



Written by [Michael Tennant](#) on January 4, 2011

## Feds' Financial Statements Impossible to Audit, Says GAO

As if all that weren't bad enough, we don't even know for certain if those are the actual figures. The U.S. Government Accountability Office, Congress's investigative arm, "cannot render an opinion on the 2010 consolidated financial statements of the federal government, because of widespread material internal control weaknesses, significant uncertainties, and other limitations," [according to a GAO press release](#).



The release explains:

The main obstacles to a GAO opinion were: (1) serious financial management problems at the Department of Defense (DOD) that made its financial statements unauditible, (2) the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal agencies, and (3) the federal government's ineffective process for preparing the consolidated financial statements....

[Acting Comptroller General Gene] Dodaro also cited material weaknesses involving an estimated \$125.4 billion in improper payments, information security across government, and tax collection activities. He noted that three major agencies — DOD, the Department of Homeland Security, and the Department of Labor — did not get clean opinions. Nineteen of 24 major agencies did get clean opinions on all their statements.

Economist Robert Higgs pointed out in [a 2009 article](#) that DOD "since 1994 has been required by law to perform an annual financial audit, [but] has yet to perform one. Each year a DoD accounting functionary dutifully testifies before Congress that the department's accounts are in such a mess that its records cannot be audited." This is the same department that [cannot account](#) for tens of billions of dollars of American and Iraqi money supposedly for use in rebuilding Afghanistan and Iraq, respectively. In short, DOD is just another mismanaged, wasteful government agency; and perhaps because of the deference shown to the Pentagon by politicians on both sides of the aisle, it may actually be worse than most others.

French writes, "Recent accounting graduate Briggs Armstrong points out that no publicly traded company could get away with half that many qualified opinion areas [as in the GAO's press release] and if the government was a company, the accounting report would be top of the fold news for weeks with congressional hearings scheduled immediately." Undoubtedly this is the case. Yet the very same



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institution whose books are so screwed up that it cannot offer an opinion on its own financial statements presumes to dictate to the private sector how to perform its accounting.

At the signing ceremony for the Sarbanes-Oxley Act of 2002, [President George W. Bush said](#):

This law says to every dishonest corporate leader: you will be exposed and punished; the era of low standards and false profits is over; no boardroom in America is above or beyond the law....

This law says to corporate accountants: the high standards of your profession will be enforced without exception; the auditors will be audited; the accountants will be held to account.

This law says to shareholders that the financial information you receive from a company will be true and reliable, for those who deliberately sign their names to deception will be punished.

This law says to workers: we will not tolerate reckless practices that artificially drive up stock prices and eventually destroy the companies, and the pensions, and your jobs.

And this law says to every American: there will not be a different ethical standard for corporate America than the standard that applies to everyone else. The honesty you expect in your small businesses, or in your workplaces, in your community or in your home, will be expected and enforced in every corporate suite in this country.

Now compare the lofty standards the feds set for corporate America to the standards they apply to their own agencies. It's no contest. So when can we expect to see U.S. leaders "exposed and punished," U.S. accountants and auditors held to "high standards ... without exception," and, as Bush later mentioned, "dishonest ... officers [prohibited] from ever again serving in positions of ... responsibility"? When will government "practices that artificially drive up stock prices" and destroy companies, pensions, and jobs no longer be tolerated? When will there cease to be different ethical standards for the rulers and the ruled?

(In hindsight, there are other howlers in Bush's speech, including "The fundamentals of our economy are sound," and "We must continue to work to control federal spending.")

Whether or not the government's financial statements are completely accurate, one thing is for certain: Washington has dug us into a debt hole from which it will be almost impossible to extricate the country without great pain. "Williams," French reports, "says the U.S. is on a collision course with 'a hyperinflationary great depression' with the dollar completely collapsing, along with the financial system, causing an end to 'the normal stream of U.S. commercial and economic activity.'" One hopes that to avert this outcome our government officials, for once in their lives, act as statesmen rather than politicians — a slim thread of hope indeed. But if it can happen in [Britain](#) and [Russia](#), it can happen here too.



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