



Highlights of [GAO-07-643](#), a report to the Subcommittee on Defense, Committee on Appropriations, House of Representatives

Why GAO Did This Study

According to the Department of Defense's (DOD) fiscal year 2007 budget estimates, working capital fund activity groups (depot maintenance, ordnance, and research and development) will have about \$6 billion of funded work that will be carried over from fiscal year 2007 into fiscal year 2008. The congressional defense committees recognize that these groups need some carryover to ensure a smooth work flow from one fiscal year to the next. However, the committees have previously raised concern that the amount of carryover may be more than is needed. GAO was asked to determine if (1) the Naval Air Warfare Center's (NAWC) reported actual carryover was reliable for fiscal years 2003 through 2006 and (2) NAWC was utilizing the required triannual review process to improve the reliability of its carryover information and underlying financial data.

What GAO Recommends

GAO makes six recommendations to DOD that are aimed at improving the reliability of carryover information and the effectiveness of the triannual review process. DOD concurred with all of GAO's recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-643.

To view the full product, including the scope and methodology, click on the link above. For more information, contact McCoy Williams at (202) 512-9095 or williamsm1@gao.gov.

NAVY WORKING CAPITAL FUND

Management Action Needed to Improve Reliability of the Naval Air Warfare Center's Reported Carryover Amounts

What GAO Found

GAO's analysis of NAWC reports determined that NAWC's reported carryover information was not reliable. Since DOD changed its carryover policy in December 2002, NAWC reports showed that while under the ceiling for fiscal year 2006, it exceeded its carryover ceiling by tens of millions of dollars from fiscal year 2003 through fiscal year 2005, as shown in the following table. To the extent that carryover is too high, Congress can redirect the customers' funds for other priorities.

NAWC's Reported Carryover Amounts Over/Under Ceiling

Dollars in millions				
	Fiscal year 2003	Fiscal year 2004	Fiscal year 2005	Fiscal year 2006
Carryover amount	\$1,146	\$1,109	\$1,046	\$1,007
Carryover ceiling	1,129	1,052	994	1,034
Amount over or under ceiling	Over \$16	Over \$57	Over \$51	Under \$28

Source: Navy reports.

Note: Figures may not add due to rounding.

GAO's analysis of accounting information on customer orders and discussions with NAWC officials determined that its fiscal year 2003 and 2004 carryover information was unreliable due to (1) NAWC converting to a new accounting system in fiscal year 2003 and (2) NAWC not performing reviews of obligations, including the required DOD triannual reviews. To better manage carryover and improve the reliability of carryover information, starting in fiscal year 2005, NAWC (1) issued guidance on the acceptance of orders at year end and (2) began reviewing orders to correct its old financial records. While the reliability of carryover information improved in fiscal years 2005 and 2006, GAO determined that problems still exist. For example, GAO found that funds on some customer orders totaling \$19.5 million were deobligated at fiscal year end and then reobligated at the beginning of the next fiscal year on these same orders. This artificially lowered reported NAWC carryover at fiscal year end.

Further, even though DOD's 1996 guidance required NAWC as well as other activities to conduct triannual reviews of its financial information, NAWC did not perform these reviews until fiscal year 2006. If implemented properly, these reviews would improve the reliability of reported carryover information and the underlying financial data. In addition, as of September 2006, the two NAWC divisions were still not fully complying with several of the 16 specific DOD tasks required as part of the triannual reviews. For example, because the two divisions were not always effectively reviewing some obligations, especially dormant obligations (obligations over 120 days old), their reported actual carryover was overstated. Also, effective triannual reviews would help NAWC validate its financial records before it implements a new system that is scheduled to be installed in October 2007.