

ACCOUNTING FOR THE FEDERAL GOVERNMENT

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# The Trillion-Dollar Annual Interest Payment

By Joseph DioGuardi

I often ask myself whether we are doing enough to be good stewards for America's future. How will future generations be impacted by the actions that our nation's leaders and its citizens are taking today? The recent Congressional Budget Office (CBO) report on the 2019 "Budget and Economic Outlook" makes it clear that we are not doing enough. In fact, we are failing. We are leaving our children and grandchildren a financial burden that may soon become untenable.

The CBO's glimpse of America's fiscal future is dismal—a national debt that balloons to \$33.68 trillion by 2029, and that exceeds the nation's gross domestic product (GDP) over the same period. The CBO also projects a return to \$1 trillion annual budgeted deficits as the new normal (*Exhibit 1*).

## Debt vs. Defense

When one compares future annual defense spending with annual interest payments over the next ten years, America's fiscal future is compromised even further. Given the recent actions of Congress, and the years of prior inaction in changing the nation's fiscal path, the U.S. government's annual interest payment will eclipse annual defense spending in only six years. By 2025, annual interest costs on the national debt will reach \$724 billion, while annual defense spending will reach \$706 billion. To put that into perspective, in the 2018 fiscal year, the U.S. government spent \$325 billion in interest payments and spent \$622 billion in defense (*Exhibit 2*).

Of course, there is a difference between interest and defense costs. Interest payments do not strengthen national security, pay soldiers, or lay the groundwork for the military technology of the future. In fact, interest costs do the opposite. The increase in interest costs for federal spending over the next decade could dramatically squeeze the funds that the national government has available for discretionary spending on important

government programs. Discretionary spending is already squeezed to less than one-third of the budget due to spending on mandatory entitlement programs and interest on the national debt. Moreover, defense spending accounts for more than half of discretionary spending. Because interest also acts as a mandatory expense and must be paid currently, unless entitlement spending is decreased and taxes increased during the next 10 years, discretionary spending (including defense and national security spending) will increasingly be crowded out by rising interest costs on the national debt (*Exhibits 3 and 4*).

Unless something changes, sometime in the next 15 years, the annual interest payment on the national debt will reach \$1 trillion by itself. What will that large number mean for Americans who will have to face that reality and future leaders who will be tasked with solving such a burdensome financial reckoning?

## A Crunch on Domestic Spending

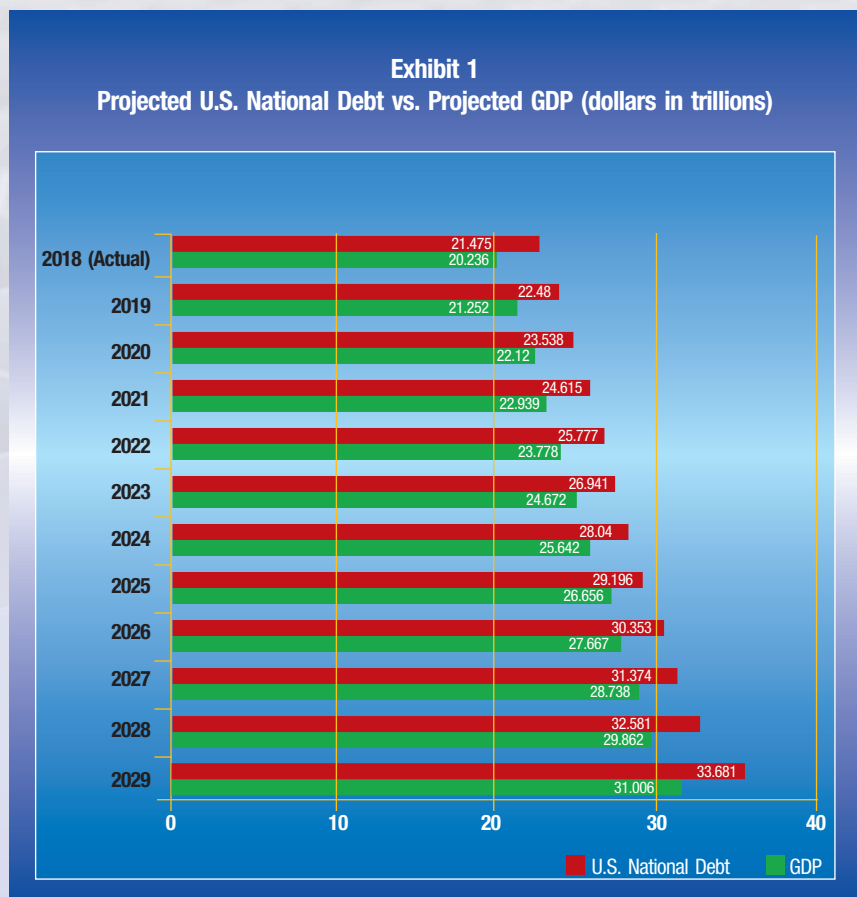
As the Committee for a Responsible Federal Budget reports, in 2016, total federal spending for children was 9.8% of all federal spending ("By 2048, Only 6% of the Budget Will Go to Children," July 6, 2018, <http://bit.ly/2HgGxZQ>; "Budgeting for the Next Generation: How Do Kids Fare?" June 7, 2018, <http://bit.ly/2UwtQx3>). By 2021, however, interest costs on the national debt will exceed total federal support (spending and tax breaks) for children, and by 2048, total federal spending for children will fall to only 6.3% of all federal spending. Contrast this with total federal support for children, which rose from 1.8% of GDP (\$55.8 billion in 2018 dollars) in 1960, to 3.1% of GDP (\$458.3 billion in 2018 dollars) in 2010 (Kimberly Amadeo, "U.S. GDP by Year Compared to Recession and Events," *The Balance*, July 9, 2018, <http://bit.ly/2Cii56j>).

On February 25, 2009, I testified before the Federal Accounting Standards Advisory Board (FASAB) on the need for full liability accrual/GAAP accounting for U.S. budgeting and financial reporting (<https://youtu.be/inGdtu3B4pE>). While not endorsed by the FASAB, a compromise was reached to at least show the largest components of unfunded liabilities for entitlements as “sustainability” numbers just below the U.S. federal government’s balance sheet. Today, it is clearer than ever before that Congress is not heeding the dangerous trend of financial “unsustainability,” and that the time for a full and comprehensive accounting of liabilities, promises to pay, and federal obligations for unfunded federal pensions, guarantees, and insurance programs may have finally arrived.

In *The Reckoning: Financial Accountability and the Making and Breaking of Nations*, Jacob Soll, a professor of accounting and history at the University of Southern California, described the roots of our chronically imbalanced U.S. federal budget. According to Soll, successful societies, while they last, properly account for all economic and financial activity. They openly confront and disclose their liabilities as well as their assets, achieving accountability until one misfortune or another, or mismanagement, “gets the red ink flowing unchecked.” But Soll also makes the point that, in the past, nations went broke through ignorance, but today’s leaders have no excuse, since accountants are everywhere.

### Restoring Balance

While accountants may be everywhere, the political will to use accounting principles that record all unfunded long-term obligations and political promises to pay is lacking. And since the accounting rules cannot be changed without legislation requiring the implementation of professional accounting standards and the enforcement thereof, the political establishment in Washington is not inclined



to tell the truth about its deficit spending and the real size of the national debt. Elected officials may think that this could put their hold on reelection in jeopardy, which may sound to many like a classic conflict of interest.

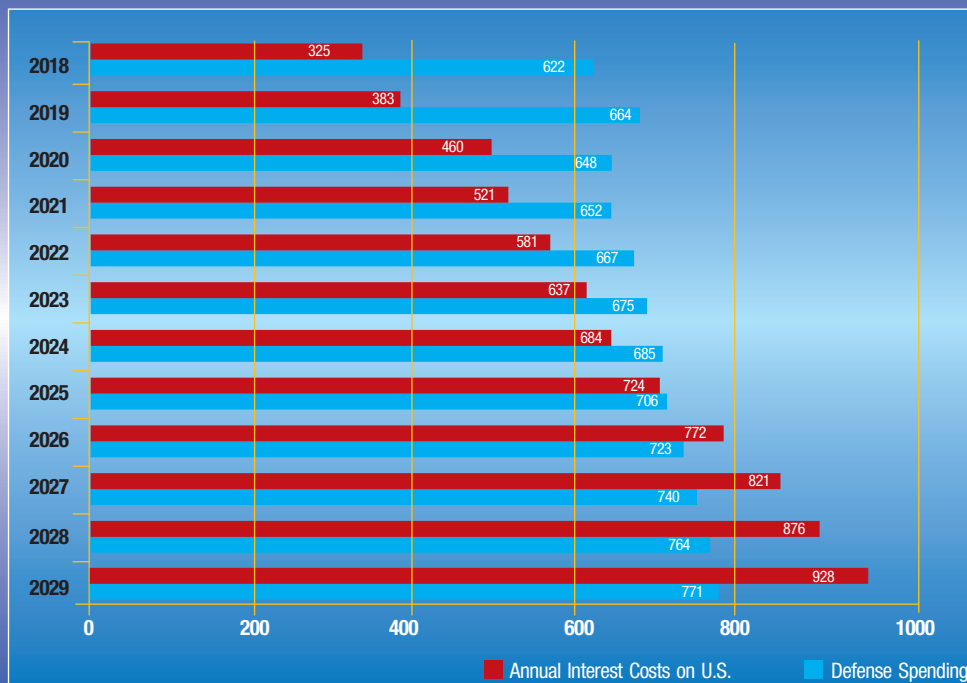
The public perception of such a conflict was made painfully clear by this author’s old accounting firm, Arthur Andersen & Co., in its 1986 publication “Sound Financial Reporting in the U.S. Government: A Prerequisite to Fiscal Responsibility”:

Given the existing practice of cash-basis budgeting and reporting, programs can be adopted, and promises made, without knowledge of their full cost. This lack of accountability creates an incentive for elected officials to curry favor with today’s voters at the expense of tomorrow’s taxpayers, and has been a root cause of fiscal mismanagement within the U.S. Government.

In the same publication, the firm confirmed what many experts in public sector accounting already know but find hard to believe even in 2018—namely, that full liability accrual accounting had been the law of the land since the passage of Public Law 84-863 in 1956. That law required U.S. government agencies to prepare GAAP-accrual basis financial reports like those required of publicly traded companies by the SEC to protect shareholders from fraud and mismanagement. Succeeding Presidential administrations and Congresses, however, largely ignored the enforcement and implementation of this law.

At their core, the issues facing American citizens go beyond the growing national debt and containing interest costs for the near future. The public needs to recognize that the accumulated annual budget deficits of the federal government represent a claim on the future

**Exhibit 2**  
Projected Annual Interest Costs on U.S. National Debt versus Projected Annual Defense Spending (dollars in billions)

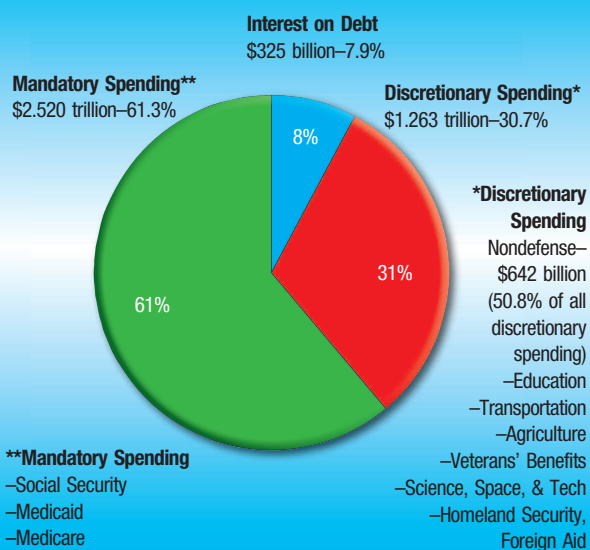


Source: CBO, January 2019

standard of living of American taxpayers. Future generations face the prospect of being chained to the repayment of the public debt, plus interest, racked up by their predecessors. For our children and grandchildren, that may well mean the end of the “American dream” of economic opportunity, home ownership, job security, and family well-being. If we fail them, history will not judge us kindly. □

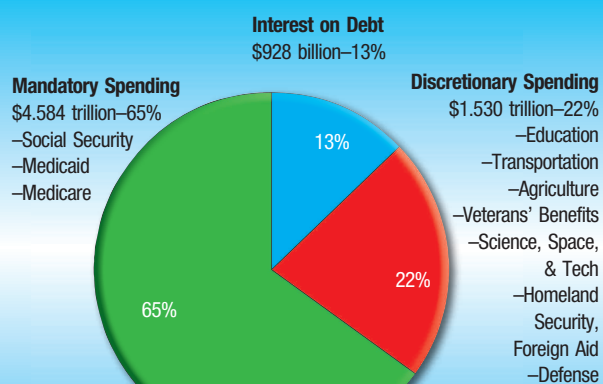
*Joseph DioGuardi, CPA, is the president of Truth In Government, New York, N.Y., and a former member of the U.S. House of Representatives. This article is edited from a post on Truth In Government’s web-site (<https://www.truthin government.org>).*

**Exhibit 3**  
2018 Federal Spending (\$4.108 Trillion)



Source: CBO, January 2019

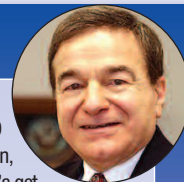
**Exhibit 4**  
2029 Projected Federal Spending (\$7.042 Trillion)



Source: CBO, January 2019



## An Interview with former Congressman Joseph DioGuardi



Recently, *The CPA Journal* interviewed Joseph DioGuardi, the first practicing CPA elected to Congress, representing New York's 20th Congressional district from 1985 to 1989. DioGuardi is currently the president of Truth In Government (<https://www.truthingovernment.org>). The following is selected, edited excerpts from that interview, which will also be featured online in our Voices of the Profession series (<https://www.cpajournal.com/category/videos-media/>).

**The CPA Journal:** During your service in Congress, you were successful in enacting the Chief Financial Officers Act of 1990. But the federal government itself still has no single CFO. Do we need a CFO for the federal government?

**Joseph DioGuardi:** I spent 22 years in the accounting profession, at Arthur Andersen, long before the Enron problem. We had a group of partners, myself among them, who were concerned about the public sector, and one of our major assignments was the Treasury Department telling us to work with Lazard Frères on the bailout of New York City. I would never have understood or begun to understand how the federal government functioned in terms of financial management and accountability without that basic primer. We later presented the first consolidated financial statements of the United States of America in a booklet, *Financial Management in the Public Sector*.

One of the most important questions was, why do we need an FASAB? We already had FASB, but they decided the federal government was a special kind of entity and we needed special accounting principles to accommodate it. I said to myself, "This doesn't make sense. We should have the same principles that any publicly traded corporation has, the accrual basis of accounting."

When I saw the first statement that came out from the federal government, I looked for the liability for Social Security, because I remember we put that on the books of the federal government in that statement, and it was about \$5 trillion in 1980. It wasn't there. When I went before this group, I asked why it was not. Their response was: "The law says that if we run out of funds, the Social Security Trust Fund and the government is not obligated to pay out anything." But that's not what Arthur Andersen said. The firm said, "If you want to record a liability, legality is one part, practice is another, and the fact of expectation is another." That's the way accountants think, but that wasn't employed then and it's not employed now.

So when you get the recent statement for the fiscal year ended September 30, 2018, there is no liability on the financial statements for Social Security, Medicare, Medicaid, and \$1 trillion worth of federal pensions for the military. And there are many other things. If you look at these government sponsored enterprises—Fannie Mae, Freddie Mac, the Pension Benefit Guarantee Corporation—some of them aren't referred to as government-sponsored enterprises, but they are all treated the same in that they're not on the accrual basis and most of them are under water.

Accountants should wake up. If I add up the budget deficits, why don't I get to the amount of the national debt of the United States of America? That difference is pretty much off the books, and that's why we need the accrual basis of accounting.

We have on the books right now a law that would require accrual basis, but it's not being enforced. Many people in Congress, especially those appropriators, know that if we had to account for things the right way, and if we had to put on the books all of these liabilities for these commitments, then they would not be able to get the money they need to look good politically.

The problem is that the federal government is not employing tried and true principles developed by the accounting profession. The right accounting system is used by the SEC; you cannot get an audit of a publicly traded company passed unless you have outside auditors and you have a clean opinion, but they refuse to do that for the federal government. If we need that to protect shareholders and investors, why not taxpayers and citizens?

We need to energize accountants around America. They are informed citizens and they would understand what I am saying.

**CPAJ:** We've had a couple of CPAs elected to Congress recently. What advice would you give to them?

**DioGuardi:** The first thing they should do is look at the original CFO Act, and then the one that passed. Three things were removed: one, have a CFO that was completely independent. The model I used was the Comptroller General, with a 15-year term not coterminous with a presidential election. But they took out the fact that the CFO should be independent.

Number two, you need CFOs for every agency and department. These are people who are not only good with numbers, but they use those numbers for strategic planning for their organizations, and they think ahead to what the problems could be. Many of them are CPAs; some are not. Every CFO has to be professionally qualified, either an experienced management accountant or a CPA or both. But in practice, the CFOs became political appointees. Third, why did they take out accrual accounting that was in the CFO Act? We need it, and I made the case why we needed it. It's still not there.

**CPAJ:** Where is the resistance coming from?

**DioGuardi:** It's because the government is loaded with liabilities. It has very few assets that you can reduce to money. You have heritage assets; try to sell the monuments or sell government buildings. Sure, we have assets, but we have probably \$100 trillion worth of liabilities—including the statutory debt this year going to \$22 trillion, which is what allows them to sell those bonds every year—plus another, at least \$50 to \$70 trillion for Social Security, Medicare, and Medicaid.

The Pension Benefit Guarantee Corporation is underwater. Every year if someone goes bankrupt, they then load themselves as an additional liability because they've been paying insurance premiums to be in this, but they never pay enough. In effect, there's an implied bailout by the federal government.

We've got to look at how we restructure the people who have to deal with financial management, accounting, fiscal responsibility, and all the major elements of what makes a sound financial entity. Right now, we can't even get an audit of the Department of Defense. And in my version of the CFO Act, I said that we need inde-

pendent accountants to audit. I think the internal audit is good; let the GAO do that. Let outside auditors come in, pay them what they're worth, and let's get a real good audit of this huge entity called the United States of America.

**CPAJ:** Institutionally, you're saying the GAO is not enough?

**DioGuardi:** Right. People are so distrustful of government today. The public is fed up because of what they're seeing: Tax reductions when we need money to balance the budget. Even with the GAO, an esteemed organization, the perception would be that this is the government auditing the government. I knew that 25 years ago, and I thought it would have changed. It's still not changing.

**CPAJ:** The "P" in CPA stands for public, and with it comes a responsibility—perhaps unique among professions—not only to the client, but to the public interest. What responsibility should CPAs feel towards ensuring that the public is governed by a fiscally responsible, sustainable government?

**DioGuardi:** I think citizens, especially those that have an accounting background, have to be more involved. We need to get some of these successful CPAs to understand that they have a fiduciary role to play here, because CPAs are people that are trusted, and they do have the public interest at heart because it's their audits that are giving the imprimatur on the financial stability of a publicly traded corporation.

**CPAJ:** For those CPAs who do pursue public service, what are the unique qualities that they bring?

**DioGuardi:** What they bring are the qualities that made them successful in the public accounting profession, especially if they're partners, because they had to engage with a lot of different people and they're always looking to do what's right and to gain the trust of others. Many of them give speeches to nonprofit organizations. I decided that because I was an expert in not only the accounting rules for the private sector, but also for the nonprofit and public sectors as well, I would be valuable on the boards of nonprofits.

I think this could be a good time to emphasize that CPAs are not just here to make things add up and do audits, but they have a responsibility for the public interest because of their knowledge, their esteem, and their codes of ethics.

This is something that's already built into being a CPA. CPAs are expected to be fiduciaries, not just for the accounting profession, but also for the public. The way that's repaid is for you to see yourself as someone the public trusts and to repay that trust by doing something that protects the people that they're responsible for. That's the way I see a fiduciary.

If you add up the memberships of the AICPA, all the state societies, the AAA [American Accounting Association], the AGA [Association of Government Accountants], the IMA [Institute of Management Accountants], you're talking about a lot of educated, well trained people; they are the ones that have to take the lead on this. And I'll be here to give them as much help as possible. □