

Pentagon's messy books defy auditors

A giant operation with unwieldy, incompatible accounting systems means much gets lost.

BY LISA ZAGAROLI
NEWS & OBSERVER WASHINGTON BUREAU

WASHINGTON — When Perry Jefferies was serving in Iraq, the computers showed that his 4th Infantry Division troops had access to drinking water, a place to shower and working wheels on their vehicles.

As the first sergeant came to understand when scrounging for water, towing immobilized tanks and driving to other posts or to Kuwait to pick up needed parts, the Pentagon's bookkeeping doesn't always match reality.

Jefferies saw the real-life results of what for years has been a visible "accounting" problem in Washington — the Pentagon's inability to keep accurate track of transactions and assets.

A labyrinth of arcane and incompatible accounting systems has in recent years led the department to pay the wrong amounts to troops, civilian workers and contractors; to lose track of its equipment, even hard-to-misplace planes and tanks; and to improperly document trillions of dollars in transactions that leave tax dollars vulnerable to abuse, according to government reports.

A long-elusive "clean audit" sought by the Department of De-

HOW BIG IS BIG?

One challenge of getting the books under control is the sheer size of the Pentagon, one of the world's largest operations. In fiscal year 2005, it had:

- \$1.3 trillion in assets
- \$1.9 trillion in liabilities
- 3 million personnel
- \$635 billion in operational costs
- 2,569 facilities in the United States, 807 elsewhere

By contrast, the nation's largest non-government employer, Wal-Mart Stores Inc., in 2005 had:

- \$120 billion in assets
- \$20 billion in long-term debt
- 1.6 million employees
- \$285 billion in sales
- 3,800 facilities in the United States, 2,400 elsewhere

SOURCES: DEPARTMENT OF DEFENSE;
WWW.WALMARTSTORES.COM

fense — for years pegged for 2007 — is nowhere on the horizon. The agency's books are such a mess that its accountants have stopped wasting money trying to audit them.

"We don't know how badly managed it is," said Winslow T. Wheeler, director of a military

PENTAGON

CONTINUED FROM PAGE 1A

reform project at the Center for Defense Information, an independent monitor of the military. "It's not that DOD flunks audits, it's that DOD's books cannot be audited. DOD aspires for the position where it flunks an audit. If this were a public company, it would have gone belly up before World War II."

The accounting problems would cost taxpayers \$13 billion in 2005, Gregory D. Kutz, a managing director for the investigative arm of Congress, the Government Accountability Office, told lawmakers last summer.

"That's \$35 million a day," he added for emphasis.

Clogged stovepipe

At the heart of the problem is what government accountants like to call the agency's "stovepiped" setup, a tangle of 4,150 different business operations. (Until 2004, the department said it had 2,200 varied systems, but last year it reported finding an additional 1,900.) It has 713 different human resources systems, for example.

The business systems haven't been easy to integrate for a number of reasons, not the least of which is the sheer volume and complexity of the operation. For example, the Defense Department has at least 5.2 million inventory items, compared with 11,000 at Wal-Mart or 50,000 at Home Depot stores, said Thomas B. Modly, deputy undersecretary of defense for financial management.

"There's probably nothing like it in the world," said Jeffrey Steinhoff, managing director for financial management and assurance at the GAO. "It's not a mom-and-pop store."

Jim Minnery, an accountant in Ohio who works for the Defense Finance and Accounting Service, said few people understand the enormity of the task.



SEE PENTAGON, PAGE 18A

PENTAGON

CONTINUED FROM PAGE 1A

reform project at the Center for Defense Information, an independent monitor of the military. "It's not that DOD flunks audits, it's that DOD's books cannot be audited. DOD aspires for the position where it flunks an audit. If this were a public company, it would have gone belly up before World War II."

The accounting problems would cost taxpayers \$13 billion in 2005, Gregory D. Kutz, a managing director for the investigative arm of Congress, the Government Accountability Office, told lawmakers last summer.

"That's \$35 million a day," he added for emphasis.

Clogged stovepipe

At the heart of the problem is what government accountants like to call the agency's "stovepiped" setup, a tangle of 4,150 different business operations. (Until 2004, the department said it had 2,200 varied systems, but last year it reported finding an additional 1,900.) It has 713 different human resources systems, for example.

The business systems haven't been easy to integrate for a number of reasons, not the least of which is the sheer volume and complexity of the operation. For example, the Defense Department has at least 5.2 million inventory items, compared with 11,000 at Wal-Mart or 50,000 at Home Depot stores, said Thomas B. Modly, deputy undersecretary of defense for financial management.

"There's probably nothing like it in the world," said Jeffrey Steinhoff, managing director for financial management and assurance at the GAO. "It's not a mom-and-pop store."

Jim Minnery, an accountant in Ohio who works for the Defense Finance and Accounting Service, said few people understand the enormity of the task.

A central problem is that the



The Pentagon has been known to lose track of supplies like water. It also has had trouble accounting for planes and tanks.

GETTY IMAGES FILE PHOTO

TRICKLE-DOWN ACCOUNTING

Government auditors have uncovered an array of problems that were caused at least in part by the Defense Department's ineffective accounting systems. Among findings by the Government Accountability Office in recent years:

PAYROLL: Some wounded Reserve soldiers didn't get the pay or medical treatment they were entitled to, and fixing the problem caused by an incorrect automated change in their active-duty status required labor-intensive manual re-entry of extensive data. A separate audit of six Army National Guard units found that 94 percent of mobilized soldiers had pay problems.

SUPPLY CHAIN: The Army couldn't account for 56 airplanes, 32 tanks and 36 Javelin missile command-launch units in a 2000 audit.

In the current war with Iraq, needed supplies that were in stock couldn't always be found, and shortages resulted because of other shortcomings in a system designed to order ahead.

There was a \$1.2 billion discrepancy in material shipped to and received by the Army.

MAINTENANCE: An analysis of 50,000 maintenance work orders of six deployed battle groups found that 58 percent of them couldn't be completed because the parts weren't available on board because of bad data.

OVERSPENDING: More than 70 percent of 68,000 premium-class airline tickets purchased by Defense Department employees weren't properly justified or authorized. In addition, about 58,000 tickets totaling more than \$21 million were neither used nor refunded. At times, employees were refunded the cost of tickets they hadn't paid for.

UNDERCOLLECTING: The department had collected only \$687,000 of an estimated \$100 million it was entitled to from a mandated levy on DOD contractors.

FRAUD: A review of 1,357 users of a Pentagon purchase card found that 182 were able to use them inappropriately or fraudulently because of poor internal controls. One cardholder used hers to bill taxpayers for breast-lift surgery, two cars and a motorcycle, according to a review by the Defense Department inspector general's office.

SOURCES: GOVERNMENT ACCOUNTABILITY OFFICE;
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE