



The Pentagon's Bottomless Money Pit

When the Defense Department flunked its first-ever fiscal review, one of our government's greatest mysteries was exposed: Where does the DoD's \$700 billion annual budget go?

By [Matt Taibbi](#)

Illustration by Victor Juhasz for Rolling Stone

<https://www.rollingstone.com/politics/politics-features/pentagon-budget-mystery-807276/>

A retired Air Force auditor — we'll call him Andy — tells a story about a thing that happened at Ogden Air Force Base, Utah. Sometime in early 2001, something went wrong with a base inventory order. Andy thinks it was a simple data-entry error. "Someone ordered five of something," he says, "and it came out as an order for 999,000." He laughs. "It was probably just something the machine defaulted to. Type in an order for a part the wrong way, and it comes out all frickin' nines in every field." Nobody actually delivered a monster load of parts. But the faulty transaction — the paper trail for a phantom inventory adjustment never made — started moving through the Air Force's maze of internal accounting systems anyway. A junior-level logistics officer caught it before it went out of house. Andy remembers the incident because, as a souvenir, he kept the June 28th, 2001, email that circulated about it in the Air Force accounting world, in which the dollar value of the error was discussed.

Wanted to keep you all informed of the massive inventory adjustment processed at [Ogden] on Wednesday of this week. It isn't as bad as we first thought (\$8.5 trillion). The hit . . . \$3.9 trillion instead of the \$8.5 trillion as we first thought.

The Air Force, which had an \$85 billion budget that year, nearly created in one stroke an accounting error more than a third the size of the U.S. GDP, which was just over \$10 trillion in 2001. Nobody lost money. It was just a paper error, one that was caught.

"Even the Air Force notices a trillion-dollar error," Andy says with a laugh. "Now, if it had been a billion, it might have gone through."

Years later, Andy watched as another massive accounting issue made its way into the military bureaucracy. The Air Force changed one of its financial reporting systems, and after the change, the service showed a negative number for inventory — everything from engine cores to landing gear — in transit.

Freaked out, because you can't have a negative number of things in transit, Air Force accountants went back and tried to reverse the mistake. In doing so, they somehow ended up adding more than \$4

billion in value to the Air Force's overall spare-parts inventory in a single month.

This suspicious number is still there. You can see a sudden spike in the Air Force's working-capital fund's stagnant spare-parts numbers. It was \$23.2 billion in 2015, \$23.3 billion in 2016, \$24.4 billion in 2017, and then suddenly \$28.8 billion in September 2018.

That doesn't mean money was lost, or stolen. It does, however, mean the Air Force probably has less inventory on hand than it thinks it does.

Now retired, Andy sometimes visits his neighborhood library, which uses RFID smart labels, or radio frequency identification, allowing it to know where all its books are at all times.

Meanwhile, the Air Force, which has a \$156 billion annual budget, still doesn't always use serial numbers. It has no idea how much of almost anything it has at any given time. Nuclear weapons are the exception, and it started electronically tagging those only after two extraordinary mistakes, in 2006 and 2007. In the first, the Air Force accidentally loaded six nuclear weapons in a B-52 and flew them across the country, unbeknownst to the crew. In the other, the services sent nuclear nose cones by mistake to Taiwan, which had asked for helicopter batteries.

"What kind of an organization," Andy asks, "doesn't keep track of \$20 billion in inventory?"

Despite being the taxpayers' greatest investment — more than \$700 billion a year — the Department of Defense has remained an organizational black box throughout its history. It's repelled generations of official inquiries, the latest being an audit three decades in the making, mainly by scrambling its accounting into such a mess that it may never be untangled.

Ahead of misappropriation, fraud, theft, overruns, contracting corruption and other abuses that are almost certainly still going on, the Pentagon's first problem is its books. It's the world's largest producer of wrong numbers, an ingenious bureaucratic defense

system that hides all the other rats' nests underneath. Meet the Gordian knot of legend, brought to life in modern America.

AT THE TAIL end of last year, the Department of Defense finally completed an audit. At a cost of \$400 million, some 1,200 auditors charged into the jungle of military finance, but returned in defeat. They were unable to pass the Pentagon or flunk it. They could only offer no opinion, explaining the military's empire of hundreds of acronymic accounting silos was too illogical to penetrate.

The audit is the last piece in one of the great ass-covering projects ever undertaken, also known as the effort to give the United States government a clean bill of financial health. Twenty-nine years ago, in 1990, Congress ordered all government agencies to begin producing audited financial statements. Others complied. Defense refused from the jump.

It took a Herculean legislative effort lasting 20 years to move the Pentagon off its intransigent starting position. In 2011, it finally agreed to be ready by 2017, which turned into 2018, when the Department of Defense finally complied with part of the law ordering "timely performance reports."

Last November 15th, when the whiffed audit was announced, Deputy Secretary of Defense Patrick Shanahan said it was nothing to worry about, because "we never expected to pass it." Asked by a reporter why taxpayers should keep giving the Pentagon roughly \$700 billion a year if it can't even "get their house in order and count ships right or buildings right," Shanahan quipped, "We count ships right."

This was an inside joke. The joke was, the Pentagon isn't so hot at counting buildings. Just a few years ago, in fact, it admitted to losing track of "478 structures," in addition to 39 Black Hawk helicopters (whose fully loaded versions list for about \$21 million a pop).

That didn't mean 478 buildings disappeared. But they did vanish from the government's ledgers at some point. The Pentagon bureaucracy is designed to spend money quickly and deploy troops

and material to the field quickly, but it has no reliable method of recording transactions. It designs stealth drones and silent-running submarines, but still hasn't progressed to bar codes when it comes to tracking inventory. Some of its accounting programs are using the ancient computing language COBOL, which was cutting-edge in 1959. ***(Cobol, like Visual Basic of the same era, ... was a language that typically resulted in what was known as "spaghetti-code", indecipherable code with no requirement for internal documentation. Many of the problems of the "year 2000" fiasco were attributable to the Cobol language. ~ Don Chapin)***

"These systems," as one Senate staffer puts it, "were not designed to be audited."

If and when the defense review is ever completed, we're likely to find a pile of Enrons, with the military's losses and liabilities hidden in Enron-like special-purpose vehicles, assets systematically overvalued, monies Congress approved for X feloniously diverted to Program Y, contractors paid twice, parts bought twice, repairs done unnecessarily and at great expense, and so on.

Enron at its core was an accounting maze that systematically hid losses and overstated gains in order to keep investor money flowing in. The Pentagon is an exponentially larger financial bureaucracy whose mark is the taxpayer. Of course, less overtly a criminal scheme, the military still churns out Enron-size losses regularly, and this is only possible because its accounting is a long-tolerated fraud.

We've seen glimpses already. The infamous F-35 Joint Strike fighter program is now projected to cost the taxpayers \$1.5 trillion, roughly what we spent on the entire Iraq War. Overruns and fraud from that program alone are currently expected to cost taxpayers about 100 times what was spent on Obama's much-ballyhooed Solyndra solar-energy deal.

Meanwhile, the Defense Department a few years ago found about \$125 billion in administrative waste, a wart that by itself was just under twice the size of that \$74 billion Enron bankruptcy.

Inspectors found “at least” \$6 billion to \$8 billion in waste in the Iraq campaign, and said \$15 billion of waste found in the Afghan theater was probably “only a portion” of the total lost.

Even the military’s top-line budget number is an Enron-esque accounting trick. Congress in 2011 passed the Budget Control Act, which caps the defense budget at roughly 54 percent of discretionary spending. Almost immediately, it began using so-called Overseas Contingency Operations (OCO), a giant second checking account that can be raised without limit.

Therefore, for this year, the Pentagon has secured \$617 billion in “base” budget money, which puts it in technical compliance with the Budget Control law. But it also receives \$69 billion in OCO money, sometimes described as “war funding,” a euphemistic term for an open slush fund. (Non-defense spending also exceeds caps, but typically for real emergencies like hurricane relief.) Add in the VA (\$83 billion), Homeland Security (\$46 billion), the National Nuclear Security Administration (\$21.9 billion) and roughly \$19 billion more in OCO funds for anti-ISIS operations that go to State and DHS, and the actual defense outlay is north of \$855 billion, and that’s just what we know about (other programs, like the CIA’s drones, are part of the secret “black budget”).

In a supreme irony, the auditors’ search for boondoggles has itself become a boondoggle. In the early Nineties and 2000s, the Defense Department spent billions hiring private firms in preparation for last year. In many cases, those new outside accountants simply repeated recommendations that had already been raised and ignored by past government auditors like the Defense inspector general.

After last year’s debacle, the services are now spending even more on outside advice to prepare for the next expected flop. The Air Force alone just awarded Deloitte up to \$800 million to help the service with future “audit preparation.” The Navy countered with a \$980 million audit-readiness contract spread across four companies (Deloitte, Booz Allen Hamilton, Accenture and KPMG).

Taxpayers, in other words, are paying gargantuan sums to private accounting firms to write reports about how previous recommendations were ignored.

It's all a Catch-22 story about a country trapped in an endless cycle of avoidable financial disaster. Each time we try to fix leaks, we end up back where we started, staring at even bigger numerical representations of failure.

For instance, part of what inspired original investigations into defense finances were infamous stories in the 1980s and early Nineties about the military charging \$640 for toilet seats, \$436 for hammers, etc. A chief crusader was a young Iowa Sen. Chuck Grassley, who was so determined to hear such tales from famed military whistle-blower Franklin C. "Chuck" Spinney — one of the first military analysts to go public with accusations of waste and procurement fraud — that early in 1983 Grassley drove to the Pentagon in an orange Chevette to see him.

The DoD refused to let Grassley see Spinney. Grassley got him to testify on the Hill six weeks later.

"The following Monday, his photo was on the cover of *Time* magazine," Grassley recalls. The March 1983 cover asked, are billions being wasted?

"A long time after I leave the Senate, [Pentagon spending] will be the same problem," says Senator Chuck Grassley, R-Iowa. Photo credit: J Scott Applewhite/AP/REX/Shutterstock

It seemed like a breakthrough. Spinney's tales of waste became symbols that aroused the imagination of both the left and the right, who each saw in them their own vision of government run amok.

But 35 years later, Chuck Grassley, now 85, is still sending letters to the Pentagon about overpriced parts, only this time with more zeros added. The Iowan last year asked why we were spending more than \$10,000 apiece for 3D printed airborne toilet-seat covers, or \$56,000 on 25 reheatable drinking cups at a brisk \$1,280 each (apparently an upgrade to earlier iterations of \$693 coffee cups,

whose handles broke too easily). The DoD has since claimed to have fixed these problems.

Asked if he was frustrated that it's the same stories decades later, Grassley says, "Absolutely." He pauses. "And a long time after I leave the Senate, it'll likely still be the same problem."

Three decades into the effort to pry open the Pentagon's books, it's not clear if we've been going somewhere, or we've just been spending billions to get nowhere, in one of the most expensive jokes any nation has played on itself. "When everything's always a mystery," says Grassley, "nothing ever has to be solved."

THIS STARTED with an accident.

"The only reason the audit is happening," says Sheila Weinberg, CEO of the watchdog group Truth in Accounting, "is because an accountant got sent to Congress."

In 1985, a brusque Italian-Albanian named Joe Dio-Guardi ran as a Republican for a House seat in New York's 20th District.

DioGuardi was the son of an immigrant grocer. Before he went on to a Jesuit education at Fordham, his schooling came in the aisles of his father's store. "I was trained in stock," DioGuardi says today.



"You learn value if you end up chasing someone down the streets of the Bronx if they steal a box." In his teen years he went on to be a waiter at Westchester country clubs. He'd watch chefs steal steaks out of the kitchen at the end of every year, knowing that "these rich people . . . if there was a deficit, they would just kick it in at the end of the year." From waiting tables he went on to spend 22 years as an accountant at Arthur Andersen, among other things diving into New York City's financial collapse in the Seventies. He recalls the city still listed buildings that had burned down as current assets. "I

learned a lot about the difference between public and private accounting,” he remembers.

In the mid-Eighties, he ran as a Republican for Congress in a Westchester district. It was considered a safe blue seat, with Democrats outnumbering Republicans. He calls himself “the accidental congressman,” because “if my party knew I would win, they wouldn’t have put me up. I was a sacrificial lamb.”

But in a preview of cross-party populist currents, he did win, in part by highlighting his working-class ethnic background, trumpeting his accounting credentials, and sounding bipartisan themes about cleaning up corruption. He promised to “illuminate the dark fiscal corners” of the federal bureaucracy.

In Washington, DioGuardi was horrified by the federal government’s “smoke and mirrors” budgeting. He told fellow Republicans the techniques Congress used would get private-sector officers “sent to jail.”

“Joey the Waiter,” who is 78 today, still has the same tough-talking New York personality he had as a candidate. It’s easy to laugh imagining how his insistent Bronx demeanor was received by some of his more upper-crust and genteel colleagues back then. It would explain why he was first ignored when he began writing legislation to force the government to undergo the kind of auditing that’s mandatory in the private sector.

But when the savings-and-loan crisis plunged America into a financial scare in the late Eighties, “fiscal responsibility” became a political catchword. Instantly, “Joey the Waiter” was in demand. “Suddenly, everyone was like, ‘Where’s that bill DioGuardi wrote?’” he recalls.

He found diverse allies in a pair of Democrats, Sen. John Glenn and Rep. John Conyers. Together they authored what would ultimately be called the “Chief Financial Officers Act of 1990.”

The legislation forced government agencies to name a CFO, conduct audits and create “modern federal financial management structure.”

Twenty-three agencies, from Defense to Labor to State, were ordered to begin submitting “department-wide annual audited financial statements” by 1994.

Although there were regulations over the years requiring various forms of financial reporting, nothing like a full-scale federal audit had ever been attempted. Incredibly, from an accounting perspective, the U.S. government had remained essentially virgin territory for centuries.

As far back as 1787, the Constitution mandated “a regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time.” But no independent examiner had ever fully checked the government’s books. By the late Eighties and early Nineties, hundreds of billions of tax dollars were being spent annually, and no one really knew where. To DioGuardi, the situation was outrageous.

“It’s a constant principle in history, from the Medicis to today,” says DioGuardi. “If no one’s watching the money, there will be bankruptcies.”

THE CFO Act at least introduced the idea that someone was supposed to be watching. By 1997, Cabinet-level departments like Labor, Agriculture and Commerce were submitting financial reports. In the first year, only six were able to pass. Within a few years, however, most were in compliance. By 2013, Defense was the only federal agency that had not submitted a financial statement.

One of the main reasons the military wasn’t submitting numbers was it didn’t have them. The Pentagon every year employs an accounting shortcut that should make more sense to civilians at this time of year, because it’s similar to what the roughly six percent of Americans who cheat on taxes do annually.

Taxpayers who think they’re owed deductions, but don’t have the receipts to back up their expenses, will sometimes take a rough guess, maybe based on what their prior-year deductions were. Then they file returns infected with guesses, “plugged” in to look like deductions counted up honestly.

The Pentagon does basically the same thing, only on a galactic scale. At the end of every year, it submits a “Budget execution request” that includes complete month-by-month statements of that year’s spending.

The White House will then take these numbers and use them to project a defense budget for the following year. The president submits that budget to Congress, which in turn will actually appropriate the money. Almost without exception, the Pentagon ends up getting a raise. For 2019, Donald Trump submitted a budget that asked for \$716 billion, or \$82 billion more than the Department of Defense received the previous fiscal year.

The system makes sense, except for one problem: The financial reports the Pentagon submits are faked.

The Defense Department, for the most part, does not know how much it spends. It has a handle on some things, like military pay, but in other places it’s clueless. None of its services — Navy, Air Force, Army, Marine Corps — use the same system to record transactions or monitor inventory. Each service has its own operations and management budget, its own payroll system, its own R&D budget and so on. It’s an empire of disconnected budgets, or “fiefdoms,” as one Senate staffer calls them.

Instead of using a single integrated financial accounting system that would maintain a global picture of its finances at all times, the Pentagon built another bureaucracy to pile atop the others, called the Defense Finance and Accounting Service, or DFAS. Created by then-Defense Secretary Dick Cheney in 1991, DFAS is in charge of collecting financial reports from all the different fiefdoms at the end of each month. DFAS is like a tribune traveling on horseback at month’s end, collecting a pile of scrolls from each castle.



In 2013, Reuters published a brutal exposé showing how DFAS accountants conducted a mad scramble at the end of each month to try to piece together records of transactions to justify spending. But in thousands of cases a month, no records existed. “We didn’t have the detail,” one accountant explained.

Complicating matters is the fact that money is allocated to the military on different schedules. If Congress gives the Navy \$53 billion for operations and maintenance, as it did this year, the service is expected to spend all that money that year. Such expenses — payroll is another — are called “one-year money.” Meanwhile, research and development might be “two-year money,” and contracting might be “five-year money.”

There have been multiple cases involving officials taking advantage of flaws in the Pentagon's system over the years. A civilian secretary bilked the Air Force out of \$1.4 million for more than a decade before anyone noticed. Photo credit: REX/Shutterstock

If the Pentagon doesn't spend all the money in exactly the amounts Congress says it can spend, in the time ordained by Congress — if it doesn't spend all its one-year money in one year, all its five-year money in five years and so on — the military is supposed to give its unspent money back to Congress.

But the military is never really on time, and constantly commingles its various pots of money. Grassley in the late Nineties found out the military was using a computer program called MOCAS, or Mechanization of Contract Administration Services, to help speed this commingling. Whenever the Pentagon had bills to pay, instead of just drawing the money from the right account, MOCAS would sometimes try to spend "old money" first, i.e., from whatever funds were about to expire.

It's illegal for any government agency to spend money appropriated for one purpose on a different program. But the military — either hilariously or horribly, depending on your perspective — created a program that algorithmically produced such violations of the law. They weren't minor violations: Grassley has fought for years against such automatic payments, saying bureaucrats use them to "avoid violations of the Antideficiency Act — a felony." Last year's audit found the Antideficiency Act was one of five laws the agency violated.

MOCAS still exists, but it's unclear how or if it's been updated. In any case, Defense still lacks records showing that it's paying for the right programs from the right accounts. Out of terror that it might have to return money as a result, the DoD orders its accountants to make numbers fit.

Those DFAS accountants in the Reuters exposé were told by superiors that if they couldn't find invoices or contracts to prove the various services spent their one-year money and two-year money

and five-year money on time, they should execute “unsubstantiated change actions,” i.e., lie.

The accountants systematically “plugged” in fake numbers to match the payment schedules handed down by the Treasury. These fixes are called “journal voucher adjustments” or “plugs.”

As a result, those year-end financial statements will look like they match congressional intentions. In truth, the statements packed with thousands of plugs are fictions, a form of systematic accounting fraud Congress has quietly tolerated for decades.
