

July 20, 1998

Senator Fred Thompson  
523 Dirksen Senate Office Building  
Washington, D.C. 20510

Dear Mr. Thompson,

On June 8, 1998, I met with two members of your staff, Mr. Bill Greenwalt and Mr. Robert Thorman, in Washington, D.C. The meeting revolved around an April 1, 1998 article in the News and Observer (N&O), "**Audit finds federal books a mess**" (~~Attachment 1~~) and your statement to have your committee pressure departments to come up with better bookkeeping procedures.

As a federal accountant with 29 years experience, I applaud your efforts to make the bureaucracy more accountable. On the other hand, as I explained to your staff, it is important to understand two key points on government accountability. First, the Executive and Legislative Branch budgeting policies share an equal amount of the blame for the \$100 billion worth of improperly recorded transactions noted in the N&O article. These outdated, archaic budgeting practices actually prevent implementation of the vary accountability reforms (CFOA, GMRA, and GPRA) Congress has mandated into law. (~~See Attachment 2 for an article that I wrote on "Rethinking the Budget and Financial Reporting Process" that was published in the Association of Government Accountant's monthly magazine, The Washington Connection, addressing this vary issue~~). Second, it will do no good to pressure departments to come up with better bookkeeping procedures since they are merely following the government-wide accounting standards mandated by Congress's laws. Your committee, and the American taxpayer, would be better served by requiring proof of the logic of these government-wide accounting standards administered by the Federal Accounting Standards Advisory Board (FASAB), Office of Management and Budget (OMB), Department of the Treasury, and General Accounting Office. (I have personally reviewed these standards as a staff accountant for the Environmental Protection Agency and, in my opinion, they are fatally flawed and a root-cause of the government's failed financial systems).

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Key points discussed with your staff regarding a game plan for remedying the above budgeting policy problems and critiquing existing (and future) government-wide accounting standards are as follows:

NEEDED BUDGETING POLICY CHANGES

- Replace all related one-year and multiple-year (on-going) appropriations with a single appropriation. (The current practice of maintaining a separate set of books for each of these individual appropriations only breeds the type of bureaucratic non-accountability problems you have promised to address. Consider how ludicrous it would be for a private-sector business to maintain separate sets of books each time it obtained additional funding for its operation. Similar government practices are equally indefensible.

For example, under the current process, how is it possible for government departments to produce private-sector style financial management statements (Balance Sheet, Income & Expense Statements, etc.) when existing budgeting policies cause all historical accounting data to vanish five years after an appropriation expires? What about implementing the federal government's stated cost accounting objectives with non-existent historical data?

- Four digit budget object class codes (BOC) are used to record and track all government assets and expenses.

The government has estimated its assets at \$1 trillion. It should be clear, even to non-accountants, that a four digit budget code is inadequate to provide any level of accountability of its assets (or expenses). Then again, why is Congress and the Executive Branch defining department budgets with budget codes when the ultimate goal is to record these items in department financial statements as assets and expense? It seems more efficient to define department budgets as they will ultimately appear in the accounting reports -- as assets and expenses. How do we integrate government budgeting and accounting operations when one uses BOC codes and the other uses assets and expenses?

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GOVERNMENT-WIDE ACCOUNTING STANDARDS

- An accounting model is one quick easy way for non-accountants to use in critiquing and testing technical government-wide accounting standards. Accounting models essentially test on paper the accounting logic used to drive the government's financial management software before spending taxpayer dollars on fundamentally flawed systems.

If FASAB were required to produce an accounting model, you would find that its proposed input is incapable of producing the most basic financial statement. As taxpayers, why should we pay for software that ultimately produces more meaningless reports and an endless array of more excuses?

If you have any questions regarding this follow-up memo on my June 8 meeting with your staff please contact me at my office (919) 541-4790.

Sincerely,

*Larry Fisher*

Larry Fisher  
Accountant, EPA Financial  
Management Center, RTP, NC

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