High-Risk Finance at the Federal Level

By Kelly Patricia O Meara of Insight (8-21-2003)


RICARDO WATSON/UPI

The introduction to the General Accounting Office (GAO) "high-risk" list of federal agencies engaged in dubious accounting practices provided by Comptroller General of the United States David Walker reads in part: "The high-risk status reports are provided at the start of each new Congress. This update should help the Congress and the administration in carrying out their responsibilities, while improving government for the benefit of the American people." In other words, the purpose of the "high-risk" list is to provide helpful information to Congress about management of government agencies and departments.

But, even though the status reports are well into their second decade, one is hard-pressed to find in them detailed information that might in fact be useful to Congress in appropriating funds. Nowhere is this more evident than in financial management of the agencies and departments, about which this magazine has reported with care for nearly five years.

To provide a sense of how government bureaucrats are handling the people's money the GAO has provided an upbeat, yet sobering, breakdown. In 2001 there were 23 departments or agencies on the high-risk list. Two years later the number has increased to 25. The good news is that the Social Security Administration's (SSA) supplemental-security-income program and the Department of Justice's asset-forfeiture program have been removed from the list.

However, four new designations have been added, including the Department of Homeland Security, the disability programs at the SSA and the Department of Veterans' Affairs, federal real property and deteriorating facilities, and the Medicaid program. And, although it will come as no surprise to anyone remotely familiar with the problems plaguing corporate pensions [see "Don't Count on That Company Pension," Dec. 10-23, 2002, and "Pension Insurer Announces Huge Loss," posted Feb. 5 on Insight Online], months after the official "high risk" was made public, the Pension Benefit Guarantee Corp. (PBGC) was added to the list, raising the total yet another notch to 26.

In his announcement adding the PBGC to the high-risk list, Walker explained that "the PBGC single-insurance program has a significant accumulated deficit and faces additional potential losses due to a variety of factors, including certain weaknesses in the current minimum-funding rules and insurance provisions. In addition, the PBGC has significant exposure in industries that are affected by increasing global competition and the move from an industrial to a knowledge-based economy." What the comptroller general is alluding to is that if corporations continue to experience huge losses and are unable adequately to fund their pensions, the PBGC, the federal insurer of last resort, may not have the financial wherewithal to make pension payments to millions of retirees.

Walker's assessment may come as a surprise only to the flack catchers running the PBGC. Just eight months ago Jeffrey Speicher, a spokesman for the giant guarantor, assured Insight that "the PBGC is able to meet its commitment to pay benefits for the foreseeable future. We have been running a surplus but, even if that should go away, we have the wherewithal to meet our commitments that we were set up to pay." Since Walker sees a "high-risk" deficit and Speicher sees a surplus, it may be only that the two are at odds over what each understands as the definition of "foreseeable future." Time will tell.

But, speaking of deficits and surpluses, Walker again has raised the issue of the apparent inability of federal agencies properly and accurately to account for funds entrusted to them by taxpayers. For example, the Department of Defense (DoD), which has in the last two years received tens of billions of additional funds to fight wars in Afghanistan and Iraq, has been on the high-risk list since the list's inception. According to Walker, "DoD's financial-management deficiencies represent the single largest obstacle to achieving an unqualified opinion on the U.S. government's consolidated financial statements. To date, none of the military services or major DoD components have passed the test of an independent financial audit." In other words, because of DoD's inability properly to account for its funds, the entire federal ledger cannot be balanced.

Among the DoD's financial-management "deficiencies" is the agency's inability to account for $1.1 trillion. Insight pointed out in April of last year that, according to Assistant Inspector General for DoD Auditing David Steensma, "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 [fiscal year] 2000" [see "Government Fails Fiscal-Fitness Test," May 20, 2002]. That is, when the Clinton administration turned over the Pentagon to the Bush team some $1.1 trillion was missing or unaccounted for.

Walker says today, just as reported in previous years, "overhauling DoD's financial-management operations represents a major management challenge that goes far beyond financial accounting to the very fiber of the department's range of business operations and management culture." What Walker doesn't say is where the $1.1 trillion is that for nearly three years now has been unaccounted for by the Pentagon. In fact, the $1.1 trillion that is unaccounted for at DoD isn't even mentioned in the high-risk report. And based on Walker's assessment of DoD's financial-management systems, and outraged insiders at the Pentagon all the way up to the comptroller, it is quite possible that the money unaccounted for was and is much larger than the $1.1 trillion figure.

But there always is an upbeat overture to the status reports, and Walker writes that "the Secretary [Donald Rumsfeld] recognized that transformation would be difficult and expected the needed changes [to the financial-management systems] would take eight or more years," by which time he would of course be gone and this headache would belong to someone else. The reality of this target date, however, means that children born today will be entering the third grade by the time current officials expect to get the DoD's financial systems in order.

The implications of this time frame become even more interesting, say critics inside the Pentagon, when one considers that the "fix" of DoD financial systems supposedly began during the Clinton administration, suggesting that the problem is being passed from generation to generation with little actual expectation of getting it under control.

The high-risk status reports, although intended to be of some help to Congress, still do not contain any information whatsoever about which contractors have been paid hundreds of millions of dollars to get the financial systems in order with little or no success. In an effort to find out if such information is seen as being of the slightest interest to Congress, Insight tried to contact House Armed Services Committee Chairman Duncan Hunter (R-Calif.), House Appropriations Committee Chairman Bill Young (R-Fla.) and House Government Reform Committee Chairman Tom Davis (R-Va). The Armed Services Committee did not even return the repeated calls. John Scofield, spokesman for Appropriation Chairman Young, was so completely annoyed by the mere question that he growled, "Call the Budget Committee."

A spokesman for Budget Committee Chairman Jim Nussle (R-Iowa) explained that the lawmaker was out of the country. Finally David Marin, a spokesman for Government Reform Chairman Davis, did respond in a lengthy e-mail advising in part that "Congress is well aware who the contractors are. It is always within our power to find out which contractors are performing and which ones aren't, and this is information we seek out all the time."

Congress knows who the contractors are? Not only is this amazing news, but it dispels speculation that Congress blindly appropriates public funds for these contractors without oversight. Naturally, in a follow-up to Marin's response, Insight requested from the congressional aide a list of the contractors responsible for financial-management systems at DoD and the Department of Housing and Urban Development (HUD). Recall that this magazine reported three years ago that HUD was unable to account for $59 billion [see "Why is $59 Billion Missing From HUD?" Nov. 6, 2000]. But apparently the missing contractor information isn't so readily at hand as earlier thought and this magazine still is waiting for that list of contractors.

To get a sense of whether properly accounting for taxpayer funds is important to the men and women seeking the highest office in the land, Insight next placed repeated calls to the top eight Democratic presidential candidates and asked about this, including former Vermont governor Howard Dean, Sen. John Edwards of North Carolina, Rep. Dick Gephardt of Missouri, Sen. Bob Graham of Florida, Sen. John Kerry of Massachusetts, Rep. Dennis Kucinich of Ohio, Sen. Joe Lieberman of Connecticut and former senator Carol Moseley-Braun of Illinois. To date, not one has responded to Insight's questions.

Although it may seem as though the nation's elected officials and presidential wanna-bes don't consider financial accountability of government to be of great importance, taxpayers are becoming aware of this growing problem and one, in particular, is doing something about it. Henri Poole, a San Francisco businessman and software activist is the editor of www.whereisthemoney.org, a Website dedicated to making Americans aware of the huge sums of federal tax monies that cannot be accounted for and encouraging taxpayers to do something about this rash unaccountability. A Website headline on the site asks, "Could Enron Cook This Fast?"

Whereisthemoney.com says bluntly: "Such significant financial corruption is a national-security issue. U.S. citizens provide financial reports and supporting documentation to the IRS annually, as required by law. We insist that the U.S. government be held to the same standard." As Poole tells Insight, "The Website focuses on the missing money, and we've put up a real-time counter that shows how quickly $1.1 trillion disappears in a year and how fast the money adds up. When you see the documentation confirming that the money is missing, you see how the sums that are unaccounted for add up, but most people still don't get a real understanding of what the loss of $1.1 trillion actually means - what it costs us and what we're giving up."

Poole explains, "We've listed things to help people get a better understanding of what that missing money could buy - a kind of comparison. For instance, I've got a little boy and I pay for his health insurance. How much health insurance would the missing money buy? Our calculator starts in January, and since then another $628 billion is unaccounted for. With that money 269,000 additional children could have been provided with health care. Obviously we could do a lot more with all the money that is known to be missing. In the case of public education, for instance, 11 million additional teachers could be hired. But it just goes on and on."

As Poole sees it, "This is of great importance to people when they understand what is happening. I look at these losses as more than just the squandering of my tax dollars. It is my property or assets that are being sloppily handled, and if the books aren't correct then it's not just my cash that is affected, it's all of my assets. This lack of accountability in federal agencies affects all the securities of the U.S. government in ways that no one fully can understand, but I think it is appropriate to have our government accountable to us. Our intent is to make people aware of the problem and get them to sign the petition that is on the Website. When we get a couple of hundred thousand signatures we're going to send it to the White House and Congress."

Yes, concludes Poole, "I know that petitions get sent all the time and nothing much happens, but this is an education campaign. These losses are too important to ignore, and we're going to get the attention of Washington or this is going to be one big campaign issue."