

## Congress partly at fault for Enron debacle

Joseph J. DioGuardi

As a former congressman, a certified public accountant (the only practicing CPA ever elected to Congress) and a former partner with Arthur Andersen (1962-84), I have been watching the unfolding of the Enron/accounting debacle with growing concern about the U.S. government's role in allowing the environment that spawned such a catastrophe.

Where does one begin to affix the blame, and where does one begin to transform the system that allowed a large and "well-respected" publicly traded corporation, with a prominent board of directors and audit committee, a Big 5 accounting firm — all under the oversight of the Securities and Exchange Commission, the accounting profession and Congress — to defraud thousands of shareholders?

My background obligates me to point out that the lack of accountability in Washington goes far beyond the rules, regulations and processes designed to rein in the private sector for the public's benefit. What about the culture of Washington that sets a bad example for this now obviously faulty process by exempting the budget and the books of the U.S. government from the very accounting principles, oversight and safeguards that we hear Republican and Democratic senators and representatives pontificate about during Enron hearings?

It is ironic that members of Congress, who have spent little, if any, time thinking about improvements needed in the accounting principles, practices, and internal and external controls used in the government's budgeting and accounting, are now conducting hearings on how these same issues may have affect-

ed Enron. I hope we will see real systemic change, not only in the private but in the public sector.

The "shareholders" of the U.S. government are, in effect, the taxpayers and other citizens whose future depends on the "full faith and credit" of the United States. Where are the independent auditors, the credit rating services and the SEC to safeguard the taxpayers' money by reining in politicians who can use almost any set of numbers to get elected and then paint rosy pictures of our nation's fiscal future?

As an example of the double standard that exists today for government accounting and reporting, consider the fact that many senior members of Congress are now talking about plugging the loophole of off-balance sheet financing mechanisms that keep substantial liabilities off corporate books, while the U.S. government does not even record, for all to see, a liability for Social Security on its books and in its annual financial reports. The latter is even more ludicrous when one recalls that many government officials, including the president, campaign and govern using the false guarantee of a "lock box" or a "trust fund" (implying the setting aside of actual money) when talking about Social Security. In reality, Social Security is a "pay-as-you-go" system that many have compared to a pyramid scheme that robs one generation of Americans in order to pay another.

The liability for Social Security alone would be well over \$15 trillion, as determined by actuarial calculations sanctioned by the accounting profession's "generally accepted accounting principles." While a prototype statement of the financial condition of the United States once included this item as a real liability,

it has now been relegated to merely footnote status, along with the liabilities in the trillions of dollars for military and civil service pensions, government guarantees and various other payables not recognized in our government's budgeting and operational accounting. Incredibly, the cash basis of accounting used by the federal government is illegal for publicly traded companies, like Enron, that come under the jurisdiction of the SEC.

Before I left Congress, I fought hard to pass a bill to bring an independent, cabinet-level chief financial officer to the U.S. government. I introduced a bill in both the 99th and 100th sessions of Congress and got many of my colleagues to cosponsor the measure. It was not until the savings and loan scandal that senior members who had previously resisted the idea saw it as a useful way to address the public outrage triggered by the S&L bailout. Unfortunately, Congress subsequently passed a watered-down version of the bill that I introduced, and it placed the U.S. government's newly created chief financial officer in the Treasury Department under the Office of Management and Budget director — a move that was akin to putting the fox in charge of security at the chicken coop.

In the search for answers, we should begin by acknowledging that Enron's shareholders and employees have been victims of a lack of real governance in both the private and public sectors, including Congress.

The writer, an Ossining resident, represented Westchester in the House of Representatives from 1985 to 1989 and is the author of "Unaccountable Congress: It Doesn't Add Up" (1992).