



United States Government Accountability Office

Report to the Chairwoman,
Subcommittee on Military Personnel,
Committee on Armed Services, House
of Representatives

March 2021

DEPARTMENT OF DEFENSE

Additional Actions to Improve Suspense Account Transactions Would Strengthen Financial Reporting

GAO@100

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GAO@100 Highlights

Highlights of [GAO-21-132](#), 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 audit opinion. One contributing factor is DOD's long-standing control deficiency in suspense account transactions.

GAO was asked to review DOD's suspense accounts and determine their impact on DOD's consolidated financial reporting. This report examines the extent to which DOD has (1) established and implemented policies and procedures for recording, reconciling, and clearing suspense account transactions at the DOD consolidated level and (2) addressed identified deficiencies in recording, reconciling, and clearing suspense account transactions that may affect the reliability of DOD's financial information.

GAO reviewed DOD and DFAS policies and procedures, interviewed DOD and DOD OIG officials, and reviewed initiatives related to suspense account transactions.

What GAO Recommends

GAO is making eight recommendations to DOD, including that it update and implement policies and procedures for suspense account transactions and develop and implement DOD-wide guidance for identifying and remediating the root causes of control deficiencies in its suspense account processes. DOD concurred with three of GAO's recommendations, partially concurred with four recommendations, and did not concur with one recommendation. GAO continues to believe that all the recommendations are warranted.

View [GAO-21-132](#). For more information, contact Kristen Kociolek at (202) 512-2989 or kociolekk@gao.gov.

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Additional Actions to Improve Suspense Account Transactions Would Strengthen Financial Reporting

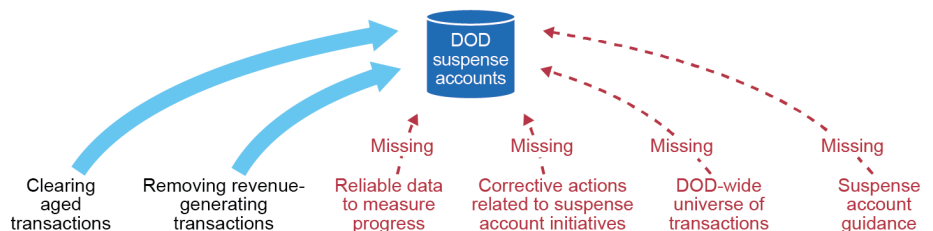
What GAO Found

Federal agencies use suspense accounts to temporarily hold financial transactions—such as transactions with missing or incomplete documentation—that require further research before they are permanently recorded to the proper accounts in an accounting system. Over the years, both GAO and the Department of Defense (DOD) Office of Inspector General (OIG) have reported that DOD and the Defense Finance and Accounting Service (DFAS) have lacked the controls needed to account for and clear suspense account transactions properly. This has contributed to unreliable financial information as the underlying transactions are not properly recorded in the accounting records.

Although DOD and DFAS have taken steps to align their suspense account policies and procedures with relevant federal guidance, GAO found that they were insufficient, outdated, and inconsistently implemented. For example, in March 2020 DOD issued a policy memorandum requiring its component organizations to clear aged suspense account balances—those more than 30 days old—by June 2020. If components could not appropriately research and clear these balances, components were instructed to remove the balances from suspense accounts by transferring them to other accounts. While these efforts reduced the aged balances by roughly \$30 billion, guidance on the specific steps to remove the balances was not provided. The lack of specific guidance contributed to components inconsistently removing aged suspense account balances and increased the risk of transactions not being recorded, reconciled, removed, and documented in a consistent and timely manner. As of June 30, 2020, DOD's suspense account balance was \$1.6 billion, of which \$366 million was more than 30 days old.

DOD and DFAS have undertaken initiatives to clear certain types of non-suspense account transactions from suspense accounts and reduce suspense account balances. GAO found that these initiatives did not identify and address the root causes of DOD's suspense account control deficiencies.

DOD Actions to Address Deficiencies with Suspense Account Transactions



Source: GAO analysis of Department of Defense information. | [GAO-21-132](#)

Not establishing corrective actions to address the long-standing control deficiencies with suspense account transactions affects the reliability of suspense account balances in financial reports, even though the balances are considerably smaller than they were in previous fiscal years. Without such corrective actions, large suspense account balances may once again accumulate and another costly write-off could eventually be required.

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Abbreviations

CARS	Central Accounting Reporting System
DFAS	Defense Finance and Accounting Service
DOD	Department of Defense
FBWT	Fund Balance with Treasury
FMR	Financial Management Regulation
IPAC	Intra-Governmental Payment and Collection
OIG	Office of Inspector General
OMB	Office of Management and Budget
OUSD	Office of the Under Secretary of Defense
RITS	Retirement and Insurance Transfer System
SAR	suspense aging report
SOP	standard operating procedure
TFM	<i>Treasury Financial Manual</i>
Treasury	Department of the Treasury

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March 25, 2021

The Honorable Jackie Speier
Chairwoman
Subcommittee on Military Personnel
Committee on Armed Services
House of Representatives

Dear Madam Chairwoman:

The Department of Defense (DOD) is responsible for over half of the federal government's reported discretionary spending. Yet it remains the only major federal agency that has been unable to receive an audit opinion on its department-wide financial statements.¹ Since 1995, GAO has designated DOD financial management as a high-risk area because of pervasive weaknesses in its financial management systems, business processes, internal controls, and financial reporting.² These weaknesses have adversely affected DOD's ability to prepare auditable financial statements, which is one of three major impediments preventing us from expressing an opinion on the U.S. government's consolidated financial statements.³

The National Defense Authorization Act for Fiscal Year 2014 required the Secretary of Defense to ensure that a full audit was performed on DOD's

¹Discretionary spending refers to outlays from budget authority that are provided in and controlled by appropriation acts, unlike mandatory spending, such as Medicare and other entitlement programs. For fiscal year 2019, DOD's discretionary budget authority of \$698 billion constituted about 51 percent of the total discretionary budget authority of the federal government.

²GAO, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, [GAO-19-157SP](#) (Washington, D.C.: Mar. 6, 2019).

³The other two impediments preventing us from rendering an opinion on the federal government's consolidated financial statements are (1) the federal government's inability to adequately account for intragovernmental activity and balances between federal entities and (2) the federal government's ineffective process for preparing the consolidated financial statements. See GAO, *Financial Audit: FY 2019 and FY 2018 Consolidated Financial Statements of the U.S. Government*, [GAO-20-315R](#) (Washington, D.C.: Feb. 27, 2020).

fiscal year 2018 financial statements.⁴ DOD underwent full audits in fiscal years 2018 through 2020 and received disclaimers of opinion for each year.⁵ In fiscal year 2020, DOD's Office of Inspector General (OIG) identified 26 material weaknesses in internal control over financial reporting.⁶

One of the material weaknesses is related to suspense accounts, which are used to hold transactions temporarily that require further research before they are permanently recorded in the accounting system.⁷ The DOD OIG reported that the Defense Finance and Accounting Service (DFAS) and DOD lacked the controls necessary to monitor funds in suspense accounts sufficiently and to research transactions to clear⁸ account variances in accordance with the 60-day requirement that the Department of the Treasury (Treasury) established.⁹ These control deficiencies also increase the risk that DOD's financial statements are

⁴Pub. L. No. 113-66, div. A, § 1003, 127 Stat. 672, 842 (Dec. 26, 2013). This provision was repealed by the National Defense Authorization Act for Fiscal Year 2018, Pub. L. No. 115-91, div. A, § 1002(b), 131 Stat. 1283, 1538 (Dec. 12, 2017), which instead enacted a permanent requirement for annual DOD financial statement audits, now codified as section 240a of Title 10, *United States Code*.

⁵A disclaimer of opinion arises when the auditor is unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive and accordingly does not express an opinion on the financial statements.

⁶A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

⁷The suspense account material weakness was first identified as a material weakness by DOD OIG in fiscal year 2019. Prior to fiscal year 2019, suspense account transactions issues were reported as part of the Fund Balance with Treasury material weakness.

⁸A transaction is considered cleared when it is removed from the suspense account and recorded in the correct account.

⁹Treasury requires agencies to clear transactions recorded in suspense accounts within 60 business days, *Treasury Financial Manual*, Bulletin No. 2020-05, "Reporting Suspense Account Activity Using F3875 and F3885 and Using Default Accounts F3500 and F3502 as a Central Accounting Reporting System (CARS) Reporter" (Oct. 31, 2019).

materially misstated, as the transactions in the suspense accounts are not properly recorded in the financial statements.

As previously stated, suspense accounts are used when transactions require further research.¹⁰ For example, a contractor may return an overpayment it received for goods and services provided to DOD. If the return does not include sufficient information for DOD to identify which account or which DOD component should receive the payment, DOD records the amount in a suspense account until it can complete additional research.

At DOD, rather than being a temporary solution, however, amounts accumulated and remained in suspense accounts for years because DOD did not routinely research and clear transactions from suspense accounts. Over time, DOD was unable to identify the supporting details for transactions recorded in suspense accounts because the individual transactions had been summarized and combined. While the use of suspense accounts is common practice, DOD's lack of timely monitoring, researching and clearing of transactions from suspense accounts negatively affects the reliability of financial information at both component and department-wide levels.¹¹

You requested that we review DOD's suspense accounts and determine their impact on DOD's consolidated financial reporting. This report examines the extent to which DOD has (1) established and implemented policies and procedures for recording, reconciling, and clearing suspense account transactions at the DOD consolidated level and (2) addressed identified deficiencies in recording, reconciling, and clearing suspense

¹⁰*Treasury Financial Manual*, Bulletin No. 2020-05, "Reporting Suspense Account Activity Using F3875 and F3885 and Using Default Accounts F3500 and F3502 as a Central Accounting Reporting System (CARS) Reporter" (Oct. 31, 2019).

¹¹DOD components are subsidiary organizations within DOD and include the following: The Office of Secretary of Defense; Chairman, Joint Chiefs of Staff and Joint Staff; DOD Office of Inspector General; military departments (Department of the Army (Army), Department of the Air Force (Air Force), Department of the Navy (Navy), and United States Marine Corps (Marine Corps)); defense agencies; DOD field activities; combatant commands; Uniformed Services University of the Health Sciences; and all nonappropriated fund instrumentalities.

account transactions that may affect the reliability of its financial information.¹²

To address our first objective, we reviewed guidance issued by the Office of Management and Budget (OMB) and Treasury for recording, reconciling, and clearing suspense account transactions, such as OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget* and the *Treasury Financial Manual*.¹³ In addition, we reviewed DOD and DFAS policies and procedures related to suspense account transactions in effect on July 31, 2020, such as DOD's *Financial Management Regulation* (FMR).

We also interviewed relevant officials from the Office of the Undersecretary of Defense (OUSD) (Comptroller), DFAS, DOD components, and DOD OIG and performed other audit procedures to gain an understanding of the processes and internal controls in place for recording, reconciling, clearing, and consolidating suspense account transactions. We then compared DOD and DFAS policies and procedures to relevant criteria included in OMB and Treasury guidance to determine the extent to which they aligned. We also compared the processes that DOD has in place for suspense account transactions to DOD and DFAS policies and procedures to determine the extent to which they aligned.

To address our second objective, we reviewed prior audit reports issued by GAO, DOD OIG, independent public accountants, and military service auditors for fiscal years 2017 through 2020 to obtain an understanding of the deficiencies identified related to suspense account transactions. We also reviewed documentation and conducted interviews with officials from OUSD (Comptroller), DFAS, and DOD components to gain an understanding of the (1) initiatives in place (or planned) related to suspense account transactions, (2) extent to which deficiencies were being identified as a result of the suspense account initiatives, and (3) extent to which corrective actions were implemented to correct the identified deficiencies related to suspense account transactions.

¹²For the purpose of this report, DOD consolidated level is defined as all suspense account transactions processed in DOD's core financial reporting system, the Defense Departmental Reporting System.

¹³Office of Management and Budget, *Preparation, Submission, and Execution of the Budget*, OMB Circular No. A-11 (July 2020).

In addition, we assessed DOD and DFAS efforts to monitor the effectiveness of DOD initiatives. Finally, we reviewed DOD and DFAS policies and procedures in effect on July 31, 2020, that had been established as a result of suspense account initiatives to determine the extent to which they addressed identified deficiencies.

We conducted this performance audit from March 2020 to March 2021 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.

Background

DOD's Financial Reporting Process

To ensure sound management and long-term stability in their operations, organizations track their financial activities (transactions), such as expenses they incur and income they generate. Organizations record their transactions in accounts within their accounting systems. Transactions increase or decrease account balances depending on the type of transaction. For example, when customers make payments due for goods or services previously provided, an organization's Fund Balance with Treasury (FBWT) account increases and its "accounts receivable" account (the amount owed to an organization for goods or services previously provided) decreases because customers are paying part of what they owed to the organization.¹⁴

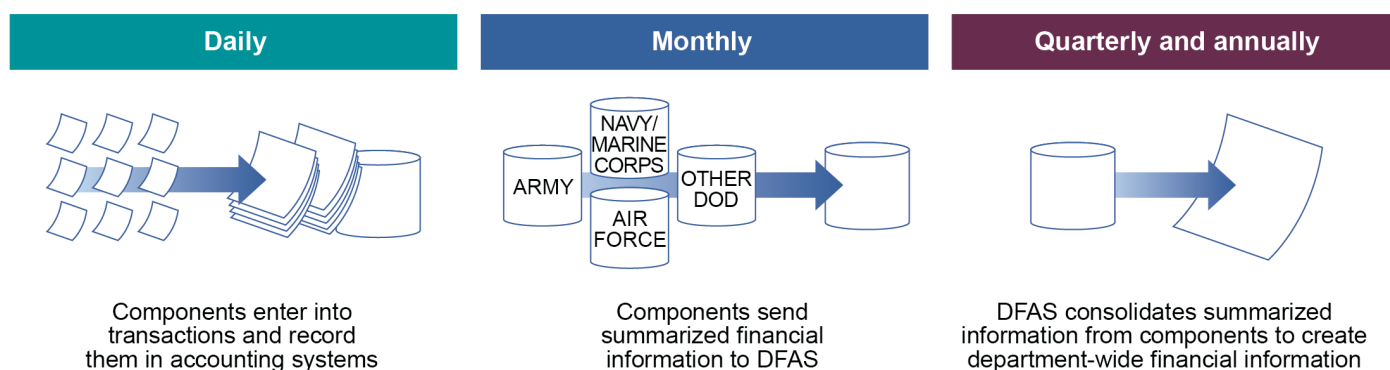
At DOD, as seen in figure 1, this process of recording transactions in accounting systems occurs at individual DOD components (e.g., military departments or DOD offices). These components use multiple accounting systems to record and summarize their financial transactions.¹⁵ Components regularly send summarized financial information to DFAS,

¹⁴In the federal government, an agency's FBWT account is similar in concept to a corporate bank account. The difference is that instead of a cash balance, FBWT represents the remaining spending authority in appropriations.

¹⁵Most components have several accounting and financial systems that capture accounting information. For example, the General Fund Enterprise Business System is the Army's primary accounting system used to record the majority of its transactions.

the DOD agency that provides accounting support for DOD.¹⁶ DOD's core financial reporting system consolidates the summarized financial information from individual components into DOD's department-wide financial information.¹⁷

Figure 1: Recording of DOD Accounting Transactions



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

Source: GAO analysis of DOD information. | GAO-21-132

Financial statements provide information about an organization's financial position—such as assets (what it owns) and liabilities (what it owes)—as of a certain point in time, in addition to the financial results of its operations—such as revenue (what came in) and expenses (what went out)—over a period of time, such as a fiscal year. Financial statements are prepared based on the summarized, or consolidated, financial information from an organization's accounting systems. Their reliability depends on there being accurate financial information in the accounting systems.

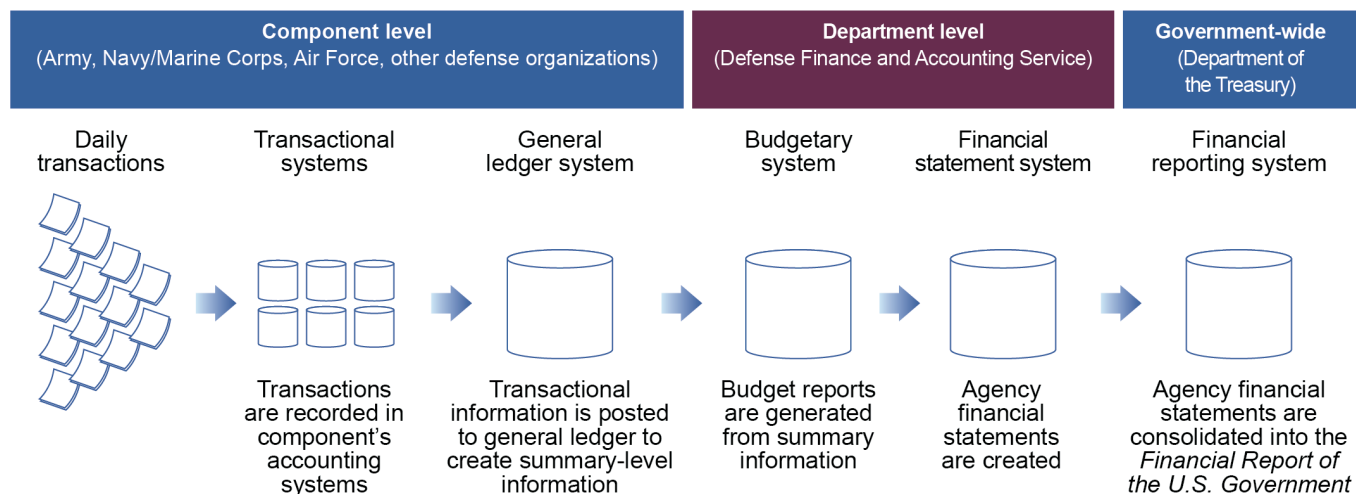
Federal agencies such as DOD aggregate summarized financial information from their subsidiary organizations to produce consolidated financial statements, as seen in figure 2. Reliable and complete financial

¹⁶There are three main DFAS sites located in Cleveland, Ohio; Columbus, Ohio; and Indianapolis, Indiana. DFAS-Cleveland supports the Navy and Marine Corps, whereas DFAS-Columbus supports the Air Force. DFAS-Indianapolis provides most of the Army's accounting support, but DFAS Columbus also provides a small portion.

¹⁷The one exception at DOD is the U.S. Army Corps of Engineers, which prepares its own financial statements without DFAS assistance and submits its financial information for DOD consolidation purposes.

information is necessary to help agency management and Congress understand the agency's finances, make informed policy and resource decisions, and hold agency officials accountable for their use of these resources. Agency management is responsible for the reliability and accuracy of the financial information contained in financial statements. Federal agencies submit their financial information to Treasury, which then aggregates the information for presentation in the consolidated financial statements of the U.S. government.

Figure 2: Department of Defense's (DOD) Consolidation Process



Source: GAO analysis of DOD information. | GAO-21-132

OMB guidance requires nine DOD components to prepare annual financial statements, and DOD policy requires an additional 15 components to prepare annual financial statements. Further, DOD is required by law to prepare audited financial statements covering all accounts and associated activities of each of its components annually, which it prepares by consolidating all financial information from the 24 components that prepare separate annual financial statements, as well as 34 other components.¹⁸

¹⁸31 U.S.C. § 3515(a).

The Role of Suspense Accounts in the Financial Reporting Process

Organizations use suspense accounts in the routine course of business to hold transactions temporarily that require further research before they are permanently recorded in the correct accounts within their accounting systems. For example, a bank may record a customer's check deposit in a suspense account if the check is missing the customer's account number. Upon further research, when the bank identifies the correct customer account number, the transaction is removed from the suspense account and recorded under the correct account. Suspense accounts can also be used to record differences identified during month-end reconciliations until they are researched and resolved.¹⁹

In order to maintain reliable financial statements that accurately reflect the financial activities of an organization, transactions in suspense accounts need to be regularly cleared as of the end of an accounting period before the financial statements are prepared. The use of suspense accounts contributes to unreliable financial information as the underlying transactions are not properly recorded in the accounting records.

OMB, Treasury, and DOD define suspense accounts as accounts used to hold transactions temporarily that belong to the government while waiting for information that will allow the transactions to be matched to a specific receipt or expenditure account.²⁰ Treasury requires agencies to clear transactions recorded in suspense accounts within 60 business days.²¹ DOD policy requires suspense account transactions to be cleared before reaching 60 calendar days.

Prior to fiscal year 2020, the majority of transactions recorded by DOD and DFAS in suspense accounts were not suspense account transactions. For example, DOD and DFAS have used suspense accounts to record revenue generated from selling recyclable materials, trademark revenue, and contributions and taxes collected from civilian

¹⁹Reconciliation consists of comparing two or more sets of records, researching and clearing any differences, and recording adjustments if necessary. Reconciliations are to be performed routinely so that any problems are detected and corrected promptly and differences are not allowed to age thereby becoming increasingly difficult to research.

²⁰OMB, Treasury, and DOD also refer to "suspense accounts" as "budget clearing accounts" and use the terms interchangeably in their guidance.

²¹*Treasury Financial Manual*, Bulletin No. 2020-05, "Reporting Suspense Account Activity Using F3875 and F3885 and Using Default Accounts F3500 and F3502 as a Central Accounting Reporting System (CARS) Reporter" (Oct. 31, 2019).

employees through DOD's Thrift Savings Plan.²² From fiscal years 2016 through 2019, auditors from DOD OIG and independent public accountants found that DOD's use of suspense accounts to record these types of collections did not meet the intended purpose of suspense accounts because these transactions did not meet OMB and Treasury's definition of a suspense account transaction.²³ During the last 5 fiscal years, DOD and DFAS have issued policies prohibiting DOD components from using suspense accounts to record these types of non-suspense account transactions. However, the Air Force and Army continued after the policy's effective date to use suspense accounts for recording revenue generated by DOD's licensing of intellectual property and recycling programs during the second quarter of fiscal year 2020.

DOD and DFAS record other types of transactions in suspense accounts when processing component transactions for reporting purposes, usually at the end of the month, as seen in figure 3. If a transaction is missing information or a processing error occurs, transactions are recorded in suspense accounts until further research can be performed to determine the appropriate accounts that should be used to record the transactions. For example, a processing error may be discovered during monthly edit checks—automated reviews of detailed transaction information.²⁴ If critical information is missing that prevents transactions from being processed, they are automatically placed into a suspense account.²⁵

²²The Thrift Savings Plan is a retirement savings and investment plan for federal employees and members of the uniformed services, including the Ready Reserve.

²³The DOD OIG issued the following reports: Department of Defense, Office of Inspector General, *Improvements Needed in Managing Air Force Suspense Accounts*, DODIG-2017-019 (Alexandria, Va.: Nov. 2016); *Improvements Needed In Managing the Other Defense Organizations' Suspense Accounts*, DODIG-2016-126 (Alexandria, Va.: Aug. 2016); *Improvements Needed in Managing Department of the Navy Suspense Accounts*, DODIG-2016-104 (Alexandria, Va.: June 2016); and *Improvements Needed in Managing Army Suspense Accounts*, DODIG-2016-103 (Alexandria, Va.: June 2016). Kearney & Company issued the following report: *Defense Information Security Agency General Fund Independent Auditor's Report for Fiscal Years 2019 and 2018* (Jan. 21, 2020).

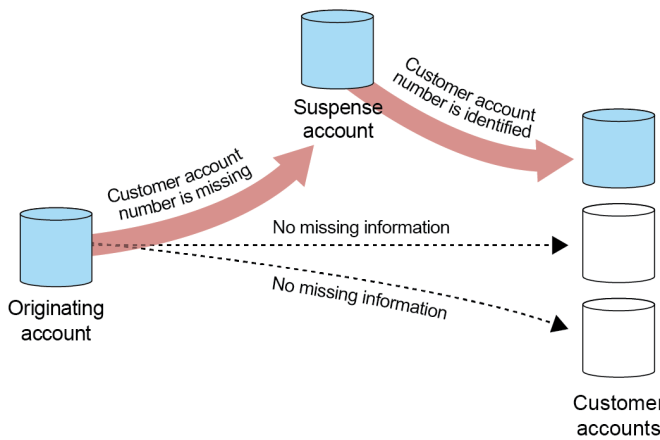
²⁴The automated reviews check the transactions input into accounting systems for critical detailed information, such as voucher number and line of accounting. If there is missing information, the transactions are placed into a suspense account.

²⁵In certain instances, critical information is found to be missing prior to being entered into an accounting system (e.g., unidentified checks). These transactions are immediately placed into suspense accounts.

Figure 3: Department of Defense's (DOD) Suspense Account Transactions Process

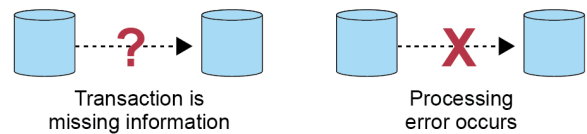
Suspense accounts are used to temporarily hold transactions before a permanent placement can be made in the accounting system.

For example, a bank may record a customer's check deposit in a suspense account when the check is missing the customer's account number. Upon further research, if the bank identifies the correct customer account number, the amount is removed from the suspense account and recorded under the correct account.

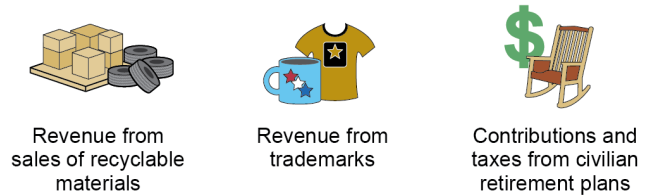


DFAS and DOD components use suspense accounts when processing transactions for reporting purposes, usually at the end of the month.

If there is missing information or a processing error occurs, transactions are recorded in suspense accounts until further research can be performed to determine the appropriate accounts that should be used to record the transactions.



Prior to fiscal year 2020, the majority of suspense account transactions recorded by DOD and DFAS were generated as a result of various established processes, rather than processing errors or a lack of documentation related to the transactions. Suspense accounts were used to hold:



Source: GAO analysis of Department of Defense information. | GAO-21-132

DFAS continually works with the individual DOD components to clear transactions in suspense accounts before reaching the 60 business days' limit, as required by Treasury. However, as of June 30, 2020, over half of the 27,760 transactions remaining in suspense accounts at the DOD consolidated level had been there for more than 60 calendar days.²⁶

Long-standing Deficiencies with DOD's Suspense Account Transactions

For decades, GAO and DOD auditors have reported that DOD has recorded billions of dollars of disbursements and collections in suspense accounts because the proper accounts could not be identified.²⁷ Rather than being a temporary placement, however, amounts accumulated and remained in suspense accounts for years because DOD did not routinely research and clear the transactions from the suspense accounts. Over time, DOD was unable to identify the supporting details for the transactions in suspense accounts because the individual transactions

²⁶DOD policy requires suspense account transactions to be cleared before reaching 60 calendar days.

²⁷"Disbursements" refer to cash spent and "collections" refer to cash received.

had been summarized and combined. In many cases, the documentation necessary to record the transactions properly was lost or destroyed.

DOD records transactions that have not been recorded to the appropriate accounts by DOD component in suspense accounts.²⁸ These transactions are temporarily recorded in suspense accounts until they are researched and recorded in the correct accounts.

In fiscal year 2003, DOD received legislative authority to write off certain aged suspense account transactions if the documentation that would allow for resolution of these transactions could not be found.²⁹ However, even after writing off approximately \$35 billion, DOD still had more than \$1.3 billion of suspense account balances that had not been cleared for more than 60 business days, as required by Treasury.³⁰

In June 2005, GAO reported that without further DOD actions, the buildup of suspense account balances would likely continue, the department's appropriation accounts would likely remain unreliable, and another costly write-off process might eventually be required.³¹

²⁸Department of Defense, "Accounting for Cash and Fund Balances With Treasury," ch.2 of *Financial Management Regulation*, vol. 4 (April 2020), pp. 2-7.

²⁹Aged suspense account transactions are transactions that have been in suspense accounts for more than 30 days. A write-off is a removal or clearance of suspense account transactions or check payment differences from DOD's accounting records. The Bob Stump National Defense Authorization Act for Fiscal Year 2003 authorized DOD to clear certain suspense account transactions that were entered into before Mar. 1, 2001, and check payment differences for checks issued before Oct. 31, 1998, for which no appropriation had been identified. Undistributed collections were to be deposited to miscellaneous receipts of the Treasury. Undistributed disbursements and check payment differences were to be canceled if the Secretary of Defense made a written determination that appropriate DOD officials attempted without success to locate the documentation necessary to identify which appropriation should be charged and that further efforts to do so were not in the best interests of the United States. Pub. L. No. 107-314, § 1009, 116 Stat. 2458, 2635-36 (Dec. 2, 2002).

³⁰In June 2005, GAO reported that \$1.3 billion of suspense amounts were related to residual balances prior to March 2001 that DOD was unable to write off because it did not meet the requirements stipulated by the Bob Stump National Defense Authorization Act for Fiscal Year 2003. GAO, *DOD Problem Disbursements: Long-standing Accounting Weaknesses Result in Inaccurate Records and Substantial Write-offs*, [GAO-05-521](#) (Washington, D.C.: June 2, 2005).

³¹DFAS headquarters' guidance required each of its centers to develop its own procedures for preparing a monthly suspense account report that would show the net value, absolute value, and aging of amounts charged to each suspense account.

In recent years, GAO and DOD auditors have continued to identify issues similar to those reported in past audits that led to the fiscal year 2003 write-off. For example, during the fiscal year 2019 audit of the Defense Information Systems Agency financial statements, auditors found that most of the transactions recorded in DOD's suspense accounts were not suspense account transactions.³² Based on the significance of the issues with suspense accounts that the auditors identified during the fiscal year 2020 audit of DOD's consolidated financial statements, DOD OIG reported a department-wide material weakness related to the lack of internal control at the DOD components and DFAS for monitoring funds in suspense accounts sufficiently.

In fiscal year 2020, DOD OIG also reported a material weakness related to DOD's inability to provide auditors with a complete universe of transactions that reconciled to its accounting records.³³ In addition, auditors performing financial statement audits at the DOD components could not rely on the accuracy and completeness of the population provided for testing suspense account transactions.

Recent DOD Suspense Account Initiatives and Efforts

DOD and DFAS have implemented initiatives and undertaken efforts to reduce aged suspense account balances and address some of the weaknesses that auditors identified related to suspense account transactions. For example, in fiscal years 2019 and 2020, DOD issued several department-wide policies and procedures³⁴ prohibiting the use of suspense accounts to record non-suspense account transactions related to its revenue-generating programs.³⁵ According to DOD officials, recent initiatives and efforts resulted in a \$30 billion reduction in suspense account balances for the period of September 2018 to June 2020. DOD's

³²Auditors found that suspense accounts were used to record activity related to recycling revenue, trademark and licensing revenue, agricultural revenue, Army Military Pay, the Office of Personnel Management Retirement and Insurance Transfer System, and taxes related to Air Force travel.

³³"Universe of transactions" refers to the entirety of underlying, individual accounting transactions that support a financial statement.

³⁴For purposes of this report, we refer to DOD and DFAS separately to distinguish the source of a specific policy.

³⁵"Treasury Account Symbols for Licensing of Intellectual Property and Recycling Activities," Aug. 2019; "Treasury Account Fund Symbols for Agricultural and Grazing Leases Activities," March 2020; "U.S. Department of the Treasury Aged Suspense Account Balances," Mar. 2020; "Treasury Appropriation Fund Symbols for the Department of Defense Forestry Products Program," May 2020; and "Process for Reporting Department of Defense Payroll Withholding," June 2020.

suspense account balance was \$1.6 billion as of June 30, 2020, of which \$366 million in transactions were more than 30 days old.

DOD and DFAS Policies and Procedures for Recording, Reconciling, and Clearing Suspense Transactions Are Insufficient, Outdated, and Followed Inconsistently

In response to the DOD OIG's long-standing findings on the misuse of suspense accounts, DOD and DFAS have taken steps to align their policies and procedures with Treasury and OMB guidance.³⁶ During the last 5 fiscal years, OUSD (Comptroller) and DFAS headquarters issued policy memorandums requiring the DOD components and DFAS sites to remove non-suspense account transactions, such as employee contributions to Thrift Savings Plan, payroll withholdings, and collections from DOD's revenue-generating programs, from suspense accounts.³⁷

DFAS also revised its standard operating procedures (SOP) to place greater emphasis on clearing non-suspense account and aged transactions from suspense accounts. Despite these efforts we found that (1) DOD and DFAS policies do not clearly define the proper use of suspense accounts and subaccounts; (2) DOD and DFAS policies for consolidating, reconciling, and clearing suspense account transactions are not sufficient; (3) DOD and DFAS have outdated policies and procedures for recording, processing, and consolidating suspense account transactions; and (4) DOD has not established a process to prepare a suspense account universe of transactions at the DOD consolidated level, and DFAS site processes are inconsistent.

DOD and DFAS Policies Do Not Clearly Define the Proper Use of Suspense Accounts and Subaccounts

OMB and Treasury have established various types of suspense accounts and subaccounts for agencies to use for recording suspense account transactions. We found that DOD and DFAS had not updated their policies to define and explain the use of certain suspense accounts and that policies included conflicting information about how to use other suspense accounts.

³⁶The DOD OIG issued the following reports concerning the misuse of suspense accounts: Department of Defense Inspector General, *Improvements Needed in Managing Air Force Suspense Accounts*, DODIG-2017-019 (Alexandria, Va.: Nov. 2016); *Improvements Needed In Managing the Other Defense Organizations' Suspense Accounts*, DODIG-2016-126 (Alexandria, Va.: Aug. 2016); *Improvements Needed in Managing Department of the Navy Suspense Accounts*, DODIG-2016-104 (Alexandria, Va.: June 2016); and *Improvements Needed in Managing Army Suspense Accounts*, DODIG-2016-103 (Alexandria, Va.: June 2016).

³⁷DOD revenue-generating programs include Intellectual Property and Recycling; Patent and Royalties; Agricultural and Grazing Leases; and Forestry Products' activities.

In fiscal year 2019, Treasury established a custodial suspense account for federal agencies to use for temporarily holding custodial collections on behalf of another federal entity.³⁸ However, DOD and DFAS have not updated their policies—DOD’s FMR and DFAS’s SOPs—to define custodial suspense accounts and describe the types of transactions to record in these accounts.³⁹ As of November 2020, DOD had not updated its policies to be consistent with OMB and Treasury guidance for custodial suspense accounts and was assessing the applicability of custodial accounts at DOD.

Similar to suspense accounts, other accounts—such as deposit accounts—are used to hold transactions temporarily while the entity awaits information needed to determine the proper account for recording the transaction. However, while suspense accounts hold transactions that belong to the government and contain amounts that are available for government spending, deposit accounts hold transactions that do not belong to the government and, thus, contain amounts that are not available for government spending.⁴⁰ For example, state and local income taxes withheld from employees’ salaries are held in deposit accounts until they are paid to the state or local government.

DOD and DFAS have conflicting policies related to the use of suspense and deposit accounts and subaccounts. We identified several instances where DOD’s FMR refers to deposit accounts as suspense accounts, and under certain circumstances, this could result in deposit transactions being incorrectly recorded in suspense accounts. For example, DOD’s FMR states that if the purpose of a collection cannot be determined, account for it in suspense accounts F3875, 6500, 6501, or 6276, as appropriate, and attempt to clear the deposit within 60 days of the

³⁸Department of the Treasury, “Clearing, Default, and Custodial Accounts,” ch.1500, pt. 2 of *Treasury Financial Manual*, vol. 1, (Dec. 17, 2020), pp. 3-4. OMB also establishes the use of the custodial suspense account (see Office of Management and Budget, *Preparation, Submission, and Execution of the Budget*, OMB Circular No. A-11 (July 2020)).

³⁹For purposes of this report, we refer to DOD and DFAS separately to distinguish the source of a specific policy.

⁴⁰According to OMB and Treasury, deposit accounts generally include collections that are received from the public but do not belong to the government. These types of accounts record liabilities of the federal government. Therefore, these accounts are not included in the budget totals because the amounts are not available for government purposes.

transaction.⁴¹ However, according to other sections of the FMR, account numbers in the 6000 series, such as account numbers 6500 and 6501, are designated deposit accounts.⁴² DOD officials confirmed that these account numbers are deposit accounts that DOD uses to hold transactions that do not belong to the government.

Standards for Internal Control in the Federal Government requires management to implement control activities through policies.⁴³ Control attributes that contribute to meeting the design, implementation, and operating effectiveness of this requirement include the periodic review of control activities. Specifically, management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing risks. If there is a significant change in an entity's process, management reviews this process in a timely manner after the change to determine that the control activities are designed and implemented appropriately.

When DOD and DFAS do not update their guidance timely, there is an increased risk that control activities will not be designed and implemented appropriately. Further, not defining custodial suspense accounts and clearly distinguishing suspense accounts from deposit accounts could result in DOD and DFAS (1) implementing inconsistent practices across their agencies for using these accounts and (2) establishing erroneous policy.

DOD and DFAS Policies for Consolidating and Clearing Suspense Account Transactions and Removing Aged Suspense Account Balances Are Not Sufficient

DOD's FMR is the primary policy that DOD, its components, and DFAS follow for recording, reconciling, and clearing suspense account transactions. DOD and DFAS provide additional guidance to the components and DFAS sites through policy memorandums issued for specific suspense account transaction areas. For example, in June 2020, OUSD (Comptroller) issued a policy memorandum requiring components to use deposit accounts for recording employees' payroll withholdings. Additionally, DFAS headquarters and sites have developed SOPs that

⁴¹Department of Defense, "Collections," ch.8 of *Financial Management Regulation*, vol. 5 (June 2020), pp. 8-10.

⁴²Department of Defense, "Funds," ch.1 of *Financial Management Regulation*, vol. 12, (Mar. 2019), pp. 1-12.

⁴³GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 2014).

provide guidance to the DFAS sites on how to record, reconcile, and clear suspense account transactions.

However, we found that DOD and DFAS policies for consolidating suspense accounts at the department-wide level, regularly clearing suspense account transactions, and removing aged suspense account transactions are not sufficient.

- **Consolidating suspense account transactions at the department-wide level.** Each DFAS site has developed its own policies for recording and reconciling suspense account transactions. Although DOD's FMR provides DOD components and DFAS sites with overall policies for recording and clearing suspense account transactions, neither DOD nor DFAS has issued implementing guidance on how DFAS should consolidate suspense account transactions department-wide. A DFAS official indicated that they have plans to develop a department-wide policy at some point in the future.
- **Clearing transactions from suspense accounts.** In December 2019, DFAS headquarters issued *Policy for Monthly Review of Suspense Transactions*, a policy memorandum to DFAS sites requiring field submitters to complete monthly suspense review certification statements for transactions aged over 60 calendar days.⁴⁴ The policy memorandum requires DFAS field submitters to use these certification statements each month to document efforts to clear aged transactions from suspense accounts.⁴⁵ The policy memorandum also requires field submitters to include certain information for each suspense account transaction, such as root cause analysis, corrective actions, and estimated completion date of corrective actions.⁴⁶

However, DFAS did not provide an SOP to field submitters for completing the certification statements until September 2020, 9 months after the December 2019 policy memorandum was issued. According to a DFAS official, the September 2020 SOP was

⁴⁴Field submitters are located at the different DFAS sites. They are responsible for reconciling and clearing certain types of suspense account transactions and working with accounting representatives from the individual DOD components to reconcile and clear other types of suspense account transactions.

⁴⁵Defense Finance and Accounting Service, *Policy for Monthly Review of Suspense Transactions* (Cleveland: Dec. 23, 2019).

⁴⁶These statements are to be completed at the end of the month after each DFAS site prepares a universe of transactions that contains all transactions that remain in suspense accounts at the end of the month.

developed in response to independent public accountants' audit findings related to the need for timely resolution of aged transactions and the lack of corrective plans to clear aged transactions.

Neither the December 2019 policy memorandum nor the September 2020 SOP provides guidance to field submitters on how to document root cause analysis and corrective actions or work with components to clear suspense account transactions. This lack of specific guidance resulted in inconsistencies in how the DFAS sites completed their monthly certification statements. For example, the March 2020 DFAS-Cleveland and DFAS-Indianapolis certification statements did not contain required root cause analyses for suspense account transactions. The March 2020 DFAS-Columbus certification statement did include some root cause analysis but not for all aged suspense account transactions.

- **Removing aged suspense account balances from suspense accounts.** In March 2020, OUSD (Comptroller) issued *U.S. Department of the Treasury Aged Suspense Account Balances*, a policy memorandum requiring components to clear aged suspense account balances by June 2020.⁴⁷ If resolution could not be achieved after appropriate research, components were instructed to remove the balances from suspense accounts and transfer them to other accounts through a discontinued-research package.⁴⁸ This policy memorandum did not provide specific steps for clearing and removing aged suspense account balances.

According to component officials, neither the OUSD (Comptroller) nor DFAS provided additional guidance on the specific steps to be followed for clearing and removing aged suspense account balances or implementing other requirements. For example, neither DOD nor DFAS provided guidance to help components (1) determine what constitutes appropriate research and the documentation that should be retained to support the component's research efforts; (2) determine how to clear the various types of suspense account balances; and (3) establish review procedures that provide reasonable assurance, given the quality of the underlying data, that DOD complied with applicable laws and regulations.

⁴⁷Department of Defense, Office of the Under Secretary of Defense, *U.S. Department of the Treasury Aged Suspense Account Balances* (Washington, D.C.: Mar. 31, 2020).

⁴⁸DFAS and the DOD components prepare discontinued-research packages to document their efforts to research aged suspense account balances before they transfer them to specified accounts.

The lack of specific guidance for implementing the March 2020 policy memorandum requirements produced inconsistencies in (1) the processes that the components and DFAS sites used to remove aged suspense account balances from suspense accounts and transfer the balances to other accounts and (2) the accounts used to transfer amounts, as shown in table 1. We requested to review all discontinued-research packages that the components prepared for the balances removed from suspense accounts from October 1, 2018, through March 31, 2020.⁴⁹ For this period, DOD indicated that 32 discontinued-research packages were prepared to remove aged suspense account balances. Of the 32 packages, DOD did not provide information to support 17. For the 15 packages with supporting documentation, three did not include adequate documentation to support the account used for the transfer and the necessity of the discontinued research. For the remaining 12 packages that had adequate support, we found inconsistencies in how DOD's components used them, as illustrated in table 1.

Table 1: Examples of Inconsistencies in Department of Defense (DOD) Components' Use of Discontinued-Research Packages from October 2018 through March 2020

DOD component	Inconsistencies in account numbers Used for removing aged balances	Inconsistent procedures for removing aged balances
Army	3210, 2020, and 97X399	The Army sometimes netted aged suspense account balances. Aged collection balances and some disbursements were transferred to account number 3210. ^a The Army transferred aged balances for disbursements to account number 2020 even for transactions related to canceled year appropriations. ^b In one case, the Army transferred aged balances to account number 97X3999 rather than to account number 3210. In some cases, the discontinued-research packages did not include the reason for discontinuing research of aged suspense account balances.
Navy	3210, 1060, and 1804 ^c	The Navy did not net suspense account balances. The Navy transferred balances of aged suspense account collections under a year old to account number 3210, while it transferred collections over a year old to account number 1060. The Navy transferred aged balances related to disbursements to account number 1804.
Air Force	3400	The Air Force either netted aged balances for collections and disbursements or transferred them to account number 3400.
Other defense organizations ^d	3210 and 0100	Other defense organizations sometimes netted aged balances. Aged collection balances were transferred from suspense accounts to account number 3210. Aged balances for disbursements and some collections were transferred to account number 0100, even for canceled year transactions.

Source: GAO analysis of DOD components' discontinued-research packages. | GAO-21-132

⁴⁹The period corresponds to fiscal year 2019 and the first two quarters of fiscal year 2020.

^aAmounts are netted by combining collection transactions and disbursement transactions in the same or different suspense accounts. The net amount rather than the individual transactions are then transferred.

^bA canceled year appropriation is an appropriation or fund account in which the balance has been canceled and is no longer available for obligation or expenditure for any purpose.

^cThe Navy's use of account numbers 3210 and 1060 for transferring aged collections balances is based on outdated DOD *Financial Management Regulation* (FMR) policy. (Department of Defense, "Collections," ch.8 of *Financial Management Regulation*, vol. 5 (May 2018), pp. 8-11). Currently, only account number 3210 is used for transferring aged collections balances out of suspense accounts, according to the OUSD (Comptroller)'s U.S. Department of the Treasury Aged Suspense Account Balances policy memorandum.

^dOther defense organizations are entities authorized by the Secretary of Defense to perform select consolidated support and service functions for DOD department-wide. Examples include the Defense Information Systems Agency, Defense Logistics Agency, and Defense Health Agency.

Standards for Internal Control in the Federal Government requires management to implement control activities through policies.⁵⁰ Control attributes that contribute to meeting the design, implementation, and operating effectiveness of this requirement include documenting responsibilities through policies. Specifically, management documents in policies the internal control responsibilities of the organization and includes the appropriate level of detail to allow management to monitor the control activity of the organization effectively.

According to DFAS officials, the suspense accounts transaction guidance is intended for DFAS sites' use and DFAS does not distribute implementing guidance to the field submitters and components because they have expertise in the transactions they process at their own field sites. However, without providing implementing guidance to the field submitters and components that execute the suspense account transaction research, clearance, and removal of aged balance processes, there is an increased risk of transactions not being recorded, reconciled, removed, and documented consistently and timely. Further, without guidance for consolidating suspense account transactions department-wide, there is an increased risk that DOD and its components cannot rely on the completeness and accuracy of suspense account transaction data reported in DOD's core financial reporting system.

⁵⁰[GAO-14-704G](#).

DOD and DFAS Have Outdated and Inconsistent Policies and Procedures for Recording, Processing, and Consolidating Suspense Account Transactions

The process of recording, processing, and consolidating suspense account transactions at DOD involves multiple systems and unique processes from 58 DOD organizations that consolidate suspense account information into the DOD-wide consolidated financial statements. Therefore, it is crucial that DOD and DFAS provide components with up-to-date and consistent policies and procedures that clearly describe DOD's suspense accounts transactions processes. However, we found that DOD components have outdated and inconsistent policies and procedures for recording, processing, and consolidating suspense account transactions. By not ensuring that policies and procedures are up-to-date and consistent, DOD faces an increased risk that inaccurate, invalid, or unapproved suspense account transactions will be recorded in its core financial reporting system, increasing the risk of misstatements in its consolidated financial statements.

DOD's Components Are Following Outdated Policies and Procedures for Recording and Clearing Suspense Account Transactions

DOD components and DFAS sites have and are following outdated policies and procedures for recording and clearing certain types of suspense account transactions. Specifically:

- **DOD's FMR has not been updated to include current suspense account guidance.** From fiscal years 2018 through 2020, OUSD (Comptroller) updated DOD's FMR several times. However, the recent updates did not incorporate guidance related to recording and clearing suspense account transactions from five of six policy memorandums that OUSD (Comptroller) issued from fiscal years 2018 through 2020.
- **The Navy followed outdated policy in DOD's FMR to remove aged balances from suspense accounts.** According to DFAS-Cleveland officials, the Navy's current practice is to transfer aged suspense account balances to the Forfeitures of Unclaimed Money and Property account.⁵¹ However, this practice was based on outdated policy included in DOD's FMR,⁵² which was revised in March 2020.⁵³ Specifically, a March 2020 policy memorandum required components to transfer aged suspense account balances related to collections to

⁵¹Account number 1060, Forfeitures of Unclaimed Money and Property, includes Retirement and Insurance Transfer System transactions.

⁵²Department of Defense, "Collections," ch. 8 of *Financial Management Regulation*, vol. 5 (May 2018), pp. 8-11.

⁵³See Mar. 31, 2020, DOD Deputy Chief Financial Officer's policy memorandum on aged suspense account balances.

the applicable general fund proprietary receipts account.⁵⁴ Although DOD's FMR was updated in June 2020, the guidance in the March 2020 policy memorandum was not incorporated.⁵⁵

- **DFAS's SOPs contained outdated policies that did not reflect current guidance.** Certain DFAS SOPs have not been updated to reflect current guidance for suspense account transactions. On July 12, 2019, DFAS issued a policy memorandum that instructed DFAS sites to discontinue producing suspense aging reports (SAR) effective April 1, 2019.⁵⁶ It also instructed the DFAS sites to update their procedures to remove references to SARs. However, three sites' SOPs in effect during fiscal year 2020 still contained references to SARs.⁵⁷ A DFAS official confirmed that the SOPs needed to be updated to align with the policy memorandum and did not know why the sites did not update the SOPs to reflect recent changes.

In addition, the DFAS-wide suspense account SOP has not been updated since September 2017 and contains outdated guidance. DFAS officials confirmed that the SOP is outdated and indicated that they will rescind its use going forward. According to DFAS officials, the SOP was superseded by the individual DFAS sites' suspense account SOPs and the Monthly Budgetary Clearing Accounts (Suspense) Balance Certification SOP. DFAS is also developing an enterprise-wide suspense universe of transactions SOP. Each DFAS site has established its own procedures for annually reviewing its policies to ensure that they are current and relevant. However, DFAS has not implemented a similar process for annually reviewing DFAS-

⁵⁴The account is Account R3210, *General Fund Proprietary Receipts*, Defense Military, Not Otherwise Classified. Employee and employer payroll contributions withheld in suspense accounts as part of the Office of Personnel Management Retirement and Insurance Transfer System were exempt from this requirement.

⁵⁵Department of Defense, "Collections," ch. 8 of *Financial Management Regulation*, vol. 5 (June 2020), pp. 8-11.

⁵⁶DFAS centers were required to prepare monthly suspense account reports that would show the net value, absolute value, and aging of amounts charged to each suspense account, based on Defense Finance and Accounting Service, *Discontinue Suspense Aging Report* (Apr. 1, 2019).

⁵⁷The SOPs were DFAS-Cleveland Treasury Index 17, Treasury Suspense Clearing and Management Analysis, effective Mar. 30, 2020; DFAS-Indianapolis, Fund Balance with Treasury, Treasury Indexes 21 and 97 Monthly Suspense Accounts Universe of Transactions (UOT) and Reconciliations Standard Operating Procedures, effective Mar. 30, 2020; and DFAS-Columbus, Treasury Index 57, Suspense Reporting, effective Mar. 31, 2020.

wide policies, such as the September 2017 SOP that DFAS headquarters issued, for relevance.

Standards for Internal Control in the Federal Government requires management to implement control activities through policies.⁵⁸ Control attributes that contribute to meeting the design, implementation, and operating effectiveness of this requirement include periodically reviewing control activities. Specifically, management periodically reviews policies and procedures for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks. If there is a significant change in an entity's process, management reviews this process in a timely manner after the change to determine that the control activities are designed and implemented appropriately.

However, based on our review, DOD has not ensured that the FMR has consistently aligned with its current policy memorandums and been implemented across the components and DFAS sites through their SOPs. According to officials from OUSD (Comptroller), they do not have a process in place to review the components' SOPs for consistency with the FMR unless such review is specifically requested by components. According to these officials, component SOPs may differ from each other because of the components' different processes and systems.

According to DFAS officials, DFAS has an initiative under way to review the processes and procedures across the different DFAS sites in order to identify standardization opportunities. Without periodic reviews of DOD and DFAS policies and procedures for continued relevance and consistency, components and the DFAS sites may be inconsistently recording and consolidating transaction information for suspense accounts. Further, using outdated policies and procedures and inconsistently applying existing policies could affect the reliability of DOD's consolidated financial information.

DFAS Sites Are Following Inconsistent Procedures to Process, Record, and Consolidate Information for Component Suspense Account Transactions

DFAS sites follow different procedures to process, record, and consolidate component suspense account transactions. DFAS sites are using the same subaccount to record different types of suspense account transactions. For example, according to the DOD suspense account and subaccount descriptions that DFAS provided, DFAS sites use suspense subaccount number F3885.000 for different purposes.

⁵⁸[GAO-14-704G](#).

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- DFAS-Cleveland uses the subaccount to record interfund transactions that fail Treasury-level edit checks in the Navy’s accounting system.
 - DFAS-Indianapolis uses the subaccount to record transactions from Intra-Governmental Payment and Collection (IPAC) payments that were not recorded in the Army’s accounting system by the end of the month.
 - DFAS-Columbus uses the subaccount to temporarily record Retirement and Insurance Transfer System cash collections and payroll deductions/government collections for the Air Force.
 - DFAS-Indianapolis uses the subaccount to record transactions from IPAC that were not recorded in the Other Defense Organizations individual accounting system by the end of the month.⁵⁹

We identified other instances where DFAS sites are using the same suspense subaccount to record different types of transactions.

Standards for Internal Control in the Federal Government requires management to design control activities to achieve the entity’s objectives and respond to risks.⁶⁰ Control attributes that contribute to meeting the design, implementation, and operating effectiveness of this requirement include designing appropriate types of control activities—specifically, that management designs appropriate types of control activities for the entity’s internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system. Common categories of control activities include accurate and timely recording of transactions. For example, transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions.

In addition, management designs control activities so that all transactions are completely and accurately recorded. Also, OMB Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, states that

⁵⁹Other defense organizations are entities authorized by the Secretary of Defense to perform select consolidated support and service functions for DOD department-wide. Examples include the Defense Information Systems Agency, Defense Logistics Agency, and Defense Health Agency.

⁶⁰[GAO-14-704G](#).

transactions should be properly recorded, processed, and summarized to permit the preparation of the basic financial statements.⁶¹

According to DFAS officials, the lack of consistency among DFAS site procedures is due to limitations in how different accounting systems capture and report data. Specifically, the components' accounting systems use different account fields for recording suspense account transaction information that would not match when the information is consolidated and reported. DFAS's use of the same accounts to record different types of suspense account transactions increases the risk that the data reported in DOD's core financial reporting system are inaccurate and unreliable.

DOD Has Not Established a Process to Prepare a Suspense Account Universe of Transactions at the DOD Consolidated Level, and Related Processes at DFAS Sites Are Inconsistent

As a result of DOD's financial statement audit for fiscal year 2020, one of the 26 material weaknesses reported by DOD's OIG was the lack of a reliable universe of transactions. Similar to fiscal year 2019, DOD's OIG found that (1) multiple components were unable to provide transaction-level populations supporting material financial statement line items, (2) DOD components and DFAS were unable to reconcile the information presented in the trial balances to underlying transaction-level detail information, and (3) DOD and its components lacked a complete universe of transactions. Therefore, auditors performing financial statement audits at the DOD components could not rely on the accuracy and completeness of the population that DOD provided for testing suspense account transactions.

In recent years, DOD and DFAS have undertaken efforts to resolve the obstacles with preparing a universe of transactions for suspense accounts.⁶² DFAS sites have developed their own processes and guidance to prepare a suspense account universe of transactions for the DOD components they support. However, we found that (1) DOD has not established a process for preparing a suspense account universe of transactions at the DOD consolidated level and (2) the guidance and processes followed were not consistent across all of the DFAS sites.

⁶¹Office of Management and Budget, *Audit Requirements for Federal Financial Statements*, OMB Bulletin No. 19-03 (Washington, D.C.: revised Aug. 27, 2019).

⁶²Some of these efforts include (1) creating a suspense account guidebook, (2) establishing a standardized automated universe of transactions for all DOD components, and (3) account tracking to effectively monitor and ensure timely disposition of suspense accounts transactions.

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- **DOD is working on establishing a process for preparing a suspense account universe of transactions at the DOD consolidated level.** Monthly, each DFAS site prepares a suspense account universe of transactions for the components it supports. However, neither DOD nor DFAS has developed a process for preparing and reviewing a suspense account universe of transactions at the DOD consolidated level. DFAS officials told us that DOD does not have a system in place that could acquire or consolidate the suspense account universe of transactions at the departmental level because of the different accounting, disbursing, and financial systems the components use.

These accounting, disbursing, and financial systems contain fields that are unique to each component's transactions and do not agree with other components' accounting, disbursing, and financial systems. As a result, the accounting, disbursing, and financial systems do not provide consistent information that would allow for the consolidation of the suspense account transaction information at the DOD consolidated level. DOD officials stated that one obstacle to resolving the suspense account material weakness is the volume of transactions that DOD processes. This volume arises from the accounting systems of 24 components and 34 other DOD entities, whose suspense account transaction information is consolidated into the DOD-wide consolidated financial statements.

According to DFAS officials, DOD is working on establishing a process for consolidating all the components' suspense account universes of transactions to have one department-wide universe using tools such as *Advanced Analytics*. According to DOD documentation related to this effort, this tool currently supports the Other Defense Organizations accounting system and can pull approximately 40 billion transactions from more than 150 DOD financial systems and standardize the fields, thereby allowing for consolidation into one universe of transactions. According to this documentation, DOD is working on expanding this tool to other DOD components.

- **DFAS sites are not consistently capturing information to produce the components' suspense account universes of transactions.** The individual DFAS sites have developed their own processes and SOPs for producing and reviewing the suspense account universes of transactions for their components. However, the processes followed and information used to produce these are not consistent across the DFAS sites. DFAS-Columbus officials shared that to prepare the Air Force's suspense account universe of transactions, the balances are

obtained directly from the different Air Force accounting systems and from the Air Force's Columbus Cash Accountability System.⁶³

For the Navy, DFAS-Cleveland's SOP describes a different process where accountants obtain the balances for the suspense account universe of transactions directly from the Navy's disbursing system. According to DFAS-Indianapolis officials, DFAS follows a different process for the Army. Specifically, DFAS obtains the suspense account balances from Treasury's Central Accounting and Reporting System and not from the Army's accounting systems.⁶⁴ DFAS then records these balances as an adjustment in DOD's core financial reporting system.

Standards for Internal Control in the Federal Government requires management to implement control activities through policies.⁶⁵ Control attributes that contribute to meeting the design, implementation, and operating effectiveness of this requirement include periodically reviewing control activities. Specifically, management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing risks. If there is a significant change in an entity's process, management reviews this process in a timely manner after the change to determine that the control activities are designed and implemented appropriately.

In addition, OMB Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, states that transactions should be properly recorded, processed, and summarized to permit the preparation of the basic financial statements.⁶⁶ DOD's lack of a process to consolidate the suspense account universe of transactions and lack of consistent information to prepare the suspense account universes of transactions increases the risk that DOD and its components cannot rely on the completeness and accuracy of data reported in DOD's core financial reporting system.

⁶³The Air Force uses its Columbus Cash Accountability System to research transactions reported to Treasury but not recorded in Air Force accounting systems.

⁶⁴Treasury's Central Accounting and Reporting System is the electronic system of record for the government's financial data, which provides streamlined agency reporting and supports government-wide standardization.

⁶⁵[GAO-14-704G](#).

⁶⁶Office of Management and Budget, *Audit Requirements for Federal Financial Statements*, Bulletin No. 19-03 (Washington, D.C.: revised Aug. 27, 2019).

DOD Has Initiatives to Address Some Long-standing Suspense Account Deficiencies but Is Not Identifying Causes and Could Better Measure Progress

DOD continues to face challenges addressing the deficiencies identified by auditors in its processes for recording, reconciling, and clearing suspense account transactions. To address the deficiencies, DOD, its components, and DFAS have undertaken initiatives and other efforts that have resulted in reducing suspense account balances and addressing some deficiencies in suspense account transaction processes. However, our review found that these efforts are not identifying suspense account transaction deficiencies and are not adequately addressing the causes of long-standing deficiencies with suspense account transactions. We also found that DOD and DFAS are using unreliable data to measure the progress of current initiatives to address deficiencies with suspense account transaction processes.

Auditors Have Identified Multiple Deficiencies in DOD's Suspense Account Processes

From fiscal years 2016 through 2020, DOD OIG and independent public accountants identified deficiencies in DOD's suspense account processes and reported material weaknesses for financial statement audits at five DOD components and DOD as a whole.⁶⁷ The deficiencies that the auditors cited include the following:

- DOD components could not determine whether suspense account transactions should be recorded in their financial records because some components share the same suspense accounts.
- DFAS and DOD components lacked the controls necessary to monitor funds in suspense accounts sufficiently and to research transactions to clear account balances in accordance with Treasury's 60-business day requirement.
- DFAS lacked a process for developing a complete DOD-wide suspense account universe of transactions that reconciled to Treasury's Central Accounting Reporting System.⁶⁸

⁶⁷These DOD organizations were the Army, Navy, Marine Corps, U.S. Transportation Command, and Defense Information Systems Agency.

⁶⁸Treasury's Central Accounting Reporting System is the electronic system of record for the government's financial data that provides streamlined agency reporting and supports government-wide standardization.

DOD Suspense Account Initiatives and Other Efforts Have Addressed Some Deficiencies and Reduced Suspense Account Balances

In recent years, DOD and DFAS have undertaken initiatives and other efforts to address the suspense account deficiencies that auditors identified. For example, as shown in table 2, in response to the DOD OIG's audit findings in fiscal years 2016 and 2017, OUSD (Comptroller) and DFAS issued several department-wide policy memorandums prohibiting the use of suspense accounts to record non-suspense accounts transactions.⁶⁹ Specifically, these policy memorandums prohibited the use of suspense accounts to record contributions and loan repayments for DOD's Thrift Savings Plan and revenue generated from DOD's forestry, agricultural and grazing leases, and licensing of intellectual property programs. These policy memorandums also required DOD components to remove revenue-generating program balances from suspense accounts because these types of collections do not meet OMB and Treasury's definition of suspense account transactions.⁷⁰

⁶⁹These DFAS policy memorandums include the following: "Treasury Account Symbols for Licensing of Intellectual Property and Recycling Activities," Aug. 2019; "Treasury Account Fund Symbols for Agricultural and Grazing Leases Activities," Mar. 2020; "U.S. Department of the Treasury Aged Suspense Account Balances," Mar. 2020; "Treasury Appropriation Fund Symbols for the Department of Defense Forestry Products Program," May 2020; and "Process for Reporting Department of Defense Payroll Withholding," June 2020.

⁷⁰DOD's revenue-generating programs are programs that generate income from agricultural and grazing leases, the sale of forestry products and recyclable materials, and income from royalties and trademarks.

Table 2: Policy Memorandums Requiring DOD Components to Cease Recording Transactions in Suspense Accounts and Move Remaining Balances to Appropriate Accounts, Issued Fiscal Years 2017 through July 31, 2020

Title of policy memorandum and issuance date	Effective date
Thrift Savings Plan Change from Suspense Clearing Accounts to Deposit Fund Accounts September 23, 2016	October 1, 2016
New Treasury Account Symbols to Record Patent Royalty Activities October 13, 2017	December 31, 2017 ^a
Treasury Account Symbols for Licensing of Intellectual Property and Recycling Activities August 30, 2019	October 1, 2019
Treasury Account Fund Symbols for Agricultural and Grazing Leases Activities March 6, 2020	July 1, 2020
Treasury Appropriation Fund Symbols for the Department of Defense Forestry Products Program May 12, 2020	July 1, 2020

Source: GAO analysis of DOD data. | GAO-21-132

^aThis policy does not state an effective date. Rather, it provided an execution completion deadline.

In addition to issuing policy memorandums, in recent years, OUSD (Comptroller) and DFAS established several initiatives to address certain suspense account control deficiencies and reduce aged suspense account balances. These initiatives, which include the following, are currently under way.

- Suspense account initiative.** In January 2019, DFAS established the Enterprise-Wide Suspense Account Working Group. According to DFAS officials, the objectives of the working group included (1) providing a complete population of transaction-level detail in suspense accounts that reconcile with Treasury, (2) correcting suspense accounts control deficiencies, and (3) identifying supporting documentation for aged suspense transactions.
- FBWT initiative.** In January 2020, DOD launched the FBWT initiative focused on resolving obstacles in developing, monitoring, and clearing a suspense account universe of transactions. According to DFAS officials, the objectives of this initiative included (1) creating the suspense account guidebook, (2) standardizing the creation of the universe of transactions across all DFAS sites, (3) reducing and eliminating manual intervention when processing suspense account transactions, and (4) reducing aged suspense account balances.

-
- **Suspense account working groups.** In addition to the DOD department-wide suspense account initiatives, individual DFAS sites established suspense account working groups. According to DFAS officials, the objectives of these working groups included (1) supporting the FBWT initiative to reduce aged suspense account balances, (2) discussing with field submitters the root causes and corrective actions for issues with suspense account transactions, and (3) recommending business process changes to correct issues with suspense account transactions.

Current DOD Suspense Account Initiatives Did Not Identify Root Causes and Develop Responsive Action Plans

Although the stated objectives of current initiatives include identifying root causes and developing action plans, we found that DOD and DFAS's initiatives did not identify root causes and develop corrective action plans to address them. For example, for the FBWT initiative, OUSD (Comptroller) issued a policy memorandum in March 2020 requiring DOD components to address aged suspense account balances by June 2020. Specifically, the policy memorandum provided that if the aged suspense account balances could not be resolved after appropriate research, the balances would be transferred from suspense accounts to other accounts. DOD did not require components to identify and correct the causes of the aged suspense account balances—just to transfer the balances to other accounts.

Many of the balances that were transferred to other accounts had been in suspense accounts for more than 1 year and lacked documentation supporting the individual transactions making up the balances. DOD and DFAS's initiatives also did not provide adequate guidance to the components about addressing known deficiencies that were causing components to use suspense accounts to record revenue-generating transactions. For example, when an August 2019 policy memorandum established a new Treasury account to record revenue generated from DOD's licensing of intellectual property and recycling programs, OUSD (Comptroller) acknowledged that the new account would cause significant change in DOD's business processes but would result in appropriate accounting and reporting of revenue generated from these programs.⁷¹

⁷¹DOD updated its FMR to incorporate the new Treasury Account Symbols for licensing of intellectual property and recycling programs, in fiscal year 2020 (Department of Defense, "DOD Branding and Trademark Licensing Program," ch.31 of *Financial Management Regulation*, vol. 12 (Nov. 2019), pp. 1-6).

OUSD (Comptroller) indicated that the new policy was intended to address deficiencies that DOD OIG reported in the use of suspense accounts to record collections from DOD's revenue-generating programs.⁷² Air Force officials provided comments to OUSD (Comptroller) expressing concerns with the new policy and stated that the necessary implementation of system changes would take the Air Force 3 to 4 years.⁷³ Air Force officials also informed OUSD (Comptroller) that using the new Treasury account was not the most optimal or auditable solution for addressing DOD OIG's findings on the use of suspense accounts for recording revenue generated from these programs. In addition, Army officials stated that the policy's effective date was not coordinated with the components, which needed time to accommodate the necessary business process changes and testing before implementing the policy.

Despite these concerns, OUSD (Comptroller) issued the policy without providing guidance to components about how to address the system-change issues. As a result, the Air Force and Army continued after the policy's effective date to use suspense accounts for recording revenue generated by DOD's licensing of intellectual property and recycling programs during the second quarter of fiscal year 2020.

Finally, DOD and DFAS failed to remove some known non-suspense account transactions from suspense accounts. DOD components were recording employee and employer payroll contributions that were withheld as part of the Office of Personnel Management's Retirement and Insurance Transfer System (RITS) in suspense accounts.⁷⁴ In at least one case, an auditor has cited the practice of recording RITS withholdings in suspense accounts as a deficiency because these transactions do not meet OMB and Treasury's definition of suspense account transactions.⁷⁵

During our audit, OUSD (Comptroller) and DFAS officials agreed that the transactions should not be recorded in suspense accounts and stated that

⁷²Department of Defense, Office of Inspector General, *Improvements Needed in Managing Air Force Suspense Accounts*.

⁷³Air Force officials stated that they implemented interim processes, such as creating a new reimbursable line of account for qualified recycling program.

⁷⁴RITS includes withholdings/contributions for Retirement, Health Benefits, and Life Insurance. DOD temporarily places these withholdings in suspense accounts until transferring them to the Office of Personnel Management at the end of each month.

⁷⁵Kearney & Company, *Defense Information Systems Agency General Fund Independent Auditor's Report for Fiscal Years 2019 and 2018* (Jan. 21, 2020).

they were in the process of identifying corrective actions and options for recording RITS transactions in a non-suspense account. These officials agreed to start the process to (1) remove RITS balances from suspense accounts and (2) going forward, record RITS-related transactions in deposit accounts.

DOD has not designed and implemented the DOD-wide policies needed to analyze the cause of deficiencies in suspense account transaction processes or establish corrective action plans to address them. In addition, through DOD policy memorandums, components and DFAS sites are directed to work together, but they are not provided further guidance about addressing known deficiencies. A DFAS official stated that nearly all resources and efforts at the DFAS Treasury Reporting Division level are focused on reducing suspense account balances. According to the official, once this work is completed, they will have more time to focus on strategic analysis of suspense accounts and address root causes of issues and deficiencies.

The OMB Circular A-123 requires agencies to perform a root cause analysis of deficiencies that are identified to ensure that subsequent strategies and plans address the causes of the problem and not just the symptoms.⁷⁶ Also, *Standards for Internal Control in the Federal Government* requires management to remediate internal control deficiencies on a timely basis.⁷⁷ Control attributes that contribute to meeting the design, implementation, and operating effectiveness of this requirement include management's evaluation of issues—specifically, that management evaluates the issues and establishes corrective action plans to address them.

DOD's inadequate processes related to suspense account transactions and lack of corrective action plans to address the root causes of long-standing deficiencies with suspense account transaction processes affects the reliability of suspense balances in financial reports. Without such corrective actions—even though balances are considerably smaller than they were in previous fiscal years—large suspense account balances may continue to accumulate in the future.

⁷⁶Office of Management and Budget, *Management's Responsibility for Enterprise Risk Management and Internal Control*, OMB Circular No. A-123 (July 15, 2016).

⁷⁷[GAO-14-704G](#).

As we concluded in fiscal year 2005, without further DOD corrective actions for reconciling, reporting, and clearing amounts in suspense accounts regularly, the buildup of current balances would likely continue, the department's appropriation accounts would likely remain unreliable, and another costly write-off process could eventually be required.⁷⁸

DOD and DFAS Used Unreliable Data from Prior Years to Measure the Progress of Suspense Account Initiatives

In fiscal year 2020, DOD reported to Congress that it had reduced aged suspense account balances by \$29.4 billion from September 2018 through September 2019.⁷⁹ According to DOD, this reduction was based on initiatives implemented in recent years to reduce aged suspense account balances as well as efforts undertaken to remove non-suspense account transactions from these accounts. However, the fiscal year 2018 and 2019 data that DOD and DFAS used to calculate the reported figures were unreliable. As a result, we could not use or rely on the reported numbers to evaluate the progress of DOD's suspense account initiatives.

Further, in calculating the reduction of suspense account balances, DFAS used the suspense account universe of transactions, which comprised different components for fiscal years 2018 and 2019. Auditors from DOD OIG and independent public accountants performing audits of DOD components' financial statements have reported numerous deficiencies related to the completeness, accuracy, and reliability of DOD's suspense account universe of transactions. For example, Defense Information Systems Agency, Navy, and Marine Corps financial statement auditors for the fiscal year 2019 audits reported deficiencies in the reliability and completeness of the suspense account universe of transactions.⁸⁰

As a result, the information used to calculate the reductions in suspense account balances from September 2018 through September 2019 was incomplete and unreliable.

⁷⁸GAO-05-521.

⁷⁹Office of the Under Secretary of Defense (Comptroller), *U.S. Department of Defense Financial Improvement and Audit Remediation (FIAR) Report* (June 2020).

⁸⁰Department of Defense, Office of Inspector General, *Independent Auditor's Reports on the Defense Information Systems Agency General Fund Financial Statements and Related Notes for FY 2019 and FY 2018*, DODIG-2020-053 (Alexandria, Va.: Jan. 21, 2020); *Independent Auditor's Reports on the U.S. Navy General Fund Financial Statements and Related Notes for FY 2019 and FY 2018*, DODIG-2020-011 (Alexandria, Va.: Nov. 8, 2019); and *Independent Auditor's Reports on the U.S. Marine Corps General Fund Financial Statements and Related Notes for FY 2019 and FY 2018*, DODIG-2020-015 (Alexandria, Va.: Nov. 8, 2019).

According to DFAS officials, in fiscal year 2018, DOD and the DFAS sites lacked policies for developing a universe of transactions. In fiscal year 2019, every DFAS site implemented its own policies and procedures for producing the universe of transactions. This resulted in inconsistencies in the information that the DFAS sites used to calculate the reported reductions. However, DFAS officials stated that in fiscal year 2020 the reliability of the suspense account universe of transactions improved greatly based on the decrease in overall balances, reduction of summary lines, and elimination of offsetting transactions. DOD officials also described other improvements made in fiscal year 2020, including an historical analysis of suspense account balances, implementation of procedures to prevent transactions from being recorded in suspense accounts, and reduction in the amount of time it takes DFAS to prepare the suspense account universe of transactions.

Standards for Internal Control in the Federal Government requires management to establish and operate activities to monitor the internal control system of the entity and evaluate the results.⁸¹ Control attributes that contribute to meeting the design, implementation, and operating effectiveness of this requirement include evaluating results; specifically that management evaluates and documents the results of ongoing monitoring and separate evaluations to identify internal control issues. DOD's use of incomplete and unreliable information from prior years to measure the progress of its suspense account initiatives could affect management's ability to monitor the results of its efforts to reduce balances and address deficiencies. Further, it may ultimately affect the reliability of DOD financial reporting of suspense accounts and other balances.

Conclusions

Auditors have reported long-standing deficiencies related to DOD's suspense account transactions. If unaddressed, these deficiencies would lead to unreliable information in DOD's core financial reporting system, and as a result, DOD management and Congress may not have reliable and accurate financial information to support their decision-making. While DOD and DFAS have taken steps to align their suspense account transaction policies and procedures with Treasury and OMB guidance, some of these policies and procedures are insufficient, outdated, and followed inconsistently across DOD components and DFAS sites. Ensuring that DOD and DFAS have complete policies and procedures

⁸¹[GAO-14-704G](#).

that are consistently followed and up-to-date would help DOD address its long-standing suspense account control deficiencies.

DOD and DFAS have undertaken initiatives to address some suspense account control deficiencies that auditors identified and to reduce suspense account balances. However, these initiatives lacked corrective action plans to address the root causes of suspense account control deficiencies and used incomplete and unreliable information to measure progress. Ensuring that corrective actions address the causes of suspense account control deficiencies and having reliable information for measuring progress would improve DOD's ability to provide reliable information in its financial statements. Without such corrective actions, large suspense account balances may once again accumulate and another costly write-off could eventually be required. Further, if DOD does not address these issues, there is an increased risk that its suspense accounts will continue to be used to record non-suspense account transactions. As a result, financial information may be misstated, and DOD will continue to be unable to prepare reliable and auditable consolidated financial statements.

Recommendations for Executive Action

We are making the following eight recommendations to DOD:

The Under Secretary of Defense (Comptroller) should finalize the assessment of the applicability of custodial accounts at DOD and, if necessary, update DOD policies to define the use of custodial suspense accounts, in accordance with OMB and Treasury guidance. (Recommendation 1)

The Under Secretary of Defense (Comptroller) should update DOD's FMR to clearly define the use of suspense and deposit accounts, in accordance with OMB and Treasury guidance. (Recommendation 2)

The Under Secretary of Defense (Comptroller) should establish a process to provide specific implementing guidance to DFAS and DOD components, including field submitters, when new suspense account policy memorandums are issued. (Recommendation 3)

The Under Secretary of Defense (Comptroller), in conjunction with the Director of DFAS, should provide specific guidance to the DFAS sites and DOD components on implementing the requirements stipulated in the December 2019 memorandum *Policy for Monthly Review of Suspense Transactions* and the March 2020 policy memorandum *U.S. Department of the Treasury Aged Suspense Account Balances*. (Recommendation 4)

The Under Secretary of Defense (Comptroller), in conjunction with the Director of DFAS, should provide guidance on suspense account transactions to DOD components and the DFAS sites to help ensure that they develop consistent policies and procedures that are accurate and up-to-date. (Recommendation 5)

The Under Secretary of Defense (Comptroller), in conjunction with the Director of DFAS, should establish a process and associated guidance to (1) prepare a department-wide suspense account universe of transactions at the consolidated level and (2) ensure that the DFAS sites gather consistent information for preparing the suspense account universe of transactions for the DOD components. (Recommendation 6)

The Under Secretary of Defense (Comptroller), in conjunction with the Director of DFAS, should develop and implement DOD-wide guidance, applicable to both DFAS sites and DOD components, for assessing, identifying, and remediating the root causes of control deficiencies in DOD's suspense account processes. (Recommendation 7)

The Director of DFAS should develop guidance for DFAS sites to use when developing metrics for measuring the progress of their efforts to address issues with and reduce the balances of suspense accounts. (Recommendation 8)

Agency Comments and Our Evaluation

We provided a draft of this report to DOD for comment. In its written comments, reproduced in appendix II, DOD concurred with three of our recommendations (1, 6, and 8), partially concurred with four of our recommendations (2, 3, 4, and 5), and did not concur with recommendation 7. DOD also provided technical comments and other related documentation, which we incorporated as appropriate. We continue to believe that all recommendations are warranted, as discussed below.

DOD cited actions that it will take to address the three recommendations that DOD concurred with related to (1) finalizing the assessment of the applicability of custodial accounts at DOD, (2) preparing a department-wide universe of transactions at the consolidated level, and (3) developing guidance for DFAS sites to use when developing metrics for measuring the progress of their efforts.

DOD partially concurred with our second recommendation that OUSD (Comptroller) update DOD's FMR to clearly define the use of suspense and deposit accounts, in accordance with OMB and Treasury guidance.

In its comments, DOD stated that the FMR currently defines the use of suspense and deposit accounts in volume 4, chapter 12, paragraph 120404 (deposit accounts) and paragraph 120405 (suspense accounts). DOD further stated that OUSD (Comptroller) corrected DOD's FMR, volume 8, by removing the one suspense account that was commingled with deposit accounts. However, we identified another FMR section that also does not clearly define the use of suspense and deposit accounts. As previously discussed, DOD's FMR volume 5, chapter 8, "Collections," refers to deposit accounts as suspense accounts. Not ensuring that the use of suspense and deposit accounts is clearly defined in all sections of the FMR could result in DOD and DFAS (1) implementing inconsistent practices for using these accounts and (2) establishing erroneous policy.

DOD partially concurred with our third recommendation that OUSD (Comptroller) establish a process to provide specific implementing guidance when new suspense account policy memorandums are issued. In its comments, DOD stated that OUSD (Comptroller) provides implementing guidance to DFAS and DOD components, when appropriate, for complex accounting issues based on professional judgment. However, as previously discussed, the lack of guidance for implementing the December 2019 memorandum *Policy for Monthly Review of Suspense Account Transactions* and the March 2020 policy memorandum *U.S. Department of Treasury Aged Suspense Account Balances* contributed to inconsistencies in the way DOD components consolidated and cleared suspense account transactions and removed aged balances from suspense accounts. Without a process for providing guidance that results in consistent implementation of complex suspense account policies department-wide, there is an increased risk that consolidated data reported in DOD's core financial reporting system may be unreliable.

DOD partially concurred with our fourth recommendation that OUSD (Comptroller) and the Director of DFAS provide specific guidance to the DFAS sites and DOD components on implementing the requirements stipulated in the December 2019 memorandum *Policy for Monthly Review of Suspense Account Transactions* and the March 2020 policy memorandum *U.S. Department of Treasury Aged Suspense Account Balances*. In its comments, DOD stated that it provides DFAS and DOD components the flexibility to develop their own procedural guidance, as long as it aligns with DOD's overarching policy. However, allowing DFAS and the DOD components to develop their own guidance and not reasonably assuring that they develop sufficient implementing guidance with respect to these particular policies resulted in inconsistent

procedures for discontinued-research packages and monthly suspense review certification statements among the components.

As previously discussed, DOD did not provide DOD components with implementing guidance for determining (1) what constitutes appropriate research, (2) what documentation should be retained to support the components' research efforts, and (3) how to clear the various types of suspense account balances. Given the complexities of this process, it is important that DFAS and DOD provide specific guidance, particularly related to prior year suspense account balances that are transferred to non-suspense accounts. If DOD does not provide guidance for implementing the requirements of its policy memorandums or reasonably assure that DFAS sites and DOD components develop sufficient implementing guidance, there is an increased risk that components will not consistently or appropriately implement its policies. Further, without specific guidance to the field submitters and components that execute the processes on implementing the requirements in these policies, there is also an increased risk that transactions will continue to not be recorded, reconciled, removed, and documented consistently and timely in accordance with DOD policy.

DOD partially concurred with our fifth recommendation, that OUSD (Comptroller) and the Director of DFAS provide guidance to DOD components and DFAS sites to help ensure that they develop consistent policies and procedures that are accurate and up-to-date. In its response, DOD stated that it plans to update its policy related to suspense account numbers F3875.000 and F3885.000 to ensure that they are used consistently across DOD for recording Intra-governmental Payments and Collections and interfund transactions. DOD further stated that in some instances it develops and promulgates policy memorandums that carry the same weight as an individual section of the DOD FMR chapter to issue guidance quickly. While the policy updates that DOD noted are important, as previously discussed, without guidance on periodic reviews of DOD and DFAS policies and procedures for continued relevance and consistency, policies may continue to become outdated over time, and components and the DFAS sites may be inconsistently recording and consolidating transaction information for suspense accounts. This could affect the reliability of DOD's consolidated financial information.

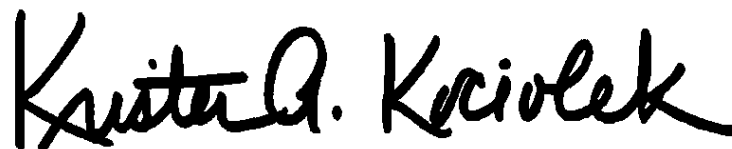
DOD stated that it did not concur with our seventh recommendation that OUSD (Comptroller) and the Director of DFAS develop and implement DOD-wide guidance for assessing, identifying, and remediating the root causes of control deficiencies in DOD's suspense account processes. In

its response, DOD stated that it has already established a requirement for remediating root causes in DOD's FMR and has cited several sections where the requirement is included. DOD further stated that it has an internal control guide for financial reporting that provides guidance on root cause analysis. While the requirement for identifying root cause is included in the guidance that DOD cited, none of the guidance is specific to suspense account processes. Given the complexity of suspense account processes, as previously discussed, the established general guidance that DOD noted in its response has not been sufficient to enable identification of root causes and development of corrective action plans, even though they are stated objectives of DOD's current suspense account initiatives. DOD's initiatives have resulted in suspense account balances that are considerably smaller than they were in previous fiscal years. However, as previously discussed, without corrective actions to address the underlying root causes, large balances may continue to accumulate in the future and affect the reliability of suspense account balances in DOD financial reports.

We are sending copies of this report to the appropriate congressional committees, the Secretary of Defense, the Under Secretary of Defense (Comptroller), the Director of the Defense Finance and Accounting Service, and other interested parties. In addition, the report is available at no charge on the GAO website at <https://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-2989 or kociolekk@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.

Sincerely yours,



Kristen Kociolek
Director, Financial Management and Assurance

Appendix I: Objectives, Scope, and Methodology

This report examines the extent to which the Department of Defense (DOD) has (1) established and implemented policies and procedures for recording, reconciling, and clearing suspense account transactions at the DOD consolidated level and (2) addressed identified deficiencies in recording, reconciling, and clearing suspense account transactions that may affect the reliability of DOD's financial information.

To determine the extent to which DOD has established and implemented policies and procedures for recording, reconciling, and clearing suspense account transactions at the DOD consolidated level, we reviewed prior audit reports issued by GAO, the DOD Office of Inspector General (OIG), independent public accountants, and DOD military service auditors for fiscal years 2015 through 2019. We interviewed relevant officials from the Office of the Under Secretary of Defense (OUSD) (Comptroller), Defense Finance and Accounting Service (DFAS), DOD components, and the DOD OIG. For suspense account transactions, we performed walk-throughs to gain an understanding of the processes in place and how transactions are recorded, reconciled, cleared, and consolidated.

We analyzed policies and procedures, including DOD's Financial Management Regulation and standard operating procedures that the different DFAS sites follow and compared them to relevant criteria, such as the Office of Management and Budget's (OMB) Circular No. A-11, the *Treasury Financial Manual*, and our *Standards for Internal Control in the Federal Government*, to determine the extent to which they aligned.¹ We also compared the processes DOD has in place for suspense account transactions to DOD and DFAS policies and procedures to determine the extent to which they aligned.

We limited our review to DOD's policies and procedures over suspense accounts and transactions in effect on July 31, 2020; the procedures DOD components used to record and send suspense account transaction information to DFAS for consolidation; and DOD's procedures for identifying a suspense account universe of transactions at the consolidated level. We determined that the control activities component of internal control was significant to this objective, specifically the underlying principles that management should (1) design control activities to achieve

¹Office of Management and Budget, *Preparation, Submission, and Execution of the Budget*, OMB Circular No. A-11 (July 2020), and GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 2014).

objectives and respond to risks and (2) implement control activities through policies.

To determine the extent to which DOD addressed identified deficiencies with recording, reconciling, and clearing suspense account transactions that may affect the reliability of its financial information and actions taken to address them, we reviewed prior audit reports issued by GAO, DOD OIG, independent public accountants, and military service auditors for fiscal years 2017 through 2020. We reviewed documentation and interviewed officials from DOD, DFAS, and DOD OIG to determine the extent to which DOD had addressed the findings identified in prior audit reports.

Also, we interviewed officials from OUSD (Comptroller), DFAS, DOD components, and DOD OIG. In addition, we reviewed documentation to gain an understanding of (1) initiatives in place (or planned) related to suspense account transactions, (2) the extent to which deficiencies were being identified as a result of the suspense account initiatives, and (3) the extent to which corrective actions were being implemented to correct the identified deficiencies with suspense account transactions. Finally, we reviewed DOD and DFAS policies and procedures in effect on July 31, 2020, that had been established as a result of suspense account initiatives to determine the extent to which they addressed identified deficiencies.

We determined that the control activities component of internal control was significant to this objective, specifically the underlying principles that management should (1) design control activities to achieve objectives and respond to risks and (2) implement control activities through policies. We also determined that the monitoring component of internal control was significant to this objective, specifically the principles that management should (1) establish and operate monitoring activities to monitor the internal control system and evaluate the results and (2) remediate identified internal control deficiencies on a timely basis.

We conducted this performance audit from March 2020 to March 2021 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



OFFICE OF THE UNDER SECRETARY OF DEFENSE
1 100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

February 18, 2021

Ms. Kristen Kociolek
Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Kociolek,

Please find enclosed the Department of Defense (DoD) response to the GAO Draft Report GAO-21-132, "DEPARTMENT OF DEFENSE: Additional Actions to Improve Suspense Account Transactions Would Strengthen Financial Reporting," dated January 21, 2021 (GAO Code 104157). Technical corrections to the report will be provided separately.

The Department appreciates the opportunity to comment on the draft report. Should you need further information, my point of contact for this matter is Ms. Alice Rice at alice.r.rice2.civ@mail.mil or (571) 215-9576.

Sincerely,

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Kim R. Laurance
Acting Deputy Chief Financial Officer

Enclosure:
As stated

**GAO DRAFT REPORT DATED JANUARY 21, 2021
GAO-21-132 (GAO CODE 104157)**

**“DEPARTMENT OF DEFENSE: ADDITIONAL ACTIONS TO IMPROVE SUSPENSE
ACCOUNT TRANSACTIONS WOULD STRENGTHEN FINANCIAL REPORTING”**

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

RECOMMENDATION 1: The GAO recommends that the Under Secretary of Defense (Comptroller) should finalize the assessment of the applicability of custodial accounts at the Department of Defense (DoD) and, if necessary, update DoD policies to define the use of custodial suspense accounts, in accordance with Office of Management and Budget (OMB) and U.S. Department of the Treasury (Treasury) guidance.

DoD RESPONSE: Concur. The Department will finalize the assessment of the applicability of custodial suspense accounts and update DoD policies, if necessary.

RECOMMENDATION 2: The GAO recommends that the Under Secretary of Defense (Comptroller) should update the DoD Financial Management Regulation (FMR) to clearly define the use of suspense and deposit accounts, in accordance with OMB and Treasury guidance.

DoD RESPONSE: Partially Concur. The DoD FMR currently defines the use of suspense accounts and deposit accounts in Volume 4, Chapter 12, paragraph 120404 (deposit accounts) and paragraph 120405 (suspense accounts). These definitions are also in the FMR glossary. The Office of the Under Secretary of Defense (Comptroller) (OUSDC) corrected FMR Volume 8 to remove the one suspense account that was comingled with deposit accounts.

RECOMMENDATION 3: The GAO recommends that the Under Secretary of Defense (Comptroller) should establish a process to provide specific implementing guidance to the Defense Finance Accounting Service (DFAS) and DoD Components, including field submitters, when new suspense account policy memorandums are issued.

DoD RESPONSE: Partially Concur. The Under Secretary of Defense (Comptroller) provides implementing guidance to DFAS and DoD Components, when appropriate, based on professional judgment. Generally, implementing guidance is reserved for complex accounting issues and will be provided if deemed necessary. Similar to guidance issued by OMB and Treasury, not every policy memorandum issued needs additional implementing guidance.

Enclosure

**Appendix II: Comments from the Department
of Defense**

RECOMMENDATION 4: The GAO recommends that the Under Secretary of Defense (Comptroller), in conjunction with the Director of DFAS, should provide specific guidance to the DFAS sites and DoD Components on the implementation of requirements stipulated in the December 2019 memorandum “Policy for Monthly Review of Suspense Account Transactions” and the March 2020 policy memorandum “U.S. Department of Treasury Aged Suspense Account Balances.”

DoD RESPONSE: Partially Concur. The OUSD(C) affords DFAS and DoD Components to develop procedural guidance as long as it aligns with OUSD(C) overarching policy. For collections transferred to the general fund of Treasury, OUSD(C) will develop a roadmap for DoD Components and DFAS sites to ensure that action taken on the “U.S. Department of the Treasury Aged Suspense Account Balances” policy memorandum is in line with steps in Treasury’s guidance. However, disbursement transfers are highly dependent on the nature, documentation support, and source of the original transaction, and high-level specific guidance may not be appropriate.

RECOMMENDATION 5: The GAO recommends that the Under Secretary of Defense (Comptroller), in conjunction with the Director of DFAS, should provide guidance on suspense account transactions to DoD components and the DFAS sites to help ensure that they develop consistent policies and procedures that are accurate and up to date.

DoD RESPONSE: Partially Concur. The Department will update policy to ensure that suspense accounts F3875 and F3885 are used consistently across DoD for Intra-governmental Payment and Collection and interfund transactions. However, the inconsistent use of these accounts did not cause any misstatement in the financial statements because both accounts are mapped to the exact same financial statement line. The Department corrected the inconsistent use of suspense accounts for Retirement Insurance Transfer System (RITS) transactions. The Department created a deposit account to record all RITS transactions ensuring consistent use pending an OMB decision on accounts for RITS. In some instances, OUSD(C) will develop and promulgate policy memoranda to issue guidance quickly. These memoranda carry the same weight as an individual section of the FMR chapter. They simply supersede the current FMR policy the date the memorandum is signed until the next revision of the applicable FMR chapter.

RECOMMENDATION 6: The GAO recommends that the Under Secretary of Defense (Comptroller), in conjunction with the Director of DFAS, should establish a process and associated guidance to:

- (1) Prepare a department-wide universe of transactions at the consolidated level and
- (2) Ensure that the DFAS sites gather consistent information for preparing suspense account universe of transactions for the DoD components.

**Appendix II: Comments from the Department
of Defense**

DoD RESPONSE: Concur.

- (1) Due to efficiencies in the Department's "Advanced Analytics" tool (Advana), the Department is exploring the use of Advana for the suspense accounts' universe of transactions.
- (2) We agree that DFAS needs to work towards a standard file with standard fields and layout when producing the universe of transactions for suspense accounts for all Treasury Indices.

RECOMMENDATION 7: The GAO recommends that the Under Secretary of Defense (Comptroller), in conjunction with the Director of DFAS, should develop and implement DoD-wide guidance applicable to both DFAS sites and DoD components, for assessing, identifying, and remediating the root causes of control deficiencies in its suspense account processes.

DoD RESPONSE: Nonconcur that additional guidance is needed. The Department has already established the requirement for remediating root causes in the FMR. For example, Volume 4, Chapter 2 (Fund Balance with Treasury policy which includes suspense accounts); Volume 6A, Chapter 2 (reporting policy-adjustments); Volume 10 (contract pay policy); and Volume 14, (improper payment policy) all require root cause analyses, during or after corrective action is taken. Volume 4, Chapter 2, paragraph 020207 states, "corrective actions must address root cause of differences in order to prevent recurrence." The Department also has an internal control guide over financial reporting that provides guidance on assessing internal controls, identification of deficiencies, and root cause analysis that is readily available for DFAS and DoD Components to use.

RECOMMENDATION 8: The GAO recommends that the Director of DFAS should develop guidance for DFAS sites to use when developing metrics for measuring the progress of their efforts to address issues with and reduce the balances of suspense accounts.

DoD RESPONSE: Concur. DFAS will develop formal guidance for developing suspense account metrics to track progress in resolving root causes and reduce account balances.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Kristen Kociolek, (202) 512-2989 or kociolekk@gao.gov

Staff Acknowledgments

In addition to the contact named above, Kimberley McGatlin (Assistant Director), Patrick Frey, Maxine Hattery, Sabur Ibrahim, Jason Kelly, John Lopez, and Aaron Ruiz made key contributions to this report.

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