

# United States Senate

WASHINGTON, DC 20510

June 12, 2014

## **Transmitted Electronically**

The Honorable Robert F. Hale  
Under Secretary (Comptroller) and Chief Financial Officer  
Office of the Under Secretary of Defense (Comptroller)  
United States Department of Defense  
1100 Defense Pentagon  
Washington, DC 20301-1100

Mr. Jon T. Rymer  
Inspector General  
Department of Defense  
4800 Mark Center Drive  
Alexandria, VA 22350-1500

Dear Comptroller Hale and Inspector General Rymer:

The Department of Defense (DoD) has taken encouraging steps to strengthen financial management. Department-wide improvements will allow more timely, reliable, accurate, and useful information for operational and financial decision making. However, as we surely all agree, we must all work together in order to overcome continuing and pervasive financial management problems that affect the Department's ability to control costs, anticipate future expenditures, measure performance, prevent and detect fraud, waste, and abuse, and above all, to provide an accurate and complete accounting of how the money is spent.

We are writing to you today to urge you to take strong corrective action to end the long-standing, wide-spread use of "plug" figures, which continue to reflect a major shortcoming in DoD financial management.

"Plugs," also known as reconciling amounts, are unsupported adjustments to an accounting record or general ledger. They are false numbers used to force balances and have the effect of masking accounting and control deficiencies. While not strictly prohibited by law, their use is considered unacceptable and improper by regulation and accepted accounting practices and audit standards.<sup>1</sup>

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<sup>1</sup>DoD Financial Management Regulation 7000.14R, Volume 4, Chapter 2, Accounting for Cash and Fund Balances with Treasury, Section 020102.B1 (Dec. 2009) as cited in CRS American Law Division Memo to Senator Grassley, 2/12/14; "Federal Financial Management Improvement Act of 1996," (section 803 a.); OMB Circular A-136 Revised, "Financial Reporting Requirements," (October 21, 2013, pages 31-33); Statement of Federal Financial Accounting Concept 5, ( pgs. 1-2); and DoD FMR, volume 6A, chapter 2, prescribes JV-related supporting documentation and approval requirements implementing Federal law and OMB requirements;

The use of “plug” figures throughout the Department recently received in-depth exposure in the second part of a three-part series of articles by Scot J. Paltrow of the Reuters News Service entitled “Unaccountable: The High Cost of the Pentagon’s Bad Bookkeeping.”<sup>2</sup>

Of great concern to us is the fact that the use of “plugs” appears to be growing. For example, the fiscal year 2008 value of DoD “plugs” used in the fund balance with Treasury was \$5.3 billion, but in the short space of five years, it rose to \$9.6 billion in 2013. That is an increase of \$4.3 billion or 80%.<sup>3</sup> However, these are just net “plug” figures used to balance the statements and may be just the tip of the iceberg. When gross amounts – positive and negative “plugs” -- are tallied up, it is estimated that the dollar value of all DoD “plugs” would be much higher.<sup>4</sup> A recent DoD Office of the Inspector General report on the Army and other related reports indicate that DoD plugs could easily run into hundreds of billions of dollars.<sup>5</sup>

Surprisingly, even the DoD Office of the Inspector General’s (OIG) own financial statement for FY 2012, which failed to earn a clean opinion, contained “unsupported adjustments” of more than \$200 million, according to the independent auditor. These “plugged” entries were similarly used to “force” the general ledger into agreement with the budget execution and cash management reports to the Treasury Department.<sup>6</sup> We believe the OIG should be setting an example of excellence in accounting for the entire department to follow by producing credible and reliable financial statements, which would not include the use of “plugs.”

After the last Paltrow article in Reuters was published, Senator Grassley asked the DoD OIG what it had done or was planning to do to root out, expose, and address “plugging” abuses. The OIG replied by stating: “We have been reporting about the problem of unreliable data, unsupported journal vouchers and plugging for many years.”<sup>7</sup> To back-up this assertion, a list of 35 OIG audit reports going back to March 1994 was provided. While these 35 reports identified plugging issues, the remedies proposed by the OIG were, for the most part, not fully implemented. The audit reports essentially told the military services and agencies involved to create new policies and procedures to do what they are already supposed to be doing.<sup>8</sup> Despite all these reports, the problem of plugging within the Department is still wide-spread. The Department still needs to fix the problem. The DOD responses do not provide a high-level of confidence that the gravity of this problem is truly understood and accepted and that a solution will come any time soon.

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<sup>2</sup> How the Pentagon’s Payroll Quagmire Traps America’s Soldiers, 7/2/13, Reuters.com; Behind the Pentagon’s Doctored Ledgers, A Running Tally of Epic Waste, 11/18/13, Reuters.com; and Why the Pentagon’s Many Campaigns to Clean Up Its Accounts Are Failing, 12/23/13, Reuters.com

<sup>3</sup> GAO email, 11/14/13; and DoD Agency Financial Report for FY 2013, p.82;

<sup>4</sup> GAO email to Senator Grassley’s office, 4/4/14;

<sup>5</sup> DoD OIG Report No. 2012-096, 5/31/12; Oversight Review of Audit Reporting by the DoD OIG, prepared by the Staff of Senator Chuck Grassley, 9/7/10, p. 25;

<sup>6</sup> DoD OIG, Financial Statement Audit, FY 2012, Independent Auditor’s Report, pp. 32-34 and 72;

<sup>7</sup> Emails from office of Senator Chuck Grassley to DoD OIG, 11/21/13 and 12/18/13, and DoD OIG email response, 12/17/13;

<sup>8</sup> Reports 98-192, 8/25/98 and 2001-177, 8/31/2001;

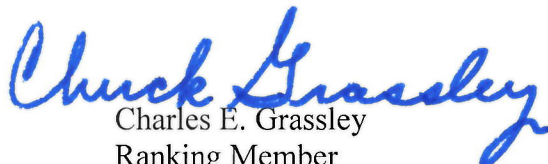
The DoD “plugging” problem is long-standing and deep-seated in the Defense Department’s accounting culture. Such dependence on “plugging” is indicative of a dysfunctional finance and accounting system. It is symptomatic of the root causes that leave the Department’s accounting books in an un-auditable condition and lead to well-deserved criticism that the Department is not a good steward of the taxpayers’ money. “Plugging” should never be granted a safe haven in the DoD OIG’s own financial statements.

We believe that the DoD OIG must play a constructive role in helping the Department to fix its broken accounting system and to meet mandated audit readiness deadlines.


In order to play a leadership role in financial management reform, the DoD OIG should start by ending the use of plugging in its own financial statements.

We also urge the DOD Comptroller and IG to end the wide-spread use of plugging throughout the Department. We request that you provide our offices with a plan that includes a specific timetable to accomplish this important goal. Your careful consideration of this proposal would be appreciated.


Sincerely,




Charles E. Grassley  
Ranking Member  
Committee on the Judiciary



Tom Coburn  
Ranking Member  
Committee on Homeland Security  
and Governmental Affairs



Thomas R. Carper  
Chairman  
Committee on Homeland Security  
and Governmental Affairs



Ron Johnson  
Ranking Member  
Subcommittee on Financial and Contracting Oversight  
Committee on Homeland Security and Governmental Affairs