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The Fight of a Lifetime

Telling It Like It Is on the National Debt

By Joseph J. DioGuardi

IN BRIEF

Joseph DioGuardi, the first practicing CPA elected to Congress, defined his career by advocating for financial accountability and fiscal responsibility from the U.S. federal government. He provides an historical perspective on the federal government’s inability to produce clean audited financial statements and its propensity for running large budget deficits. He believes that immense damage is being done to future generations by elected officials’ unwillingness to adhere to the highest professional accounting, financial management, and ethical standards when reporting the costs of federal policies.

Well,” I paused as I began my introductory remarks to the committee. “You’ve got economists, actuaries, politicians, accountants ... but let’s not forget the *people!*” I had spent a career as a certified public accountant, but my motivation for testifying before the Federal Accounting Standards Advisory Board (FASAB) on February 25, 2009 (<https://www.youtube.com/watch?v=Ji-I7chYKkE>), was to protect the interests of the people in knowing the true costs of the federal government’s spending. I emphasized the need for full liability accrual/GAAP accounting (including all major unfunded commitments and obligations for entitlements such as Social Security, Medicare, and Medicaid, and guarantees for federally sponsored enterprises including the Pension Benefit Guaranty

Corporation) for the budget and financial reports of the U.S. government.

The Hoover Commissions of 1949 and 1956 required that accrual accounting principles be used for federal budgeting and financial management. In published remarks dated May 6, 1976, U.S. Comptroller General Elmer Staats stated as follows:

When the Budget and Accounting Procedures Act of 1950 was passed, the General Accounting Office made it a requirement that agency accounting systems be maintained on an accrual basis in order to secure Comptroller General approval. Accrual accounting was recommended in 1949 by the First Hoover Commission. In 1956, based on the Second Hoover Commission Report, the Congress amended by the 1950 Act and specifically directed that agencies maintain their accounts on ‘an accrual basis.’” [U.S. General Accounting Office, Remarks of Elmer B. Staats (Comptroller General of the United States) to the Committee to Investigate a Balanced Federal Budget of the Democratic Research Organization on Implementing Accrual Accounting within the Federal Government, <http://archive.gao.gov/f0102/091275.pdf>; Public Law 84-863 (1956).]

Nonetheless, for decades, the federal government has simply ignored the 1956 law. There seems to be no practical legal means to enforce its implementation without another legislative action by Congress that would explicitly affirm that the government must use the accrual/GAAP basis of accounting for budgeting, financial management, and financial reporting.

Although full liability accrual/GAAP accounting has not been adopted by the FASAB for the federal government’s annual financial statements, the largest components of unfunded liabilities for entitlements (such as Social Security and Medicare) are disclosed just below the U.S. Annual Financial

Statements in a footnote. I still believe, as I testified on February 25, 2009, that the FASAB was formed by the Treasury Department to effectively block the use of full liability accrual accounting in the annual financial statements of the federal government through the Treasury's voting seats on the FASAB. It should be noted here that it is the FASAB that is wholly funded by government sources (such as the U.S. Treasury Department), creating a conflict for what is in the public interest in fully disclosing the national debt (see <https://definitions.uslegal.com/t/the-federal-accounting-standards-advisory-board-f-a-s-a-b/>).

Since 1990, the effect of not implementing accrual accounting for the annual financial statements of the U.S. government has made spending (and the resulting national debt) appear lower in the short term, encouraging private-sector contractors to backload the costs of expensive programs in their dealings with the federal government—such as those projects in the Department of Defense, for which many former elected officials end up benefiting from as highly-paid lobbyists in their later years. (See, e.g., Matt Taibbi, “The Pentagon’s Bottomless Money Pit,” *Rolling Stone*, March 17, 2019, <https://bit.ly/2Smxj4>.)

In my time as a Congressman and in the private sector since then, I have worked to bring financial accountability and fiscal responsibility to the books and budget of the U.S. government. Today, it is apparent that the federal government is not taking action to reverse the dangerous trend of its financial unsustainability. The purpose of this article is to focus on the immense damage to our nation and future generations being caused by not adhering to the highest professional accounting, financial management, and ethical standards when dealing with the costs of the federal government. In this author's opinion it is time for the accounting profession to tell the truth to the American people, and future generations of Americans, about our unaccountable spending and



our reckless borrowing. And it is time to support full liability accrual/GAAP for the budget, financial management, and the financial statements of the federal government—to *tell it like it is* on our nation's financial unsustainability caused by the unchecked growth of our national debt.

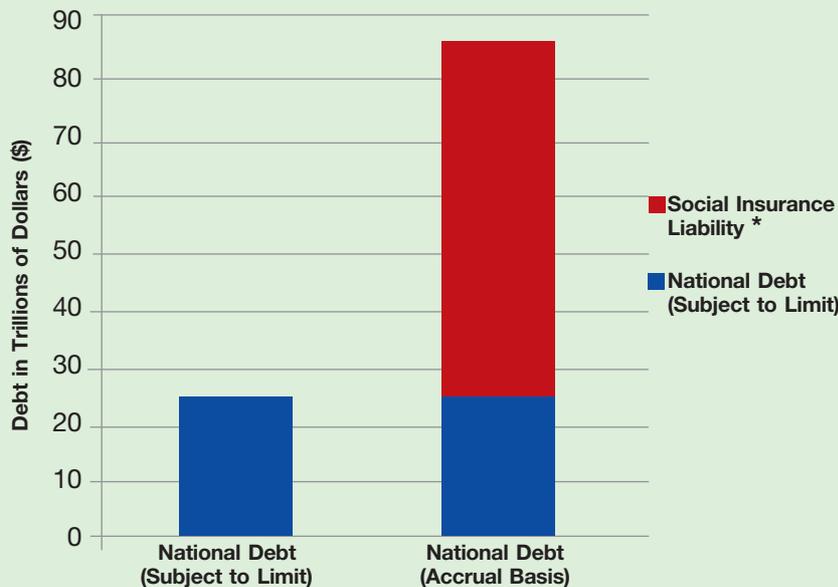
Putting the Present in Perspective

Perennial annual deficit spending on a massive scale has become commonplace ever since the Social Security Trust Fund surplus and the deficit in the federal government's General Fund were combined in 1969 to cover up the real cost of the Vietnam War. The truth is that we continue to spend money we do not have, requiring us to borrow

massively. But whose money are we spending now? The answer should be obvious to all of us: The future of our children, grandchildren, and great-grandchildren is being mortgaged without their consent, or even their knowledge.

I believe that the accounting profession must accept its share of the blame. Due to the accounting profession's failure to actively support the use of full liability/GAAP for the federal government, it has ceded the integrity of the numbers to manipulation by Washington's political establishment (see *Exhibit 1*). The profession's silence on this issue has effectively condoned a massive generational conflict of interest that facilitates elected officials favoring “today's voters at the expense of tomorrow's taxpayers” (Arthur Andersen

Exhibit 1
U.S. National Debt, Statutory Limit vs. Accrual Basis



*Social Insurance Liability was estimated in FY2019 to be \$59.1 trillion. This includes total present value of future expenditures in excess of future revenue for federal programs such as Social Security and Medicare.

U.S. Treasury Department, 2019 Annual Financial Statement of the U.S. Government, <https://bit.ly/319IH65>, p. 62.

CBO, An Update to the Budget Outlook: 2020-2030, September 2020, <https://bit.ly/30vU9su>

& Co., *Sound Financial Reporting in the US Government: A Prerequisite to Fiscal Responsibility*, February 1986, p. 7) The federal accounting, budget, financial management, and reporting process is effectively controlled by elected officials and civil servants who have not been adequately trained to understand the damage being done to the national and financial security of the United States of America due to inadequate accounting principles, poor federal financial management, and the “material weaknesses” noted in the legally required annual financial statement audits of the departments and agencies of the federal government (GAO-20-315R U.S. Government’s 2019 and 2018 Consolidated Financial Statements, <https://bit.ly/33og1rt>, p. 4).

An example of the perennial audit problem is the requirement for the Government Accountability Office (GAO), led by the Comptroller General, to give an audit opinion on the consolidated financial statements of the United States of America (as “fairly” representing the results of operations and the financial condition of our federal government). This is not a self-imposed rule by the GAO; it is a legal requirement imposed by the CFO Act that the Congress passed and President George H. W. Bush signed into law in 1990 (Public Law 101-576). Almost all federal departments and agencies complied with the initial statutory date of 1994. However, the Department of Defense (DOD) has not been able to deliver an auditable set of books and

financial statements to the GAO because of “material weaknesses” in the way its financial statements are prepared (Taibbi 2019). For the most part, this is due to poor “internal controls” resulting in massive bookkeeping errors and computer system anomalies that negatively affect the financial integrity of the statements presented to the GAO for audit. Because the DOD is one of the largest budget items, with 15% of projected 2020 federal spending, this has prevented an audit opinion to be expressed once again (and for the past 28 years now) on the entire consolidated U.S. financial statements for the fiscal year ended September 30, 2019 (CBO, “An Update to the Budget Outlook: 2020–2030,” September 2020, <https://bit.ly/30vU9su>, pp. 6, 15; based on the CBO’s estimates for fiscal year 2020, defense outlays total \$676 billion and total outlays are \$6.606 trillion).

Because I had initiated the drafting of the CFO Act in 1987, I decided to publicly implore the Pentagon to render a “clean audit opinion” (Joe DioGuardi, “Questions before the Reagan National Defense Forum 2014,” Nov. 15, 2014, https://www.youtube.com/watch?v=68YIAUL7U_Q&t=3s). Supporters of “Truth in Government” paid for my attendance at the 2014 Reagan National Defense Forum in Simi Valley, California, 20 years after the legal requirement to comply with audit provisions of the CFO Act of 1990 were not met. While at the forum, I got up to speak in front of several hundred Defense Industry lobbyists, government representatives, and corporate officials to ask why it was taking so long to get an audit opinion. I stated that the best professional outside accountants should be engaged by the DOD to correct the egregious occurrence of failed audits once and for all. I concluded my remarks by saying that the DOD not only asks for funds the government does not have; even worse, the DOD has not been able to account properly for what they have already

spent. The result is a big credibility gap with the American people.

The DOD has spent hundreds of millions of dollars to try to remedy the problems with its audit (Zuri Davis, “The Pentagon Fails Its First Comprehensive Audit,” *Reason*, November 16, 2018, <https://bit.ly/36qTU5J>). Unfortunately, it was recently announced that the “material weaknesses” that I mentioned more than five years ago have still not been corrected, and another “disclaimer of opinion” (which is basically no opinion at all) was issued by Comptroller General Gene Dodaro in February 2020 (GAO-20-315R U.S. Government’s 2019 and 2018 Consolidated Financial Statements).

Demanding a professional audit from the leaders of our Defense Department is based on the idea that the information that results from good accounting can, and should, be used to better the public good. Noted accounting historian Gary Previts once remarked of the accounting profession, “A culture which expects or seeks only competence ... is deficient. It must also seek to aid the well-being of others” (“Cultural and Socialization Aspects: Examples from Schools of Medicine, Law and Management,” Annual Meeting of the Federation of Schools of Accountancy, Houston, Texas, December 9, 1986). In this spirit, the professional and ethical considerations of our profession become intertwined; thus, our responsibility to society becomes all the more clear.

Putting My Past in Perspective

Looking back, my last-minute choice of a career in accounting at Fordham University in 1959 fortuitously resulted in a 22-year tenure (12 as a partner) at Arthur Andersen & Co., one of the world’s largest and most respected accounting firms. This also resulted in a most unexpected outcome: a seat representing Westchester County, New York, in the U.S. House of

Representatives in 1985. After so many years, it is not easy to connect the dots; but I have concluded that everything in life begins with a seed, and that seed for my future was sown by a highly respected professor of accounting at Fordham University, James McNeill. McNeill epitomized the qualities of integrity, competence, and sound judgment—the same qualities synonymous with the accounting profession.

Looking back, my most important experience at Arthur Andersen (which presaged my stint in Congress) was to work with a team of partners assigned to come up with a strategy for the federal government to bail out New York City from certain financial bankruptcy in 1975, most notably at a time when elected officials in Washington, D.C., could not seem to justify it politically (see, e.g., “Ford to City: Drop Dead,” *New York Daily News*, October 30, 1975). That assignment by the U.S. Treasury Department put Arthur Andersen in a successful partnership with Felix Rohatyn of Lazard Frères, who was later ironically quoted in a speech critical of the widely accepted business and corporate credo of “profit maximization,” saying, “I have been in business for almost 40 years, and I cannot recall a period in which greed and corruption appeared as prevalent as they are today” [*The State of Black America 1987*], Janet Dewart (ed.), National Urban League, Inc., January 1987). Coincidentally, this was part of Rohatyn’s speech at the Urban League Club in New York City, just as the Savings and Loan crisis of 1987 was emerging that would require a massive federal bailout (“off budget”) estimated at \$500 billion in costs to U.S. taxpayers (David E. Rosenbaum, “A Financial Disaster With Many Culprits,” *New York Times*, June 6, 1990, <https://nyti.ms/3iwDJGw>).

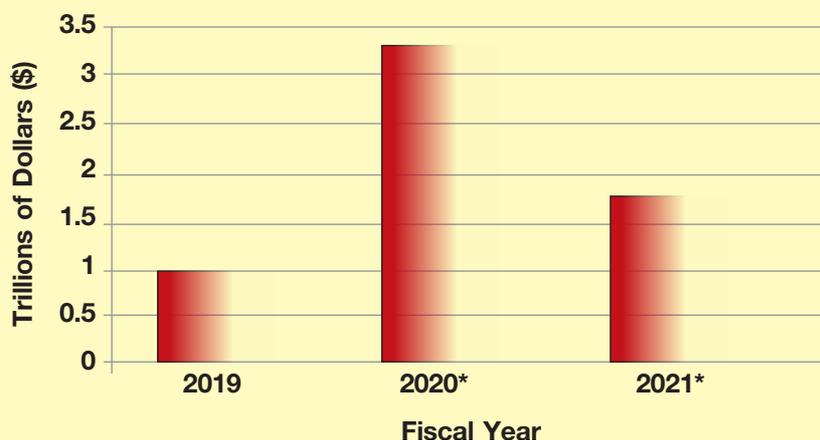
By taking advantage of a unique Arthur Andersen program for partners who wanted to withdraw from the firm early for public service, I was able to

run for Congress in 1984 (Lawrence A. Weinbach, *Subject: Joseph J. DioGuardi*, Arthur Andersen & Co., “Letter to All Metro New York Personnel,” March 5, 1984). My election enabled me to bring to Capitol Hill an immense experience in government accounting and financial accountability for voters and taxpayers. The work that I did on drafting the CFO Act came directly out of this experience, and it earned me the “Outstanding CPA in Government Award” by the NYSSCPA in 1986.

The Nation’s Failing Fiscal Health

After what seems like a lifetime of work to bring real financial accountability and fiscal sustainability to Washington, I am concerned that the future financial health of our nation looks grim. If our fiscal course does not change, we are projected to amass a national debt that will likely permanently exceed our nation’s Gross Domestic Product (GDP) in the next 10 years, even without taking into account the costs of the coronavirus (COVID-19) pandemic (CBO, 2020). The benefits that citizens draw from government investments in society could dramatically be squeezed by rising required interest payments. As the national debt rises to over \$38 trillion in 10 years, the annual interest payments on that debt over that same time will also balloon (see *Exhibit 2*). Given years of prior inaction in correcting our nation’s fiscal and financial sustainability, the annual interest payment of the U.S. government is projected to hit \$664 billion by 2030—compared to the \$888 billion projected to be spent on defense (CBO, 2020). There is a major difference, however, in terms of societal benefit between interest costs and other federal payments. Interest costs do not further the education of our nation’s youth, do not improve the healthcare of our veterans, do not invest in the medicines of the future, and do not help us prepare for an unanticipated

Exhibit 2
U.S. Government Annual Federal Budget Deficit



*Increase in annual deficit for fiscal year 2020 and 2021 is based on CBO estimated for changes to economic variables and increased federal spending in fiscal year 2020, including the CARES Act. Projected deficits may potentially be higher given adjustments for tax revenues.

CBO, An Update to the Budget Outlook: 2020-2030, September 2020, <https://bit.ly/30vU9su>

health crisis such as COVID-19. Instead, interest costs squeeze these discretionary spending parts of the federal budget. In addition, whereas mandatory spending for entitlement programs such as Social Security and Medicare are on autopilot, discretionary spending is the only portion of the annual federal budget that elected officials control when considering national priorities.

It is important to understand the fiscal decisions of the federal government in relation to today’s COVID-19 crisis. While I wholeheartedly support the \$2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act as a necessity to preserve American economic activity, I believe that the fiscal preparation for this moment has been grossly inadequate. Due to the past 20 years of deficit spending, the federal government failed to set aside reserves for a crisis such as the one that befalls us now. It is now projected that the U.S. annual budget deficit for fiscal year 2020 will be \$3.3 trillion and the

fiscal year 2020 deficit as a percentage of GDP will be the largest since 1945 (the last year of World War II).

It should also be noted that should a day of apocalyptic reckoning come to America, the question is: who will bail out the U.S. government? Author Jacob Soll details the roots of the U.S. federal government’s continual budget deficits (*The Reckoning: Financial Accountability and the Making and Breaking of Nations*, Penguin, 2014). But Soll argues that while, in past times, nations went broke through ignorance, there is no excuse today; since professional, independent, and non-governmental accountants are available to provide good financial information. CPAs should be “telling it like it is.” By speaking up, the profession gives voice not only to the hidden truth of our government’s finances, but also to the future generations who we all wish will be able to enjoy the American Dream.

For Posterity

Fundamentally, my motivation for *telling it like it is* about the danger of accumulated annual budget deficits of our federal government is that the national debt represents a claim on the standard of living of future Americans—“our Posterity,” as the Constitution so aptly put it. The reason is because future generations face the unfair prospect of being held responsible for the repayment of the public debt (plus interest) that was compiled and hidden by their predecessors through inadequate accounting principles and poor standards of accountability. Future generations will do so with diminished discretionary spending available for vital societal investments.

The Founders gave us an enduring asset in the U.S. Constitution, but we are leaving our children with the liability of a huge unpaid bill. That bill is the result of an inadequate financial management and accounting process resulting in annual budget deficits (on and off the books) that accrue to a growing national debt. How will history view this costly legacy? And how unkind will judgment be on those who had the professional accounting education and experience to know better, but remained silent?

When you combine the years I spent as a CPA, my time on Capitol Hill, and my career in public advocacy at the Truth in Government organization, it has been personally gratifying to have been in the right place at the right time to sound the alarm about the unsustainability of the country’s fiscal path. It has truly been the fight of a lifetime. I remain committed to telling it like it is on the unsustainability of our national debt. Only by *telling it like it is* can we, the trusted accounting profession, make a difference in preserving the American Dream for our posterity. ■

Joseph J. DioGuardi, CPA, is the president of Truth in Government (<https://www.truthingovernment.org>), New York, N.Y., and a former member of the U.S. House of Representatives.