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Opinion

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Washington needs accounting reform

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As a former member of the House of Representatives and certified public accountant, I was delighted to read an April 1 Associated Press article quoting Federal Reserve Chairman Alan Greenspan in support of the accrual method of accounting (in which expenses are booked when incurred, not when payments are made) for federal government budgeting and reporting.

Greenspan aptly pointed out that the accrual method "more clearly (lays out) the true costs and benefits of changes to various taxes and outlay programs . . . (and will) help shift the national dialogue and consensus toward a more realistic view of the limits of our national resources." I might add that using the current and simplistic cash basis of accounting allows our federal government to manipulate its accounts and budgets in ways similar to what Enron did to cook its books and manufacture earnings, masking economic reality in any given budget year.

The federal government has done an admirable job in cracking down on virtually all accounting fraud except its own. Conveniently, our government in Washington does not use "generally accepted accounting principles," as mandated for all entities that issue stock and/or debt instruments to the public. Yet, the U.S. government is the largest public issuer of notes and bonds in the world. In fact, the accounting principles and financial governance mandated by U.S. securities laws and enforced by the Securities and Exchange Commission do not apply to the books and budgets of our federal government. What is considered fraud for officers of publicly traded corporations is shrugged off as sloppy accounting or "off budget" in Washington.

I tried to get a debate on federal accounting issues started when I was in Congress in the late 1980s and introduced legislation to bring a chief financial officer to the U.S. government, along with needed accounting and financial management reforms. (President George Bush signed most of it into law in 1990.) In the 10 years since I wrote a book, "Unaccountable Congress: It Doesn't Add Up," the national debt (on the cash basis) has risen from \$3.6 to \$5.7 trillion.

But accounting professionals estimate that the national debt now exceeds \$20 trillion on the accrual basis, if you count unrecorded liabilities, principally to cover Social Security and federal retirement pension obligations.

Enron used many clever devices to create artificial earnings and to hide debt. Chief among them was a series of off-balance sheet partnerships referred to as "Special Purpose Entities," vehicles set up to make Enron appear financially more attractive.

What is not generally known is that governmental entities use similar devices to hide deficits and huge amounts of public debt. In Washington, they are called "Government Sponsored Enterprises," such as the Resolution Trust Corp., which was used to implement the massive bailout of the savings and loan industry in the late 1980s. In Albany and in other state capitals, these devices are called authorities, such as New York's Metropolitan Transportation Authority. They are used to keep enormous amounts of public spending and debt out of sight and mind.

Then-Comptroller General Charles Bowsher called the savings and loan budget debacle "a huge scandal that was allowed to grow because of the way this town (Washington) does business."

Basically, the federal government's

accounting scam went something like this: Congress created the Resolution Trust Corp., which initially borrowed \$50 billion from the viable parts of the S&L industry. These funds were then used to cover depositors' losses from the bankrupt S&Ls. Because the government-backed RTC bonds were sold to the private sector, they were "off budget." And while the Treasury Department paid the interest on the bonds "on budget," the payments from the RTC to cover the S&L losses through the Federal Savings and Loan Insurance Corp. were deemed to be government revenue, which in turn artificially reduced the deficit. This simple but deceptive accounting device, like Enron's off-balance sheet partnerships, helped Congress mechanically meet politically sensitive deficit reduction targets while at the same time increasing our national debt by the cost of the bailout (which ultimately amounted to hundreds of billions of dollars). Similarly, the government has provided trillions of dollars of off-budget loan guarantees for everything from student loans to home mortgages.

We can only hope that the corporate governance debacle epitomized by Enron's accounting shell game results in real systemic change on Wall Street in order to protect shareholders, but also in Washington, to protect taxpayers and their children, whose future depends on the "full faith and credit" of a financially viable and fully accountable federal government.

The writer, an Ossining resident, practiced for 22 years at Arthur Andersen & Co. before serving in the U.S. House of Representatives from 1985 to 1989. He has served on the boards of publicly held corporations since leaving Congress.