

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

091275

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REMARKS OF  
ELMER B. STAATS  
COMPTROLLER GENERAL OF THE UNITED STATES  
TO THE  
COMMITTEE TO INVESTIGATE A BALANCED FEDERAL BUDGET  
OF THE  
DEMOCRATIC RESEARCH ORGANIZATION  
ON  
IMPLEMENTING ACCRUAL ACCOUNTING WITHIN THE FEDERAL GOVERNMENT



Mr. Chairman and Members of the Committee:

When the Budget and Accounting Procedures Act of 1950 was passed, the General Accounting Office made it a requirement that agency accounting systems be maintained on an accrual basis in order to secure Comptroller General approval. Accrual accounting was recommended in 1949 by the First Hoover Commission. In 1956, based on the Second Hoover Commission Report, the Congress amended the 1950 Act and specifically directed that agencies maintain their accounts "on an accrual basis."

Before proceeding, a brief analogy between cash and accrual accounting is probably in order. Most people are familiar with cash accounting because it is the basis they use for their household accounts-- that is, income is recognized when cash is recorded in the checkbook and expenses are recognized when the bills are paid. Accrual accounting on the other hand recognizes income when it is earned, regardless of when actually received, and recognizes expenses when they are incurred regardless of when the bills are paid. For example, if a merchant buys goods for \$1,000, sells them for \$1,200 and makes a financial statement before he pays for the goods, he will show a \$1,200 profit on the cash

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basis of accounting. He has received \$1,200 and has not paid anything out. Obviously, this is not accurate because he owes \$1,000. But liabilities (amounts owed) are not recorded in a cash accounting system. On the accrual basis, the merchant's financial statement would show the \$1,000 owing for the merchandise and he would show a profit of only \$200, the correct amount. That is what accrual accounting is all about--trying to be sure that all revenues and income earned are recorded whether cash has been received or not and that all expenses and purchases are also recorded whether paid or not. The illustration I gave is very simple. In practice, accrual accounting often gets very complex, but it is essential to understanding where you really are financially.

In 1967 two events occurred which provided an impetus for agencies which had not already done so to get their accounting systems on an accrual basis:

1. The House Government Operations Committee held hearings and issued a report on the status of accrual accounting in the Federal Government.
2. The President's Commission on Budget Concepts, of which I was a member, recommended that the Federal Budget surplus or deficit be stated on an accrual instead of a cash basis.

In March 1969 the Secretary of the Treasury, the Director of the Bureau of the Budget and the Chairman of the Council of Economic Advisors joined with me in issuing a memorandum to the Heads of Departments and Agencies. Among other things, we said the following:

"The President has reaffirmed the importance of going forward promptly with converting the budget and the companion financial reports of the Treasury to the accrual basis recommended by the President's Commission on Budget Concepts in October 1967."

"Some agencies have made significant progress in developing a readiness for this important change. However, it is now evident that much more remains to be done. . . ."

Considerable progress was made by agencies in getting their expenditures on an accrual basis over the next few years but little progress was made in getting revenues on an accrual basis. Primarily because of the difficulty in getting revenues on an accrual basis, the Director of the Office of Management and Budget in 1972 deferred indefinitely placing the Federal Budget surplus or deficit on an accrual basis. At the same time, the Secretary of the Treasury, the Director of the Office of Management and Budget and I agreed to use the Joint Financial Management Improvement Program as the vehicle for the encouragement and use of accrual accounting in the executive branch.

In September 1975, Arthur Andersen and Company recommended that the Federal Government issue consolidated financial statements on an accrual basis. Some members of the Congress interpreted this as a proposal that Congress require the agencies' accounting systems to be maintained on an accrual basis, but the Congress in 1956 had already provided for the use of accrual accounting. Rather, Arthur Andersen and Company was pointing out that the only consolidated statements that Treasury was publishing were on a cash basis and was recommending

that consolidated financial statements be prepared on the accrual basis.

The Treasury Department is authorized by the Budget and Accounting Act of 1950 to publish such statements and Secretary Simon has indicated his intention to do so. We have encouraged him and offered our cooperation. The current plan is to prepare consolidated accrual basis statements for the fiscal year 1977--the target for publication being February 1978. Secretary Simon has appointed two advisory committees Chairman of Arthur Andersen and Company, to assist in the project. Mr. Harvey Kapnick, will chair the committee dealing with the conceptual issues. At Mr. Simon's invitation I have agreed to serve as a member of Mr. Kapnick's committee and as chairman of the interagency group which will deal with the practical aspects of producing consolidated statements on an accrual basis.

We believe that agencies generally are employing accrual accounting, at least to the extent of accruing some types of transactions. We are responsible for approving the accounting systems for the executive branch agencies. At the present time, 98 percent of them have adopted the accrual basis as the principle on which their systems will be designed. As of June 30, 1975, about half of the executive agency accounting systems had received my approval of their designs as being on an accrual basis. Our goal is to complete the approval of the remaining designs, for the agencies who will cooperate with us, by 1980. Part of the reason for considering this goal attainable is that many of the systems not yet approved are already designed as accrual systems.

An area of concern with respect to accrual accounting has been in its management application. In our September 1969 report to the Congress on "Progress and Problems Relating to Improvement of Federal Agency Accounting Systems," we stated:

"The production and reporting of significant cost information are essential ingredients of effective financial management. Cost information is useful in the decisionmaking activity involving the selection of alternative courses of action, in measuring actual performance in relation to planned performance, and in comparing cost of similar activities . . . ."

"There are too few good cost accounting systems in the Federal Government. In an effort to promote better agency accounting for costs, the General Accounting Office has distributed and will continue to distribute to other agencies examples of good cost control practices involving accounting for costs."

There are still too few good cost accounting systems but I am glad to say that there are more than there were in 1969. One example is the system recently developed through our cooperative efforts with the Federal Bureau of Investigation. This system, currently being implemented, will use the accrual basis of accounting. The most notable and significant aspect of this newly emerging system, however, will be the meaningful categories for which operating costs are reported. While the FBI's present system does not disclose cost information below the "Field Investigations" level, future reports will inform managers on the cost of resources expended in separate program areas such as:

Internal Security  
Counterintelligence  
Terrorism  
Organized Crime  
White-collar Crime  
Fugitives  
Civil Rights  
General Criminal  
State and Local Assistance

For those of you who are interested, we have available an example of the breakdown of costs that the FBI system is being designed to produce. We are also distributing information about the system to interested agencies. While each agency has to develop management reports tailored to its specific requirements, the concepts embodied in the FBI system have general application.

Because of the inadequate understanding as to what is meant by an "accrual basis" of accounting and the advantages of the accrual basis over the "cash basis," we prepared and issued a booklet in 1970 entitled "Frequently Asked Questions About Accrual Accounting in the Federal Government." We believe the answers given in this booklet have done much to allay the misunderstandings with respect to accrual accounting and we have had to reprint the booklet several times. It is available for any members of your organization.

In summary, accrual accounting in the Federal Government has been a legal requirement since 1956. Since accrual accounting is fundamental to sound financial management it has always been a basic tenet of our principles and standards. I believe that current economic conditions and the extensive Government use of deficit financing have

accentuated the need for the Federal Government to provide better overall financial reports that show clearly for the benefit of the Congress and the public the major aspects of its financial position and operations. We believe that the consolidated financial statements which the Treasury Department will commence publishing in 1978 will help meet this need. Moreover, we will continue to encourage and assist executive agencies in the improvement and use of their accrual accounting systems.

Responses to Questions Contained  
in April 16, 1976, letter to the Comptroller General  
from the Committee to Investigate a Balanced Federal Budget  
of the Democratic Research Organization

1. Why has it taken so long to implement the law calling for accrual accounting?

Essentially all Federal executive agencies have adopted accrual accounting as the principle to be followed in performing the accounting work. We have approved about half of the 286 accounting systems which the executive agencies maintain and to obtain our approval the systems must be on the accrual basis. Many others are also on the accrual basis but for one reason or another the agencies simply haven't taken the time to prepare the instruction manuals and other documentation necessary to obtain our approval. The Department of Defense has recently been working very hard to get its many systems approved. Some other agencies such as HEW and Interior are progressing very slowly. (Both of these agencies complain of not getting sufficient resources to do the necessary work.)

2. What impact would there be if accrual accounting were adopted?

Results on the accrual basis are often far different from results on the cash basis. For instance, Arthur Andersen's consolidated financial statements for 1974 show that increases in the liability for retirement and disability benefits, a noncash item, was nearly \$96 billion. We believe information like this is significant and should be available to National decisionmakers.

We also think that a consolidated balance sheet which shows the overall financial condition of the Government, not just its cash position, will be useful to decisionmakers.

3. Using accrual accounting, Arthur Andersen & Co. estimated the cumulative federal deficit through fiscal year 1974 was over \$800 billion. Their study also found the federal deficits in fiscal years 1973 and 1974 to be very much understated. Please comment on the accuracy of their estimates.

Arthur Andersen & Co. prepared their statements on a basis that best approximated generally accepted accounting principles used in the private sector; Treasury statements, on the other hand, are prepared on a cash basis and reflect differences between disbursements and receipts.

A major factor for the difference between what Treasury reports as the deficit and what the Arthur Andersen report showed is the accounting for retirement and disability benefits. Financial statements of the Federal Government show a liability for Civil Service Retirement, but do not reflect any liability for Military Retirement, Veterans' Benefits, and Social Security.

Arthur Andersen pieced together its consolidated financial statements from 14 different sources. We don't know how accurate it is and neither do they. This is not to criticize their work; they did what they could with what was available to them. We expect that the statement which will come from Treasury's project will be improved in many ways and will ultimately be reasonably accurate. Consequently, I would defer judgment as to accuracy of the Arthur Andersen deficit figure until Treasury's project is completed.

4. Two presidents apparently endorsed accrual accounting. Who?

President Lyndon Johnson in 1967 accepted the recommendations of his Presidential Commission on Budget Concepts which, among other things, endorsed accrual accounting.

President Richard Nixon also accepted the recommendations of this Presidential Commission and established a 2-year program to accomplish it. While the plan for presenting the budget surplus or deficit on an accrual basis was subsequently abandoned, it did not affect the approval of accrual accounting as the basis for providing a fair disclosure of financial condition and operating results for the public as well as the private sector.

5. Do you endorse the recent Treasury decision to begin preparing financial statements reflecting accrual accounting? Will the budget be prepared this way? Ought it to be?

We, in GAO, are strongly behind development of consolidated annual financial statements for the U.S. Government. I believe that current economic conditions and the extensive Government use of deficit financing have accentuated the need for the Federal Government to provide better overall financial reports that show clearly the major aspects of its financial position and operations for the benefit of Congress and the public.

I have written Secretary Simon of my support and we are currently working with Treasury on this project. Also, I have agreed to serve on an advisory committee for development of these statements which will be chaired by Harvey Kapnick, Chairman of Arthur Andersen and Company, and I will serve as chairman of an interagency group which will deal with the practical aspects of producing consolidated financial statements on the accrual basis.

As for the preparation of the budget, we believe it will continue to be based on obligation/outlay data rather than the accrual basis as the appropriation committees seem to prefer it in this form. There may be some instances, however, when the Congress will wish to have requests justified on a cost (accrual) basis. We believe that the consolidated financial statements will be used as supplemental statements to the current budget reports.

6. What can members of this committee do, either individually or collectively, to encourage the adoption of accrual accounting systems and the preparation of accrual-based financial statements?

Most agencies in the Federal Government are employing accrual accounting. So it is not a question of having them adopt accrual accounting. There is, as I indicated, no consolidated financial statement depicting the major aspects of the Federal Government's financial position and operations. We feel this would benefit the Congress and the public. For that reason, we support the objectives of H.R. 10855, 94th Congress, the "Truth in Government Accounting Act of 1975." We are recommending necessary legislative language changes but, with those changes, we believe that passage of the bill will put the Government in the leadership in developing fiscal responsibility.

7. Is there anything unusual in the accounting treatment of the government's New York City loan?

No. However, it should be noted that the loans by the Treasury to New York City have been purchased by the Federal Financing Bank and will appear on its books.

At the New York City level the loan agreement requires periodic financial reporting to the Treasury by the city, the earmarking of revenues for loan repayments, and diligent pursuit of accounting system improvements.

8. Some have argued that Federal credit programs, considered collectively, are not well controlled. Do you agree?

Federal direct loan and loan guarantee programs do not receive the same budgetary treatment that Federal direct expenditures do and are not "controlled" in the same manner as direct expenditures. Direct loan programs of off-budget agencies and loan guarantee programs do not compete for Federal resources within the same decision framework as applies to direct Federal expenditure activities or to grant programs.

Direct lending activities of off-budget agencies are estimated to become increasingly important elements of all direct Federal lending activity.

Gross Disbursements of Direct  
Loans by Off-budget Agencies  
(millions of dollars)

<u>Agency</u>	<u>1976 estimate</u>	<u>TQ estimate</u>	<u>1977 estimate</u>
Rural electrification and Telephone Revolving Fund	925	231	1,022
Rural Telephone Bank	160	40	178
Export-Import Bank	2,772	646	0
Housing for the Elderly or Handicapped	5	3	126
U.S. Railway Association	525	0	0
Federal Financing Bank	6,506	2,878	9,800
Energy Independence Authority	0	0	650
<b>Total</b>	<b>\$10,894</b>	<b>\$3,798</b>	<b>\$11,775</b>

Gross disbursements of off-budget agencies are estimated to represent 33.0 percent, 35.1 percent and 36.7 percent of total direct loan disbursements of \$33.0, 10.8 and 32.1 billion for all Federal agencies in FY 1976, the transition quarter and, FY 1977, respectively.

On the other hand, loan guarantee programs do not have the same visibility in the budget as direct expenditures for three main reasons. First, borrowing authority is sometimes granted for the entire program at its outset with multi-year or open-ended borrowing authority. A recent example of this is the proposal for \$75 billion in borrowing authority for the Energy Independence Authority. It would seem more appropriate to review the effectiveness of loan guarantee programs on an annual basis within the context of all Federal resource requirements. Thus, it may be in the public interest to grant loan-guaranteeing authority on a year-to-year basis.

Second, the default (with a long budget lag) and administrative costs (with a short budget lag) of loan guarantee programs are realized only after they have been incurred. For purposes of planning and budgetary control, it would be more desirable to have the estimated default losses and administrative expenses of these loan guarantee programs recognized in the budget at the time loan-guaranteeing authority is provided. This would require an estimate of the expected losses for each guarantee program. Estimation of those losses presents some severe problems. FHA expected losses, for example, would be fairly easy to measure based upon the historical default experience of the program and/or the market clearing mortgage rate on conventional loans. But similar estimates for activities

such as the Lockheed emergency loan or New York City seasonal financing is considerably more difficult. In these cases, there is little information on default experience and there is no reasonable interest rate at which activities of this sort could obtain financing.

Third, the total value of guaranteed loans does not appear in the budget. Loans outstanding should be aggregated across agencies and for purposes of providing visibility to and for evaluation of loan guarantee programs some form of "guaranteed loan account" should be included in the budget as a memorandum item, providing such data as: loans outstanding, the statutory ceiling on loans outstanding, gross loans guaranteed and those maturing in each year, income from guarantee fees or premiums and from sale of assets in default, interest expenses, the gross principal value of defaulted loans and administrative expenses. This data would permit computation of the net profit or loss from loan guarantee operations and would begin to provide the necessary detail and visibility for these programs.

9. Has the new Congressional Budget Reform functioned up to your expectations? Is any remedial legislation needed to correct deficiencies in reform procedures?

The Congressional Budget process is currently in its first year of operation. In general, it is too early to assess the ultimate functioning of that process but we continue to be encouraged by the progress which has been made. The Congress is just beginning to learn and live with the new process. One encouraging sign was the effort made last year in implementing the process on a "dry run" basis although it was not mandated by the Act. We believe that the Congressional Budget process does provide

an appropriate mechanism for the Congress to deal effectively with its fiscal responsibilities. At the present time, remedial legislation does not appear to be called for.

10. Do you believe supervision over and elimination of ineffective Federal programs is being pursued with reasonable diligence? Can zero-base budgeting legislation make any contribution? If so, what is it?

We believe that evidence of concern, such as the proposed Government Economy and Spending Act of 1976 (S.2925) indicates that supervision over and elimination of ineffective Federal programs is being pursued with reasonable diligence. This legislation was discussed in Mr. Staats' testimony before the Subcommittee on Intergovernmental Relations, Committee on Government Operations, United States Senate on March 16, 1976. A copy of that testimony is attached.

11. Beginning in FY 1973, Federal financial entities began financing a transaction with loan guarantees from other Federal units. Do you approve this practice? What problems does it pose?

*Example*

Good budgetary control is weakened by Federal Financing Bank purchase of guaranteed loans of on- and off-budget agencies. During 1975 the Federal Financing Bank underwrote \$6.2 billion in loan guarantees of on- and off-budget agencies. Estimates for this activity in FY 1976 and FY 1977 are \$5.6 billion and \$8.3 billion, respectively. The existence of this Federal Financing Bank (FFB) activity changes the nature of Federal credit programs by substituting direct government loans for loan guarantees. Thus it creates an opportunity to transfer direct lending to off-budget status and, consequently, to evade the usual budget discipline.

We have several concerns with this arrangement. First, direct loans have typically been intended for distribution to those borrowers who could not obtain credit on reasonable terms. In this regard, it is a questionable practice to substitute direct loans for another form of credit assistance whose function it is to fill some other purpose. A second and more obvious concern has to do with loss of controllability over a relatively large amount of direct loan activity. That is, because of the FFB purchase of guaranteed loans, a large volume of direct loans which would normally be reported at face value in the budget can be transferred to off-budget status.

12. Would you support a provision requiring all off-budget agencies, government sponsored corporations, etc., to borrow only through the Federal Financing Bank, while putting said bank into the unified budget?

We would not support a proposal requiring all off-budget agencies or government sponsored corporations to borrow only through the Federal Financing Bank. We would, however, favor including the activities of the Federal Financing Bank within the unified budget.

With the exception of the Student Loan Marketing Association, it is currently illegal for government sponsored corporations to borrow from the FFB. These corporations are privately held and there is no reason for either allowing or requiring them to borrow at advantageous rates of interest from the Federal Financing Bank. If this occurred, not only would the government sponsored enterprises benefit from an unwarranted competitive advantage but it would also be unnecessarily subsidizing an endeavor whose activity may not yield social returns commensurate with such a subsidy.

As far as off-budget agencies are concerned, we see no reason to deny these agencies access to private capital markets as an alternative means of financing their programs. We do not believe that control over these agencies, whether they be on- or off-budget should be so tight as to require mandatory borrowing from the FFB. We realize that the Federal Financing Bank was established to coordinate the borrowing activities of the various credit programs and to reduce the borrowing costs associated with such programs. But coordination does not require that all borrowing take place through the FFB. The recent history of agency borrowing activities indicates that the FFB is advancing funds on relatively favorable terms both with regard to costs and amounts. However, there is no guarantee that this will remain the case if Federal Financing Bank activities should become an active tool of credit management. Among other things, there is some danger of diffusing responsibility for Executive Branch formulation and execution of the budget.

Thus, we see no reason why, if the potential exists to privately finance a Federal credit program, there need exist the mandate that the Federal government directly finance the program. Where Federal financing does occur, we support the concept that all such financing should be on the budget.

13. Are there any accounting devices newly employed by Congress or the Executive Branch, which have successfully evaded existing controls and will further erode Federal fiscal integrity?

Aside from problems associated with the visibility of loan guarantees and the development of off-budget agencies, cooperative agreements between ERDA and private industry as proposed under the Nuclear Level Assurance

Act of 1975 (S.2035) have the potential for successful evasion of existing controls. These agreements give ERDA the authority to enter into agreements with private industry which provide assurances in the event of default and allow the ERDA administrator to issue notes to the Secretary of the Treasury in the full amount of the contingent liability. The legislative history of S.2035 indicates that this "guaranteeing" authority was not intended to be included as budget authority. This proposal is unique, because even though it grants borrowing authority in the full amount of the contingent liability, it does not appear that the commitment made under the proposed legislation would come within the meaning of budget authority until such time as the United States is required to pay in the event of default. This prospect of such contract authority not being included in the Budget prior to default threatens to establish an undesirable precedent.

14. Would you favor the following proposal either as a legislative enactment or constitutional amendment?

The Federal budget shall include all entities whose direct liabilities might require future taxes. The Federal budget shall be balanced, except when the President requests an exemption with concurrence of 2/3 of those voting in each House of Congress. No exemption shall last longer than seven years. Deficits incurred during an exemption must be repaid within twenty-five years of its expiration.

When an exemption is not in effect and revenues or expenditures do not behave as estimated, resulting in an involuntary deficit, Congress must incorporate said deficit into the next fiscal year's budget as an expenditure. If this carryover exceeds five percent of the budget, however, then Congress is prohibited from considering the next fiscal year's budget until it has raised taxes to finance the carryover deficit.

Under the budget procedures specified in the Congressional Budget Act of 1974, the Congress has the mechanism to address budgetary totals and the level of the fiscal deficit or surplus. The new Congressional Budget process allows explicit consideration of budgetary revenues and outlays, and the resulting deficit or surplus. Through a series of concurrent resolutions, these decisions are arrived at by the Congress. We believe that concern about budgetary totals is addressed under this new Congressional budget process. The GAO supports this budgetary process. We believe that the process is viable and provides a mechanism to addressing explicitly the problems raised in your question.

COMMITTEE TO INVESTIGATE A BALANCED FEDERAL BUDGET

of  
*Democratic Research Organization*

DRO

Hon. Richard Ichord  
Chairman

Carl Noller, P.h. D.  
General Counsel

Room 3335, H.O. B. Annex No. 2  
U.S. House of Representatives  
Washington, D.C. 20515  
(202) 225-5455

April 16, 1976

Mr. Elmer Staats  
Comptroller General  
General Accounting Office  
441 G Street, NW  
Washington, D.C. 20448

Dear Mr. Staats:

On behalf of the Committee to Investigate a Balanced Federal Budget, I want to express our pleasure at your coming on Thursday, May 6, at 9:30 a.m. The hearing will be held in 2118 Rayburn House Office Building. Our Members would also like to invite you to lunch after the hearings that day (roughly at 12:30 p.m.). Please inform me of your availability; I can be reached at 225-5455.

As you know, the purpose of these hearings is to marshall arguments and data from which to derive an intelligent position regarding the many facets of federal deficits. This will be translated into legislation, which will be introduced into the Congress. We are asking you to help us arrive at "an intelligent position." The Committee understands that you will make roughly a ten minute opening statement on: "The Effort to Implement Accrual Accounting Within the Federal Government, Reflections and Prospects." Please supply us with 40 copies by May 4.

Included below are questions of interest to the Committee. Those not covered in your statement will probably be put to you by the Members. It would be most helpful if your answers are as specific as possible -- drawing on data or examples -- and are related to something meaningful to the Members such as the new budget process, inflation, jobs, or the like. If I can be of further assistance in explaining these questions or in other matters, feel free to call on me. I am anxious to facilitate your appearance.

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and  
call do  
12-11-76  
Attst  
Gao Kuper*

Mr. Elmer Staats  
April 16, 1976  
Page 2

1. Why has it taken so long to implement the law calling for accrual accounting?
2. What impact would there be if accrual accounting were adopted?
3. Using accrual accounting, Arthur Andersen and Co. estimated the cumulative federal deficit through fiscal 1974 was over \$800 billion. Their study also found the federal deficits in FY 1973 and 1974 to be very much understated. Please comment on the accuracy of their estimates.
4. Two presidents apparently endorsed accrual accounting. Who?
5. Do you endorse the recent Treasury decision to begin preparing financial statements reflecting accrual accounting? Will the budget be prepared this way? Ought it be?
6. What can members of this committee do, either individually or collectively, to encourage the adoption of accrual accounting systems and the preparation of accrual-based financial statements?
7. Is there anything unusual in accounting treatment of the government's New York City loan?
8. Some have argued that federal credit programs, considered collectively, are not well controlled. Do you agree? *budget agencies*
9. Has the new Congressional Budget Reform functioned up to your expectations? Is any remedial legislation needed to correct deficiencies in Reform procedures?
10. Do you believe supervision over and elimination of ineffective federal programs is being pursued with reasonable diligence? Can need zero-base budgeting legislation make any contribution? If so, what is it?

Mr. Elmer Staats  
April 16, 1976  
Page 3

11. Beginning with FY 1973, federal financial entities began financing transaction with loan guarantees from other federal units. Do you approve this practice? What problems does it pose?
12. Would you support a provision requiring all off-budget agencies, government sponsored corporations, etc., to borrow only through the Federal Financing Bank, while putting said bank into the unified budget?
13. Are there any [accounting] devices newly employed by Congress or the Executive Branch, which have successfully evaded existing controls and will further erode federal fiscal integrity?
14. If it were decided to mandate an end to persistent federal deficits, such as we have experienced during the last two decades, would the following proposal do that?

The federal budget shall include all entities whose direct liabilities might require future taxes. The federal budget shall be balanced, except when the President requests an exemption with concurrence of 2/3 of those voting in each House of Congress. No exemption shall last longer than seven years. Deficits incurred during an exemption must be repaid within twenty-five years of its expiration.

When an exemption is not in effect and revenues or expenditures do not behave as estimated, resulting in an involuntary deficit, Congress must incorporate said deficit into the next fiscal year's budget as an expenditure. If this carryover exceeds five percent of the budget, however, then Congress is prohibited from considering the next fiscal year's budget until it has raised taxes to finance the carryover deficit.

Sincerely yours,



Carl W. Noller  
General Counsel

CWN:ep1  
cc: Mr. Donald L. Scantlebury

RICHARD H. ICHORD  
8TH DISTRICT, MISSOURI

2402 RAYBURN HOUSE  
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COMMITTEES:  
CHAIRMAN, COMMITTEE ON  
INTERNAL SECURITY  
ARMED SERVICES

# Congress of the United States

## House of Representatives

Washington, D.C. 20515

February 23, 1976

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*Hoel*

Mr. Elmer Staats, Comptroller General  
General Accounting Office Building  
441 G Street, NW  
Washington, D.C. 20448

Dear Mr. Staats:

As you know, the Committee to Investigate a balanced Federal Budget is planning to hold hearings. We have been most successful in getting prominent witnesses of great expertise to agree to appear before us. To date, we have acceptances from William Simon, Arthur Burns, Alan Greenspan, Elliott Richardson, Henry Reuss, Alice Rivlin, James Needham (NYOB), Larry Francis (St. Louis Fed.), James Luesenberry (Harvard), Allan Meltzer (Carnegie-Mellon), and Charles Lowsner (Arthur Andersen Co.), among others.

Our group is anxious that you appear. Dr. Carl Noller, our General Counsel, has already issued a memo to Committee members on accrual accounting; a copy of said memo is included herein. He is excited about the concept and is anxious to recommend that the members pursue it. Several of our witnesses, however, are critical of this approach. Your appearance would greatly bolster our Counsel's case. Also, we have asked for a report from G.A.O. regarding control of loan guarantee programs. It would be embarrassing to all, if no one from G.A.O. were here to answer for that report.

I well understand your concern about creating precedents here. I know even standing Congressional committee demands on your time are considerable, and oftentimes, our preparation for your coming is not what it should be. Your reluctance to add new burdens is appreciated. We believe, however, that our Committee is different--well-organized and ready to take action. We need the arguments and facts of authorities like yourself. This Committee is worthy of your attention.

In that regard, let me share with you how Messrs. Burns and Greenspan are handling this (for they have expressed similar concern). They are dispensing with prepared opening statements and the provision of advanced texts. Rather, they are making initial "remarks" and then moving to our questions. We are also willing to allow you to insert a disclaimer into the record, such that this appearance does not in any way obligate you to future appearances before this or any other group so constituted.

\*03 *lf*

RICHARD H. ICHORD  
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COMMITTEES:  
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page 2  
Mr. Staats

In summary, I am sure where men of good will are involved, these problems can be worked out. Mr. Noller will be happy to confer with you or your staff, should you feel it necessary. We want to make your appearance as easy and informative as possible. Let me, therefore, reextend our invitation, as contained in the original letter of February 10.

With kindest regards, I am

Sincerely yours,

Richard H. Ichord  
Member of Congress

Forward for Divisional Control to	
DCM	
<input type="checkbox"/> For action	<input type="checkbox"/> For info
<i>Be</i>	MR Staats - MR Teller MR Hughes - MR Haines MR Beantley
This is a prelude to meeting Noller with GAO. No act. necessary now.	
<i>J. Be</i>	2277b

COMMITTEE TO INVESTIGATE A BALANCED FEDERAL BUDGET

of  
*Democratic Research Organization*

DRRO

Hon. Richard Ichord  
Chairman

Carl Noller, P.h. D.  
General Counsel

Room 3335, H.O.B. Annex No. 2  
U.S. House of Representatives  
Washington, D.C. 20515  
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MEMO #1  
January 23, 1976

What is the cumulative fiscal deficit?

You may have thought it was \$486.2 billion through fiscal year 1974, but Arthur Andersen & Company estimates it to have been \$811.7 billion. The impact for certain individual years can also be startling. Take FY 1974. The reported deficit was \$3.5 billion; Andersen's estimate is \$95.1 billion.

The difference results from the accounting firm's use of the accrual method in preparing its statement. The government uses a cash basis. The distinction between these two accounting concepts is simple: accrual accounting considers a transaction to have occurred at the time that revenue is earned or the liability is incurred, regardless of when the actual transfer of cash occurs.

The consequences of using accrual accounting is profound. With it, one can know one's total liabilities and hence exercise oversight or control of spending. Under present methods, this is impossible. All the Budget Reform Acts in the world cannot change this.

Interestingly, it has been the law since 1956 that the federal government employ accrual accounting. This still has not been implemented. Shouldn't we know why?