

**Summary Report on “Unsupported Journal Voucher Adjustments” in the Financial Statements of the Office of the Inspector General for the Department of Defense and the Department of Housing and Urban Development**

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On September 10, 2001, Secretary of Defense Donald Rumsfeld stated in a Congressional hearing that the Department of Defense had lost track of \$2.3 trillion in transactions. Mr. Rumsfeld made the following statement:

According to some estimates, we cannot track \$2.3 trillion in transactions. We cannot share information from floor to floor in this building because it's stored on dozens of technological systems that are inaccessible or incompatible."<sup>1</sup>

-Remarks as Delivered by Secretary of Defense Donald H. Rumsfeld, The Pentagon, Monday, September 10, 2001

Since that time, numerous documents produced by the Office of the Inspector General have reported trillions of dollars as “unsupported journal voucher adjustments”. According to the Office of the Comptroller ([http://comptroller.defense.gov/Portals/45/documents/fiar/FIAR\\_Plan\\_May\\_2015.pdf](http://comptroller.defense.gov/Portals/45/documents/fiar/FIAR_Plan_May_2015.pdf)), the definition of journal vouchers is as follows:

Journal vouchers are summary-level accounting adjustments made when balances between systems cannot be reconciled. Often these journal vouchers are unsupported, meaning they lack supporting documentation to justify the adjustment or are not tied to specific accounting transactions. While many adjustments are valid, having too many journal vouchers may be an

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<sup>1</sup> You may also view a CSPAN recording of Representative Cynthia McKinney (D-GA) questioning Donald Rumsfeld about DOD financials in March 2005 at <https://www.youtube.com/watch?v=9RvLL--vSsA&mode=related&search=>.

indicator of underlying problems, such as weak internal controls. For an auditor, journal vouchers are a red-flag for transactions not being captured, reported, or summarized correctly. Auditors must judge whether the errors that triggered the journal voucher are isolated or systemic, leading them to select more transactions to test. If the auditors cannot estimate the magnitude of the errors, they may not be able to complete the audit or issue an opinion on the financial statements.

Any journal voucher or entry requires appropriate documentation such as receipts with accompanying explanations. Journal voucher entries without such documentation are referred to as “unsupported journal voucher entries”, and “unsupported journal voucher adjustments” are sometimes used to reconcile accounts. According to DeVries and Kiger (2004), when auditing private entities unsubstantiated journal entries and other adjustments represent significant exposure to potential fraud. Thus, in both the private and public sectors, unsupported journal voucher entries and adjustments are considered red flags for potential fraud.

The Inspector General’s report for the Army in fiscal year 2015 is also notable: this document reported \$6.5 trillion in unsupported journal voucher adjustments (<http://www.dodig.mil/pubs/documents/DODIG-2016-113.pdf>, see page 4). The report indicates that unsupported journal voucher adjustments are the result of agencies failure to correct system deficiencies. Also, there was a lack of guidance on system-generated adjustments. The result, according to the report, is that data used to prepare the year-end financial statements were unreliable and lacked an adequate audit trail. For context, consider the fact that the entire budget of the Department of Defense (DOD) in 2015 was \$565 billion. Therefore, the unsupported journal voucher adjustments for the Army were more than 10 times the entire DOD budget.

These two reports (the Rumsfeld announcement in 2001 regarding the “lost” \$2.3 trillion and the \$6.5 trillion in unsupported adjustments in 2015) prompted us to conduct a search at the website of the Office of the Inspector General and the Government Accountability Office to compile documents between the years 1998 and 2015 for the DOD and the Department of Housing and Urban Development (HUD) that indicate the amounts of unsupported journal voucher adjustments.<sup>2</sup> To make these documents more easily accessible to the general public, they have been made available at <https://solari.com/blog/dod-and-hud-missing-money-supporting-documentation/>. While we were unable to recover data for a number of years, we were successful in identifying \$18 trillion in unsupported adjustments for DOD and \$350 billion for HUD. For those unaccustomed to dealing with large figures, \$18 trillion is equal to about \$160,000 per household in the United States. For further context, the entire sum of authorized DOD and HUD spending for years 1998-2015 in nominal terms was \$8.6 trillion and \$781 billion, respectively.<sup>3</sup> Thus, the unsupported journal voucher adjustments we identified for DOD, which are incomplete, were more than twice the size of authorized spending over the period. The sums are smaller for HUD in relation to its total budget, in part because we were only able to identify four years for which the amounts of unsupported adjustments or errors were reported. However, in fiscal year 2015, HUD “material errors” in reporting were \$270 billion, nearly eight times the size of its \$36 billion budget. The explanation given in the report was as follows (see <https://www.hudoig.gov/newsroom/testimonies/topic-hud-oversight-and-management-issues-0>, page 4):

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<sup>2</sup> We anticipate conducting searches for other federal agencies in the future.

<sup>3</sup> These data were obtained from historical tables available at <https://www.whitehouse.gov/omb/budget/Historicals>.

Of the \$278.5 billion in errors, \$159.4 billion was due primarily to (1) incorrect data entry, (2) omission of restated balances, or (3) incorrect data provided by HUD's component entities (FHA and Ginnie Mae). The remaining \$119.1 billion were due to inappropriate rounding adjustments. We found several instances in which rounding was performed to the nearest billion and hundred billion instead of the nearest million as required.

The Inspector General reports that are available to the public only provide summary information; thus it is impossible for us to conduct a detailed assessment of the nature of these unsupported adjustments and errors. However, the report for fiscal year 2015 "Army General Fund Adjustments Not Adequately Documented or Supported" (<http://www.dodig.mil/audit/reports/fy00/00-167.pdf>) offers some additional information in the appendices. Consider Appendix C Table 4 on page 27 of the report, which provides a summary of net changes in the Army General Fund balance sheet that are due to unsupported journal voucher adjustments. On the asset side, there is the following increase:

\$794 billion in Fund Balance with Treasury

For liabilities, there is the following increase:

\$929 Accounts Payable.

These two items are the largest entries. Summing all the changes in Appendix C Table 4, there is a net increase of \$1 trillion in assets resulting from unsupported journal voucher adjustments, and a \$1 trillion increase in net liabilities due to unsupported journal voucher adjustments. While the appendices do not provide a full accounting of the \$6.5 trillion in unsupported adjustments articulated in the report, this additional information offers some guidance with regard to questions one might ask:

- 1) On the asset side of the ledger, from where did the additional \$794 billion in Fund Balance with Treasury come? These adjustments appear to represent a flow of funds to the Army through Treasury above and beyond the known resources authorized by Congress. Were these additional funds authorized and if so when and by whom? From where did the funds come?
- 2) For liabilities, if our interpretation is correct the \$929 billion in Accounts Payable represents the amount owed for items or services purchased on credit. What entities are expected to receive payment, which appear to be in excess of authorized spending? While the DOD systems do not provide adequate documentation to answer this question, it seems possible to learn more about such transactions via other means. For example, numerous DOD contractors are publically traded companies that regularly produce SEC filings and audited financial statements. Also, the Federal Reserve Bank acts as the fiscal agent for the government and therefore has a record of transactions.<sup>4</sup> Would not prudent fiscal management compel one inquire further?

The report offers a footnote in Appendix C Table 4 stating that: "DFAS Indianapolis personnel stated that the majority of the increase is related to budget execution adjustments from prior years that must be applied to establish the correct beginning balances for the general ledger accounts reported on this line." Again, it seems possible, with further inquiry, to learn more about the nature of these adjustments and when the original transactions occurred. In principle, it could be that these adjustments represent a one-time event to reconcile the budget. However, as can be seen from the compiled documents available at <https://solari.com/blog/dod-and-hud-missing-money-supporting-documentation/>, these types of substantial adjustments have occurred on a regular basis.

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<sup>4</sup> See <https://www.newyorkfed.org/aboutthefed/whatwedo.html>.

Turning to the 2001 Rumsfeld comment, consider the document “Statement of Robert J. Lieberman Assistant Inspector General Department of Defense Before the Task Force on Defense and International Relations House Budget Committee on Department of Defense Financial Management” which was delivered in July 2000 (<http://www.dodig.mil/audit/reports/fy00/00-167.pdf>). This may have been the document Mr. Rumsfeld was referring to when he indicated that the DOD could not account for \$2.3 trillion. On page 9 of this report, we see that \$2.3 trillion in transactions were “unsupported by reliable explanatory information”. There is little explanation of the nature of these adjustments except that they are evidence of “how poor the existing systems are”. The explanation in the document is that existing systems are inadequate given the complexity of DOD operations and contracts.

In our opinion, the DOD is no more complicated than large multi-national corporations, which by and large have effective systems of financial management. As a general rule DOD personnel are well-trained, skilled, and competent. Further, DOD has had more than two decades to correct any inadequacies in their systems of financial management. The ongoing and repeated nature of the unsupported journal voucher adjustments coupled with the seemingly enormous size of the adjustments warrants the attention of both citizens and elected officials.<sup>5</sup> By making these government documents more readily accessible at <https://solari.com/blog/dod-and-hud-missing-money-supporting-documentation/>, we hope others will take note, inquire, and demand access to the necessary information for independent and Congressional inquiries. How is it that such large sums of unsupported journal voucher adjustments could be possible given the size of the appropriated DOD and HUD budgets? It is important to recognize that federal agencies maintain credit, loan, guarantee, insurance and, in the case of HUD, securities operations. Without reliable accounts and records of financial assets and liabilities, such operations theoretically have the potential to leverage the resources managed.<sup>6</sup>

If we can draw themes regarding the stated explanations for the unsupported adjustments from all of the government reports we were able to collect for years 1998 through 2015, they are: 1) inadequate systems financial management, 2) complexity of DOD operations, and 3) deficiencies in feeder systems and management. Regardless, the reports we have collected point to a failure to comply with basic Constitutional and legislative requirements for spending and disclosure. The reports also reveal a willingness on part of Congress to approve new spending and various governmental and third parties to process transactions despite that failure.

While budgets can be complex, in principle accounting relies primarily on basic math. It should be feasible to track revenues flowing in and expenditures flowing out, and share this information in format that can be understood by literate people. The federal government is once again facing a potential budget crisis. Without formally expanding the debt limit beyond the existing \$20 trillion ceiling, the federal budget and the economy will experience a significant shock. These issues will come to a head in September 2017. It seems now, more than ever, a transparent and publically available accounting of the \$18 trillion in unsupported adjustments would be especially timely and valuable.

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<sup>5</sup> It should be noted that there have been reports of large amounts of money going missing in Iraq in connection with US operations in the Middle East. How those reports relate to the undocumented adjustments is unknown. See: <https://www.vanityfair.com/news/2007/10/iraq-billions200710?currentPage=all&printable=true>.

<sup>6</sup> The appropriations budget is not the only source and use of funds for government agencies. With programs involving guarantees, credits and loans (as with both HUD and DOD) and securities operations the amount of transactions can be much larger than the appropriations budget.

## References

DeVries, D. D., & Kiger, J. E. (2004). Journal entries and adjustments? Your biggest fraud danger. *Journal of Corporate Accounting & Finance*, 15(4), 57–62. <https://doi.org/10.1002/JCAF.20023>