

Worse than Enron, worse than WorldCom: The Pentagon

September 17th, 2002

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Salon.com

Chaotic accounting systems have caused the military to lose track of more than a million chemical-protection suits - and that's just the beginning. Why does the country continue to tolerate such disgraceful financial incompetence?

Not long before the congressional recess began this August, when D.C. temperatures - and sometimes tempers - can rise to unbearable heights, two members of the House Government Reform Committee sent a brief but pointed letter to Defense Secretary Donald Rumsfeld.

"Revelations about corporate misdeeds and accounting irregularities at companies such as Enron and WorldCom are causing enormous public concerns," began Democratic Reps. Henry Waxman of California and Jan Schakowsky of Illinois. "We in government have an obligation to ensure that the government's accounts are honest and the taxpayers' money is not squandered."

At first glance, one might think: wrong address. Rumsfeld is the Pentagon's top warrior, not the White House budget director. But over the past several months, government auditors have been slamming Rumsfeld's agency for its dismal bookkeeping, repeating what by now has become a mantra of modern military spending: The Defense Department lacks "fundamental controls and management oversight" in the way it handles its money.

Since January, the General Accounting Office has released more than a dozen reports depicting the Pentagon as another Enron. They show an operation that fails to keep track of chemical-warfare protection suits and other critical materiel; frequently engages in improper, sometimes illegal, accounting; systematically overpays on contracts; and ignores personnel who run amok with government charge cards to enrich themselves.

In their letter, Waxman and Schakowsky called on the Pentagon's top bureaucrat to "take immediate and decisive action to address the problems of financial mismanagement" throughout the military, a job that would mean putting the government's biggest financial mess in order. Schakowsky later explained in an interview that the letter was primarily a reaction to the charge cards, a case of outright fraud, but its language was broad because the problem far overshadowed the instance at hand.

Over the past several decades - going back perhaps as far as World War II - the Pentagon's accounting system has evolved into a bookkeeping knot so rife with contradictions that it is virtually impossible to untangle. Recently, Rumsfeld noted that Pentagon accountants were unable to track an estimated \$2.3 trillion in financial transactions for a single year's audit.

According to one government study, the Defense Department on average does not know what happens to roughly 30 percent of what it spends.

The breakdown these numbers represent may be even larger than it seems - if that can be imagined. They raise the question, How can the government truly calculate the amount of money it cannot track? The answer, according to numerous defense-spending analysts, is that it simply can't. At best, such figures are hazy assessments, uncertain clues to a problem so awesome in scale and complexity that it exists beyond the bounds of measurability.

"What is most disturbing to me is that, in program after program, the Pentagon's management procedures are so garbled that the General Accounting Office cannot even estimate - cannot even estimate - the level of inefficiency," Sen. Robert Byrd, D-W.V., said in an address to the Senate last June. "This is a critical knowledge gap when one considers the fact that the Defense Department accounts for about 15 percent of the entire federal budget, and roughly half of all discretionary spending."

It is also a critical knowledge gap when one considers that this autumn, Congress is sure to add approximately \$48 billion to the defense budget, bringing the Pentagon's total funding for 2003 to roughly \$400 billion, roughly 6 percent more than the average yearly Cold War military spending.

In the peculiar political climate that the Sept. 11 attacks have brought to Washington, pouring more money into an institution bereft of accountability and riddled with financial leaks may have some political value. "Questioning spending, questioning the prosecution of the war on terrorism, has been viewed as politically dangerous in every way," Schakowsky said. But, she pointed out, these are also "times that require us to be especially careful and transparent and judicious about how we spend every dollar."

Retired vice admiral Jack Shanahan, a longtime advocate of military reform, told Salon that in his estimation the Pentagon was easily hemorrhaging \$48 billion a year, if not more, in "loose change" -- money lost to waste, fraud and inefficient bookkeeping. (Secretary Rumsfeld's estimates are more conservative, at about \$18 billion.) Byrd has framed the problem differently: "If the Department of Defense does not know what it has in terms of assets and liabilities, how on earth can it know what it needs?"

With Washington's worldwide campaign against al-Qaida underway, and possible military engagement with Iraq on the immediate horizon, the need for keeping the Pentagon's books straight is arguably as vital as it has ever been. And yet, the military is still mired in more than 1,100 different financial management systems, hundreds of thousands of accounts, and a 40-year-old, error-prone system that processes the majority of its transactions.

Gregory D. Kutz, the director of financial management and assurance at GAO, says that the Defense Department's bookkeeping is in such shambles that its own comptroller is unable to access 80 percent of the "financial data needed to support the day-to-day management decision making." The department has never passed a financial audit - which some scholars argue it is mandated to do not only by statutory law but also by the Constitution. In essence, the

Pentagon makes Enron, WorldCom and Global Crossing look like small-time operators. As with recent corporate scandals, there is a real price to pay for such lack of oversight. Part of the cost is monetary and takes the form of the millions of wasted dollars; part of the cost takes the form of compromised military readiness. This June, GAO auditors unveiled a case that neatly demonstrates how the two costs are interrelated. The study came at the request of members of Congress who wanted to follow one item through the Pentagon's Byzantine accounting system. What they learned was striking - a story even longtime observers of Pentagon bureaucracy were not quite ready for.

U.S. political leaders fear, perhaps rightly, that the Iraqi leader Saddam Hussein may be reconstituting his chemical and biological arsenal or, worse, that he may be developing nuclear weapons. If American military forces were to invade Iraq tomorrow, each soldier would expect, and probably be issued, protective clothing to guard against a possible chemical or biological attack. With few exceptions, that clothing would be a full-body overgarment known as Joint Services Lightweight Integrated Suit Technology, or JSLIST.

These suits were developed by Army engineers in Massachusetts in 1997 in an effort to upgrade the older, more cumbersome protective garments used during the Gulf War. From a distance, a soldier dressed head-to-toe in a JSLIST suit might not appear to be wearing anything unusual. JSLIST jackets and pants are layered with weaves of advanced polymers designed to keep the wearer cool while guarding against chemical agents; but the suit's surface is patterned with standard military camouflage and looks fairly conventional. JSLIST boots and gloves, constructed from matted black rubber, are designed to prevent, say, a mist of nerve gas from seeping up a cuff. The suits are also equipped with gas masks and hoods that form a tight seal around the soldier's head.

"Imagine you're in the Gulf, where it's 84 degrees and there's a chemical threat," says John Eldridge, editor of *Jane's Nuclear, Biological and Chemical Defence*. "These suits are absolutely critical, if we're to believe what's coming out of Iraq's weapons of mass destruction program." Since Sept. 11, with the subsequent spate of anthrax attacks in the United States and talk of terrorists using unconventional weaponry in cities or on the battlefield, numerous divisions of the military have been clamoring to get the suits, according to JSLIST program manager Douglas Bryce. From 1997 to the present, the Pentagon has purchased 1.6 million JSLIST outfits, and had distributed 1.2 million to the various services. The Defense Department plans to have 4.4 million by 2011, at a total cost of about \$1 billion.

And yet, when GAO auditors attempted to track the Pentagon's current JSLIST stockpile, they made a puzzling discovery. Despite the suits' high utility and demand, and despite the millions of dollars being invested in them, two bases in Hawaii -- one Air Force, one Navy -- had sent their JSLIST pants and jackets to a government liquidation contractor. The suits, which cost the government about \$200 each, were being auctioned off on the contractor's Web site for \$3 an outfit. (In fact, the \$3 was higher than the initial asking price, which became artificially inflated by government investigators who bid for the items during their research.) By the time GAO auditors had brought the resales to the military's attention, over 400 units had been auctioned off the block.

"The Defense Department's left hand knows nothing about what the right hand does," said Rep. Dennis Kucinich, D-Ohio, the ranking member of the Government Reform Subcommittee that had asked the GAO for its study. During a congressional hearing, he expressed astonishment with this particular instance of institutional blindness: "What I did not expect as a result of our request was to be surprised again by the severity and the starkness of the Pentagon's inability to be able to understand exactly how their own systems work and to be able to account for the very materiel which the taxpayers of the United States pay for."

How could this happen? Although the Defense Department runs the most technologically advanced military in the world, its process for procuring, controlling and paying for an item as simple as the JSLIST suits is barely computerized and exceedingly complicated. From purchasing to deploying JSLIST, 11 Defense Department "components" must perform 128 processing steps. "Of the 128," according to the GAO, "100 - 78 percent - involved manual entry or reentry of data into one or more of the 13 nonintegrated data systems supporting the JSLIST processes." In plain English, that means faxes, typed memos, phone calls and other ways of conveying information that can't be easily entered into a database.

Not surprisingly, gathering the suits for battle from their various storehouses would present an immense challenge. No one in the Pentagon hierarchy knows the exact location of the 1.2 million suits the military currently owns, because few if any of the myriad Defense Department divisions have accounting systems capable of exchanging such information. The troubling implications of this were recently demonstrated when the Pentagon proved unable to locate and recall 250,000 defective units of the JSLIST predecessor; the department "was not certain if the suits had been used, were in supply, or were sent to disposal." Today, to find all the JSLIST suits, a costly and time-consuming worldwide call would have to be put out to all corners of the military. In some cases, servicemen would have to sift through warehouses and manually dig them up. Certain bases keep absolutely no records of the suits, while others use paper or dry eraser boards to maintain their only tally, according to the GAO.

The Defense Department's inability "to quickly identify and locate JSLIST has contributed to some military units declaring them excess to their immediate needs, while at the same time the Pentagon had been attempting to expedite the issuance of JSLIST to military units in response to the events of Sept. 11, 2001," the GAO said in its report. On both the Air Force and Navy bases, there were a variety of reasons that people chose to do away with the suits. Two stand out. In the first case, Air Force officials wanting to discard the protective garments were told by the base supply officer that "no one else needed" them; in the second, the Navy servicemen said they "had more than the 32 required to meet their immediate needs."

Some Pentagon officials argue these resales represent an insignificant aberration from standard procedure and do not reflect business as usual. Bryce, the JSLIST program manager, said in an e-mail: "We regret that 0.065 percent of the JSLIST articles produced to date (1,934 coats or trousers identified by the GAO compared to 2,952,456 coats or trousers produced) were disposed of by various components of the Department of Defense from January of 2001 through June of 2002. However, since June of this year we have put a process in place that will ensure that disposal of these garments outside of the Department of Defense will not happen again."

But others within the Pentagon say the misplaced suits are emblematic of the system's deeper flaws. "It's part of the larger problem, for sure," says Chuck Spinney, a longtime civilian analyst in the office of the Secretary of Defense. "We have accounting problems from big things to little things. What we have is essentially a house of cards, and no one knows how strong it is."

An inability to keep track of critical materiel is not the only consequence of the military's "bowl of spaghetti" accounting, as one Pentagon officer called it. Yet, while the similarly confused, and sometimes illegal, bookkeeping practices of Enron, WorldCom and Global Crossing have thrown the stock market into a tailspin, CEOs into police custody, and lawmakers into a frenzy to clean up financial fraud, the military's monetary mishandling has escaped political action, public outrage and comprehensive media scrutiny.

Like a film loop of Enron's collapse projected into a fun-house mirror, the Defense Department's financial problems turn up again and again in the press, but the popular cliché is usually just a crude caricature of what lies beneath. A \$640 toilet seat, \$4,500 of "white beach sand" for an Army base in Saudi Arabia, \$1,800 for a pillow - these are symbols of jaw-dropping waste that suggest the system is in serious trouble, but they are rarely painted into a complete picture. Or, as often appears to be the case, they are given a knowing wink, the assumption being that these are inalienable features of a bureaucracy too unwieldy, bloated and calcified with conflicting interests to ever change.

Just prior to last year's terrorist attacks - indeed, the very day before - Rumsfeld declared war on that bureaucracy, characterizing his attempt to bring order to his department's ledgers as a "life-and-death" struggle. "We are, as they say, tangled in our anchor chain," he explained on Sept. 10. "Our financial systems are decades old. We cannot share information from floor to floor in the Pentagon because it's stored on dozens of technological systems that are inaccessible or incompatible."

There is no easy way to explain how the system got this way. "The key word is 'evolved,'" said Spinney. A former senior member of the Defense Department inspector general's office, who asked not to be identified, agreed. "You could argue that it started at the very dawn of the application of computers to the Pentagon's financial management," he said. "The Defense Department computerized its functions in the 1960s, and in retrospect, it is clear that there was not enough emphasis on central management, so basically every organization in the department developed its own system. It got worse and worse. When the Y2K problem came along, the department had great difficulty even determining what systems were in place because management had been decentralized for so many decades - it became just the way of doing business."

Another contributing factor, the official went on to explain, arose from a negligent Congress, which over the years did not pay close enough attention to the kind of information technology it approved for the Pentagon's business operations. "Congress was certainly party to the creation of all the Defense Department's financial management systems. They put up the money for every single one. They appropriated billions of dollars that went into developing systems without really understanding what they were buying. You don't have to be a genius to know what an airplane is, but when you start babbling about fairly esoteric information-systems type stuff,

most members of Congress can't get out of the room fast enough."

Given the accumulated problems, Rumsfeld, a former CEO, announced a year ago that he would enact a variety of programs to straighten out the way the Pentagon operates. He commissioned an independent study and convened a number of top-level committees to figure out how the Pentagon's accounting system could be improved. The Defense Department's Quadrennial Defense Review Report last September was the first to include financial transformation as a crucial element of military reform. "While America's businesses have streamlined and adopted new business models to react to fast-moving changes in markets and technologies," the report stated, "the Defense Department has lagged behind without an overarching strategy to improve its business practices."

Last year, the Pentagon received \$100 million from Congress to begin overhauling its financial systems; this year it is requesting a similar amount. Currently, IBM is designing the architecture of a plan to bring all the Pentagon's disparate financial systems under one umbrella. According to Greg Kutz, the GAO auditor, "the Secretary of Defense has made the fundamental transformation of business practices throughout the department a top priority."

But defense-spending experts have found it difficult to be sanguine about these initiatives. The type of transformation Rumsfeld envisions has proven controversial and not necessarily directed toward increasing extra military oversight. Although the Pentagon's "defense streamlining initiative" - a recent effort to drop numerous Defense Department requirements to report to Capitol Hill and to force military initiatives through Congress with limited debate - was formally abandoned by the administration, it illuminates the kind of relationship Rumsfeld envisions for the Pentagon and Congress. According to the Los Angeles Times, the defense secretary favors eliminating the financial disclosure statements he must currently file to legislators; he has argued that these reports often go unread and place unnecessary constraints on Pentagon operations.

For in-house reforms that may be less provocative, Rumsfeld faces overwhelming institutional inertia and cultural resistance. Some experts, such as Spinney at the Defense Department, cite the large amount of political capital Rumsfeld expended in his fight to kill the Crusader artillery program - a Pentagon faction that wanted to keep the Crusader took the fight out of the department to Congress. The experts then compare that battle with the much more challenging steps required to bring order and accountability to the entire Defense Department. Others note that Pentagon reforms tend to wither before they accomplish anything substantial. "Over the past 12 years, the department has initiated several broad-based department-wide reform efforts intended to fundamentally reform its financial operations as well as other key business areas," Kutz said during a congressional hearing on Pentagon financial management in June. "These efforts have proven to be unsuccessful despite good intentions and significant effort."

Recently, some members of Congress express frustration at the pace of Rumsfeld's reforms and seek to play a greater role in the process. In the Senate, lawmakers attached a provision to their version of the 2003 Defense Authorization bill; it calls on the Pentagon to issue semiannual updates on its financial revamp. The provision also expresses concern that the Defense Department's "own financial reports indicate that few of the funds appropriated last year for financial systems improvements have actually been spent."

Meanwhile, in House debates on the same bill, lawmakers approved an amendment that would withhold 1 percent of the budget of any military division unable to pass a financial audit. That amendment, introduced by Kucinich, came about partly as a response to the news that the Pentagon was unable to locate the 1.2 million JSLIST suits. "Just as investors withhold their supply of capital to a company that fails to meet its expectations, Congress must refuse to supply additional funds to the Pentagon until its books are in order," Kucinich said during a Government Reform subcommittee hearing earlier this year.

The Senate and House versions of the Defense Authorization bill will soon be reconciled, and it is uncertain whether either provision will remain.

Repeated requests for an interview with the Defense Department comptroller's office could not be processed in time for this story. However, Pentagon comptroller Dov Zakheim has told Inside the Pentagon, a news service that specializes in defense, that restructuring the military's accounting system could take up to seven years and that attempts to speed up any changes would only create larger problems. "The greatest disservice we could do to the American taxpayer is to rush what we're trying to do," he said. Another Defense Department official, speaking anonymously, pointed out that the war on terrorism might have brought a shift in priorities as well. "Going to war is taxing," the official said, "but then again, what are we here for? When that job does come down the pike it's not something we look at as something extra - we look at some of these other things as something extra." The idea within the Pentagon that good bookkeeping is ancillary, "something extra," is likely to come under increasing scrutiny from outside the military. Last month, at President Bush's economic summit in Texas, an accountant from South Carolina raised just such a concern. "Some of the reports we hear of agencies who lose track of equipment and agencies who can't balance their books are not much better than the corporations who do the same thing," she said. According to the New York Times, the president quipped that government bookkeeping is not something he could explain. "I've been there for nearly 18 months trying to figure it out," Bush said.

However, in cases of outright fraud - such as the ones that prompted Waxman and Schakowsky to write their letter - one explanation seems simple enough: not being able to figure out the military's books is precisely the problem. The Pentagon's garbled accounting system has evolved into a petri dish for scams, particularly with government-issued credit and charge cards. In the military, such cards, which are mostly used for official travel, constitute a tremendous volume of purchases; last year, the 1.7 million Defense Department cards were used to pay for \$9 billion worth of transactions. The cards have also been repeatedly exploited by military servicemen, who use them on personal spending sprees.

In a typical case, last month Sen. Charles Grassley (R-Iowa) announced that roughly 200 Army personnel abused their travel cards at strip clubs near bases to pay for \$38,000 in "lap dancing and other forms of entertainment." And according to the General Accounting Office, there is "little evidence that Army travel program managers or supervisors were even aware that Army personnel were using their travel cards for personal use."

Another consequence of the Pentagon's mangled accounting structure is improper payments on contracts; last year, the GAO reported, the Defense Department mistakenly paid half a billion

dollars it did not owe to contractors. Then there is related trouble posed by "closed-account adjustments," an arcane bookkeeping technique whereby millions of tax dollars are shifted among government accounts, sometimes illegally. As a result, money designated by lawmakers for one purpose can be used for another - an idea that goes against the grain of the Constitution, which gives Congress the power of the purse - and, thus, gives voters some control over the military.

One could argue that closed-account adjustments symbolize the biggest offense posed by Pentagon financial mismanagement: an overwhelming disregard for the way American government is supposed to operate. Ironically, they also demonstrate that the Defense Department's accounting problem may be fixable. Last year, the GAO inspected \$2.9 billion in Pentagon closed-account transactions and found that \$615 million were either illegal or improper; in a follow-up report this July, the GAO said the number of illegal or improper account transactions for the first half of this year dropped by roughly 80 percent because the military enacted controls to prevent them.

This hasn't triggered a rush toward unbridled optimism among longtime Pentagon observers. Kutz, who was involved in drafting the July GAO report, was skeptical that the results reflected long-lasting reform. "Things over time tend to revert to the way they were, unless there is significant management and focus," he said, referring to the usual pattern of change within the Pentagon. Perhaps even less reassuring is the language in the GAO study. It says that the fact that the Defense Department in 2002 "had to adjust its accounting records at all to correct previous errors indicates its longstanding problem with accurately accounting for and reporting on disbursements."

Fixing just one of these accounts could take as many as 21,000 hours, or 10 staff years, and highlights the scale of the job ahead. "When you consider the Defense Department's worldwide locations, and the amount of missing or incorrect information, getting it cleaned up it is an enormous task," said another member of the GAO involved in the report. "It's not as easy as going down to Circuit City, buying a Dell computer and putting it on someone's desk." But the willingness to undertake such a change with closed-account adjustments - and the capability to do so - show that transforming the military's overall business practices into a clean and efficient operation isn't entirely out of reach, so long as those who wield the pencils over Pentagon ledgers begin treating financial reform as a worthy and serious objective.