

# Vast Waste, Profiteering in Pentagon Operations

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According to reports by two major news organizations, the main payroll and accounting office of the Pentagon doles out tens of billions of dollars to contractors without any rigorous auditing or other financial controls, fueling a system of waste and profiteering.

Under conditions where politicians of both the Democratic and Republican parties claim there is “no money” to maintain even the inadequate level of social services currently provided by the federal government, the US military squanders vast sums in support of the global operations of American imperialism.

Reuters and McClatchy News Service both investigated the functioning of the Defense Finance and Accounting Service (DFAS), an agency created in its present form in 1991, when Dick Cheney was secretary of defense in the George H. W. Bush administration. This followed the decade-long buildup of military spending under Reagan and Bush, which culminated in embarrassing reports about \$435 hammers and \$37 screws, among other symbols of Pentagon waste.

The McClatchy account focuses mainly on a high-level overview of DFAS, noting that outside audits of its books were “shoddy,” according to internal reviews, while top officials at the Pentagon “pressured their accountants to suppress their findings, then backdated documents in what appears to have been an effort to conceal the critiques.”

The Pentagon’s Office of the Inspector General operated not as a watchdog, but as an accomplice, helping suppress internal criticism by its own accountants and authorizing payment of the outside auditor whose work was being questioned.

Citing emails and other documents, McClatchy reports a January 27, 2010 meeting at which Patricia A. Marsh, then the Pentagon’s assistant inspector general for financial management, told DFAS officials that her office was going to formally reject the 2009 outside audit.

Three months later, retaliation came. The two lead accountants for the inspector general’s review of the audit received letters terminating their assignments, retroactive to January 27, 2010. As McClatchy noted, this was “the precise point when the inspector general’s office had informed the Defense Finance and Accounting Service that it would not endorse the 2009 audit.”

In its investigative report, Reuters profiles the operation of the Cleveland office of DFAS, where accountants prepared monthly reports that amounted to “inserting phony numbers in the US Department of Defense’s accounts.”

Each month, the military services were required to square their books with accounts

maintained by the US Treasury—in effect, balancing their checkbooks—regardless of whether the numbers actually coincided. The regular practice was to take “unsubstantiated change actions,” also called “plugs,” to make the books match up.

In 2010, the Cleveland office alone made more than \$1 billion in such “plugs,” while in 2012, the Pentagon as a whole reported \$9.22 billion in “reconciling amounts”—bookkeeping entries inserted to make military accounts match the Treasury’s—up from \$7.41 billion in 2011.

According to a December 2011 Pentagon inspector general’s report, a DFAS office in Columbus, Ohio made at least *\$1.59 trillion* in errors, including *\$538 billion in plugs*, in financial reports for the Air Force in 2009. The nominal amount of the accounting errors far exceeded the total Pentagon budget.

While many of these errors were accounting entries only, some had significant real-world consequences. Reuters reported that the Army lost track of \$5.8 billion in supplies during the eight years (2003-2011) when US troops were deployed in Iraq. Consequently, it continued to buy supplies from vendors that were already in stock, and could not monitor the depletion of supplies through theft or other diversion.

A key issue in this mismanagement is an information-processing system that almost makes the Obama administration’s healthcare.gov web site look state-of-the-art. There are at least 5,000 separate accounting and business systems in use throughout the US military and its supply chain, many of them running only on mainframe computers using languages like COBOL, which are obsolete and hardly understood by today’s programmers.

In recent years, the Pentagon has spent heavily on software and management systems in an attempt to overcome these systemic problems. These sums dwarf those expended for the implementation of the Obama administration’s health care web site, to even less effect. Many of the new systems have not been brought on line because they are incompatible with older systems or do not work as projected.

Overall, more than half a trillion dollars in contracts with outside vendors are unaudited out of \$3 trillion issued over the past 10 years. There is no final accounting for \$8.5 trillion in total military authorizations dating as far back as 1996.

Each year, top Pentagon officials, including the secretary of defense, certify the accuracy of financial reports to Congress and the Treasury that are so dubious that the CEO of a corporation would face prosecution under the Sarbanes-Oxley Act.

Unable to correct the problems, the Pentagon has simply shut its eyes, last year raising the threshold value for auditing contracts from \$15 million to \$250 million. This means a company can take a military contract for nearly a quarter of a billion dollars without being subject to an audit. This amounts to a license to steal for Corporate America.

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