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\$1 Trillion Missing : Military waste under fire

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05/18/05 "San Francisco Chronicle" - - The Department of Defense, already infamous for spending \$640 for a toilet seat, once again finds itself under intense scrutiny, only this time because it couldn't account for more than a trillion dollars in financial transactions, not to mention dozens of tanks, missiles and planes.

The Pentagon's unenviable reputation for waste will top the congressional agenda this week, when the House and Senate are expected to begin floor debate on a Bush administration proposal to make sweeping changes in how the Pentagon spends money, manages contracts and treats civilian employees.

The Bush proposal, called the Defense Transformation for the 21st Century Act, arrives at a time when the nonpartisan General Accounting Office has raised the volume of its perennial complaints about the financial woes at Defense, which recently failed its seventh audit in as many years.

"Overhauling DOD's financial management operations represent a challenge that goes far beyond financial accounting to the very fiber of (its) . . . business operations and culture," GAO chief David Walker told lawmakers in March.

WHAT HAPPENED TO \$1 TRILLION?

Though Defense has long been notorious for waste, recent government reports suggest the Pentagon's money management woes have reached astronomical proportions. A study by the Defense Department's inspector general found that the Pentagon couldn't properly account for more than a trillion dollars in monies spent. A GAO report found Defense inventory systems so lax that the U.S.

Army lost track of 56 airplanes, 32 tanks, and 36 Javelin missile command launch-units.

And before the Iraq war, when military leaders were scrambling to find enough chemical and biological warfare suits to protect U.S. troops, the department was caught selling these suits as surplus on the Internet "for pennies on the dollar," a GAO official said.

Given these glaring gaps in the management of a Pentagon budget that is approaching \$400 billion, the coming debate is shaping up as a bid to gain the high ground in the battle against waste, fraud and abuse.

"We are overhauling our financial management system precisely because people like David Walker are rightly critical of it," said Dov Zakheim, the Pentagon's chief financial officer and prime architect of the Defense Department's self-styled fiscal transformation.

Among the provisions in the 207-page plan, the department is asking Congress to allow Secretary of Defense Donald Rumsfeld to replace the civil service system governing 700,000 nonmilitary employees with a new system to be detailed later.

The plan would also eliminate or phase out more than a hundred reports that now tell Congress, for instance, which Defense contractors support the Arab boycott of Israel and when U.S. special forces train foreign soldiers, as well as many studies of program costs.

The administration's proposal, which would also give Rumsfeld greater authority to move money between accounts and exempt Defense from certain environmental statutes, prompted influential House Democrats to write Speaker Dennis Hastert last week complaining that the proposals would "increase the level of waste, fraud, and abuse . . . by vastly reducing (Defense) accountability."

"The Congress has increased defense spending from \$300 billion to \$400 billion over three years at the same time that the Pentagon has failed to address financial problems that dwarf those of Enron," said Rep. Henry Waxman, D-Los Angeles, one of the letter's signatories.

Saying critics of the bill "were arguing for more paperwork," Hastert spokesman John Feehery said his boss would support the Bush reforms on the House floor.

"The purpose is to streamline the Pentagon to become a less bureaucratic and more efficient organization . . . while also making it more accountable," Feehery said.

PROCESS WILL TAKE MONTHS

The debate will center around the defense authorization bill, the policy-setting prelude to the defense appropriations measure that comes up later in the session. With the House and Senate considering different versions of the transformation proposals, it will be months before each passes its own bill and reconciles any

differences.

But few on Capitol Hill would deny that, when it comes to fiscal management, Defense is long overdue for "transformation."

In congressional testimony Rumsfeld himself has said "the financial reporting systems of the Pentagon are in disarray . . . they're not capable of providing the kinds of financial management information that any large organization would have."

GAO reports detail not only the woeful state of Defense fiscal controls, but the cost of failed attempts to fix them.

For instance, in June 2002 the GAO reviewed the history of a proposed Corporate Information Management system, or CIM. The initiative began in 1989 as an attempt to unify more than 2,000 overlapping systems then being used for billing, inventory, personnel and similar functions. But after "spending about \$20 billion, the CIM initiative was eventually abandoned," the GAO said.

Gregory Kutz, director of GAO's financial management division and co-author of that report, likened Defense to a dysfunctional corporation, with the Pentagon cast as a holding company exercising only weak fiscal control over its subsidiaries -- the Army, Navy, Air Force and Marines. Today, DOD has about 2,200 overlapping financial systems, Kutz said, and just running them costs taxpayers \$18 billion a year.

"The (Pentagon's) inability to even complete an audit shows just how far they have to go," he said.

Kutz contrasted the department's loose inventory controls to state-of-the-art systems at private corporations.

"I've been to Wal-Mart," Kutz said. "They were able to tell me how many tubes of toothpaste were in Fairfax, Va., at that given moment. And DOD can't find its chem-bio suits."

CRITICS CALLED UNPATRIOTIC

Danielle Brian, director of the Project on Governmental Oversight, a nonprofit group in Washington, D.C., said waste has become ingrained in the Defense budget because opposition to defense spending is portrayed as unpatriotic, and legislators are often more concerned about winning Pentagon pork than controlling defense waste.

"You have a black hole at the Pentagon for money and a blind Congress," Brian said.

But things may be changing.

GAO's Kutz said Rumsfeld has "showed a commitment" to cutting waste and asked Pentagon officials to save 5 percent of the defense budget, which would mean a \$20 billion savings.

Legislators are also calling attention to Defense waste. "Balancing the military's books is not as exciting as designing or purchasing the next generation of airplanes, tanks, or ships, but it is just as important," Sen. Robert Byrd, D-W.V., said last week. In a hearing last month about cost overruns, Rep. John Duncan, R-Tenn., of the House Committee on Government Reform said: "I've always considered myself to be a pro-military type person, but that doesn't mean I just want to sit back and watch the Pentagon waste billions and billions of dollars."

But while Capitol Hill sees the need, and possibly has the will to reform the Pentagon, the devil remains in the details, and the administration aroused Democratic suspicions when it dropped its 207-page transformation bill on lawmakers on April 10 -- leaving scant time to scrutinize proposals that touch many aspects of the biggest department in government.

"We have as much problem with the process as with the substance," said Rep. John Spratt, D-S.C., who co-signed Waxman's letter calling the transformation bill "an effort by the Department to substantially reduce congressional oversight and public accountability."

Defense's Zakheim counters that the reform proposals would "remove the barnacles of past practices (and provide) DOD with modern day management while preserving congressional oversight and prerogatives."

But Waxman, a critic of the administration's handling of Iraqi reconstruction contracts, called the proposals "a military wish list" to take advantage of "the wartime feeling."

"Secretary Rumsfeld is hoping to march through Congress like he marched through Iraq," Waxman said.

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