

GAO Highlights

Highlights of [GAO-13-499](#), a report to congressional requesters

Why GAO Did This Study

The 13 Army Industrial Operations activities support combat readiness by providing depot maintenance and ordnance services to keep Army units operating worldwide. To the extent that Industrial Operations does not complete work at year-end, the work and related funding will be carried over into the next fiscal year. Carryover is the reported dollar value of work that has been ordered and funded by customers but not completed by Industrial Operations at the end of the fiscal year. As requested, GAO reviewed issues related to Army Industrial Operations' carryover. GAO's objectives were to determine whether, and to what extent, Army Industrial Operations' (1) actual carryover exceeded allowable carryover for fiscal years 2006 through 2012; (2) budget information on carryover approximated actual information for fiscal years 2006 through 2012, and if not, whether the Army took actions to align the two; and (3) carryover increased during fiscal years 2011 and 2012 and causes for the carryover. To address these objectives, GAO reviewed relevant carryover guidance, analyzed carryover and related data for Industrial Operations, and interviewed Army officials.

What GAO Recommends

GAO is making three recommendations to the Department of Defense (DOD) that are aimed at implementing the planned actions identified by the Army's working group to improve the budgeting and management of carryover. DOD concurred with GAO's recommendations and cited related actions planned or under way.

View [GAO-13-499](#). For more information, contact Asif A. Khan at (202) 512-9869 or khana@gao.gov.

June 2013

ARMY INDUSTRIAL OPERATIONS

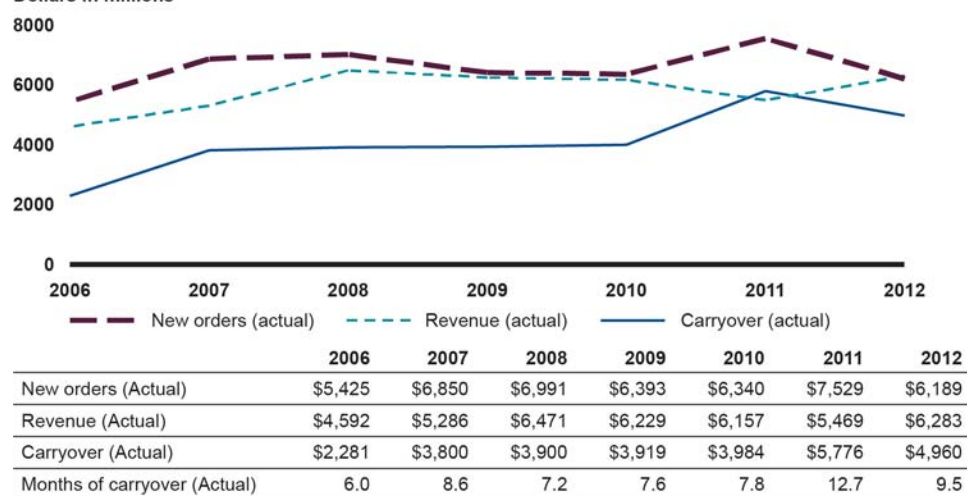
Budgeting and Management of Carryover Could Be Improved

What GAO Found

From fiscal years 2006 through 2012, Army's Industrial Operations' actual carryover was under the allowable amounts in 5 of the 7 fiscal years. However, carryover more than doubled during that period, reaching a high of \$5.8 billion in fiscal year 2011. Army officials stated that fiscal year 2011 was an abnormal year because Industrial Operations (1) received more orders than it had ever received—\$7.5 billion in new orders—and (2) implemented a system called the Logistics Modernization Program (LMP) that changed the business rules for recognizing revenue and therefore resulted in carryover being higher than it would have been under the prior system. Army officials anticipate carryover decreasing in fiscal year 2013. According to the Army fiscal year 2014 budget, the Army expects carryover to be under \$4 billion at the end of fiscal year 2013.

Industrial Operations' New Orders, Revenue, Carryover, and Months of Carryover

Dollars in millions



Source: GAO analysis of Army Industrial Operations budgets.

The Army's budget estimates for carryover were less than the actual carryover amounts each year beginning in fiscal year 2006—at least \$1.1 billion each year. GAO's analysis showed that the actual amounts of carryover exceeded budgeted amounts primarily because (1) the Army underestimated new orders to be received from customers for all 7 years reviewed, particularly with respect to procurement funded orders, and (2) for fiscal year 2011, Industrial Operations performed over \$1 billion less work than budgeted because Army officials were unaware of the impact that LMP would have on revenue when developing the fiscal year 2011 budget. The Army is taking actions intended to better align the customers' budgets with Industrial Operations' budgets.

Industrial Operations' carryover grew significantly in fiscal years 2011 and 2012 to represent about 12.7 and 9.5 months of work, respectively. GAO found three causes for the carryover: (1) the scope of requested work was not well defined, (2) parts were not available to perform the work, and (3) revenue recognition business rules were changed as part of the implementation of LMP. The Army formed a working group in April 2012 that identified actions to help reduce carryover. However, these actions have not been implemented and no timetable for implementation has been set.