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.

DOD - Department of Defense    Treasury    DFAS - Defense Finance and Accounting Service

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GAO found that DOD and DFAS policies and procedures for accounting adjustments are insufficient, outdated, and inconsistently implemented.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.