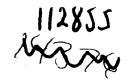


## UNITED STATES GENERAL ACCOUNTING OFFICE WASHINGTON, D.C. 20548



DIVISION OF FINANCIAL AND GENERAL MANAGEMENT STUDIES

B-199133

JULY 23, 1980

The Honorable Robert J. Lagomarsino House of Representatives

Dear Mr. Lagomarsino:

Subject: Article Alleging \$1 Trillion Missing From Treasury Annual Report to the Congress Without Adequate Support (FGMSD-80-66)

On November 30, 1979, you asked us to provide information on an article in "Dollars and Sense," the National Taxpayers Union's newspaper. That article challenged the accounting accuracy and fiscal completeness of Treasury's 1978 annual report to the Congress--"Statement of Liabilities and Other Financial Commitments of the United States Government." Basically, the article objected to the format and content of the statement and asserted that over \$1 trillion in financial obligations and fiscal commitments was missing from the report.

We have discussed the article with the research director of the National Taxpayers Union, who provided the data in The the article. Based on that discussion, we believe that the article's position on the missing amount was inadequately supported. The objection to the Treasury report's content and format was based primarily on the research director's personal views which are inconsistent with generally accepted financial reporting standards. Also, the Office of Management and Budget (OMB) has raised other valid concerns about the article's position on taxpayers' future liabilities.

## MISSING AMOUNT INADEQUATELY SUPPORTED

The "Dollars and Sense" article asserts that over \$1 trillion in financial obligations and fiscal commitments was missing, understated, or overlooked in preparing the Treasury statement. The article alleged that amounts excluded from the statement were in a number of areas, including the synthetic fuel program, nuclear waste disposal or accidents, middle east



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peace agreements, private companies pension liabilities assumed by the Government, food stamps, and medical or health insurance costs. The article could lead one to believe that the National Taxpayers Union's estimate of \$1 trillion was related to the specific programs mentioned in the article.

This, however, is not the case. According to the National Taxpayers Union's research director, the \$1-trillion estimate covers "double digit" inflation that he believes should be included in Treasury's statement. The amount was computed by applying a 10-percent factor to the over \$8-trillion base the research director computed from the Treasury statement. The amount of the percentage factor was arbitrarily selected by the research director who offered only personal beliefs to support his argument that the statement should include an additional amount for inflation.

We cannot support the research director's position on inflation. He is, in effect, advocating the use of forecasting 1/ to deal with inflation, and the Treasury's statement contains many contingency items for which it would be impractical to select the future year when the related expenditures might occur. For example, the probability of the country incurring devastating war damage is quite remote and it would be impractical to select a future year in which such damage might occur. Moreover, forecasting would require that an inflation factor be added each year until the related expenditure might occur, not just for 1 year as the article shows.

In its statement, Treasury used an accepted approach to dealing with inflation by expressing the values of items in "constant dollars." This approach eliminates the effect of inflation and reflects the level of purchasing power at the time the statement was prepared, which was the end of fiscal 1978. This is a generally recognized approach for presenting values of items in financial statements and, over the years, it has been the favored approach in presenting Government financial statements because it is more commonly understood, easier to present, and less time consuming to prepare.

Another acceptable approach to dealing with inflation is to recognize its effects by expressing values of items in terms of "current dollars." In recent years, the accounting profession has recognized that this approach might have

<sup>1/</sup>Forecasting expresses the purchasing power of the dollar in future years when expenditures are expected to occur.

some value in financial reporting. Accordingly, some large public enterprises have been asked by the Financial Accounting Standards Board and the Securities and Exchange Commission to prepare statements and/or schedules using this approach to supplement their annual reports. The supplemental statements will be added to reports on operations for the period ending on or after December 25, 1979, and it is not yet known whether the supplemental statements and schedules will be more informative.

We also have an ongoing project to determine whether the "current dollar" approach would be useful in some of Treasury's financial reporting, but the project is in the very early stages and no conclusions have been reached.

## OBJECTIONS TO STATEMENT INCONSISTENT WITH GENERALLY ACCEPTED POSITIONS

The "Dollars and Sense" article listed objections to the format and content of the Treasury statement. Two were allegations of missing or understated data, and those allegations may have some merit. The other two objections deal with personal views on financial reporting which we cannot support.

As previously mentioned, the article lists many areas or programs that are excluded from the statement. Objections to the statement because it excludes some future financial commitments may have some merit; however, we have reservations about whether many of the specific areas or programs mentioned in the article should have even been included in the statement. The Office of Management and Budget has an ongoing project to identify additional programs that should possibly be included in the statement.

The article also alleges that the statement contained incomplete data on programs but mentions only the Federal pension or retirement program as an example, Allegations that actual deficits reported for the pension programs are understated may have some merit. However, the Congress has recognized the potential for understatement, and on November 4, 1978, passed Public Law 95-595, which requires full disclosure of the financial condition of the Federal Government's pension plan. This requirement became effective after the cutoff date for Treasury's fiscal 1978 statement.

The Treasury statement was also characterized as having data that was over 9 months old. The statement was prepared to show the financial conditions at the end of fiscal 1978. As far as we can determine, the schedule contained accurate data as of that date and the research director acknowledged this.

Finally, the "Dollars and Sense" article objected to the format of the statement, taking issue with Treasury's caution about aggregating amounts shown for dissimilar types of financial commitments, such as firm liabilities and possible future commitments or contingencies. Treasury's caution, in our opinion, is appropriate because the statement contains amounts for future contingencies that are highly unlikely to occur, such as the riot-torn destruction of every major American city.

The research director believes that all items in the statement should be aggregated to arrive at the "taxpayer's burden," which he explains as being synonymous with the "real public debt." He realizes that his approach is not in accordance with traditional views but believes the time has come for a change in financial reporting concepts. We cannot support his unique approach to financial reporting because it opposes standards which are generally recognized in the accounting field.

## OMB EXPRESSED OTHER VALID CONCERNS ABOUT THE ARTICLE

The underlying theme of the "Dollars and Sense" article was that the Treasury statement, according to the research director, showed the taxpayer's burden to be over \$8 trillion. The Office of Management and Budget disputed this contention. OMB pointed out that amounts in the statements for liabilities and other types of financial commitments cannot be aggregated in any meaningful way, and therefore the research director's estimate of the taxpayer's burden was inaccurate. OMB provided the following specific objections to over \$6.7 trillion in the research director's total estimate:

- --A \$4.6-trillion deficit for annuity programs fails to consider \$3 trillion in taxes to be contributed for taxpayers joining the system after fiscal 1978. Also, as required by current laws, the \$1.6 trillion represents actuarial deficits that were computed for periods ranging from 5 to 75 years.
- --The \$2-trillion estimate for insurance commitments covers contingencies for highly unlikely events. For instance, the amount represents the total potential claims against the Government in the event that
  - every nuclear power plant in the country exploded,

- significant portions of every major city in the country were destroyed by rioting,
- devastating war damage to the country occurred that required payment of over \$140 billion in war risk insurance, and
- the country's financial system collapsed so totally that all federally insured deposits became worthless.

We hope this information meets your needs. We appreciate the courtesies extended us by the National Taxpayers Union in completing our work. We will make copies of this report available to others upon request.

Sincerely yours,

D. L. Scantlebury Director

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