscal years 2013 and 2014 calculations of the allowable carryover amounts and instead used the same outlay rates for some appropriations that it used for the fiscal year 2012 allowable carryover calculation. If the Army had used the most recent DOD Financial

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<sup>14</sup>Each budget provides information for 3 fiscal years. For example, the fiscal year 2015 budget contains information on (1) the fiscal year 2015 budget, (2) the fiscal year 2014 revised budget, and (3) the fiscal year 2013 actual information. Our analysis of Industrial Operations' actual and allowable carryover amounts covered fiscal years 2013, 2014, and 2015 actual information contained in the fiscal years 2015, 2016, and 2017 budgets.

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Summary Tables issued at the time of its calculations, our analysis determined that (1) the fiscal year 2013 allowable carryover amount would have been \$44 million higher and correspondingly the amount of actual adjusted carryover that exceeded the allowable carryover amount in fiscal year 2013 would be lower by the same amount and (2) the allowable carryover amount would have been \$27 million lower for fiscal year 2014 and correspondingly the amount of actual adjusted carryover that exceeded the allowable carryover amount in fiscal year 2014 would be higher by the same amount.

Army headquarters officials stated that one of the reasons why they did not use outlay rates contained in the most recent DOD Financial Summary Tables to calculate the fiscal years 2013 and 2014 allowable carryover was because the DOD Financial Management Regulation was not clear on the need to do so when calculating the allowable carryover amount.

Our review of the provisions contained in the DOD Financial Management Regulation that cover calculating the allowable carryover amount found that the DOD Financial Management Regulation did not always specify using the most recent DOD Financial Summary Tables when calculating the allowable carryover amount. Specifically, the portion of DOD's Financial Management Regulation, volume 2B, chapter 9, titled "Additional Instructions for Carryover Calculations for the Preparation of Exhibit Fund-11, Source of Revenue," states that "Since the FY (fiscal year) 2004 budget submission, the approved amount of workload carrying over to subsequent fiscal years is linked to the outlay rate of the source appropriation as published in the most recent Department of Defense Financial Summary Tables." However, the DOD Financial Management Regulation does not use "most recent" when referring to the DOD Financial Summary Tables anywhere else in this chapter. For example, the portion of that same chapter titled, "Instructions for Completing the Fund-11b, Carryover Ceiling Calculation" states only that "the approved appropriations outlay rates can be found in the Department of Defense Financial Summary Tables." In our discussion of this issue with an Office of the Under Secretary of Defense (Comptroller) official, the official agreed with the Army that the language in the DOD Financial Management Regulation should be clarified and stated that the Office of the Under Secretary of Defense (Comptroller) plans to update the DOD Financial Management Regulation to specifically require DOD Working Capital Fund activities to use the most recent DOD Financial Summary Tables when calculating the allowable carryover amount.



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Army headquarters officials stated that another reason why they did not use outlay rates contained in the most recent DOD Financial Summary Tables for calculating the fiscal years 2013 and 2014 allowable carryover was because the Army did not have documented procedures for calculating the allowable carryover amount. GAO's *Standards for Internal Control in the Federal Government* states that a key factor in helping agencies achieve their missions and program results is to implement appropriate internal controls to help ensure that management's directives are carried out.<sup>15</sup> One such control activity would be to develop policies and procedures to help ensure agency adherence to budget development and execution requirements. Since the Army did not have documented procedures for calculating the allowable carryover that is used in its budget submissions to Congress, the outlay rates used for the fiscal years 2013 and 2014 allowable carryover calculations were not based upon the current outlay rates available at the time the budgets were prepared. Without consistent, reliable calculations of the allowable carryover amount, DOD decision makers and congressional defense committees may make important budgeting and resource decisions based on incorrect information.

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<sup>15</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

**Actual Adjusted Carryover Significantly Exceeded Budgeted Adjusted Carryover Because Industrial Operations Underestimated New Orders and Overestimated Revenue**

From fiscal years 2013 through 2015, we found that Industrial Operations' actual adjusted carryover significantly exceeded budgeted adjusted carryover. This occurred because Industrial Operations accepted more orders than budgeted and performed less work (and thus earned less revenue) than budgeted all 3 years. As shown in table 2, actual adjusted carryover exceeded budgeted adjusted carryover by over a billion dollars each year.

**Table 2: Actual Adjusted and Budgeted Adjusted Army Industrial Operations' Carryover for Fiscal Years 2013 through 2015**

Dollars in millions

Fiscal year	Actual adjusted carryover (dollars)	Budgeted adjusted carryover (dollars)	Difference (dollars)	Percentage difference
2013	4,491	3,100	<b>1,392</b>	45
2014	4,445	1,868	<b>2,577</b>	138
2015	3,988	2,860	<b>1,128</b>	39

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

Note: Dollar amounts do not always total because of rounding.

Industrial Operations budgeted for adjusted carryover to fall below the allowable carryover amounts by \$174 million and \$1.2 billion in fiscal years 2013 and 2014, respectively, and to exceed the allowable carryover amount by \$186 million in fiscal year 2015. However, because of the magnitude of differences between budgeted and actual adjusted carryover shown above, the actual adjusted carryover amount was over the allowable amount for all 3 years by \$195 million, \$1.1 billion, and \$854 million for fiscal years 2013, 2014, and 2015, respectively, as shown in table 3.

**Table 3: Actual Adjusted and Budgeted Adjusted Army Industrial Operations' Carryover Amounts over or under Allowable Amounts for Fiscal Years 2013 through 2015**

Dollars in millions

Fiscal year	Actual adjusted carryover over allowable amount	Budgeted adjusted carryover over (under) allowable amount	Difference
2013	195	(174)	369
2014	1,065	(1,174)	2,239
2015	854	186	668

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

Note: The actual and budgeted adjusted carryover over (under) the allowable amounts in this table are the amounts presented in the Army Industrial Operations' budgets.

### Actual New Orders Have Consistently Exceeded Budgeted New Orders

Our analysis showed that actual new orders exceeded budgeted new orders each year from fiscal years 2013 through 2015. Furthermore, this problem with actual new orders exceeding budgeted new orders is not new for Industrial Operations. While fiscal years 2013 through 2015 generally showed improvement over prior years, our analysis of budgeted and actual new orders showed that for the 10-year period from fiscal years 2006 through 2015, the Army significantly underestimated the amount of new orders to be received from its Industrial Operations customers each year. Table 4 compares the dollar amounts of Industrial Operations actual and budgeted new orders and the differences between these amounts for the past decade.

**Table 4: Actual and Budgeted Army Industrial Operations' New Orders for Fiscal Years 2006 through 2015**

Dollars in millions

Fiscal year	Actual new orders (dollars)	Budgeted new orders (dollars)	Difference (dollars)	Percentage difference
2006	5,425	3,188	2,237	70
2007	6,850	4,562	2,288	50
2008	6,991	6,300	691	11
2009	6,393	5,016	1,377	27
2010	6,340	5,715	625	11
2011	7,529	6,163	1,366	22
2012	6,189	4,672	1,517	32
2013	5,375	5,092	283	6
2014	4,772	4,401	371	8
2015	4,474	3,984	490	12
<b>Total</b>	<b>60,339</b>	<b>49,093</b>	<b>11,246</b>	<b>23</b>

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

Note: Dollar amounts do not always total because of rounding.

Army officials acknowledged that Industrial Operations has had difficulty accurately budgeting for new orders, as shown above. The officials stated that Industrial Operations developed its budgets based on input from customers for future workload projections. These budgets were developed 2 years in advance of execution. Army officials stated that in many cases Industrial Operations customers weighed their expected requirements against their projected funding levels and provided conservative new order estimates since the operational and fiscal environment had been so volatile over the past decade. If the Army includes workload in its new order estimates that does not materialize, a depot is at risk of incurring unplanned financial loss because the depot is allocating its overhead costs over less work than planned. These losses may lead the depots to increase their rates for repairing assets. If funding availability is higher than the customer originally anticipated or if operational decisions lead to changes in requirements or priorities, unplanned workload may materialize at the depots resulting in additional carryover.

Furthermore, the mix of customer orders (workload) tends to change during the year of execution from what was previously estimated because of operational decisions and changing customer requirements that can increase the carryover at fiscal year-end. For example, Army

headquarters officials stated that if a customer told a depot to expect a \$10 million order to repair High Mobility Multi-purpose Wheeled Vehicles, but instead sends an order for \$10 million to repair trucks, revenue would most likely be delayed thus increasing carryover. This would occur because the customer's change in requirements would necessitate the depot creating a different production line than anticipated prior to beginning repair work on the trucks.

As shown in table 4, our analysis showed that budgeted new order data for the last 3 fiscal years has generally improved from the prior 7 fiscal years. Army officials stated that the budgeted new orders for the past 3 fiscal years (2013, 2014, and 2015) improved because the Army ended combat operations in Iraq, thus decreasing operational volatility. As a result, the workload requirements for the Industrial Operations activities were more predictable. However, despite the improvement in budgeting new orders, the Army still consistently underestimated the amount of new orders accepted from its customers by hundreds of millions of dollars each year.

### Actual Revenue Was Less Than Budgeted Revenue for Fiscal Years 2013 through 2015

While Industrial Operations actual new orders exceeded budgeted new orders, resulting in more work to be performed, Industrial Operations also performed less work than it had budgeted. Our analysis of revenue (work performed) showed that Industrial Operations performed less actual work than the amount of work that was expected to be performed as shown in the budgets for fiscal years 2013 through 2015; the difference was more than a billion dollars for fiscal years 2013 and 2014, as shown in table 5.

**Table 5: Actual and Budgeted Army Industrial Operations' Revenue for Fiscal Years 2013 through 2015**

Dollars in millions			
Fiscal year	Actual revenue	Budgeted revenue	Difference
2013	5,061	6,268	(1,207)
2014	4,543	6,024	(1,481)
2015	4,529	4,661	(132)

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

Industrial Operations' actual revenue was significantly less than budgeted for fiscal years 2013 and 2014 because, as discussed previously, Industrial Operations reduced personnel by approximately 4,200 in fiscal year 2013 and an additional 900 in fiscal year 2014. Industrial Operations reduced personnel because of budgetary uncertainty related to the

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extended continuing resolution and sequestration in fiscal year 2013. Army officials stated that sequestration and its associated manpower constraints were implemented in the year of execution and the impact to revenue was not considered or known when establishing the fiscal years 2013 and 2014 budgets.

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### The Army Has Actions Under Way to Improve Budgeted Information, but Problems Remain

To address budgeting concerns, the Army has implemented actions intended to improve budget information. First, in fiscal year 2012, Army and AMC senior leadership began reviewing carryover on a continual basis. There are several senior leader forums where carryover is reviewed on a weekly, monthly, and quarterly basis. These forums include, among other things, reviewing variances between budgeted carryover and actual carryover, identifying factors contributing to the variances, and identifying actions needed to perform work and reduce carryover, such as obtaining parts. Second, in fiscal year 2013, the Army began requiring customers in the acquisition community (i.e., those that use procurement appropriations to fund orders) to identify depot maintenance workload in their internal budget documentation to aid the Army in estimating the workload for the Army Working Capital Fund budget submission. This internal budget documentation, which is available to Industrial Operations, includes depot maintenance requirements for the current year, 1 budget year, and 5 future years. Additionally, the acquisition community was directed to notify the Army LCMCs of plans to execute depot maintenance requirements no later than the end of the first quarter in the year of execution.

The above actions are positive and have the potential for improving future budgeted carryover information. However, despite these efforts, which have been under way since at least 2012, the Army's budgeted carryover information has continued to differ from actual carryover information by hundreds of millions or billions of dollars. Since Industrial Operations' budgets are based on input from its customers, it is important that Industrial Operations continue to work with its customers to take steps to reduce the differences between budgeted and actual orders in developing future budgeted estimates. Reliable budget estimates on carryover are critical because decision makers use this information when reviewing Industrial Operations' budgets. As discussed earlier, actual new orders have consistently exceeded budgeted new orders for at least a 10-year period. Internal control standards state that for an entity to run and control

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its operations, it must have relevant, reliable, and timely information.<sup>16</sup> This includes budget information on new orders, revenue, and carryover. Also, internal control standards state that program managers need both operational and financial data to determine whether they are meeting their agencies' strategic and annual performance plans and meeting their goals for accountability for effective and efficient use of resources. Further, financial information is needed for both internal and external uses. This includes providing reliable budgeted carryover information to DOD and Congress annually. Without reliable budgeted carryover information, DOD and congressional decision makers may not be able to make informed budget decisions.

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## Four Key Drivers Led to Carryover at the End of Fiscal Years 2014 and 2015, and the Army Has Actions Under Way to Address Problem Areas

Our analysis of 80 orders (and related amendments) with the largest amounts of carryover for fiscal years 2014 and 2015 (the most recent data available) identified four key drivers that contributed to carryover.<sup>17</sup> These were (1) orders for work that was scheduled to carry over at the end of the fiscal year, (2) orders for work on crash-damaged aircraft, (3) orders for work that did not have a well-defined scope of work for repairing the assets, and (4) orders affected by parts shortages that delayed the performance of work. Actions to address the first driver are not necessary because this work was planned to carry over at the end of the fiscal year as part of the normal business process, and any actions to address the second driver, crash-damaged aircraft, are limited because of the unique and unpredictable nature of this type of damage and needed repairs. The Army has actions under way to address carryover associated with the work on assets that did not have a well-defined scope of work for repairing them and parts shortages, but problems continue to persist.

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## Orders for Work Scheduled to Carry Over at the End of the Fiscal Year

Our analysis of 80 orders (and related amendments) for fiscal years 2014 and 2015 determined that 22 orders totaling \$190 million and \$153 million in carryover, respectively, involved work that was scheduled to begin either (1) in the same fiscal year the orders were accepted by the

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<sup>16</sup>[GAO/AIMD-00-21.3.1](#).

<sup>17</sup>Because we selected orders for review based on dollar size of carryover, they do not represent a statistical selection and the results cannot be projected to the population. See app. I for more details. Further, some of the orders were affected by more than one of the key drivers that contributed to carryover.

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Industrial Operations depots and be completed in the next fiscal year because of the length of time needed to complete the work or (2) late in the fiscal year or in the next fiscal year because other work at the Industrial Operations depots was scheduled ahead of work on those orders. As discussed earlier in the report, some carryover is to be expected and is appropriate at the end of the fiscal year in order for the Industrial Operations depots to operate efficiently and effectively by maintaining a steady flow of work. Without sufficient carryover, Industrial Operations depot officials stated that the depots could not (1) ensure that enough funded work would be available to continue operations in the next fiscal year and (2) retain the appropriate number of personnel with sufficient skill sets to perform depot maintenance work. Adequate carryover is particularly important when DOD operates under a continuing resolution, under which Industrial Operations customers do not know their full-year funding levels at the beginning of the fiscal year. This, in turn, may cause the Industrial Operations depots to operate for several months into the next fiscal year relying mostly on funded work from prior fiscal year orders (i.e., carryover) to continue operations because customers may limit the amount of new orders they place at the beginning of the fiscal year in light of budget uncertainties. Carryover provides the continuity of funded workload necessary to maintain operations from one year to the next.

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### Repair of Crash-Damaged Aircraft Contributed to Carryover

Our analysis of 80 orders (and related amendments) for fiscal years 2014 and 2015 determined that 10 orders involved crash-damaged aircraft. For crash-damaged aircraft, the requirements to repair the aircraft are largely unknown prior to inspection, and the repair solutions are based on the damage and therefore unique to each aircraft. Our review of documentation on crash-damaged aircraft found that in fiscal years 2014 and 2015, Industrial Operations had a total of \$105 million for 20 aircraft and \$71 million for 10 aircraft, respectively, in carryover on orders to repair crash-damaged aircraft.<sup>18</sup> Crash-damaged aircraft are only repaired at the Corpus Christi Army Depot.

When crash-damaged aircraft arrive at Corpus Christi Army Depot for repair, the depot inspects the aircraft for damage to determine what

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<sup>18</sup>Crash-damaged aircraft include various models of the AH-64 Apache and UH-60 Black Hawk helicopters.



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needs to be repaired and develops repair solutions for the damaged areas of the aircraft. As the depot develops the repair solutions, the depot orders the required parts from the DOD supply system, or if the parts are not in the DOD's supply system, the depot manufactures the parts or orders them from a contractor. Once the repair solutions are determined and parts are obtained, the depot can repair the aircraft. The entire process can take 2 or more years to complete, depending on what needs to be repaired on the aircraft.

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### Lack of Well-Defined Scope of Work on Orders Contributed to Carryover

Our analysis of 80 orders (and related amendments) for fiscal years 2014 and 2015 determined that work on 19 orders totaling \$405 million and \$293 million in carryover, respectively, for these 2 years was delayed because of the lack of a well-defined scope of work, including approved technical data, such as engineering drawings and lists of parts needed to repair the assets (referred to as bill of material).<sup>19</sup> When the depots (1) have to develop the engineering drawings or (2) do not have a complete and accurate bill of material and must identify the parts needed to perform the repair work, actual performance of work is delayed and thus carryover increases. In those instances, the dollar amount of carryover is directly affected by the dollar size of the order(s) received from customers for this work. If the dollar amount of the order is small and is for the repair of a small number of assets, as generally is the case for orders for work performed on prototype assets, the dollar amount of the carryover will be small. On the other hand, if the dollar amount of the order is large and is for the repair of a large number of assets, as generally is the case for orders on full production assets, the dollar amount of carryover will be large. For the 19 orders that we reviewed that had a scope of work problem, 14 had order and carryover amounts greater than \$10 million each. The following example describes work performed on Mine Resistant Ambush Protected vehicles (MRAP) that

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<sup>19</sup>A technical data package is a technical description of an item adequate for supporting an acquisition strategy, development, manufacturing development, production, engineering, and logistics throughout the item's life cycle. The technical description defines the required design configuration and procedures to ensure adequacy of item performance. The technical data package consists of a variety of data that may include product definition data, engineering drawings, associated lists, specifications, standards, performance requirements, quality assurance provisions, reliability data, and packaging data.

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contributed to carryover because of the lack of a well-defined scope of work.<sup>20</sup>

- In March and July 2012, Letterkenny Army Depot accepted two production orders totaling \$254 million to convert 392 MRAPs to Route Clearance Vehicles.<sup>21</sup> By the end of fiscal year 2014, the orders were amended a combined 11 times to decrease vehicle quantities to 284 and funding to \$213 million. Because the depot did not have a technical data package for the vehicles, it had to develop approximately 427 engineering drawings to perform the work. Further, work was delayed on the two orders for about 2 fiscal years because the depot experienced problems designing the prototype vehicles, reaching agreement with its customer on the new design, and performing tests on the prototype vehicles. The final technical data package for converting the vehicles and the development of the statement of work and bill of materials on the two orders were delayed until the new design was agreed upon and the prototype vehicles were tested.<sup>22</sup> Final approval of the engineering drawings occurred in March 2014, and the depot started work on the two production orders in April 2014. Even though the depot started work on the vehicles in fiscal year 2014, none of the vehicles could be completed by the end of the fiscal year because of the lack of parts needed to finish them. The depot carried over about \$162 million on these orders into fiscal year 2015.

By January 2015, the depot was consistently meeting its production schedule of 18 to 22 Route Clearance Vehicles per month. However, in August 2015, production halted with 36 vehicles remaining because of the lack of 56 parts needed to continue the production line. As a result, the depot released 53 contractor personnel working on the vehicles. The depot carried over \$25.8 million on these orders into fiscal year 2016. Because of the parts shortages, the depot does not

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<sup>20</sup>The MRAP is designed to withstand attacks in combat situations and provide the warfighter protection from improvised explosive devices, mines, and other explosives. There are multiple variants of the MRAP that are manufactured by various contractors.

<sup>21</sup>The Route Clearance Vehicle is a vehicle for route clearance and explosive ordnance disposal.

<sup>22</sup>Letterkenny Army Depot documentation showed that the conversion of the vehicle requires approximately 1,700 different operations and 3,300 different parts.

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plan to complete the vehicles until fiscal year 2017—over 4 full fiscal years after the acceptance of the two fiscal year 2012 orders.

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### Parts Needed to Perform Work Were Not Readily Available, Which Contributed to Carryover

Our analysis of 80 Industrial Operations orders (and related amendments) for fiscal years 2014 and 2015 determined that parts shortages contributed to carryover on 50 orders totaling \$682 million and \$516 million in carryover, respectively. Parts shortages delayed the repair work being performed on a variety of military assets. Some examples of parts shortages that contributed to carryover on work at the depots at the end of fiscal years 2014 and 2015 are discussed below.

- Because of the unavailability of radiators, work was delayed on the repair of Paladin self-propelled howitzers, which are cannon artillery systems, built on tracked wheeled chassis and operated by crews of four for use in combat.
- Because of the unavailability of parts, work was delayed on the manufacturing and assembling of ammunition racks, which are used to store ammunition for the main gun of the Abrams tank.
- Because of the unavailability of trigger housings, work was delayed on the repair of M240 machine guns.
- Because of the unavailability of parts such as torque rods, radiators, alternators, and steering gears, work was delayed on M915A3 trucks.
- Because of the unavailability of water heaters, work was delayed on Force Providers, which is a transportable base camp system that provides housing and operation space for a variety of missions.

In order to obtain parts from the DOD supply system, the Industrial Operations activities order them through the Defense Logistics Agency (DLA) or Army Supply Management.<sup>23</sup> However, if DLA or Army Supply Management is unable to provide the parts, the Industrial Operations activities may use other methods to obtain the parts, such as obtaining parts from other assets (e.g., vehicles or engines), manufacturing the

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<sup>23</sup>DLA is the Industrial Operations activities' primary source for spare parts. DLA manages nearly 6 million items and is the major supplier of spare parts for the military services. In addition, the Army Supply Management activity group buys and manages spare and repair parts for sale to its customers. Army Supply Management also administers spare parts inventory for Army managed items, non-Army managed materiel, and war reserve secondary items.

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parts, or purchasing the parts using its local procurement authority. If the Industrial Operations activities manufacture the parts, they must have the raw material to perform the work and obtain the specifications for the parts to be made. While these methods allow work to continue, obtaining the needed parts this way is generally inefficient. The following two examples illustrate how parts shortages contributed to carryover.

- In fiscal years 2014 and 2015, Red River Army Depot received 8 orders totaling \$173 million to repair 1,152 Army MRAP All-Terrain Vehicles (MATV).<sup>24</sup> The MATV work was a new requirement for this depot. Time limitations caused by the customers' need for immediate production prevented the upfront planning necessary for establishing an efficient repair process at the beginning of the program. Because the scope of work was to inspect and repair each MATV as needed, the parts requirement for each vehicle was varied and prevented the depot from accurately forecasting all parts requirements at the time the work was started on a vehicle. While the depot was performing the repair work, it was addressing issues such as identifying and ordering the parts it needed for the repairs. In some cases, because of inaccurate technical data, the depot ordered the wrong parts and had to return those parts, perform additional analysis to identify the correct parts, and then order those parts. Furthermore, the depot could not always obtain the material and parts it needed to make repairs in a timely manner. For example, some Army MATVs had damage to the material that lines the floor and sidewalls of the vehicle that provides additional protection for the warfighter inside the vehicle. However, the depot could not obtain the material it needed to make these repairs in a timely manner. As a result of parts and material shortages, at the end of fiscal year 2015, Red River Army Depot had completed only 240 of the 1,152 Army MATV vehicles ordered by customers on these 8 orders. In addition, the depot assembled another 419 vehicles, but the vehicles were missing parts and material needed to produce complete vehicles that complied with the scope of work. At the end of fiscal year 2014, the depot carried over \$113 million of the \$120 million of MATV orders it accepted. At the end of fiscal year 2015, the depot carried over \$50 million of the \$173 million of orders.

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<sup>24</sup>The MATV is a lighter version of the MRAP and is better suited for operating in mountainous terrain. The Red River Army Depot accepted 7 orders totaling \$120 million in fiscal year 2014 and 1 order for \$53 million in fiscal year 2015.

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- In fiscal year 2012, Anniston Army Depot accepted an order for \$14 million to repair and overhaul 12 Armored Vehicle Launched Bridges. The Armored Vehicle Launched Bridge is a tracked vehicle that carries a folding metal bridge and allows armored or infantry units to cross rivers, ravines, and other obstacles when no bridge is conveniently located. Because the launcher configuration for the folding metal bridge was old and considered obsolete, the Army developed a new configuration to the hydraulic and electrical system to increase its lifespan and sustain readiness. In order to perform the repair and overhaul for the new configuration, the depot needed to install hydraulic electrical upgrade kits. Each kit is made up of about 220 parts, including hoses, clamps, bushings, pipes, tubes, and wiring. According to depot officials, these kits were not available through the DOD supply system, and therefore the depot had to obtain the parts and assemble the kits piece by piece. Further, the depot had problems obtaining several of these parts from different vendors in a timely manner. As a result, the amount of carryover at the end of fiscal year 2015 was \$13.9 million on this \$14 million fiscal year 2012 order.

Parts were not always available to perform the work because the DOD supply system did not maintain sufficient parts in the right mix to meet demand. Without the DOD supply system maintaining the right mix and sufficient quantities of spare parts, Industrial Operations activities cannot complete their funded workload timely and efficiently. Supply chain management has been a long-standing problem for DOD.<sup>25</sup> In January 2009, we reported the Army had accumulated billions of dollars in excess spare parts inventory against current requirements for some items and substantial inventory deficiencies in other items.<sup>26</sup> The Army inventory did not align with the current requirements at the time because of (1) a lack of cost-efficiency metrics and goals and (2) inaccurate demand forecasting. We reported that without accurate and timely demand data, managers cannot ensure that their purchasing decisions will result in inventory levels that are sized to minimize DOD's investment needed to support requirements. The Army acknowledged that it faced challenges in its

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<sup>25</sup>DOD's supply chain is a global network that provides material, services, and equipment to the joint forces. Supply chain management encompasses the processes and systems for delivering the right items to the right place at the right time and at the right cost.

<sup>26</sup>GAO, *Defense Inventory: Army Needs to Evaluate Impact of Recent Actions to Improve Demand Forecasts for Spare Parts*, [GAO-09-199](#) (Washington, D.C.: Jan. 12, 2009).

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forecasting procedures and began taking steps to address them. However, our April 2015 report on defense inventory and our current review shows that DOD, including the Army, has not fully resolved its ineffective and inefficient inventory management practices.<sup>27</sup> As a result, since 1990 we have continued to identify DOD supply chain management as a high-risk area in part because of ineffective and inefficient management practices and procedures, weaknesses in accurately forecasting the demand for spare parts, and other supply chain challenges.<sup>28</sup>

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### The Army Has Actions Under Way to Help Reduce Carryover, but Problems Persist with a Lack of a Well-Defined Scope of Work and Parts Shortages

The Army has three key actions under way to address problems related to scope of work and parts shortages that we identified in our analysis of 80 orders. First, the Army began holding a series of weekly, monthly, and quarterly meetings that provide information, among other things, on the status of Industrial Operations' carryover, orders, and revenue. These meetings provide the Army a forum for better identifying carryover issues and developing plans to mitigate the problems. For example, beginning in fiscal year 2012, the Army began holding weekly meetings called the Organic Industrial Base Review that provide information on the status of Industrial Operations carryover, orders, and revenue.<sup>29</sup> At the meetings, the Army discusses production issues for specific workloads, such as parts shortages, and strategies to reduce carryover. The meetings are attended by Army senior leadership and other officials from organizations involved in various aspects of the depot maintenance process, such as AMC, the LCMCs, the 13 Industrial Operations activities, and DLA.

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<sup>27</sup>GAO, *Defense Inventory: Services Generally Have Reduced Excess Inventory, but Additional Actions Are Needed*, [GAO-15-350](#) (Washington, D.C.: Apr. 20, 2015). We made seven recommendations to enhance the military services ability to effectively and efficiently manage their inventory. DOD concurred with all seven recommendations. As of March 2016, DOD implemented three of the recommendations and is taking actions to address the remaining four.

<sup>28</sup>DOD's inventory management was included in GAO's original list of high-risk areas, which was communicated to Congress by letter (on January 23, 1990). DOD inventory management was redesignated as DOD supply chain management in the 2005 update to our high-risk series. For our most recent update, see GAO, *High-Risk Series: An Update*, [GAO-15-290](#) (Washington, D.C.: Feb. 11, 2015).

<sup>29</sup>Organic refers to maintenance activities that take place at government-owned facilities (in-house work) rather than contractor facilities.

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Second, the Army established a specific managerial approval process for analyzing and accepting orders for work performed at Industrial Operations activities in fiscal year 2014, and all four depots we visited had implemented the process by the end of fiscal year 2015. This process was established in response to work performed by an Army working group formed in April 2012 to address carryover issues. The Army evaluates orders based on seven key dimensions. If deficiencies are identified in one or more of the dimensions, the Industrial Operations activities are responsible for developing mitigation plans to resolve them. The seven dimensions consist of the following.

- **Skilled labor.** Industrial Operations activities must ascertain the availability of all requisite skill levels and labor hours required to execute the work order.
- **Parts.** Industrial Operations activities must ascertain whether the DOD supply system has the right quantity and mix of spare parts to perform the work. Army LCMCs and Industrial Operations activities must conduct production planning, material provisioning, and command scheduling to ensure sufficient coordination of available parts with all sources of supply to meet requirements.
- **Tools and equipment.** Industrial Operations activities must ascertain whether the activities have all required tools, production equipment, handling equipment, and quality and testing equipment to perform the work.
- **Process.** Industrial Operations activities must ascertain whether the activities have processes that define the scope of work and include approved technical data, documented internal processes, and capacity to complete the work.
- **Assets.** Industrial Operations activities must ascertain whether assets needing repair will be available at the scheduled time for beginning work at the activities.
- **Requirements.** Industrial Operations activities must ascertain whether the workload accepted by the activities has a well-defined scope of work. This includes having information on required production, impact of back orders, average monthly demand, potential surge requirements, available technical data package/work instructions, and alternate sources of supply for unique critical parts and components.
- **Funding.** Industrial Operations activities must ascertain whether the accepted workload has available funding to adequately support production of required deliverables.

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Third, AMC is consolidating and updating operational responsibilities and guidance for planning, accepting, scheduling, controlling, and reporting depot maintenance and other functions, such as ammunitions operations, into a single draft regulation titled *AMC Organic Industrial Base Operational Management Policy and Implementation Guidance*. According to an AMC official, the draft guidance is planned to be issued during fiscal year 2016. The draft regulation provides guidance on the scope of work and parts as well as coordination and communication among both AMC and non-AMC stakeholders involved in Industrial Operations depot activities.<sup>30</sup> For example, the draft regulation states that the work requirements and changes to the scope of work should be documented and attached or referenced on the order, and that every effort should be made to ensure that work specifications and changes are clear and well documented, especially where new work requirements are involved. The draft regulation also establishes procedures for managing the currency and accuracy of production data, including applicable bills of material, technical data packages, and other technical production data, in coordination with program executive offices, program managers, responsible engineering support activities, and depots.

The Army's issuance and implementation of the draft AMC regulation has the potential to help resolve scope of work and parts problems that we identified during our review of orders. For example, the draft AMC regulation would require a process similar to that the Army used on a particular MRAP vehicle referred to as the MaxxPro, and this resulted in the successful performance of work on this vehicle.<sup>31</sup> Specifically, Red River Army Depot officials stated that prior to the acceptance of full production orders for the repair of the MaxxPro, the program underwent a repair planning process in which there was upfront communication and coordination among the stakeholders from three separate organizations: the Red River Army Depot, the Tank-automotive and Armaments Command, and the MaxxPro program manager. The coordinated team provided expertise in several different functional areas, including engineering, quality assurance, and supply management. The team's objective was to develop the instruction documentation for this new

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<sup>30</sup>Stakeholders include customers, depots, program managers, Army supply management, DLA, and LCMCs.

<sup>31</sup>The MaxxPro is a variant of the MRAP that features a v-shaped hull that helps deflect blasts away from the vehicle.



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requirement that specified the work steps to be performed on the MaxxPro and the identification of the parts needed to perform the repair work, and to verify the execution of the process through the means of a pilot program for this vehicle. Red River Army Depot officials stated that the stakeholders worked closely together to develop a prototype vehicle, which resulted in the development of a well-defined scope of work and the list of parts needed to perform the repair work. Red River Army Depot began work on the MaxxPro production order in fiscal year 2015 and completed 105 MaxxPro vehicles in fiscal year 2015. According to Red River Army Depot officials, Red River Army Depot has been successfully meeting the MaxxPro production schedules set by the customer.

AMC officials acknowledged problems with the scope of work and parts shortages that we identified on the orders we reviewed. These officials stated that both the analysis on new orders based on the seven key dimensions and the draft AMC regulation should help address the scope of work and parts problems. Specifically, the depots' analysis of new orders based on the seven key dimensions was implemented during fiscal year 2015, and AMC officials stated that the benefits are just now being realized. Also, the draft AMC regulation contains provisions to help address the concerns related to scope of work and parts shortages as well as coordination with stakeholders (both AMC and non-AMC organizations) involved in performing the work. Once finalized, the draft regulation is scheduled to be issued in fiscal year 2016 and implemented after issuance.

As stated previously, GAO's *Standards for Internal Control in the Federal Government* states that a key factor in helping agencies achieve their missions and program results is to implement appropriate internal controls.<sup>32</sup> Internal control activities help ensure that management's directives are carried out. Control activities are the policies, procedures, techniques, and mechanisms that enforce management directives. One such control activity would be to develop policies and procedures for planning, accepting, scheduling, controlling, and reporting for AMC organic industrial base. However, the draft AMC regulation, which aims to provide such policies and procedures, has not been completed. Internal controls and their proper implementation are important because they

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<sup>32</sup>[GAO/AIMD-00-21.3.1.](#)

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provide reasonable assurance that management directives are carried out.

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## Conclusions

The Army's 13 Industrial Operations activities provide crucial depot maintenance and ordnance services to support a wide range of military assets and programs. In order to provide those services, these activities must maintain depot maintenance and ordnance production capabilities year round. Carryover provides the continuity of funded workload necessary to maintain operations from one fiscal year to the next. While some carryover is needed to maintain operations from year to year, Industrial Operations exceeded the allowable amount of carryover the past 3 fiscal years. Industrial Operations consistently underestimated new orders and overestimated the amount of work to be performed—the key elements that determine carryover—by hundreds of millions and sometimes billions of dollars in its budgets for the past 3 years. In addition, it made errors in calculating the allowable carryover amounts in fiscal years 2013 and 2014. Unreliable budget and carryover information may result in DOD and congressional decision makers making important budget decisions based on inaccurate data. While some of these differences were the result of events outside of Industrial Operations' control, such as sequestration, the Army has several positive actions under way to help reduce its scope of work and parts problems that contributed to excess carryover. The ongoing development of a new regulation on Industrial Operations will be key to improving the management of carryover. If successfully implemented, this draft regulation will consolidate and update guidance that among other things should help reduce scope of work and parts problems and improve coordination and communication between AMC and non-AMC organizations.

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## Recommendations for Executive Action

We are making four recommendations to the Secretary of Defense to improve budgeting and management of carryover.

We recommend that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to clarify existing guidance in the DOD Financial Management Regulation to require DOD Working Capital Fund activities to use the most recent DOD Financial Summary Table when calculating allowable carryover amounts in annual budget submissions to Congress.

We recommend that the Secretary of Defense direct the Secretary of the Army to develop, document, and implement internal controls for

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developing and monitoring the process of calculating the allowable amount of carryover in annual budget submissions to Congress.

We recommend that the Secretary of Defense direct the Secretary of the Army to improve its budget estimates on orders by directing Industrial Operations to continue to work with its customers on identifying differences in budgeted and actual orders and consider these differences and their potential consequences when developing budget estimates.

We recommend that the Secretary of Defense direct the Secretary of the Army to direct the Army Materiel Command to incorporate in its regulation provisions for a repair process that includes upfront communication and coordination among AMC and non-AMC stakeholders that will result in the development of a well-defined scope of work and parts needed by the Industrial Operations activities to perform the repair work that will help reduce carryover.

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## Agency Comments

We provided a draft of this report to DOD for comment. In its written comments, which are reprinted in appendix II, DOD concurred with the four recommendations and cited actions planned or under way to address them. Specifically, in response to our first recommendation, DOD commented that it will update the draft DOD Financial Management Regulation as we recommended to require that DOD Working Capital Fund activities use the most recent DOD Financial Summary Table for calculating allowable carryover amounts in its annual budget submissions. DOD also stated that it expects to finalize the updated draft DOD Financial Management Regulation in December 2016. Further, DOD stated in response to our second recommendation that the Army's recent update to its annual working capital fund formulation guidance included internal procedures for calculating the allowable carryover in annual budget submissions and will be used in developing the Army Working Capital Fund's annual budget submissions beginning with the fiscal year 2018 budget submission.

In response to our third recommendation related to improving budget estimates on orders, DOD stated that the Army will continue to stress the importance of improving communication among all Industrial Operations stakeholders during the depot maintenance requirements and budget estimate development processes. Further, DOD stated that the Army will enforce Army policies and business rules on the acceptance of new orders and the use of historical trend analysis in the preparation of fiscal year 2018 budget estimates. In response to our fourth recommendation

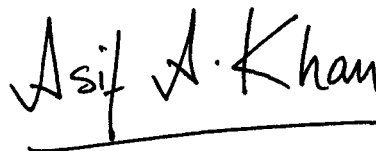
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related to the Army Materiel Command incorporating in its regulation provisions for a repair process that includes upfront communication and coordination among AMC and non-AMC stakeholders, DOD stated that the Army will enforce policy and business rules that require Organic Industrial Base facilities to communicate with their customers early to verify the scope of work and ensure that the Army has the required capability, capacity, equipment, and parts needed to meet delivery schedules and avoid excessive carryover. DOD also stated that it will update its policy and publish its draft regulation during fiscal year 2017.

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We are sending copies of this report to the appropriate congressional committees, the Secretary of Defense, the Secretary of the Army, and the Under Secretary of Defense (Comptroller). In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-9869 or [khana@gao.gov](mailto:khana@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix III.

A handwritten signature in black ink that reads "Asif A. Khan". The signature is written in a cursive style and is positioned above a horizontal line.

Asif A. Khan  
Director, Financial Management and Assurance

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# Appendix I: Scope and Methodology

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To determine the extent to which Army Industrial Operations' (Industrial Operations) actual carryover differed from the allowable amounts from fiscal years 2013 through 2015 and the reasons for any differences, we obtained and analyzed Industrial Operations reports and Army Working Capital Fund budget estimates submitted to Congress that contained information on actual carryover and the allowable amount of carryover for fiscal years 2013 through 2015. We analyzed carryover since fiscal year 2013 because we previously reported on Industrial Operations carryover from fiscal years 2006 through 2012.<sup>1</sup> We met with responsible officials from the Army to determine the reasons for variances between actual carryover and the allowable amount. Further, we identified and analyzed any adjustments made by the Army that increased the allowable carryover amounts or reduced the amount of carryover. We reviewed the Department of Defense's (DOD) guidance for granting exceptions to the carryover policy and discussed any exceptions with officials from the Office of the Under Secretary of Defense (Comptroller) and Army headquarters to obtain explanations for the exceptions.

To determine the extent to which Industrial Operations' budgeted carryover differed from actual carryover from fiscal years 2013 through 2015, reasons for any differences, and the actions the Army is taking to improve related budgeting, we obtained and analyzed Industrial Operations reports and Army Working Capital Fund budget estimates submitted to Congress that contained information on budgeted and actual new orders, revenue, and carryover data for fiscal years 2013 through 2015. We analyzed carryover since fiscal year 2013 because we previously reported on Industrial Operations carryover from fiscal years 2006 through 2012. We also analyzed new orders for fiscal years 2006 through 2015 to obtain trend data on differences between budgeted and actual new orders received from customers. We met with responsible officials from the Army to determine the reasons for variances between budgeted and actual new orders, revenue, and carryover amounts. We also met with these officials to discuss actions the Army is taking to improve budgeting of carryover, including reducing carryover amounts.

To determine the key drivers for orders with large carryover balances for fiscal years 2014 and 2015 and the extent to which the Army is taking

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<sup>1</sup>GAO, *Army Industrial Operations: Budgeting and Management of Carryover Could Be Improved*, [GAO-13-499](#) (Washington, D.C.: June 27, 2013).

actions to reduce carryover, we met with responsible officials from Army headquarters, Army Materiel Command, and Army depots to identify contributing factors that led to carryover. We focused on fiscal years 2014 and 2015 carryover balances to identify current issues contributing to carryover. We also performed walk-throughs of four depot maintenance operations to observe the work being performed and discussed with officials the causes for workload carrying over from one fiscal year to the next. Further, to corroborate the information provided by Army officials, we obtained and analyzed a total of 80 customer orders consisting of the 40 orders that had the largest dollar amounts of carryover at the end of each of fiscal years 2014 and 2015. Carryover amounts associated with these orders represented 31 percent of the total carryover each year collectively at the four Army depots we visited for fiscal years 2014 and 2015. Because we selected orders for review based on dollar size of carryover, they do not represent a statistical selection and the results cannot be projected to the population. We reviewed the orders and amendments for each of the orders and discussed the information in these documents with the officials from the four Army depots to determine the causes for the carryover. We summarized and categorized the results. We also discussed and obtained documentation on the actions the Army depots are taking to better manage and reduce carryover.

We obtained the financial and logistical data in this report from official budget documents and the Army's logistical system used by the Army depots. To assess the reliability of the data, we (1) reviewed and analyzed the factors used in calculating carryover for the completeness of the elements included in the calculation, (2) interviewed Army officials knowledgeable about the carryover data, (3) reviewed GAO reports on depot maintenance activities, and (4) reviewed customer orders submitted to Industrial Operations to determine whether they were adequately supported by documentation. In reviewing these orders, we obtained the status of the carryover at the end of the fiscal year. On the basis of procedures performed, we have concluded that these data were sufficiently reliable for the purposes of this report. We performed our work at the Office of the Under Secretary of Defense (Comptroller), the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology), and the Office of the Assistant Secretary of the Army (Financial Management and Comptroller), Washington, D.C.; Army Materiel Command, Huntsville, Alabama; the Tank-automotive and Armaments Command Life Cycle Management Command, Warren, Michigan; the Anniston Army Depot, Anniston, Alabama; the Corpus Christi Army Depot, Corpus Christi, Texas; the Letterkenny Army Depot, Chambersburg, Pennsylvania; the Red River Army Depot, Texarkana,

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Texas; and the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology), Program Executive Office Combat Support & Combat Service Support, Warren, Michigan.

We conducted this performance audit from June 2015 to June 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Appendix II: Comments from the Department of Defense



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WASHINGTON, DC 20301-1100

COMPTROLLER  
(Program/Budget)

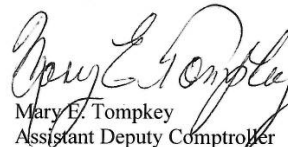
MAY 25 2016

Mr. Asif A. Khan  
Director, Financial Management and Assurance  
U.S. Government Accountability Office  
441 G Street, NW  
Washington DC 20548

Dear Mr. Khan,

Enclosed is the Department of Defense (DoD) response to the GAO draft report (GAO-16-543), "ARMY WORKING CAPITAL FUND: Army Industrial Operations Could Improve Budgeting and Management of Carryover," dated April 22, 2016 (GAO Code 100173). Comments on the draft recommendations are included in the enclosure. Actions to improve the budgeting for and management of carryover noted in the draft report are underway.

Sincerely,



Mary E. Tompkey  
Assistant Deputy Comptroller

Enclosure:  
As stated





GAO DRAFT REPORT DATED APRIL 22, 2016  
GAO-16-543 (GAO CODE 100173)

**“ARMY WORKING CAPITAL FUND: ARMY INDUSTRIAL OPERATIONS COULD  
IMPROVE BUDGETING AND MANAGEMENT OF CARRYOVER”**

**DEPARTMENT OF DEFENSE COMMENTS  
TO THE GAO RECOMMENDATION**

**RECOMMENDATION 1:** GAO recommends that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to clarify existing guidance in the DoD Financial Management Regulation to require DoD Working Capital Fund activities to use the most recent DoD Financial Summary Table when calculating allowable carryover amounts in annual budget submissions to Congress.

**DoD Response:** Concur. The Office of the Under Secretary of Defense (Comptroller) will update the draft DoD Financial Management Regulation to require the DoD Working Capital Fund activities to use the most recent DoD Financial Summary Table when calculating allowable carryover amounts in annual budget submissions to Congress. The draft regulation will be distributed in the June 2016 timeframe. The final version is expected to be distributed in December 2016. The Army will follow the updated guidance.

**RECOMMENDATION 2:** GAO recommends that the Secretary of Defense direct the Secretary of the Army to develop, document, and implement internal controls for developing and monitoring the process of calculating the allowable amount of carryover in annual budget submissions to Congress.

**DoD Response:** Concur. The Army has developed internal procedures for calculating the allowable carryover in annual budget submissions. The Office of the Assistant Secretary of the Army (Financial Management and Comptroller) published the updated procedures on April 15, 2016 as an annex to the annual Army Working Capital Fund Resource Formulation Guidance. The documented procedures adhere to the guidance within the DoD Financial Management Regulation for calculating allowable carryover and will be used in annual budgets beginning with the FY 2018 budget submission to Congress.

**RECOMMENDATION 3:** GAO recommends that the Secretary of Defense direct the Secretary of the Army to improve its budget estimates on orders by directing Industrial Operations to continue to work with its customers on identifying differences in budgeted and actual orders and consider these differences and their potential consequences when developing budget estimates.

**DoD Response:** Concur. The Army will continue to stress the importance of improving communication among all Industrial Operations stakeholders during the depot maintenance requirements and budget estimate development processes, emphasizing the consequences of poor communication and inaccurate workload estimates and their impact on carryover. Specifically,

the Army will enforce current policies and business rules on the acceptance of new orders during quarterly senior level forums and within the next revision to Army Regulation 750-1, Army Materiel Maintenance Policy, and within the Program Objective Memorandum (POM) FY 2019-FY 2022 Depot Maintenance Program Planning Guide (PRG), which is scheduled to be published by 2<sup>nd</sup> quarter of FY 2017. Additionally, the Army will enforce the annual Army Working Capital Fund Resource Formulation Guidance, published April 15, 2016, which requires the use of historical trend analysis in the preparation of FY 2018 budget estimates.

**RECOMMENDATION 4:** GAO recommends that the Secretary of Defense direct the Secretary of the Army to direct the Army Materiel Command to incorporate in its regulation provisions for a repair process that includes upfront communication and coordination among AMC and non-AMC stakeholders that will result in the development of a well-defined scope of work and parts needed by the Industrial Operations activities to perform the repair work that will help reduce carryover.

**DoD Response:** Concur. The Army will enforce current policies and business rules, which require Organic Industrial Base facilities to communicate with their customers early to verify the scope of work and ensure they have the required capability and capacity, to include skillsets, equipment and parts, to meet delivery schedules and avoid excessive carryover. The Army will update AR 750-1, Army Materiel Maintenance Policy, with this guidance in the next rapid revision by the 4<sup>th</sup> quarter of FY 2017. Furthermore, the Army Materiel Command will publish its draft regulation titled "AMC Organic Industrial Base Operational Management Policy and Implementation Guidance" by first quarter of FY 2017.

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# Appendix III: GAO Contact and Staff Acknowledgments

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## GAO Contact

Asif A. Khan, (202) 512-9869 or [khana@gao.gov](mailto:khana@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Greg Pugnetti (Assistant Director), John Craig, Steve Donahue, and Keith McDaniel made key contributions to this report.

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