

Treasury Checks And Unbalances; The federal government, for the seventh consecutive year, was unable to balance its books largely due to rampant financial chaos at the Defense Department

Byline: Kelly Patricia O'Meara, INSIGHT

It's that time of year again when Congress and the rest of us get the opportunity to pore over the government's financial statements and decide how well federal bureaucrats spent, and accounted for, the taxpayer dollars with which they were entrusted. The good news is that most of the federal agencies and departments are making progress. The bad news is that the federal government still cannot balance its checkbook.

The most interesting development concerning the 2003 financial statements may be that Treasury Secretary John Snow apparently caught the May 2002 edition of Insight in which this reporter questioned why the word money is never used in these financial reports. Rather than refer directly to the wholesale spending of your tax money, bloodless euphemisms have been concocted to refer to it as assets, transactions, unsupported entries, material-control weaknesses, adjusted records, unmatched disbursements and even abnormal balances.

But this year, on page 22 of the summary of the 2003 Financial Report of the United States Government, Secretary Snow, the top money man to whom all agencies and departments must report, explains: "A clean audit opinion provides assurance that agencies are responsibly accounting for the people's money." There it is. Undeniably there. Although the word money appears only once in the Treasury's 27-page report, critics say, admitting that what is being spent is actually money is the first step toward balancing the federal checkbook. Nonetheless, issuance of the 2003 financial statements marks the seventh year in a row that the federal government could not audit, let alone balance, its books.

This also was the case under Treasury secretaries Robert Rubin, Lawrence Summers and Paul O'Neill, so Snow is eager to note that "The federal government has come a long way since the first governmentwide report subject to audit issued in March of 1998 for fiscal year 1997," and "at that time only 8 of the 24 agencies received clean opinions." Today 20 of 24 federal agencies received clean audit opinions and the agency statements were for the first time produced before the end of the calendar year.

It is the job of the U.S. General Accounting Office (GAO) to audit the federal government's financial statements, and this year, as in all previous years in which the auditing requirement was in force, "certain material weaknesses in internal control and in selected accounting and reporting practices resulted in conditions that continued to prevent us from being able to provide Congress and American citizens an opinion as to whether the consolidated financial statements of the U.S. government are fairly stated." Indeed, the GAO further reports, "As a result of material deficiencies in the federal government's systems, record-keeping, documentation and financial reporting, readers are cautioned that amounts reported in the consolidated financial statements and related notes may not be reliable."

So the books can't be audited and what information is made available "may not be reliable."

And why was the GAO unable to "provide an opinion"? According to David Walker, the comptroller general of the United States, "there are three primary reasons" why the consolidated financial statements remained unauditible for fiscal year 2003: (1) serious financial-management problems at the Department of Defense (DoD); (2) the federal government's inability to account for billions of dollars of transactions between federal entities; and (3) the federal government's ineffective process for preparing the consolidated financial statements.

Walker explains in his report of the government's financial statements that "We designated the serious financial-management problems at DoD as high risk since 1995. Overhauling DoD's financial-management operations represents a challenge that goes far beyond financial accounting to the very fiber of DoD's range of business operations, management-information systems and culture. DoD's financial-management problems are pervasive, complex, long-standing and deeply rooted in virtually all business operations throughout the department. To date, none of the military services or major DoD components has passed the test of an independent financial audit because of pervasive weaknesses in financial-management systems, operations and controls."

Of course, the nation is at war, but not one military service or major component of DoD was able to pass an audit even as the department had the largest 2003 cost increase in the whole of the federal government up more than 35 percent from the previous year to \$143.4 billion. And, according to Snow, in 2003 more than \$50 billion in additional funding was appropriated to DoD to fight the war on terrorism. Given the fact that systemic financial management at DoD is so bad institutionally that it cannot audit its books, even Secretary of Defense Donald Rumsfeld cannot say whether that additional money was appropriately or effectively spent.

And why can't the DoD account for its money? During testimony last month before the House Government Reform subcommittee on Government Efficiency and Financial Management, Walker reiterated what everyone knows, especially Rumsfeld that "DoD's financial-management problems are pervasive, complex, long-standing and deeply rooted in virtually all business operations throughout the department." In other words, despite Rumsfeld's blistering insistence that the problem be solved, the financial-management systems still do not communicate with one another. In his testimony Walker does not provide information about the corporate contractors who have been paid hundreds of millions of dollars to correct what he calls "pervasive weaknesses in financial-management systems."

Rep. Todd Platts (R-Pa.), chairman of the subcommittee on Government Efficiency and Financial Management, tells Insight that his subcommittee has been focused on trying to learn "what financial systems are working and those that aren't, and what is being done to fix the problems. The biggest challenge to getting a clean audit is DoD, and its biggest problem is its financial-management systems. The GAO has said that the challenge there is long-running institutionalized practices they've identified several thousand different financial-accountability processes used there and they're trying to get those thousands of systems to be uniform and combined as one efficient system."

"Who the contractors are," the subcommittee chairman says, "isn't as important as what is being done. My focus is twofold: Is the work being done, and are the taxpayers being well served regardless of whether it's contractor X, Y or Z? Do the departments and agencies have a long way to go? Absolutely. Are they making strides in the right direction? Yes."

Even so, and despite the warning by Comptroller General Walker that the information in the financial statements may not be reliable, Platts says he believes "The big picture is that Congress has information available that tells us which departments and agencies are doing a good job in accounting for taxpayer funds and which are not. ... The consolidated financials tell us where to target our focus."

Meanwhile, critics say, the problem continues. In the Pentagon, for instance, institutionalized bureaucracies, military careerists and Pentagon procurement colonels continue to resist some of the world's best professional managers brought in to put the financial house in order. This has produced some very odd dual messaging. For instance, the DoD recently added to its Website a slide show that begins with "We are America's Oldest Company, Largest Company, Busiest Company and Most Successful Company." The accompanying slides describe the DoD as a corporation by explaining that it is bigger than Wal-Mart, Exxon-Mobil, GM and Ford and refers to President George W. Bush as the chief executive officer and Congress as the board of directors, with the American people being the "stockholders."

Critics point out that DoD has been the biggest impediment to getting the federal government's books balanced, that under Bill Clinton in fiscal 2000 the department could not account for \$1.1 trillion (and still hasn't), and that for seven years it has been unable to audit its books. Rumsfeld has turned the air blue trying to impress both the Pentagon establishment and the entrenched and congressionally protected civil-service bureaucracy with the need to correct these problems. He is fully aware that if DoD were indeed a corporation the bankruptcy courts and the Securities and Exchange Commission long ago would have shut down this "corporation" on which the nation relies for its defense.

+++++

Treasury Secretary, Year and Audit Opinion

Robert E. Rubin, 1997, Unauditable

"We believe that the publication of these audited statements is an important step in providing American citizens with more information about the operations of their government."

Robert E. Rubin, 1998, Unauditable

"We believe that the publication of this financial report is an important step in providing the American public with useful information about their government's assets, liabilities and operations."

Lawrence H. Summers, 1999, Unauditable

"We are committed to producing and reporting financial information that meets the highest standards of integrity and to provide to the American people the accountability and professionalism they expect from their government."

Paul H. O'Neill, 2000, Unauditable

"I am committed to producing and reporting financial information that meets the highest standards of integrity and to provide the American people the accountability and professionalism that they expect from the government."

Paul H. O'Neill, 2001, Unauditable

"I believe that the American people deserve the highest standards of accountability and professionalism from their government, and I will not rest until we achieve them."

John W. Snow, 2002, Unauditable

"I intend to continue the commitment to producing and reporting financial information that meets the highest standards of integrity and to provide to the American people the accountability and professionalism that they expect from their government."

Kelly Patricia O'Meara is an investigative reporter for Insight magazine.

COPYRIGHT 2004 News World Communications, Inc.

COPYRIGHT 2004 Gale Group