



# Missing Money 2021 Update

## Addendum to Missing Money—June 2021: An Additional \$94 Trillion in DOD Accounting Adjustments Reported in Bloomberg.

By Mark Skidmore

On January 22, 2020, Bloomberg posted an article written by Anthony Capaccio, “Pentagon Racks Up \$35 Trillion in Accounting Changes in One Year” (<https://www.bloomberg.com/news/articles/2020-01-22/pentagon-racks-up-35-trillion-in-accounting-changes-in-one-year>). In the article, the author reports that the Department of Defense recorded enormous “accounting adjustments” for fiscal years 2017, 2018, and 2019:

FY2017:	\$29 Trillion
FY2018:	\$30.7 Trillion
FY2019:	\$35 Trillion
Total:	\$94.7 Trillion

As described in previous reports and updates ([Skidmore and Fitts, 2017](#)), accounting adjustments are typically a small fraction of authorized spending, not many multiples of spending. Prior to this Bloomberg article, [Skidmore and Fitts](#) (2017) compiled government reports indicating that government had accumulated \$21 trillion in unsupported journal voucher adjustments over the 1998-2015 period. The \$21 trillion figure was so large at the time, bigger than the United States economy, that it resonated with the public. As a result, the “missing money” issue received considerable attention from both the alternative and legacy medias.

The \$94.7 trillion figure dwarfs the \$21 trillion, and yet to our knowledge no other news outlets picked up the story, and in fact we did not learn about the

Bloomberg piece until January of 2021, thanks to Rob Kirby who brought the article to our attention. How is it that \$21 trillion could make waves in the media and yet \$94.7 trillion in account adjustments went largely unnoticed?

Focusing on fiscal year 2019, \$35 trillion in accounting adjustments is 47 times the \$738 billion in authorized DOD funding in that year, and 1.6 times U.S. GDP of \$21.4 trillion. The enormity of the accounting adjustment defies any rational explanation. There are challenges in assessing the nature of the accounting adjustments because Capaccio does not make a distinction between “supported” and “unsupported” accounting adjustments, where unsupported adjustments have insufficient supporting documentation.

The article offers the following explanations for the accounting adjustments.

“Within that \$30 trillion is a lot of double, triple, and quadruple counting of the same money as it got moved between accounts.”

“While auditors found no evidence of fraud in the review of finances that Congress required, they flagged a laundry list of problems, including accounting adjustments.”

“The ‘combined errors, shorthand, and sloppy record-keeping by DoD accountants do add up to a number nearly 1.5 times the size of the U.S. economy,’ said Speier, a California Democrat. The report shows the Pentagon ‘employs accounting adjustments like a contractor paints over mold.’”

“Pentagon spokesman Christopher Sherwood said that ‘annually, DoD has hundreds of billions of dollars of financial activity, and accounting adjustments are sometimes used to record activity in our financial reporting systems due to a lack of system capabilities or interfaces.’”

Is \$35 trillion in accounting adjustments in any way realistic, given fundamental accounting principles? Very roughly, 50% of the spending is for verifiable expenditures such as military personnel compensation or electricity to keep the bases running, etc. These expenditures have paper trails from the DOD to

recipients, whether it be personnel, electric company, etc. If roughly half of spending is verifiable, then about \$370 trillion is subject to potential double, triple, or quadruple counting. In this scenario, every dollar would have to have been counted 94 times in order to justify \$35 trillion in accounting adjustments. Yet, from the Bloomberg article we are assured that “no evidence of fraud” was found in the review of DOD finances.

The links below will take you to the GAO DOD financial review reports for 2018 and 2019.

GAO Report (FY2018): <https://www.gao.gov/assets/gao-20-96.pdf>

GAO Report (FY2019): <https://www.gao.gov/assets/gao-21-84.pdf>

However, in reading the report it becomes apparent that any dollar figures are omitted. It was therefore impossible for us to conduct any additional assessment. When we contacted the GAO to ask for more detailed information on the nature of the accounting adjustments, we were told that we would need to contact the DOD. See below for the e-mail correspondence:

From: Skidmore, Mark  
Date: Monday, Jan 25, 2021, 1:26 PM  
To: Kociolek, Kristen A  
Subject: GAO Report

Greetings Ms. Kociolek,

I am reaching out to you regarding the attached GAO report summarizing issues related to accounting errors, which was released about a year ago. You are listed as the primary contact in that report.

I believe this is the report Anthony Capaccio referred to in his Bloomberg article, which indicated that in FY2019 the DOD had \$35 trillion in accounting adjustments, most of which were unsupported.

<https://www.bloomberg.com/news/articles/2020-01-22/pentagon-racks->

up-35-trillion-in-accounting-changes-in-one-year

In reviewing the attached GAO report, it seems that no dollar figures are included. Is this the correct document or is there perhaps another? In any case, I would appreciate any help you can provide in pointing me to a document that offers more detail on the accounting adjustments.

The Bloomberg pieces provides this:

2017: \$27 trillion in accounting adjustments

2018: \$30.7 trillion in accounting adjustments

2019: \$35 trillion in accounting adjustments

Total: \$92.7 trillion in accounting adjustments for 2017, 2018, and 2019

The article makes the point that it is important that the adjustments be supported with the proper documentation, but also states:

The GAO estimated based on a sample that at least 96% of 181,947 automatic adjustments made in the fourth quarter of fiscal 2018 “didn’t have adequate supporting documentation.”

Thank you in advance for any guidance you can provide.

Mark Skidmore

Professor and Morris Chair in State and Local Government Finance and Policy  
Michigan State University

From: Kociolek, Kristen A

Sent: Monday, January 25, 2021 2:37 PM

To: McGatlin, Kimberly A

Subject: FW: GAO Report

Hi Kim,

Could you please respond to this person.

Thanks!

Kristen

From: McGatlin, Kimberly A Sent: Monday, January 25, 2021 2:51 PM

To: Skidmore, Mark

Cc: Kociolek, Kristen A

Subject: FW: GAO Report

Mr. Skidmore

As you can see from below, Kristen requested that I reach out to you. The GAO report you attached (GAO-20-96) is the one that Mr. Carpaccio refers to in his article. You are correct that in our GAO report we did not put dollar figures, but did put the volume of transactions. The dollar figures that Mr. Carpaccio shared in his article were provided to him by DOD. If you would like a contact at DOD, let me know and I can provide one.

The statement “The GAO estimated based on a sample that at least 96% of 181,947 automatic adjustments made in the fourth quarter of fiscal 2018 “didn’t have adequate supporting documentation.” Is based on the following from our report (electronic page 20 and 21) –

When our results are projected to the fiscal year 2018 fourth quarter population of 181,947 system-generated adjustments, we estimate that at least 96 percent of the system-generated accounting adjustments were recorded without adequate supporting documentation, which is required by DOD’s policy and procedures and federal internal control standards.

Let me know if you have any further questions or would like additional information.

Regards,

Kim

From: Skidmore, Mark

Date: Monday, Jan 25, 2021, 2:58 PM

To: Kociolek, Kristen A

Subject: GAO Report

Hi Kim,

Thanks very much for your response and information. Yes, it would be great if you would provide a DOD contact.

Thanks again...very much appreciated.

Mark

I received no other responses from Ms. McGatlin or Ms. Kociolek regarding my inquiry. It appears that a FOIA request will be required to obtain any additional information regarding the nature of the \$94.7 trillion in accounting adjustments. Because we cannot ascertain what proportion of the \$94.7 trillion are unsupported accounting adjustments, we chose not incorporate these figures into the original \$21 trillion. In the earlier assessments, we focused our attention on unsupported adjustments—adjustments the government judged to be unverified. In summary, these figures are so wildly outside anything that could be expected using fundamental accounting principles that we simply have nothing further to offer other than to note the absurdity.

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