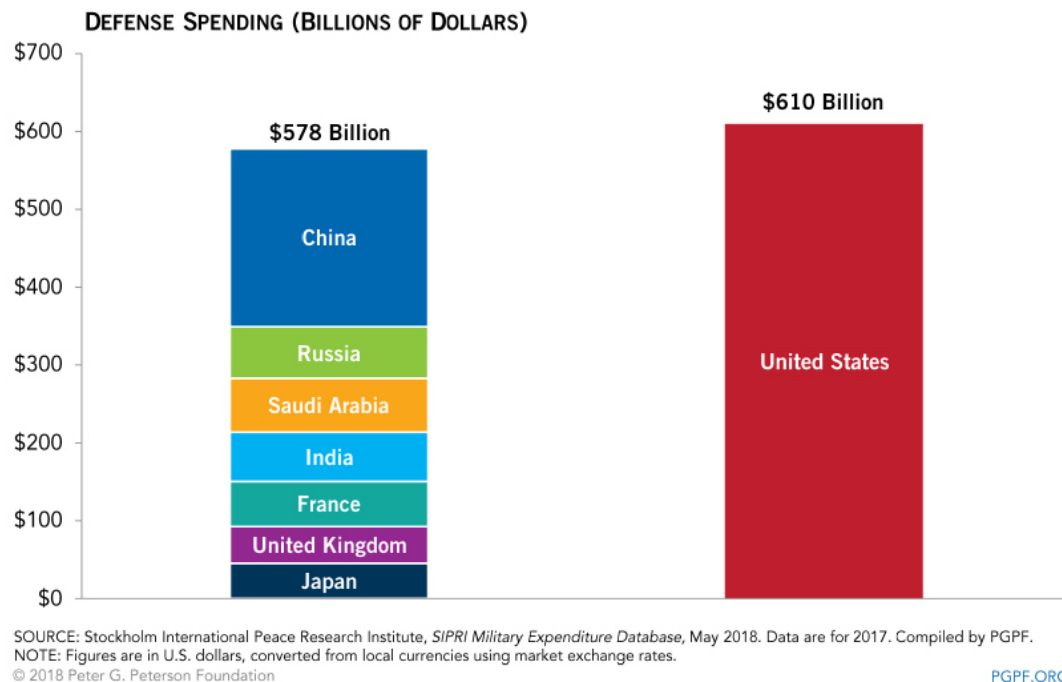


Our Poor, Defenseless Military Industrial Complex

Media decry ‘inadequate’ US military budget that rivals rest of world combined

Contrast the following story from *The Nation* with this graph of December 20, 2018 from Fair.org, ~ Don Chapin

<https://fair.org/home/our-poor-defenseless-military-industrial-complex/>



Exclusive: The Pentagon’s Massive Accounting Fraud Exposed

How US military spending keeps rising even as the Pentagon flunks its audit.

By [Dave Lindorff](#), November 27, 2018

<https://www.thenation.com/article/pentagon-audit-budget-fraud/>



Illustration by Victor Juhasz.

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On November 15, Ernst & Young and other private firms that were hired to audit the Pentagon [announced](#) that they could not complete the job. Congress had ordered an independent audit of the Department of Defense, the government's largest discretionary cost center—the Pentagon

receives 54 cents out of every dollar in federal appropriations—after the Pentagon failed for decades to audit itself. The firms concluded, however, that the DoD’s financial records were riddled with so many bookkeeping deficiencies, irregularities, and errors that a reliable audit was simply impossible.

Deputy Secretary of Defense Patrick Shanahan tried to put the best face on things, telling reporters, “We failed the audit, but we never expected to pass it.” Shanahan suggested that the DoD should get credit for *attempting* an audit, saying, “It was an audit on a \$2.7 trillion organization, so the fact that we did the audit is substantial.” The truth, though, is that the DoD was dragged kicking and screaming to this audit by bipartisan frustration in Congress, and the result, had this been a major corporation, likely would have been a crashed stock.

As Republican Senator Charles Grassley of Iowa, a frequent critic of the DoD’s financial practices, [said](#) on the Senate floor in September 2017, the Pentagon’s long-standing failure to conduct a proper audit reflects “twenty-six years of hard-core foot-dragging” on the part of the DoD, where “internal resistance to auditing the books runs deep.” In 1990, Congress passed the Chief Financial Officers Act, which required all departments and agencies of the federal government to develop auditable accounting systems and submit to annual audits. Since then, every department and agency has come into compliance—except the Pentagon.

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[William J. Astore](#)

Now, a *Nation* investigation has uncovered an explanation for the Pentagon’s foot-dragging: For decades, the DoD’s leaders and accountants have been perpetrating a gigantic, unconstitutional accounting fraud, deliberately cooking the books to mislead the Congress and drive the DoD’s budgets ever higher, regardless of military necessity. DoD has literally been making up numbers in its annual financial reports to Congress—representing trillions of dollars’ worth of seemingly nonexistent transactions—knowing that Congress would rely on those misleading

reports when deciding how much money to give the DoD the following year, according to government records and interviews with current and former DoD officials, congressional sources, and independent experts.

“If the DOD were being honest, they would go to Congress and say, ‘All these proposed budgets we’ve been presenting to you are a bunch of garbage,’” said Jack Armstrong, who spent more than five years in the Defense Department’s Office of Inspector General as a supervisory director of audits before retiring in 2011.

The fraud works like this. When the DoD submits its annual budget requests to Congress, it sends along the prior year’s financial reports, which contain fabricated numbers. The fabricated numbers disguise the fact that the DoD does not always spend all of the money Congress allocates in a given year. However, instead of returning such unspent funds to the US Treasury, as the law requires, the Pentagon sometimes launders and shifts such moneys to other parts of the DoD’s budget.

Veteran Pentagon staffers say that this practice violates Article I Section 9 of the US Constitution, which stipulates that

No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law; and a regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time.

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Among the laundering [tactics](#) the Pentagon uses: So-called “one-year money”—funds that Congress intends to be spent in a single fiscal year—gets shifted into a pool of five-year money. This maneuver exploits the fact that federal law does not require the return of unspent “five-year money” during that five-year allocation period.

The phony numbers are referred to inside the Pentagon as “plugs,” as in plugging a hole, said current and former officials. “Nipper,” a reference to a sharp-nosed tool used to snip off bits of wire or metal, is Pentagon slang for shifting money from its congressionally authorized purpose to a different purpose. Such nippering can be repeated multiple times “until the funds become virtually untraceable,” says one Pentagon-budgeting

veteran who insisted on anonymity in order to keep his job as a lobbyist at the Pentagon.

The plugs can be staggering in size. In fiscal year 2015, for example, Congress appropriated \$122 billion for the US Army. Yet DoD financial records for the Army's 2015 budget included a whopping \$6.5 trillion (yes, trillion) in plugs. Most of these plugs "lack[ed] supporting documentation," in the bland phrasing of the department's internal watchdog, the Office of Inspector General. In other words, there were no ledger entries or receipts to back up how that \$6.5 trillion supposedly was spent. Indeed, more than 16,000 records that might reveal either the source or the destination of some of that \$6.5 trillion had been "removed," the inspector general's office [reported](#).

In this way, the DoD propels US military spending higher year after year, even when the country is not fighting any major wars, says Franklin "Chuck" Spinney, a former Pentagon whistle-blower. Spinney's revelations to Congress and the news media about wildly inflated Pentagon spending helped spark public outrage in the 1980s. "They're making up the numbers and then just asking for more money each year," Spinney told *The Nation*. The funds the Pentagon has been amassing over the years through its bogus bookkeeping maneuvers "could easily be as much as \$100 billion," Spinney estimated.

The DoD's manufactured consent

[The Pentagon Wants You to Go Shopping While the Experts Go to War](#)

William J. Astore

Indeed, Congress [appropriated](#) a record amount—\$716 billion—for the DoD in the current fiscal year of 2019. That was up \$24 billion from [fiscal year 2018's](#) \$692 billion, which itself was up \$6 billion from [fiscal year 2017's](#) \$686 billion. Such largesse is what drives US military spending higher than the next ten highest-spending countries combined, added Spinney. Meanwhile, the closest thing to a full-scale war the United States is currently fighting is in Afghanistan, where approximately 15,000 US troops are deployed—only 2.8 percent as many as were in Vietnam at the height of that war.

The DoD's accounting practices appear to be an intentional effort to avoid accountability, says Armstrong. "A lot of the plugs—not all, but a substantial portion—are used to force general-ledger receipts to agree with the general budget reports, so what's in the budget reports is basically left up to people's imagination," Armstrong says, adding, "Did the DoD improperly spend funds from one appropriated purpose on another? Who can tell?"

"The United States government collects trillions of dollars each year for the purpose of funding essential functions, including national-security efforts at the Defense Department," Senator Grassley told *The Nation*. "When unelected bureaucrats misuse, mismanage and misallocate taxpayer funds, it not only takes resources away from vital government functions, it weakens citizens' faith and trust in their government."

This Pentagon accounting fraud is déjà vu all over again for Spinney. Back in the 1980s, he and a handful of other reform-minded colleagues exposed how the DoD used a similar accounting trick to inflate Pentagon spending—and to accumulate money for "off-the-books" programs. "DoD routinely over-estimated inflation rates for weapons systems," Spinney recalled. "When actual inflation turned out to be lower than the estimates, they did not return the excess funds to the Treasury, as required by law, but slipped them into something called a 'Merged Surplus Account,'" he said.

"In that way, the Pentagon was able to build up a slush fund of almost \$50 billion" (about \$120 billion in today's money), Spinney added. He believes that similar tricks are being used today to fund secret programs, possibly including US Special Forces activity in Niger. That program [appears](#) to have been undertaken without Congress's knowledge of its true nature, which only came to light when a Special Forces unit was ambushed there last year, resulting in the deaths of four US soldiers.

america at never-ending war



[The Military-Industrial Complex Is on Corporate Welfare](#)

William D. Hartung

“Because of the plugs, there is no auditable way to track Pentagon funding and spending,” explains Asif Khan of the Government Accountability Office, the Congress’s watchdog on the federal bureaucracy. “It’s crucial in auditing to have a reliable financial record for prior years in order to audit the books for a current year,” notes Khan, the head of the National Security Asset Management unit at GAO. Plugs and other irregularities help explain why the Pentagon has long been at or near the top of the GAO’s list of “high risk” agencies prone to significant fraud, waste, and abuse, he adds.

The Nation submitted detailed written questions and requested interviews with senior officials in the Defense Department before publishing this article. Only public-affairs staff would speak on the record. In an e-mailed response, Christopher Sherwood of the DoD’s Public Affairs office denied any accounting impropriety. Any transfer of funds between one budgetary account and another “requires a reprogramming action” by Congress, Sherwood wrote, adding that any such transfers amounting to more than 1 percent of the official DoD budget would require approval by “all four defense congressional committees.”

The scale and workings of the Pentagon’s accounting fraud began to be [ferreted out](#) last year by a dogged research team led by Mark Skidmore, a professor of economics specializing in state and local government finance at Michigan State University. Skidmore and two graduate students spent months poring over DoD financial statement reviews done by the department’s Office of Inspector General. Digging deep into the OIG’s report on the Army’s 2015 financial statement, the researchers found some peculiar information. Appendix C, page 27, reported that Congress had appropriated \$122 billion for the US Army that year. But the appendix also seems to report that the Army had received a cash deposit from the US Treasury of \$794.8 billion. That sum was more than six times larger than Congress had appropriated—indeed, it was larger than the entire Pentagon budget for the year. The same appendix showed that the Army had accounts payable (accounting lingo for bills due) totaling \$929.3 billion.

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“I wondered how you could possibly get those kinds of adjustments out of a \$122 billion budget,” Skidmore recalled. “I thought, initially, ‘This is absurd!’ And yet all the [Office of Inspector General] seemed to do was say, ‘Here are these plugs.’ Then, nothing. Even though this kind of thing should be a red flag, it just died. So we decided to look further into it.”

To make sure that fiscal year 2015 was not an anomaly, Skidmore and his graduate students expanded their inquiry, examining OIG reports on Pentagon financial records stretching back to 1998. Time and again, they found that the amounts of money reported as having flowed into and out of the Defense Department were gargantuan, often dwarfing the amounts Congress had appropriated: \$1.7 trillion in 1998, \$2.3 trillion in 1999, \$1.1 trillion in 2000, \$1.1 trillion in 2007, \$875 billion in 2010, and \$1.7 trillion in 2012, plus amounts in the hundreds of billions in other years.

In all, at least a mind-boggling \$21 trillion of Pentagon financial transactions between 1998 and 2015 could not be traced, documented, or explained, concluded Skidmore. To convey the vastness of that sum, \$21 trillion is roughly five times more than the entire federal government spends in a year. It is greater than the US Gross National Product, the world's largest at an estimated \$18.8 trillion. And that \$21 trillion includes only plugs that were disclosed in reports by the Office of Inspector General, which does not review all of the Pentagon's spending.

To be clear, Skidmore, in a [report](#) coauthored with Catherine Austin Fitts, a former assistant secretary of the Department of Housing and Urban Development who complained about similar plugs in HUD financial statements, does not contend that all of this \$21 trillion was secret or misused funding. And indeed, the plugs are found on both the positive and the negative sides of the ledger, thus potentially netting each other out. But the Pentagon's bookkeeping is so obtuse, Skidmore and Fitts added, that it is impossible to trace the actual sources and destinations of the \$21 trillion. The disappearance of thousands of records adds further uncertainty. The upshot is that no one can know for sure how much of that \$21 trillion was, or was not, being spent legitimately.

The cost of our endless wars



[America's Post-9/11 Wars Have Cost \\$5.9 Trillion](#)

William D. Hartung

That may even apply to the Pentagon's senior leadership. A good example of this was Donald Rumsfeld, the notorious micromanaging secretary of defense during the Bush/Cheney administration. On September 10, 2001 Rumsfeld called a dramatic press conference at the Pentagon to make a startling [announcement](#). Referring to the huge military budget that was his official responsibility, he said, "According to some estimates we cannot track \$2.3 trillion in transactions." This shocking news that an amount more than five times as large as the Pentagon's FY 2001 budget of an estimated \$313 billion was lost or even just "untrackable" was—at least for one 24-hour news cycle—a big national story, as was Secretary Rumsfeld's comment that America's adversary was not China or Russia, but rather was "closer to home: It's the Pentagon bureaucracy." Equally stunning was Rumsfeld's warning that the tracking down of those missing transactions "could be...a matter of life and death." No Pentagon leader had ever before said such a thing, nor has anyone done so since then. But Rumsfeld's exposé died quickly as, the following morning on September 11, four hijacked commercial jet planes plowed full speed into the two World Trade Center towers, the Pentagon, and a field in Pennsylvania. Since that time, there has been no follow-up and no effort made to find the missing money, either.

Recalling his decades inside the Pentagon, Spinney emphasized that the slippery bookkeeping and resulting fraudulent financial statements are not a result of lazy DoD accountants. "You can't look at this as an aberration," he said. "It's business as usual. The goal is to paralyze Congress."

That has certainly been the effect. As one congressional staffer with long experience investigating Pentagon budgets, speaking on background because of the need to continue working with DoD officials, told *The Nation*, "We don't know how the Pentagon's money is being spent. We know what the total appropriated funding is for each year, but we don't know how much of that funding gets spent on the intended programs, what things actually cost, whether payments are going to the proper accounts. If this kind of stuff were happening in the private sector, people would be fired and prosecuted."

DoD officials have long insisted that their accounting and financial practices are proper. For example, the Office of Inspector General has attempted to explain away the absurdly huge plugs in DoD's financial statements as being a common, widely accepted accounting practice in the private sector.

When this reporter asked Bridget Serchak, at the time a press spokesperson for the inspector general's office, about the Army's \$6.5 trillion in plugs for fiscal year 2015, she replied, "Adjustments are made to the Army General Fund financial statement data...for various reasons such as correcting errors, reclassifying amounts and reconciling balances between systems.... For example, there was a net unsupported adjustment of \$99.8 billion made to the \$0.2 billion balance reported for Accounts Receivable."

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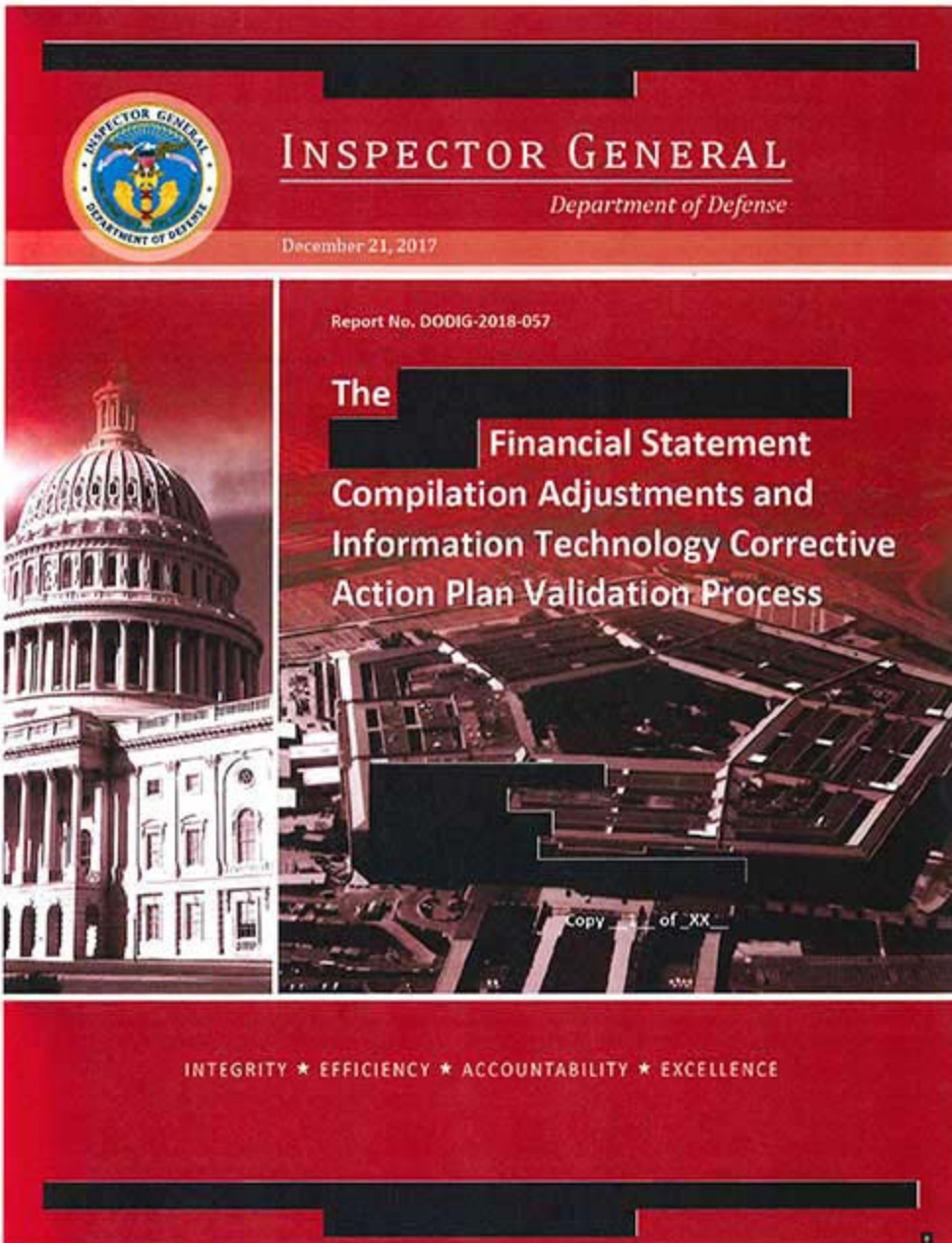
Mark Hertsgaard and Mark Dowie

There is a grain of truth in Serchak's explanation, but only a grain.

As an expert in government budgeting, Skidmore confirmed that it is accepted practice to insert adjustments into budget reports to make both sides of a ledger agree. Such adjustments can be deployed in cases where receipts have been lost—in a fire, for example—or where funds were incorrectly classified as belonging to one division within a company rather than another. “But those kinds of adjustments should be the exception, not the rule, and should amount to only a small percentage of the overall budget,” Skidmore said.

For its part, the inspector general's office has blamed the fake numbers found in many DoD financial statements on the Defense Finance and Accounting Service (DFAS), a huge DoD accounting operation based in Indianapolis, Indiana. In review after review, the inspector general's office has charged that DFAS has been making up “unsupported” figures to plug into DoD's financial statements, inventing ledger entries to back up those invented numbers, and sometimes even “removing” transaction records that could document such entries. Nevertheless, the inspector general has never advocated punitive steps against DFAS officials—a failure that suggests DoD higher-ups tacitly approve of the deceptions.

Skidmore repeatedly requested explanations for these bookkeeping practices, he says, but the Pentagon response was stonewalling and concealment. Even the inspector general's office, whose publicly available reports had been criticizing these practices for years, refused to answer the professor's questions. Instead, that office began removing archived reports from its website. (Skidmore and his grad students, anticipating that possibility, had already downloaded the documents, which were eventually were restored to public access under different URLs.)



Click to open the heavily redacted DoD OIG report on a US Navy financial statement for FY 2017.

Nation inquiries have met with similar resistance. Case in point: A recent DoD OIG report on a US Navy financial statement for FY 2017. Although OIG audit reports in previous years were always made available online without restriction or censorship, this particular report suddenly appeared in heavily redacted form—not just the numbers it contained, but even its title! Only bureaucratic sloppiness enabled one to see that the report concerned Navy finances: Censors missed some of the references to the Navy in the body of the report, as shown in the passages reproduced here.

A request to the Office of Inspector General to have the document uncensored was met with the response: “It was the Navy’s decision to censor it, and we can’t do anything about that.” At *The Nation*’s request, Senator Grassley’s office also asked the OIG to uncensor the report. Again, the OIG refused. A Freedom Of Information Act request by *The Nation* to obtain the uncensored document awaits a response.

The GAO’s Khan was not surprised by the failure of this year’s independent audit of the Pentagon. Success, he points out, would have required “a good-faith effort from DoD officials, but to date that has not been forthcoming.” He added, “As a result of partial audits that were done in 2016, the Army, Navy, Air Force, and Marines have over 1,000 findings from auditors about things requiring remediation. The partial audits of the 2017 budget were pretty much a repeat. So far, hardly anything has been fixed.”

Let that sink in for a moment: As things stand, no one knows for sure how the biggest single-line item in the US federal budget is actually being spent. What’s more, Congress as a whole has shown little interest in investigating this epic scandal. The absurdly huge plugs never even get asked about at Armed Services and Budget Committee hearings.

One interested party has taken action—but it is action that’s likely to perpetuate the fraud. The normally obscure Federal Accounting Standards Advisory Board sets the accounting standards for all federal agencies. Earlier this year, the board proposed a new guideline saying that agencies that operate classified programs should be permitted to falsify figures in financial statements and shift the accounting of funds to conceal the agency’s classified operations. (No government agency operates more classified programs than the Department of Defense, which includes the National Security Agency.) The new guideline became effective on October 4, just in time for this year’s end-of-year financial statements.

So here’s the situation: We have a Pentagon budget that a former DOD internal-audit supervisor, Jack Armstrong, bluntly labels “garbage.” We have a Congress unable to evaluate each new fiscal year’s proposed Pentagon budget because it cannot know how much money was actually spent during prior years. And we have a Department of Defense that gives only lip service to fixing any of this. Why should it? The status quo has been generating ever-higher DoD budgets for decades, not to mention bigger profits for Boeing, Lockheed, and other military contractors.

The losers in this situation are everyone else. The Pentagon’s accounting fraud diverts many billions of dollars that could be devoted to other national needs: health care, education, job creation, climate action, infrastructure modernization, and more. Indeed, the Pentagon’s accounting fraud amounts to theft on a grand scale—theft not only from America’s taxpayers, but also from the nation’s well-being and its future.

As President Dwight D. Eisenhower, who retired from the military as a five-star general after leading Allied forces to victory in World War II, said in a 1953 speech, “Every gun that is made, every warship launched, every rocket fired signifies, in the final sense, a theft from those who hunger and are not fed, those who are cold and are not clothed.” What would Eisenhower say today about a Pentagon that deliberately misleads the people’s representatives in Congress in order to grab more money for itself while hunger, want, climate breakdown, and other ills increasingly afflict the nation?

Correction: An earlier version of this article included a mention of \$6.5 billion in plugs in 2015. In fact, as cited elsewhere in the story, the correct figure is \$6.5 trillion. The article also cited an inaccurate

figure for the percentage of federal tax dollars received by the Pentagon. In fact, the Pentagon receives more than half of every dollar of federal discretionary spending, not two out of every three federal tax dollars. The text has been corrected.

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