

**Comments by Hon. Joseph J. DioGuardi (CPA) on the Exposure Draft for
Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government**

Introduction and Background

I joined Arthur Andersen & Co. as a staff accountant in July 1962, after graduating from Fordham University with a Bachelor of Science degree, having majored in accounting. I passed the CPA exam in 1965 and was licensed to practice by New York State shortly thereafter. In April 1972, I was admitted as a partner in the firm and served as such until April 1984, when I decided to elect early “retirement” under an Arthur Andersen & Co. program for public service to run for a seat in the U.S. House of Representatives. Having campaigned successfully, I began serving my Congressional District in Westchester County, New York in January 1985. In my two terms as a Member of the House, I served on the Government Operations Committee and the Banking and Finance Committee. I was also appointed chairman of a Republican Policy Task Force on Budget and Accounting Reforms.

While at Arthur Andersen, I worked with a group of partners with responsibility for public sector accounting, reporting, and financial management issues focused on federal, state, and local governments. In September 1975, the firm published, as a public service, a booklet entitled “Sound Financial Reporting in the Public Sector,” which included consolidated financial statements of the U.S. government on the accrual basis of accounting. In December 1975, the firm was chosen to advise the U.S. Secretary of the Treasury on New York City’s efforts to regain access to the credit markets as a condition of a federal bailout. After completing this unprecedented assignment, the firm continued to make an impact in public sector accounting and management standards.

My professional background, as described above, was an important factor in my decision to become so active as a new Member of the House in seeking changes to improve financial oversight, financial management, and accounting, budgeting, and reporting standards for the federal government. Among the many bills that I either introduced or sponsored and fought for as a junior Member of the minority Party were:

- 1985—HR 748, To require biennial budgeting
 - HR 2164, To remove Social Security Trust Funds from the budget
 - HR 3520, To require deficit control procedures
 - HR 3886, To require economic assumptions for defense spending to be the same for the rest of the budget

- 1986—HR 4495, Federal Financial Management Improvement Act
 - HR 4659, To improve federal debt collection practices

- 1987—HR 33, To provide for biennial federal budgeting as an amendment to the Gramm-Rudman Act
 - HR 1241, Chief Financial Officer Act

-2-

—HR 3142, Chief Financial Officer Act

- 1988—HR 526, For a House Ethics Public Review Board and Inspector General
- HR 4149, To distribute budget information to the general public with their income tax forms mailed annually in January
- HR 44, To require operating and capital budgets and trust fund accounting reforms

I personally lobbied my fellow colleagues hard, especially the Committee Chairpersons and Ranking Members, for all of the above-listed measures, reminding them of the important systemic implications that these measures could have on the financial condition of the U.S. government for future generations. I also gave many public speeches and media interviews, as one of the very few CPAs ever elected to the U.S. Congress. The most notable result from this activity was the passage of HR 5687 (The CFO Act of 1990) as a successor measure to the ones that I introduced in 1986 and 1987. (See the attached personal letter from President George H.W. Bush, which he sent to me on January 29, 1991, thanking me for my leadership role in the passage of the CFO Act.)

After leaving Congress in 1989, I continued to speak in many professional and public forums, and in early 1992, I published *Unaccountable Congress: It Doesn't Add Up*. As a result of this activity, I was asked to chair an Association of Government Accountants Task Force on Truth in Budgeting and Accounting (for the federal government). The AGA Report (attached) was released on November 4, 1992, and it called for:

1. The adoption of sound accounting and budget principles under GAAP and strengthening the CFO system
2. The adoption of separate budgets for general funds, trust funds, and Government Sponsored Enterprises
3. The adoption of capital budgeting
4. The adoption of biennial budget cycles
5. Maintaining the Budget Enforcement Act of 1990 for greater discipline in budgeting procedures
6. Publicizing the true financial condition of the federal government

Comments on Exposure Draft

It has been said that a generation defined by information and rapidly expanding computer and broadband technology must give taxpayers (and all Americans) the benefit of improved methods of accounting and reporting to provide ready access to understandable financial data and, of course, greater transparency.¹ The aim should be to foster increased confidence in our government's ability to provide promised and expected government services or, failing that, of an early warning system that something must be

¹ Mort Egol, *Dynamic Scoring: Reinvented Accounting for a New Management Paradigm* (Hastings on Hudson, New York: Wisdom Dynamics, 2004). See Chapter 10.

-3-

changed to keep our economic well being in line with our expectations and past promises. The FASAB in its Exposure Draft “Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government” (for dissemination in 2009) is addressing this problem by sounding the alarm that future budgetary resources will likely be insufficient to sustain public services, and to meet obligations for unfunded past services, commitments, and guarantees as they come due. To answer this looming economic predicament, the FASAB proposes to require the U.S. government to present information addressing the fundamental question of the U.S. government’s future fiscal viability. And, when one looks at the fiscal problems of our federal government, the question arises whether future taxpayers are being asked to fund the fiscal profligacy of the current generation. Put another way, are we passing on the current cost of the federal government to the next generation through unfunded, unbudgeted, and unrecorded entitlements (like Social Security and Medicare) and bonded debt of unsustainable and unserviceable proportions, especially when measured against our nation’s GDP and that of other nations like China and Japan from whom we have borrowed to sustain our mounting excess spending?

The FASAB in its Exposure Draft rightly believes that a comprehensive financial package is needed to convey “key projected receipts, spending, deficits or surpluses, and debt.” Let me say at the outset that the Exposure Draft (ED) is a document that I support without equivocation. I know that there is also an ED on “Accounting for Social Insurance.” Nevertheless, it is my view that, although reporting on fiscal sustainability and inter-period or inter-generational equity are related, fiscal sustainability speaks to our nation’s survival as a free, democratic, and competitive opportunity society, while inter-generational equity relates more to social cohesion and fundamental national morality. I believe that the latter, while extremely important, does not rise to the level of fiscal sustainability or survival as a nation, and so I would not want to delay the implementation of the ED on sustainability to find an answer to what accountants normally refer to as interperiod allocation for Social Security and other entitlements.

Regarding the ED on long-term sustainability, I will now address what I believe are the challenges in arriving at a financial package that first will inform interested constituencies and then hopefully motivate them to take civic and political action to change the course and direction of current fiscal policy. It was this reality that motivated me to write *Unaccountable Congress: It Doesn’t Add Up* (Regnery, 1992). And, the basic problem that I still see today is an accounting and budgeting process that disguises the true cost of our federal government, requiring unfunded mandates and promises to be past on to future generations of taxpayers. (*Unaccountable Congress* presents a litany of fiscal and financial horrors that are embedded in our nation’s current accounting, budgeting, and reporting systems—a copy of the book, chapter by chapter, can be downloaded at www.truthingovernment.org.)

My view continues to be that poor accounting makes for inadequate financial reporting, and the FASAB should revisit why the definition of the reportable liabilities of our

-4-

federal government differs from the rules imposed by the SEC on publicly traded companies to protect corporate shareholders. Shouldn't we have a similar high standard for reflecting liabilities, commitments, and guarantees on the books and reports of our federal government in order to protect the taxpayers, both current and future? And since the Statement on Fiscal Sustainability is a forward looking document, I should remind the Board of the common sense axiom, "It's pretty hard to know where you are going if you don't know where you are." In Chapter 3 of *Unaccountable Congress*, entitled "Our No-Account Federal Government," I expanded this warning with a metaphor: "Exploring the financial management of the U.S. government is like being blindfolded and lost in the New York subway system. You don't know where you are, have no idea where you are going—and you could fall off the edge at any moment with very unpleasant results."

Finally, I persist in my view, shared by the Association for Government Accountants (see the attached AGA "Task Force Report on Truth in Budgeting and Accounting"), that the budget process is controlled by political, not fiscal reality, and it must be changed to expose excess spending and disguised commitments before they create a fiscal tsunami headed for future generations. I say this knowing full well that the FASAB has no mandate to consider or change the budget process. Nevertheless, since its good work is based, in my view, on the results of inadequate accounting, poor and gimmicky budgeting, and only partially audited (or auditable) financial statements, the Board may be building its otherwise sound conclusions on a fiscally and financially porous foundation. So, let me now address some of the specific issues and questions raised by the FASAB before I conclude with some suggestions for additional information that should be considered in the supplementary data being provided to readers and users of the Federal Consolidated Financial Report (CFR).

Specific Comments

ED Issue—Do I believe that the proposed ED adequately supports the objective that federal financial reporting should provide information that helps the reader determine whether future budgetary resources will likely sustain public services and meet obligations as they come due?

JJD Comment—Yes, but one of the biggest fiscal shell games being played out today in the accounting and budget process began in the Johnson administration. The "unified budget" was created to disguise the real costs of the Vietnam War for political purposes. It offsets surpluses in the "trust funds" (for Social Security, highways, etc.) against current operating budget deficits, so as to artificially reduce the current reportable deficits. (This may also require a change in the definition of GAAP for federal accounting standards in order to classify payroll taxes collected in excess of current payments as deferred income.)

ED Issue—The FASAB has indicated that the primary audience for the CFR are citizens and citizen intermediaries such as journalists and analysts.

-5-

JJD Comment—I agree with this statement, in general. Nevertheless, the question remains as to how the CFR and supplementary information will be disseminated to the widest possible audience and in what form. Not all citizens have access to the electronic media, and many are not able to understand even conventional statements of operating results and financial condition. It was for this reason that I introduced a bill in 1988 (HR 4149) to distribute simplified financial information to the general public with their income tax forms, mailed annually in January, in a format that they could understand. Most citizens get a monthly statement for every credit card that they use. But our federal government sends us no such statement, even annually. If it did, I would like to think that it would look like the one that I prepared for the fiscal year ended September 30, 1991. (A copy is attached as food for thought, and it should be noted here that, while the numbers presented were calculated for each US individual taxpayer, they could be presented for each family or on some other basis that brings home the message of the ever growing national debt.)

ED Issue—What should the basic financial statement be titled from the options given?

JJD Comment—I believe that the title “Statement of Fiscal Sustainability” is the most appropriate of the options presented, as a clear representation of the nature of the statement. I would suggest that the word “Federal” be inserted before “Fiscal,” so as to make it perfectly clear that this is about our U.S. government and not about the States.

ED Issue—Disaggregation of major programs or line items in the basic financial statement.

JJD Comment—I believe that disaggregation should not be limited to Social Security and Medicare. There are other major expenditures that should be tracked on a year to year basis to make the Statement as informative and as useful as possible. I would also separately show the annual expenditures for Defense, Welfare, Health, Education, and Transportation. At the least, in my view, the expenditures for our nation’s defense should be shown along with Social Security, and Medicare.

ED Issue—Disclosures to explain and illustrate the major factors impacting projected receipts and spending.

JJD Comment—I definitely believe that an explanation and illustration of the major factors impacting projected receipts and spending should be provided. It will not only help readers understand why major receipts and expenditures are changing from year to year but may also motivate them to take civic or political action sooner than later. Moreover, I believe that the display of a range for major cost drivers and/or major programs as shown in 1(a) and 1(b) of Appendix B should be mandatory to more fully disclose the fiscal dynamics working to create a less sustainable or unsustainable federal government.

-6-

ED Issue—Narrative and graphic displays to effectively communicate historical and projected trends.

JJD Comment—Again, thinking as an accountant wanting full disclosure and as a citizen looking for important information in a simple and understandable format, I believe that graphic displays with simple narratives would definitely help readers understand the basic financial statement and may even make readers more interested in all of the data presented in the Statement and CFR. For this reason, I believe that the final accounting standard should include an appendix that displays illustrated disclosures like those shown in Appendix B.

ED Issue—Should “Frequently Asked Questions” be included in the CFR?

JJD Comment—As a general matter, yes, to increase the understandability of terms and concepts, especially for the less sophisticated reader of the CFR. One FAQ that I would include for all readers and users of the CFR is #7 in Appendix C, “What is the nature of federal trust funds?”—especially in light of the use of Social Security funds to pay for other federal programs without fully disclosing the way that current deficits are made to appear substantially less by this questionable treatment from an accounting viewpoint.

ED Issue—Effective date and phased implementation of the proposed Statement.

JJD Comment—I believe that we should not delay the effect of the proposed Statement to the fiscal year ending September 30, 2010. It should be made effective immediately so that the next CFR for the fiscal year ended September 30, 2009 include the important information on fiscal sustainability that is the subject of the ED. A good reason for doing this is that federal fiscal matters are going from bad to worse in a hurry with record trillion dollar plus deficits projected for the immediate past and present fiscal years. The current economic recession and proposed stimulus plan(s) have created a dire need for (and wide interest in) information on federal fiscal sustainability, as soon as possible. Likewise, I would urge the Board to accelerate the phased implementation period from three years to one year.

ED Issue—Foreign holdings of US Treasury debt.

JJD Comment—I believe that graphic information (like the pie chart in #10, Appendix B), regarding trends in the proportion of US Treasury debt held by foreign investors (especially foreign countries) should be made part of the Required Supplementary Information *and* be subject to the phased-in implementation. I feel strongly about this because of our increasing reliance on foreign countries to fund our operating deficits at a time when the global economy is under great strain and these funds may not be available to us in the future as countries like China, Japan, and Germany are forced to shore up their own economies, especially with further global economic deterioration. In 1992, I warned of the possible bankruptcy of the U.S. government in Chapter four of

-7-

Unaccountable Congress, which I entitled for maximum affect “The Big Apple and Washington—One Bailout after Another.” Having worked with the Arthur Andersen team hired by the U.S. Treasury Department to advise on the bankruptcy of New York City in 1975, I projected a similar scenario for our federal government. Certainly no bankruptcy in American history has ever had the impact of the collapse of New York City. And, what I said then is that the most curious thing about it was that hardly anyone saw it coming. I ended that chapter by saying that the New York City debacle proved a big point for us then and now; namely, that dishonest accounting and financial management and reporting systems can lead to big problems—even possible bankruptcy for the United States of America if it stayed on the same track.

ED Issue—Interperiod or intergenerational equity.

JJD Comment—I believe that additional information will be helpful to CFR readers and users in assessing whether financial burdens without associated benefits are being passed on by current taxpayer to future generations of taxpayers. I also believe that such information should be required and not made optional, and that further research and analysis should be performed by the FASAB to improve the disclosure of such information. The latter issue has become increasingly important with the public attention being given to the Madoff scandal as a \$50 billion “Ponzi” scheme. The press has even gone so far as to compare what Madoff has done to the way the U.S. Treasury handles Social Security. In fact, one cartoon recently presented a Congressional panel asking Madoff where he got the idea to do what he did. He replied: from Social Security! (For a better explanation of why many view Social Security as a massive “Ponzi” scheme, see Chapter five of *Unaccountable Congress*, entitled “Congressional Child Abuse: Send the Feds the Bill.”)

Conclusion

The FASAB has done a good job in analyzing the need for a Statement on Fiscal Sustainability and the disclosure and format for such an important Statement. Nevertheless, I believe that the Board should consider some additional disclosures, especially for the more sophisticated users of the Statement. Since global competition will play a major role in US fiscal sustainability, I believe that a comparison of key economic competitive factors among major nations should be presented. Also, to assess their future impact on competitiveness, we should present our military and defense costs relative to other nations. Another disclosure worthy of FASAB consideration are tax expenditure subsidies for major economic sectors such as housing, health, and energy independence. I would even consider disclosures for costs of relieving natural disasters and the costs of remediation of global warming, including compliance by all nations.

Finally, no report, response, or discussion on federal accounting and reporting would be complete without going back to where concern for this important issue all started. President Thomas Jefferson recognized the very problem that the FASAB is now facing

-8-

in his written admonition to his Treasury Secretary, Albert Gallatin, in 1802:

I think it an object of great importance....to simplify our system of finance, and to bring it within the comprehension of every member of Congress...the whole system [has been] involved in impenetrable fog. There is a point...on which I should wish to keep my eye...a simplification of the form of accounts ...so as to bring everything to a single center; we might hope to see the finances of the Union as clear and intelligible as a merchant's books, so that every member of Congress, and every man of any mind in the Union, should be able to comprehend them to investigate abuses, and consequently to control them.

FISCAL YEAR 1991

(October 1, 1990–September 30, 1991)

| DESCRIPTION | CHARGES | PAYMENTS |
|--|-----------------|--------------------|
| Previous Balance Due (<i>your share of the national debt beginning of year</i>) | | \$28,796.75 |
| Purchases During Year (<i>your share</i>) | | |
| Social Security and Medicare | 3,305.34 | |
| National Defense | 2,411.63 | |
| Income Security and Welfare | 1,514.96 | |
| Health | 629.94 | |
| Education, Training, Employment | 367.07 | |
| Agriculture, Natural Resources | 297.10 | |
| Transportation | 279.04 | |
| Administration of Justice | 108.81 | |
| Other | 1,064.42 | |
| Payments Received During Year (<i>your share</i>) | | |
| Individual Income Taxes (<i>Thank you for your prompt payment</i>) | | \$4,140.06 |
| Social Security taxes and contributions | | 3,504.52 |
| Other | | 1,681.36 |
| Totals | 9,978.31 | 9,325.94 |
| Finance Charge (<i>your share of the Interest on the national debt</i>) | 1,725.77 | |
| New Balance Due (<i>your share of the national debt end of year</i>) | | \$31,174.89 |

| PREVIOUS BALANCE | PURCHASES | FINANCE CHARGES | PAYMENTS | BALANCE DUE |
|------------------|------------|-----------------|-------------|-------------|
| \$28,796.75 | \$9,978.31 | \$1,725.77 | -\$9,325.94 | \$31,174.89 |

* NOTE: This statement is based on the cash accounting system still used by the federal government, not the Generally Accepted Accounting Principles used by most state governments and private industry.

SOURCE: Final Monthly Statement of Receipts and Outlays of the United States Government for FY 1991 (Financial Management Service, Department of the Treasury); IRS 1991 estimate of 113 million joint and individual income taxpayers.

ASSOCIATION of GOVERNMENT ACCOUNTANTS

TO: National Executive Committee
c/o Virginia Brizendine

FROM: David R. Hancox *Dane*
Chairman - Emerging Issues Committee

DATE: November 4, 1992

RE: Task Force Report on Truth in Budgeting and Accounting

Enclosed is a copy of the report of the Blue Ribbon Task Force on Truth in Budgeting and Accounting chaired by Mr. Joseph DioGuardi. We ask that you present it to the National Executive Committee.

The purpose of this report, as stated by the authors, is to voice the opinions of experienced government financial managers with the intention of generating additional thought, discussion and corrective action on budgeting and accounting issues. From this report, the National Executive Committee might identify other issues that could be addressed by other AGA task forces.

If you need further assistance from the Emerging Issues Committee, please feel free to contact us.

cc: Joseph DioGuardi - Task Force Chairman
Charles Harrison - President
Jeff Steinhoff - President - Elect
Emerging Issues Committee

An AGA Emerging Issues Report

June, 1992

The United States government budgets, controls and directs cash resources in excess of \$1.4 trillion dollars each year. Yet at a time when Congress must make important decisions on future budget priorities and commitments, the information necessary to make those decisions is woefully defective. Weak government-wide budgeting and accounting systems produce insufficiently reliable information about how the government spends its funds and how decisions made today will affect tomorrow's taxpayers.

Further, the Congressional budgeting process commonly relies upon imaginary revenues, ignores unfunded obligations, and makes use of numerous other practices lacking economic and accounting reality.

The Federal government badly needs major budgeting reforms. Despite some recent steps in this direction by Congress and the Executive Branch, much remains to be done. This Task Force recommends these further steps:

1. ADOPT SOUND ACCOUNTING AND BUDGETING PRINCIPLES AND STRENGTHEN THE CFO POSITION

While the Budget and Accounting Act of 1950 required the Comptroller General to prescribe the principles and standards for accounting to be observed by each agency (i.e., generally accepted accounting principles (GAAP)), there were no specifically defined principles for the government to use.

(a) The Need for GAAP

The absence of meaningful accounting principles leaves the government using an accounting system which emphasizes cash flow, even though major new financial commitments are made and new liabilities incurred. Payroll checks and payments of accounts are moved from one fiscal year to another to manipulate deficit reduction targets. No acceptable accounting is made for government guarantees of private economic transactions, such as savings and loan deposit insurance, which may go bad and require government outlays. Nor is any acceptable accounting made for accrued leave and future pension payments to retirees, which are earned but not disbursed today.

In October 1990, a breakthrough agreement was reached on the creation of a Federal Accounting Standards Advisory Board (FASAB) to define GAAP for the federal government. The Board is composed of representatives from OMB, GAO, Treasury, CBO, Defense, domestic agencies, and the private sector. To date FASAB has agreed on a mission statement, interim financial standards, and its first exposure draft on financial resources.

FASAB must work expeditiously to agree on a set of Generally Accepted Accounting Principles for Federal government operations. Such principles will likely require the

use of an accrual basis of accounting, including realistic treatment of all unrecorded and contingent liabilities.

The benefits in using GAAP for Federal financial reporting include:

- Stimulating awareness among program managers of the causes and consequences of financial management problems and focusing management attention in solutions.
- Comparing consistent-format reports over several years, thus revealing trends and performance comparisons, thus increasing understanding of program performance by Congress, the Executive Branch, the media and the public.
- Improving confidence in the financial management of agency programs.

(b) *Integrating Budget and Accounting Standards*

Under the CFO Act, audited financial statements are due nine months after the end of a fiscal year. Budget formulation usually begins as much as 18 months (if not more) before the beginning of a fiscal year. Thus the life span from budget initiation to final accounting is usually as long as four years. Because of this long time span, final accounting occurs far too late to have any impact on misleading budget practices which occurred many months earlier in the process. We encourage the FASAB (in conjunction with OMB and the CFO) to develop and administer budgeting standards consistent where possible with FASAB accounting standards and require audit oversight for compliance during the budget formulation and execution stages, so that unsupportable budget requests can be identified at a point in time when corrective action can most effectively be taken, and when misleading or manipulative budget practices can be eliminated.

FASAB principles should clearly prohibit such notorious budget gimmicks as off budget expenditures and "savings to be realized later". The Budget Enforcement Act should be amended to allow a point of order to be made in either the House or Senate whenever any such deceptive practices appear in budget resolutions.

(c) *Strengthening the Chief Financial Officer System*

The Chief Financial Officers appointed in each agency pursuant to PL 101-576 should be professionally competent in applying the budgeting and accounting standards established by the FASAB. The CFOs should be subject to the same high-level performance qualifications required of the Deputy CFOs. (The statute required high-level professional qualifications only for the Deputy CFOs). The CFOs must be given the full support of the President and Office of Management and Budget.

2. ADOPT SEPARATE BUDGETS FOR GENERAL FUNDS, TRUST FUNDS AND GOVERNMENT-SPONSORED ENTERPRISES (GSEs)

Under present budgeting practice, activities as diverse as the National Park System, Social Security, NASA, food stamps, weapons purchases, home mortgage insurance, and the Export-Import Bank are lumped together in one budget document, even though the activities are vastly different. Some expenditures are made every year from annual

#18 receipts; other activities are supposedly based on actuarial considerations, yet others are commercial operations similar to private business. Joseph DiGuardi Non-Federal, Other

In October 1989, the Comptroller General proposed that the Federal government should account and report separately for general funds, trust funds and government-sponsored enterprises, instead of treating all three as economically equivalent. Under such a reporting plan, trust fund surpluses (notably those of Social Security) could no longer be used to reduce deficits in the General and GSE parts of the budget. These GSEs could be run more like business enterprises, without the constant threat of fiscal demands driven by a political need to show a smaller "budget" deficit. Overall, such tripartite reporting would give Congress and the public a far more accurate picture of the Federal government's spending activities.

3. ADOPT EFFECTIVE CAPITAL BUDGETING

Capital budgeting is a financial process used to plan and control long-term capital expenditures. It is not currently used by the federal government, although the federal government each year allocates tens of billions of dollars to acquire such assets as buildings, space satellites, weapons systems, and other capital items with a useful life longer than one year.

Private sector firms use capital expenditure planning and budgeting to provide for the assets needed to support corporate activities on an ongoing basis, not just for the current fiscal year, and for their replacement at the end of their useful life. While there are difficulties in the accounting treatment of certain government-owned capital assets (notably weapons), some acceptable, independently sanctioned form of capital budgeting should be put in place in every agency at the earliest possible time.

4. ADOPT BIENNIAL BUDGET CYCLES

A two-year budget cycle, corresponding to a Congressional term of office, would require Congress to authorize spending only once in two years. Since about 60 percent of votes in Congress are budget related, stretching the process over two years would leave a great deal of time for badly needed program oversight. In the second year of the cycle, Congress would only have to pass appropriations bills carrying out the terms of the previous year's budget resolution. The adoption of this reform must be accompanied by strict discipline so that supplemental budget amendments and appropriations bills are not used to augment the basic budget decisions in the first year of the cycle.

5. MAINTAIN THE BUDGET ENFORCEMENT ACT (BEA)

The Budget Enforcement Act of 1990 established new standards for disciplining the budget adoption and management process. If discretionary spending in any of three categories (defense, international, domestic) exceeds the Act's target as of October 15 (at the beginning of a fiscal year), an automatic sequester is applied to that category. Additional compliance reports, which could trigger sequestration orders, are required during the budget year. While not foolproof, the BEA requirements are a useful beginning toward greater discipline in budgeting procedures, and should be strictly observed. Efforts by Congress to override the BEA requirements to benefit favored programs constitute a backward step from necessary budgetary discipline.

6. PUBLICIZE THE TRUE FINANCIAL CONDITION OF THE FEDERAL GOVERNMENT

While the Treasury's Financial Management Service (FMS) has made important steps forward in recent years in presenting the state of the nation's finances, the absence of meaningful accounting principles and capital budgeting, the complexity of the often inconsistent information collected through the many different accounting systems used by the federal agencies, and the inaccessibility of reports, has made the FMS statement of interest only to financial specialists.

A concise, independently-audited GAAP-consistent report on the operation and financial condition of the U.S. government, including its revenues, expenditures, assets, and liabilities, ought to be made readily available to the public and news media. Consideration should be given to including more extensive information as part of the brief summary report included at the beginning of the annual 1040 individual income tax forms and instructions package distributed to all taxpayers each January.

AGA Truth in Budgeting and Accounting Task Force

Joseph J. DioGuardi, Chairman
Member of Congress, 1985-88

Roger B. Feldman
Former Comptroller, Department of State

John H. Hummel
Audit Partner, KPMG Peat Marwick

Clyde G. McShan, II, Director, National Finance Center
U.S. Department of Agriculture

Allen L. Reynolds, City Auditor
City of Baltimore, Maryland

Richard J. Schwartz, President
David Schwartz Foundation

W.T. Wrege, Associate Professor of Accounting
Ball State University

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