BUSINESS

Pentagon's Finances Just Don't Add Up

By JOHN M. DONNELLY

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WASHINGTON — The military's money managers last year made almost $7 trillion in adjustments to their financial ledgers in an attempt to make them add up, the Pentagon's inspector general said in a report released Friday.

The Pentagon could not show receipts for $2.3 trillion of those changes, and half a trillion dollars of it was just corrections of mistakes made in earlier adjustments.

Each adjustment represents a Defense Department accountant's attempt to correct a discrepancy. The military has hundreds of computer systems to run accounts as diverse as health care, payroll and inventory. But they are not integrated, don't produce numbers up to accounting standards and fail to keep running totals of what's coming in and going out, Pentagon and congressional officials said.

"These [$6.9 trillion in] entries were processed to force financial data to agree with various data sources, to correct errors and to add new data," the inspector general said. "The magnitude of accounting entries required to compile the DOD financial statements highlights the significant problems DOD has producing accurate and reliable financial statements with existing systems and processes."

The department's "internal controls were not adequate to ensure that resources were properly managed and accounted for, that DOD complied with applicable laws and regulations and that the financial statements were free of material misstatements," the report said.

“One expects that the financial statements of an entity . . . should reflect accurately what the department or company has and fairly present the results of their operations,” said Jay Lane, chief of the inspector general’s finance and accounting directorate. “We’re saying we can’t audit that to tell you that.”

The military says it owns $119.3 billion in ships, trucks, engines and more. But its inspector general said he could not verify that because records lacked documentation.

The U.S. military’s financial records are not in good enough shape to face an audit, let alone pass one, the inspector general said.

The Pentagon is not alone: Only 11 of 24 big federal agencies could produce reliable financial statements for the fiscal year that ended Sept. 30, said Sen. Fred Thompson (R-Tenn.), chairman of the Senate Governmental Affairs committee.

Still, the Pentagon had much more not to account for than the other 10 agencies. The military says it spent $275.5 billion in fiscal 1999, just under half of the $575 billion Congress appropriated for the federal government, according to Lisa Jacobson, director of defense financial audits at the General Accounting Office. The GAO is Congress’ auditing arm.

The inability to account for where the money went doesn’t just make the military less efficient, she and others said, but also makes the armed forces less responsive to the will of Congress. Without sound costing data, the Pentagon can’t make good decisions, they contend. For example, they say, the military can’t measure the results of closing a base; can’t effectively decide whether to contract out a service or keep it in government hands; may inaccurately peg the cost of programs under debate, from missile defense to retirees’ health care.

“Last year, the Defense Department corrected errors in its bookkeeping that totaled $2.3 trillion--more than the entire federal budget,” Thompson said in a statement, calling them “changes made to plug holes for things they couldn’t explain.”

Still, Jacobson and others say the Pentagon is improving. Its comptroller, William Lynn, said in a statement that the military's computer systems are good enough to make it accountable to Congress. But he added: "Unfortunately, they do not do a good job of producing financial statements."

"When you spend money, you account for it--that is required in the federal government," Jacobson said. "But DOD doesn't have that. They just say, . . . 'We had money, we spent it.' Then they try to go back later . . . to pull the balance sheet together."

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