

# GAO Highlights

Highlights of [GAO-20-96](#), a report to the Chairwoman, Subcommittee on Military Personnel, Committee on Armed Services, House of Representatives

## Why GAO Did This Study

DOD remains the only major federal agency that has been unable to obtain a financial statement audit opinion. One of the contributing factors is DOD's large volume of nonroutine accounting adjustments, which are used for recording corrections or adjustments in an accounting system. This report examines accounting adjustments and their effect on the reliability of DOD's financial information, the extent to which DOD has established and implemented policies and procedures for recording accounting adjustments, and the extent to which DOD has taken actions to reduce adjustments recorded at the consolidated level.

For this report, GAO reviewed DOD and DFAS's policies and procedures, interviewed DOD officials about the adjustment process, and reviewed initiatives to reduce the number of adjustments being recorded. GAO also selected a random sample of 242 adjustments recorded at the DOD consolidated level for the fourth quarter of fiscal year 2018 to determine whether the adjustments were recorded in accordance with established policies.

## What GAO Recommends

GAO is making eight recommendations to DOD, which include updating and implementing policies and procedures on recording accounting adjustments and identifying steps to reduce the need for recording adjustments across the department. DOD agreed with all eight recommendations and cited actions to address them.

View [GAO-20-96](#). For more information, contact Kristen Kociolek at (202) 512-2989 or [kociolek@gao.gov](mailto:kociolek@gao.gov).

January 2020

## DEPARTMENT OF DEFENSE

### Actions Needed to Reduce Accounting Adjustments

## What GAO Found

While the use of accounting adjustments is a common practice, the Department of Defense's (DOD) reliance on a large volume of nonroutine adjustments to prepare its financial statements is primarily a result of deficient business processes and limitations in accounting systems that DOD components use to process financial information. For example, the Defense Finance and Accounting Service (DFAS) continues to rely on forced-balance adjustments to replace the financial information that DOD's components submit to force agreement with Department of the Treasury balances without reconciling and researching the cause of differences (see figure). The recording of these adjustments was identified as a material weakness in DOD's internal control over financial reporting in its fiscal year 2018 financial statement audit.

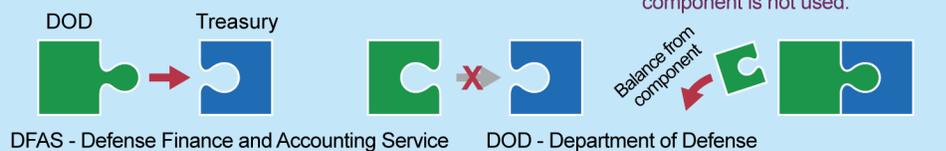
### Forced-Balance Adjustment Process

Forced-balance adjustments are made outside of the routine course of business, without adequate supporting documentation, and are referred to as plugs. The Department of the Treasury (Treasury) requires that agencies perform a monthly "book to bank" reconciliation, much like individuals would balance their checkbooks.

A "fund balance" recorded by DOD should match the balance recorded by Treasury.

When the balances do not match, the difference must be reconciled.

DFAS records a forced-balance adjustment, or a "plug," so the two balances will match. The balance submitted by a DOD component is not used.



Source: GAO analysis of GAO and DOD information. | GAO 20-96

GAO found that DOD and DFAS policies and procedures for accounting adjustments are insufficient, outdated, and inconsistently implemented. For example, DOD's current policies do not define what constitutes adequate supporting documentation for system-generated adjustments, nor have DOD and DFAS established policies for identifying the cause of the adjustments, developing and implementing action plans to reduce the need for adjustments, and monitoring the effectiveness of those action plans. Because DOD and DFAS are not ensuring that their policies and procedures are up-to-date and consistently implemented, there is an increased risk that inaccurate, invalid, or unapproved adjustments will be recorded in DOD's core financial reporting system, resulting in a misstatement in DOD's consolidated financial statements.

DOD and DFAS have undertaken initiatives to address some of the issues that contribute to the need for adjustments. Both organizations have developed strategies to decrease adjustments; however, neither has developed specific outcomes or detailed procedures for achieving stated goals in the strategies. Without clear procedures on how to implement its initiatives and a complete understanding across DOD of the issues contributing to the need for accounting adjustments, there is an increased risk that management efforts to reduce adjustments at the DOD consolidated level will be inefficient and ineffective.