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Daily Insight

Government Fails Fiscal-Fitness Test

Posted April 29, 2002

By Kelly Patricia O Meara

If America learned anything from the Enron mess it is how easily the books can be cooked. After spending weeks reviewing the audits of federal departments and agencies, INSIGHT is convinced the U.S. **government** doesn't cook its books — your **government** is honest enough to admit that it just doesn't know where the money went.

Fiscal Report Card		
Yearly Congressional Grade	2000	2001
Department of Transportation	D-	D-
Department of the Treasury	D+	D-
Department of Agriculture	F	F
Department of Defense	F	F
Department of Education	D-	D-
Federal Emergency Management Agency	D+	F
Department of Health and Human Services	D+	D
Department of Housing and Urban Development	D+	D
Department of the Interior	D+	D
Department of Justice	D-	D-
Department of State	D+	D-

The point of the annual audit reports is to inform Congress and the American people how, where and why their hard-earned tax dollars were spent during the previous year. The audits are a barometer that tells Congress whether a particular agency or department is fiscally responsible and whether it should be entrusted with additional funds.

But this is an age of euphemism, so the money being provided to the **government** by taxpayers is called everything but money, becoming assets and transactions in vague imitation of business. The **government** also has its own terms for missing money, including "unsupported entries," "material-control weakness," "adjusted records," "unmatched disbursements," "abnormal balances" and "unreconciled differences."

While INSIGHT consistently has reported money problems plaguing the **government** — and in particular the Department of Defense (DoD) — this year DoD has been the recipient not only of its annual budgeted appropriations but of additional tens of billions of dollars to fight the war on terrorism. It therefore seems appropriate to take a look at how the federal defense establishment is handling your money.

According to U.S. Comptroller General David Walker, "To date, none of the military services or major DoD components have passed the **test** of an independent financial audit." Walker continues, "DoD faces financial-

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Yes
 No
 Maybe
 Makes no difference
 Will focus debate on alternativ R & D

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management problems that are pervasive, complex, long-standing and deeply rooted in virtually all business operations throughout the department."

In a report to the DoD comptroller, Undersecretary of Defense Dov Zakheim, acting Assistant Inspector General for Auditing David Steensma wrote: "We reported that DOD processed \$1.1 trillion in unsupported accounting entries to DOD Component financial data used to prepare departmental reports and DOD financial statements for FY2000. For FY2001 we did not attempt to quantify amounts of unsupported accounting entries; however, we did confirm that DOD continued to enter material amounts of unsupported accounting entries to the financial data."

What this gibberish means is that the DoD still cannot account for at least \$1.1 trillion from **fiscal** 2000 under former president Bill Clinton, and the assistant inspector general of DOD wouldn't even touch the unsupported money expenditures for **fiscal** 2001 because "material amounts" still couldn't be accounted for properly in the year George W. Bush came to power. The trillion-dollar question is how much is "material amounts"? Because the auditor would not "quantify" the amount, some fear it's worse than the previous year's unaccounted for \$1.1 trillion.

Of course the Department of the Army, headed by former Enron executive Thomas White, had an excuse. In a shocking appeal to sentiment it says it didn't publish a "stand-alone" financial statement for 2001 because of "the loss of financial-management personnel sustained during the Sept. 11 terrorist attack."

So where is that missing \$1.1 trillion? Traditionally the top dogs at the Pentagon haven't liked the word "missing." The rationale at DoD has been that just because the money can't be accounted for doesn't mean it is lost, stolen or strayed. According to Susan Hansen, a spokeswoman for DoD: "These are unsupported entries. When the auditors go to audit the books and they look at the balance sheet for the year, someone has entered in an adjustment because they made an error somewhere."

You see, continues Hansen: "They don't carry the transaction across; there's no way they can track it to where the adjustment first came from. These are called 'unsupported' adjustments. In auditing you have to follow the trail from the first time that the entry first enters the system to the time it leaves it. In the Defense Department it means that if you bought a piece of equipment and it moved from the Army to the Navy to the Air Force over the course of years, you have to be sure that piece of equipment and its dollar value is the same piece of equipment."

Hansen concludes that the problem is with "the way the Defense Department's records systems were set up ... They weren't set up to do this kind of commercial bookkeeping. So what people have done is added up all of these adjustments, entries or auditor's notes on the side of the audits and have come up with these huge amounts. And somehow along the way, in the course of conversations, it has been referred to as 'missing' money. It's not missing. It just cannot be supported with our current systems in a standard bookkeeping system."

Voilà! It's the accounting systems that don't account for the vanished money that are responsible for the inability of anyone at DoD to find \$1.1 trillion that's, well, missing.

Despite its unique position of never having been able to produce a credible audit, DoD is not the only governmental agency to have money problems. For example, the comptroller general further reported that, "as in the four previous **fiscal** years, we were unable to express an opinion on the governmentwide consolidated financial statements because of certain material weaknesses in internal control and accounting and reporting issues. These conditions prevented us from being able to provide the Congress and American citizens an opinion as to whether the consolidated financial statements are fairly stated in conformity with U.S. generally

accepted accounting principles."

In other words, the top auditor is saying that the agencies and departments of the federal **government** couldn't properly account for the money each was entrusted with and, therefore, he couldn't produce a legitimate consolidated financial statement.

Comptroller General Walker did mention that several agencies are working diligently to put reliable financial-management systems in place. For example, Secretary of Defense Donald Rumsfeld has set aside \$100 million to fix the Pentagon's accounting system. And the Department of Housing and Urban Development (HUD), which under Andrew Cuomo couldn't account for \$59 billion in its **fiscal** 1999 audit, again has changed course on its accounting system (see "Why Is \$59 Billion Missing from HUD?" Nov. 6, 2000, and "Inside HUD's Financial Fiasco," June 25, 2001). Rather than scrap the notoriously flawed HUD Central Account and Program System (HUDCAPS), the department now has decided to keep it until a review can be completed.

An ironic twist to the problems HUD is having with its financial-management system is that American Management Systems (AMS), which has the contract for HUDCAPS, recently reported increased profits. Despite the fact that HUDCAPS seemingly doesn't work, and hasn't since the day it was installed, AMS still is getting paid — leaving many critics to wonder if there should be a federal lemon law for bum financial-services contractors.

But not to worry, HUD apparently has learned how to work around "unreconciled differences." According to the most recent audit, "an immaterial difference exists between HUD's recorded fund balance with the U.S. Treasury and the U.S. Department of Treasury's records. It is the department's practice to 'adjust' its records to agree with Treasury's balances at the end of the **fiscal** year."

In other words, if HUD's checkbook reflects a balance of \$1 billion and Treasury reflects HUD's balance as \$2 billion, HUD just accepts Treasury's balance and moves on as if everything were just fine. The unaccounted for \$1 billion is regarded as "immaterial."

Overall, the federal **government** earned a grade of "D" from its auditors for financial management in **fiscal** 2001; 16 of the 24 federal agencies received lower grades than the previous year. More important is that year after year key information continues to be missing from the audits — beginning with which companies have federal contracts for designing, bringing online and maintaining those financial systems that consistently are blamed for producing unauditible books.

In October 2001, Rep. Steve Horn (R-Calif.), chairman of the House **Government** Reform subcommittee on **Government** Efficiency, Financial Management and Intergovernmental Relations, told INSIGHT that "if some **government** contractors are unable to develop systems that can provide that type of information, Congress needs to know it, and we're asking GAO [the **Government** Accounting Office] to look into it."

To date, no audit from any **government** agency or department lists or even mentions the contractors getting paid hundreds of millions of dollars to produce reliable accounting systems. And despite the fact that Congress has oversight of agency spending, and every year tells the agencies to get their financial houses in order, even Congress says it doesn't know which companies have the contracts to put reliable accounting systems in place.

Because none of the information provided to the comptroller general is reliable enough to form an opinion of the **government's** financial standing, next year Congress may want to scrap the financial grading system it put in place for the agencies and instead require a "contractor" grade card. If those contractors continue to fail, the agencies have no hope of succeeding. That is, assuming the financial accounting systems really are responsible

for the fact that trillions of dollars can't be ac-counted for and that the bureaucrats aren't just cooking the books.

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