DEPARTMENT OF DEFENSE

Actions Needed to Improve Accounting of Intradepartmental Transactions

What GAO Found

The Department of Defense (DOD) has a long-standing material weakness related to intradepartmental transactions. Intradepartmental transactions occur when trading partners within the same department engage in business activities—such as the Department of the Army as a seller and the Department of the Navy as a buyer within DOD. As part of the standard process of preparing department-wide financial statements, intradepartmental transaction amounts are eliminated to avoid overstating accounts for DOD. For the fourth quarter of fiscal year 2019, DOD eliminated approximately $451 billion of net intradepartmental activity. Auditors continue to report a material weakness related to DOD’s processes for recording and reconciling intradepartmental transaction amounts that are necessary to eliminate the transactions and prepare reliable consolidated financial statements.

DOD has identified implementation of the Government Invoicing (G-Invoicing) system as its long-term solution to account for and support its intradepartmental activities. In fiscal year 2020, DOD issued a policy requiring all DOD components to use G-Invoicing’s General Terms and Conditions (GT&C) functionality for initiating and approving GT&C agreements—a necessary step for using subsequent G-Invoicing functionalities (see figure). GAO found the use of this functionality varied among selected DOD components because of issues such as inconsistency in DOD policies and numerous changes to G-Invoicing system specifications. If DOD components do not implement the GT&C functionality, there is an increased risk of delay in full implementation of G-Invoicing to help remediate the intradepartmental eliminations material weakness.

Why GAO Did This Study

Since 1995, GAO has designated DOD financial management as high risk because of pervasive weaknesses in its financial management systems, controls, and reporting. DOD’s long-standing intradepartmental eliminations material weakness reflects DOD’s inability to adequately record and reconcile its intradepartmental transactions, and has affected DOD’s ability to prepare auditable financial statements.

GAO was asked to evaluate DOD’s process for performing intradepartmental eliminations. This report examines the extent to which DOD has (1) identified and taken steps to address issues related to intradepartmental eliminations and (2) established and implemented policies and procedures related to intradepartmental eliminations.

GAO interviewed DOD officials about intradepartmental eliminations processes and reviewed DOD policies and procedures to identify the extent to which procedures have been implemented to record and reconcile intradepartmental transactions.

What GAO Recommends

GAO is making five recommendations to DOD, including that DOD should (1) take actions to ensure that its components follow its policy for using G-Invoicing’s GT&C functionality and (2) develop short-term solutions that address causes for trading partner differences before G-Invoicing is fully implemented. DOD agreed with all five recommendations and cited actions to address them.

View GAO-21-84. For more information, contact Kristen Kociolek at (202) 512-2989 or kociolekk@gao.gov.