WHORM Subject File Code: FG002-38
(Federal Government Organizations: Former Presidents: Carter, James Earl, Jr.)
Case file Number(s): 399940-535999
Box Number: 6

WITHDRAWAL SHEET
Ronald Reagan Library

Collection: WHORM: Subject Files **Archivist:** smf/srj

File Folder: FG002-38 399940-599999 **Date:** 4/13/98

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
~~1. memo~~ (447464)	~~Frank Carlucci to Chief of Staff re: Sec. Shultz's~~ breakfast with former Pres. Carter. 2p. R 5/8/00 NLSF97-077 #1	~~4/2/87~~	~~P1~~

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]
P-1 National security classified information [(a)(1) of the PRA].
P-2 Relating to appointment to Federal office [(a)(2) of the PRA].
P-3 Release would violate a Federal statute [(a)(3) of the PRA].
P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA].
P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA].
P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA].

C. Closed in accordance with restrictions contained in donor's deed of gift.

Freedom of Information Act - [5 U.S.C. 552(b)]
F-1 National security classified information [(b)(1) of the FOIA].
F-2 Release could disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA].
F-3 Release would violate a Federal statue [(b)(3) of the FOIA].
F-4 Release would disclose trade secrets or confidential commercial or financial information [(b)(4) of the FOIA].
F-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA].
F-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA].
F-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA].
F-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA].

42652055

The President has seen 10/28/86

FG002-38

FG018

FG006-11

CO114

THE WHITE HOUSE

WASHINGTON

October 22, 1986

MEMORANDUM FOR THE PRESIDENT

FROM: PAT BUCHANAN

The Great Man speaks on Reykjavik; De-fund the Library!

News Article

Jimmy Carter

Oct 27 Memo for Reagan from Chew attached

426520

Sat 18-Oct-86 14:51 EDT
Carter: Reagan made big mistake in arms talks

ATLANTA (UPI) _ Former President Jimmy Carter said the Reagan administration thwarted its weapons talks with the Soviets by clinging to Star Wars and refusing to consider a halt to testing.

Carter also accused the government of using private companies to cause unrest in Nicaragua and added in a wide-ranging interview that he would support Sen. Sam Nunn, D-Ga., for president.

Carter said Reagan was not prepared to give up as many nuclear weapons in a push for peace as was Soviet leader Mikhail Gorbachev.

"I don't think they were prepared for Gorbachev's willingness to put (far-reaching proposals) flat on the table and say, ±Here they are," ' he said. "He put the whole thing on the table and said, ±I'll accept all of this provided you will accept a strict interpretation of the ABM treaty for 10 years, which I think would preclude some very vital tests in the air and space for some of the Star War components."

"I have always thought Star Wars was a big mistake. My judgment is President Reagan missed a wonderful opportunity," Carter said in an interview with Cox Newspapers officials that was published in The Atlanta Journal and Constitution Saturday.

Carter also accused Reagan of misleading the world by implying the space-based Strategic Defense Initiative, popularly called Star Wars, will be as good a deterrent to nuclear war as arms reduction.

He said he was in a wilderness area in Michigan last weekend during the weapons talks and got an emergency call from the administration about the talks in Reykjavik, Iceland.

"It was one of the rare times in the last 5² years that I've been called by the White House," he said, adding he was cold and soaking wet because he had been outside. "And my impression is that Gorbachev came to Iceland very carefully prepared to present some startling proposals _ startling to me."

As Admiral John Poindexter, national security adviser, read Gorbachev's proposals, "I said, ±That's great, I can't believe it. It's wonderful," ' Carter said.

"After about 30 or 45 minutes, he finally said, ±The president has decided to reject all of these opportunities because Gorbachev insists on a stringent interpretation of the ABM treaty." '

Carter said he believes the treaty allows testing of nuclear weapons on the ground, but not in the air or in space.

He said he believes Reagan wanted only to agree on a reduction in intermediate range missiles and save other meatier matters for a "politically popular summit."

Carter also criticized Reagan's Nicaraguan policies and said the government is at the root of Central American unrest.

"There's very little doubt in my mind that what has been going on _ in the mining of harbors, the preparation of the pamphlet encouraging murder, and the delivery of weapons to the contras _ that our government has been directly or indirectly involved," he said.

Carter said the Central Intelligence Agency often uses private companies to conduct its business, including trucking, airline and motion picture firms.

He said his administration used a film company to stage the release of six Americans from the Canadian Embassy during the Iranian hostage crisis.

"I think that's what's going on in Nicaragua," he said.

Carter told the editors and publishers he has no idea who the Democratic nominee for president will be in 1988.

"If I had my own choice of the person who could win, I would choose Sam Nunn," he said. "My guess is, he won't run, but it's very difficult mathematically for the Democrats to win without strong support in th South. I think Nunn can do as well as any Republican candidate in the South."

He likened Nunn's philosophies to those he supported in his presidential races in 1976 and 1980 _ progressive in arms control, dependence on negotiations instead of troops in dealings with other countries, conservative increases in military spending and strong belief in human rights.

Democrats have a good chance to take the White House in 1988 because "Reagan will not be running with his high popularity, which I don't think is transferable to ... whomever the Republicans choose."

THE WHITE HOUSE
WASHINGTON

October 27, 1986

DONALD T. REGAN:

FYI -- The attached is being forwarded to the President on Tuesday.

David Chew

NOTED BY C[illegible]

THE WHITE HOUSE

WASHINGTON

October 22, 1986

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The Great Man speaks on Reykjavik; De-fund the Library!

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~~SECRET~~

C. F.

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THE WHITE HOUSE

WASHINGTON

FG002-38
FG011
FG006-12

April 2, 1987

MEMORANDUM FOR THE CHIEF OF STAFF

FROM: FRANK C. CARLUCCI

SUBJECT: Secretary Shultz' Breakfast with Former President Carter, Friday, April 3, 8:00 a.m.

Background

Carter has just returned from an extended trip to the Middle East. In two weeks of discussions in Algeria, Egypt, Syria, Jordan, the West Bank, and Israel, he sought to demonstrate his personal commitment to realizing one of the great unfulfilled aspirations of his Presidency--a comprehensive Middle East peace settlement. Carter publicly contrasted his own commitment with what he alleged to be the passivity of the Reagan Administration, although he did praise the September 1, 1982 Initiative. He did not brief our Ambassadors in detail about his private meetings at each stop (except for Syria, where he gave a more forthcoming account). A short summary of Carter's reports of his private conversations is at Tab A; Tab B provides excerpts from his public statements on U.S. policy.

In general, Carter was very warmly received, and cleverly exploited, by his Arab hosts. Arab governments and media seized the opportunity to profess their dedication to peace--and to join Carter in criticizing the Reagan Administration for its weak diplomacy and unwillingness to pressure Israel. The net effect in the Arab world was mixed, stimulating greater enthusiasm for the peace process but encouraging Arab governments (and the PLO) to lay the blame for stalemate at the U.S. doorstep and continue to avoid the tough, substantive choices that they must make before there can be any hope of serious progress.

Looking Ahead

Carter returns to the U.S. convinced: (1) that there is an emerging Arab consensus--which includes Syria--in support of a constructive international conference and a negotiated settlement

~~SECRET~~
Declassify on: OADR

DECLASSIFIED
NLS F42-077 #1
BY MJD NARA, DATE 6/8/00

NSC #8702450

with Israel; and (2) that the Administration has an opportunity to revitalize the peace process if it would make the Middle East its top foreign policy priority after the U.S.-Soviet relationship and arms control. Specifically, Carter is likely to press at breakfast for a greater effort to engage Syria; to talk to the Soviets and others seriously about an international conference; and to appeal more directly to the Palestinians and the PLO (perhaps by publicly acknowledging the Palestinian right to self-determination within a confederation with Jordan). He is less likely to address the problems he faced in Israel, or to dwell on inter-Arab differences over key substantive and procedural issues.

In response, George will review for Carter the President's renewed efforts to implement the September 1 Initiative. You should join in emphasizing our seriousness; note that we recognize the politically important roles of Syria, the USSR, and the PLO; but stress that we judge their commitment to peace by their actions, not simply their words. It would also be worth noting that Carter's deep association with Middle East peace efforts equips him to play a positive, private role in the process--but that public criticism of the President and exploitation of this criticism only undermines our current efforts. It helps the parties in the region to pass the buck and evade the difficult decisions that would make serious negotiations possible. If Carter wishes to be helpful, he ought to press all the parties to act more realistically to resolve their differences--not just allow them to retreat behind the convenient illusion that the United States bears primary responsibility for the peace process.

Carter's criticism of current U.S. policy suggests that he has forgotten some of the lessons of his own Presidency, where a shared commitment by Egypt and Israel as well as arduous preliminary talks on both substance and procedure were necessary before Camp David became possible. Where there was no such shared commitment or careful preparation (i.e. post-Camp David autonomy talks), the process ground to a halt. This is the essential point that should be discussed with Carter at breakfast.

Attachments

Tab A Summary of Carter's Private Talks
Tab B Excerpts from Carter's Public Statements

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file

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FO

PRESIDENT JIMMY CARTER'S RECENT TIRADE

Former President Jimmy Carter has stepped up his strident criticism of ~~President Reagan~~ in speeches in the Middle East. This breaks an unspoken agreement among former Presidents of not attacking the incumbent Administration while on foreign visits.

Mr. Carter is apparently seeking political redemption in advance of his party's attempt to recapture the presidency in 1988. He recently lent his name to a fundraising letter for Ted Turner's Better World Society. Georgi Arbatov, a member of the Central Committee of the CPSU, serves with Mr. Carter on the group's Board of Directors.

This may be one of the few times in history (if not the first time in history) that a former President of the United States has joined publicly with Soviet leaders to oppose U.S. foreign policy goals and initiatives.

ID# 515523

FG002-38

THE WHITE HOUSE
CORRESPONDENCE TRACKING WORKSHEET

INCOMING

DATE RECEIVED: SEPTEMBER 25, 1987

NAME OF CORRESPONDENT: DR. GARY FAIRMONT FILOSA II

SUBJECT: FORWARDS COPY OF LETTER TO PRESIDENT JIMMY CARTER
APPRECIATION FOR SEP 8 LETTER

ROUTE TO: OFFICE/AGENCY (STAFF NAME)	ACTION: ACT CODE	ACTION: DATE YY/MM/DD	DISPOSITION: TYPE RESP	DISPOSITION: C D	DISPOSITION: COMPLETED YY/MM/DD
HOWARD BAKER	ORG	87/09/25	HB	A	87/10/16 TR
REFERRAL NOTE:					
CMGRIS	A	87/10/02	TR	C	87/10/06 TR
REFERRAL NOTE:					
COCAMA	A	87/10/07	TR	A	87/10/16 TR
REFERRAL NOTE:					
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REFERRAL NOTE:					

COMMENTS:

ADDITIONAL CORRESPONDENTS: MEDIA:L INDIVIDUAL CODES:

CS MAIL USER CODES: (A) (B) (C)

*ACTION CODES:	*DISPOSITION	*OUTGOING CORRESPONDENCE:
*A-APPROPRIATE ACTION	*A-ANSWERED	*TYPE RESP=INITIALS OF SIGNER
*C-COMMENT/RECOM	*B-NON-SPEC-REFERRAL	CODE = A
*D-DRAFT RESPONSE	*C-COMPLETED	*COMPLETED = DATE OF OUTGOING
*F-FURNISH FACT SHEET	*S-SUSPENDED	
*I-INFO COPY/NO ACT NEC		
*R-DIRECT REPLY W/COPY		
*S-FOR-SIGNATURE		
*X-INTERIM REPLY		

REFER QUESTIONS AND ROUTING UPDATES TO CENTRAL REFERENCE (ROOM 75,OEOB) EXT-2590
KEEP THIS WORKSHEET ATTACHED TO THE ORIGINAL INCOMING LETTER AT ALL TIMES AND SEND COMPLETED RECORD TO RECORDS MANAGEMENT.

October 16, 1987

Dear Dr. Filosa:

I have reviewed your proposal for a television series, "Conversations With America," featuring our former Presidents. There is merit in trying to provide forums for our country's former chief executives to discuss issues of importance directly with the American people.

As President Reagan begins consideration of his activities post-1988, this is a proposal that should be reviewed. I would appreciate any follow-up information that you receive from the three former Presidents.

With best wishes,

Sincerely,

Howard H. Baker, Jr.
Chief of Staff to the President

Dr. Gary Fairmont Filosa, Jr.
Box 2174
Palm Beach, FL 33480

HHB/Tom Griscom/LRC/CAD/jz 10HHBA

cc: Lorraine Camarano - Rm. 61 - OEOB

THE WHITE HOUSE

WASHINGTON

DRAFT

October 6, 1987

Dear Dr. Filosa:

I have reviewed your proposal for a television series ~~of Presidential conversation~~ "Conversations With America," featuring our former Presidents. There is merit in trying to provide forums for our country's former chief executives to discuss issues of importance directly with the American people.

As ~~the~~ President Reagan begins consideration of his activities post-1988, this is a proposal that should be reviewed. I would appreciate any follow-up information that you receive from the three former Presidents.

* With best wishes,

Sincerely,

HHB

Dr. Gary Fairmont Filosa, Jr.
Box 2174
Palm Beach, Florida 33480

HHB/Tom Griscom/lrc/

Dear Dr Filosa:

I have reviewed your proposal for a series of Presidential conversation. There is merit in trying to provide forum for our country's former chief executives to discuss issues of importance directly w/ the American people.

As the President begins consideration of his activities post-1988, this is a proposal that should be reviewed. I would appreciate any follow-up information that you receive from the three former Presidents.

Sincerely

HHB

515523

22 September 1987

The Honorable Howard H. Baker, Jr.
Chief of Staff to the President
THE WHITE HOUSE
Washington, D. C.

Thank you, Howard,

for your letter dated 8 September 1987 in reference to the nomination of Judge William Steele Sessions to the FBI. He is and was an excellent choice.

If you feel the enclosed proposal has merit, I would appreciate your sharing it with the President. It is important that his current conversation with the American people continue after he exits the White House.

With warm regards.

DR. GARY FAIRMONT FILOSA II
BOX 2174
PALM BEACH, FLORIDA 33480
305-832-4420

September 8, 1987

guascons
A

Dear Gary:

Thank you for your letter recommending Judge Cedric Poole for Director of the Federal Bureau of Investigation.

As you are no doubt aware, the President nominated Judge William Steele Sessions for this important post on July 24. Nevertheless, I appreciate hearing from you and having the benefit of your thoughts.

Warm regards.

Sincerely,

Howard H. Baker, Jr.
Chief of Staff to the President

Dr. Gary Fairmont Filosa, II
Box 2174
Palm Beach, FL 33480

Enclosure: 7/24/87 Statement by the President
HHB/LRC/CAD/ws 9HHB

cc: Lorraine Camarano - Rm. 61 OEOB

21 September 1987

The Honorable Jimmy Carter
Plains, Georgia 31780

Good morning, Mr. President,

In 1989 we will have four living former Presidents of the United States. This historic reality provides the American people with a potential wealth of unique consultation on the business of the nation.

What is needed is an appropriate vehicle to bring the people together periodically with their four former Chiefs of State. Surely it is important that former Presidents converse with American populance on subjects of mutual concern. It is a periodic interchange which can only benefit both.

Four former Presidents "speaking frankly" (to quote the late Jimmy Byrnes) to the American people on issues of the day will elevate, clarify, and fortify, debate and our democratic institutions.

I believe we have such a vehicle. It is a weekly half-hour prime-time television series, CONVERSATIONS WITH AMERICA, each week featuring one former President in an informal 24-minute "fireside chat" with the American nation (and the world).

President Carter one week, President Ford the following week, President Nixon the next week, and finally President Reagan the fourth week. Each of our four former President speak every fourht week to America on a subject of his own choosing.

To facilitate your participations we would send the production crew to where each you might be whether at home or in Paris. You and you alone select the subject matter of your "conversation with America." You and you only have final okay on the edited broadcast version of each of your own segments.

We would pay each of you an emolument of $300,000 per year for your participation plus a ten percent ownership of the series. We would pay $60,000 a year to a person of your choice, who would report and work only for you, as your aide for this series. Each of you would have a veto on sponsorship, although we anticipate having IBM and/or XEROX.

Although this letter is addressed to you, President Carter, it is also intended for your three peers. I ask each of you to let me have your feelings. We could start soon without President Reagan, or wait for him. I will await your counsel on this.

DR. GARY FAIRMONT FILOSA II
BOX 2174
PALM BEACH, FLORIDA 33480
305-832-4420

Many years ago I discussed this concept with my late godfather, United States Senator George Aiken of Vermont, when both President Truman and President Eisenhower were with us, but President Truman was unable to participate due to health.

The time is perfect today.

My curriculum vitae is enclosed.

Sincerely,

encs:

ccs: The Honrable Gerald Ford
The Honorable Richard Nixon
The Honorable Ronald Reagan

Who's Who in America®

44th edition
1986-1987

FILOSA, GARY FAIRMONT RANDOLPH DE VIANA, II, financier; b Wilder, Vt., Feb. 22, 1931; s. Gary F.R. de Marco de Viana and Rosaline M. (Falzarano) Filosa; divorced; children: Marc Christian Bazire de Villadon, III, Gary Fairmont Randolph de Viana, III. Grad., Mt. Hermon Sch., 1950; Ph.B., U. Chgo., 1954; B.A., U. Americas, Mex., 1967; M.A., Calif. Western U., 1968; Ph.D., U.S Internat. U., 1970. Sports reporter Claremont Daily Eagle, Rutland Herald, Vt. Informer, 1947-52; pub. The Chicagoan, 1952-54; account exec., editor house publs. Robertson, Buckley & Gotsch, Inc., Chgo., 1953-54; account exec. Fuller, Smith & Ross, Inc., N.Y.C., 1955; editor Apparel Arts mag (now Gentlemen's Quar.), Esquire, Inc., N.Y.C., 1955-56; pres., chmn. bd. Teenarama Records, Inc., N.Y.C., 1956-62, pres., chmn. bd. Filosa Publs. Internat., N.Y.C., 1956-61, Los Angeles, 1974-83, Palm Beach, Fla., 1983—; pres. Montclair Sch., 1958-60, Pacific Registry, Inc., Los Angeles, 1959-61, Banana Chip Corp. Am., N.Y.C., 1964-67; exec. asst. to exec. producer Desilu Studios, Inc., Hollywood, 1960-61; exec. asst. to Benjamin A. Javits, 1961-62; dean adminstrn. Postgrad. Center for Mental Health, N.Y.C., 1962-64; chmn. bd., pres Producciones Mexicanes Internationales (S.A.), Mexico City, 1957-66, chmn. bd., pres. Filosa Films Internat., Hollywood, 1962-74, pres., Newport Beach, Calif., 1975-83, Palm Beach, Fla., 1984—, pres. Casa Filosa Corp., Palm Beach, Fla., 1982-86; dir. tng. Community Savs., F.A., Riviera Beach, Fla., 1983—; chmn. bd., pres. Cinematografica Americana Internationale (S.A.), Mexico City, 1964-74; dir. tng. Community Savings F.A., Riviera Beach, Fla., 1983—; v.p. acad. affairs World Acad., San Francisco, 1967-68, asst. headmaster, instr. Latin Bishop Sch., San Diego, 1968-69; asst. to provost Calif. Western U., San Diego, 1968-69; assoc. prof. philosophy Art Coll., San Francisco, 1969-70; v.p. acad. affairs, dean of faculty Internat. Inst., Phoenix, 1968-73; chmn. bd., pres. Universite Universelle, 1970-73; bd. dirs., v.p. acad. affairs, dean Summer Sch., Internat. Community Coll., Los Angeles, 1970-72; chmn. bd., pres. Social Directory Calif., 1967-75, Am. Assn. Social Directories, Los Angeles, 1970-76; pres. Social Directory U.S., N.Y.C., 1974-76; chmn. bd. Internat. Assn. Social Directories, Paris, 1974—; surfing coach U. Calif. at Irvine, 1975-77; instr. history Coastline Community Coll., Fountain Valley, Calif., 1976-77; v.p. Xerox-Systemic, 1979-80. Pub.: Rustic Rhythm mags., Teenage, Teen Life, Rock & Roll Roundup, Stardust, Personalities, N.Y.C., 1956-61; editor: Sci. Digest, 1961-62. Author: (stage play) Let Me Call Ethel, 1955, Technology Enters 21st Century, 1966, musical Feather Light, 1966, No Public Funds for Nonpublic Schools, 1968, Creative Function of the College President, 1969, The Surfers Almanac, 1977, Payne of Florida (TV series), 1985, The Filosa Newsletter, 1986—. Contbr. numerous articles to mags., and profl. jours. and encys. including Sci. Digest, World Book Ency., Ency. of Sports. Candidate for Los Angeles City Council, 1959; chmn. Publishers for John F. Kennedy, 1960, Educators for Reelection of Ivy Baker Priest, 1970; mem. exec. and fin. com. Brown for Gov. Calif., 1974; patron Monterey Peninsula Mus. Art, 1978; mem. So. Calif. Com. for Olympic Games, 1977. Served with AUS, 1954-55. Recipient DAR Citizenship award, 1959; Silver Conquistador award Am. Assn. Social Directories, 1970; Ambassador's Cup U. Ams., 1967; resolution Calif. Legislature, 1977; Duke Kahanamoku Classic surfing trophy, 1977; gold pendant Japan Surfing Assn., 1978. Mem. U.S. Surfing Found. (pres. 1974-76), Internat. Profl. Surfing Fedn. (pres. 1974-77, 83—), Am. Surfing Assn. (founder, pres. 1960-78, chmn. exec. com. 1974-78, pres. 1980—), Internat. Amateur Surfing Fedn. (chmn. bd., pres. 1960-77, 83—), Am. Profl. Surfing Assn. (pres., founder 1960—), Internat. Council of Assns. of Surfing (founder, pres. 1960—), Am. Assn. UN, Authors League, Authors Guild, Alumni Assn. U. Americas (pres. 1967-70), United Shareowners Am., Sierra Club, San Diego Zool. Soc., San Diego Opera Guild, NCAA (bd. dels. 1977-82), AAU (gov. 1978-82), NEA, NAACP, San Diego Hist. Soc., World Affairs Council San Francisco, Am. Acad. Polit. Sci., Mt. Hermon Sch. Alumni Assn., Western Speech Assn., U. Chgo. Alumni Assn., Omicron Lambda. Democrat. Episcopalian. Clubs: Chapultepec, Jockey (Mexico City); Kona Kai (San Diego); Commonwealth (San Francisco); Embajadores (U. of Americas, Puebla, Mex.); Los Angeles Athletic, Town Hall (Los Angeles); Palm Beach Surf (Fla); Mt. Kenya Safari (Nairobi); Quarterback (Honolulu). Address: PO Box 2174 Palm Beach FL 33480 And: PO Box 1315 Beverly Hills CA 90213 *My view of life is based on a blending of two ancient concepts: the Hellenic ideal of excellence and the full actualization of human potentialities, and the Hebraic ideal of duty and responsibility. The first implies a life of aspiration and freedom, the second a life of discipline and self-control.*

Name	Date
Mary Rawlins 182	12/9/87

[533876
FG002-28]

THE WHITE HOUSE
WASHINGTON

Date: 10/8

FOR: D. Cripper

FROM: TOM GRISCOM

- [x] Action
- [ ] Your Comment
- [ ] Let's Talk
- [ ] FYI

Please look at these and then get back to me ASAP.

CARTER LEGACY OF BUDGET DEFICITS POINTS TO NEED FOR BUDGET REFORM 533846
by Joseph J. DioGuardi

FG002-38
FI004
FI001-02
PU

A great deal of attention was paid to President Reagan's summer tour across the country to drum up support for budget reform. Citing congressional excess and overspending as the primary source of Federal budget deficits, the President has been asking for a line-item veto, a balanced budget amendment to the Constitution, and procedural reform that would outlaw catchall spending bills that leave him with only the option of accepting all that Congress wants or sending the Federal Government into default.

While important and necessary budget reforms have popular appeal and support, the President is missing a golden opportunity to bring about a meaningful budget process by radically altering the manner with which we construct our budgets, demonstrating to the American public that deficit spending has been reduced, not increased, under his administration.

How can this be so? The answer is simple! By using the accounting system that the Federal Government requires every publicly owned company to utilize in order to prevent fraudulent and misleading financial reporting, it can be shown that Reagan Administration deficits are actually lower than the deficits compiled by Jimmy Carter.

Currently, the Federal Government utilizes "mickey mouse" cash-basis budgeting and accounting systems for measuring government spending. This cash-basis accounting system is nothing more than a simple measure of how much money an entity takes in and how much it spends. If the Federal Government takes in $850 billion in revenue and spends $1 trillion, the cash-basis deficit is $150 billion. While the cash-basis provides us with important quantitative information concerning our government's cash flow, this budget measure tells us absolutely nothing about the qualitative nature of these expenditures. How much did we spend on immediate consumption? How much did we spend on capital goods that will have real value for years to come? How many new programs were enacted that will require increased expenditures in future budgets?

The accounting system that provides us with real answers is the accrual-basis method using generally accepted accounting principles (GAAP). GAAP records economic events as they occur, giving us credits for assets that we will have for years to come, and putting liabilities on the books at the time they are incurred. The point of using such a system is that if Congress creates a new program that will require future Federal funding, the cost will be reflected in our current accounts. Likewise, if Congress makes an investment in a capital item that will have value for years to come, that value should be recognized as well.

Last year's congressional efforts to meet Gramm-Rudman deficit reduction targets provided us with a perfect example of the serious shortcomings involved with cash-basis budgeting and the need to move to GAAP. Congress achieved $3 billion worth of "savings" in Fiscal '87, by moving the pay date for military personnel from September 30 into the new fiscal year on October 1. Cash-basis budgeting allowed Congress to use "smoke and mirrors" gimmickry to gain $3 billion in paper savings without any actual reduction in outlays. Under GAAP, it would have been impossible to get away with this budget chicanery because it would still be recorded on our books as part of our current budget regardless of when it was to be paid.

This brings us back to the Carter-Reagan budget comparison. In 1986, Arthur Andersen & Co. attempted to get a clearer picture of the true nature of our Federal debt by estimating U.S. budget deficits under GAAP from 1974-1984 and comparing them to our regularly used cash-basis system. What we find from the years 1976 to 1984 reveals some interesting facts about just who really is responsible for our deficit and national debt.

The following tables compare the Carter-Reagan cash-basis and GAAP budgets during those years using both nominal and 1984 dollars. (1984 constant dollar figures are used for the purposes of the comparison.)

The Carter Years:

	Cash Basis Annual Deficit			GAAP Basis Annual Deficit		
			($ Billions)			
Year	Nominal $	% GNP	1984 $	Nominal $	% GNP	1984 $
1977	$ 53.6	2.9%	$ 85.9	$224.6	12.1%	$359.8
1978	59.0	2.8	88.4	215.8	10.3	323.2
1979	40.2	1.7	55.5	256.8	10.9	354.9
1980	73.8	2.9	93.5	322.2	12.5	408.3
						$1446.2

The Reagan Years:

	Cash Basis Annual Deficit			GAAP Basis Annual Deficit		
			($ Billions)			
Year	Nominal $	% GNP	1984 $	Nominal $	% GNP	1984 $
1981	$ 78.9	2.7%	$ 91.3	$ 264.7	9.2%	306.3
1982	127.9	4.2	138.5	314.0	10.3	339.9
1983	207.8	6.4	215.6	395.3	12.3	410.1
1984	185.3	5.2	185.3	333.4	9.3	333.4
						$1389.7

Source: Arthur Andersen & Co.

As we can see, in 1980, the last full year that Jimmy Carter controlled the budget, while the cash-basis deficit totaled just $93.5 billion, the GAAP deficit for that same year added up to a staggering $408.3 billion. Meanwhile, four years later, while Ronald Reagan was taking the heat for increasing the cash-basis deficit to $185.3 billion, the GAAP deficit stood at $333.4 billion, a deficit reduction from Carter's 1980 level of more than $75 billion! Furthermore, Carter's GAAP deficits from 1977-1980 are more than $55 billion higher than Reagan's GAAP deficits from 1981-1984.

What these figures tell us is that a significant portion of Ronald Reagan's cash-basis deficits are actually the liquidation of liabilities incurred by the Carter Administration before him, but whose costs were not recorded at that time because of the "mickey mouse" cash-basis system used then and now. In addition, the GAAP deficits tell us that President Reagan has spent proportionately more in his budgets on capital items whose benefit should be amortized over future fiscal periods. Conversely, President Carter spent proportionately more on items which were consumed immediately, providing no benefit to future periods. As a result, President Reagan, who has significantly reduced the growth of Federal outlays as demonstrated by GAAP, is being blamed for a cash-basis debt which in reality, is largely the result of spending decisions made by Jimmy Carter.

Sadly, the Reagan administration wishes to stay clear of this comprehensive approach to the budget. Even though GAAP budgeting shows that the President is making progress on deficit reduction, the Administration appears reluctant to adopt a budgeting system that would recognize a doubling of our debt through its more accurate reflection of all government liabilities which are now only partly recorded on our books as direct government borrowing from the public.

The bottom line, however, is that GAAP shows us serious and dangerous flaws in the Federal Government's reliance on cash-basis budgets that will not be cured by line item vetoes or balanced budget amendments. Cash-basis budgeting is the same system that led to the financial collapse of New York City in 1974. Ironically, the fatal flaws in the cash-basis system were so apparent to the Federal Government at that time, it required New York City to adopt GAAP accounting as one of the conditions for providing a Federal bailout.

At long last, Congress is beginning to recognize the danger of sloppy Federal accounting and financial management practices. In August, I introduced bipartisan legislation with 56 cosponsors to create the Office of a Chief Financial Officer of the United States. Among the duties of the CFO would be the responsibility of producing the budget for the United States using GAAP.

Complex budget problems cannot be solved with simple answers. A $1 trillion budget requires a more comprehensive approach to budgeting than the checkbook balance one would use to manage household finances. Adopting accounting principles that would give the public and our elected officials a true picture of where we are and where we are going would be a tremendous step forward in ensuring the continued financial integrity and prosperity for our nation. Most important, however, it would finally bring accountability to the U.S. Government so that public credibility in the financial and economic decisions made in Washington would be restored and enhanced.

NAA Issues Common Body of Knowledge

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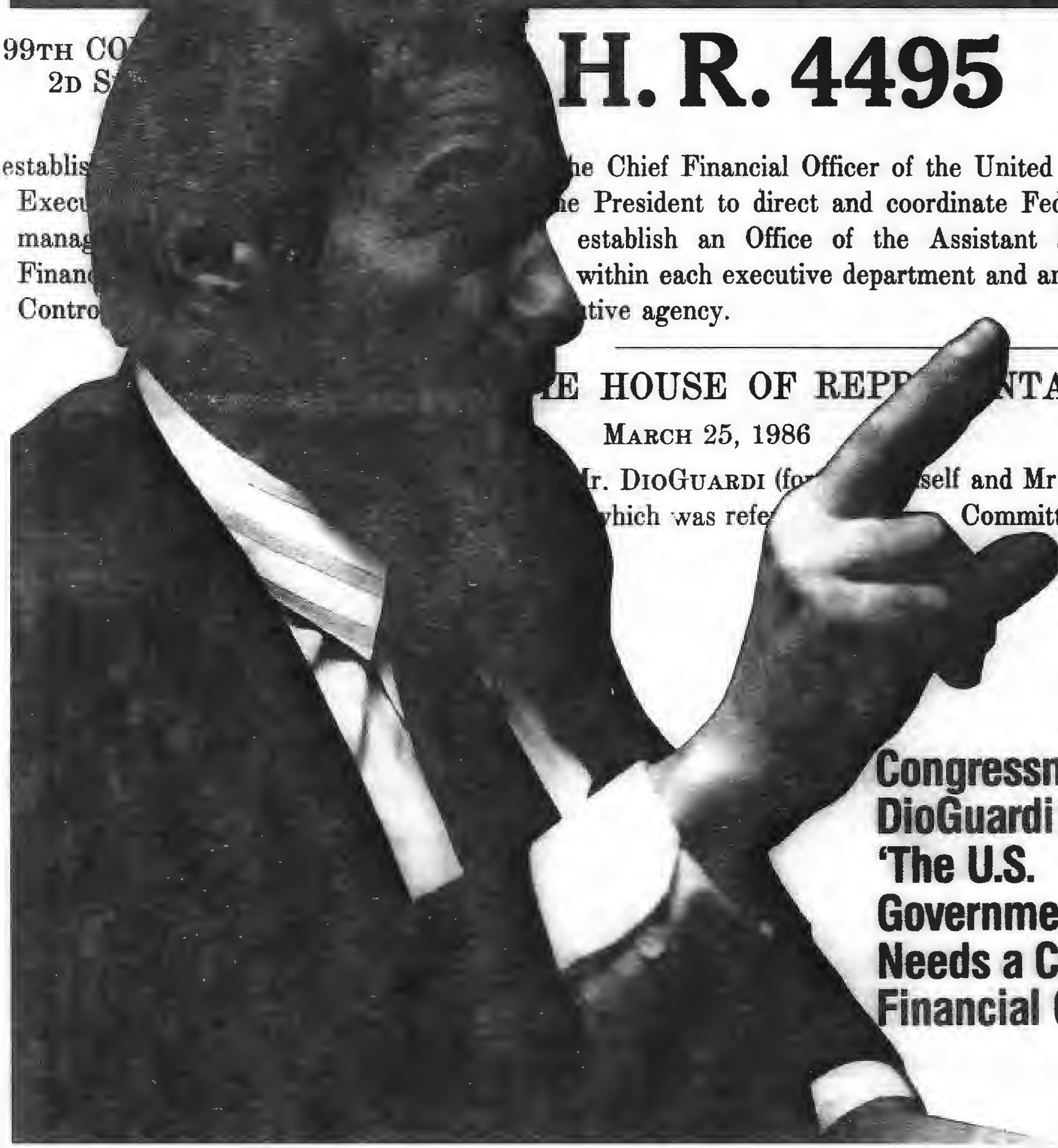

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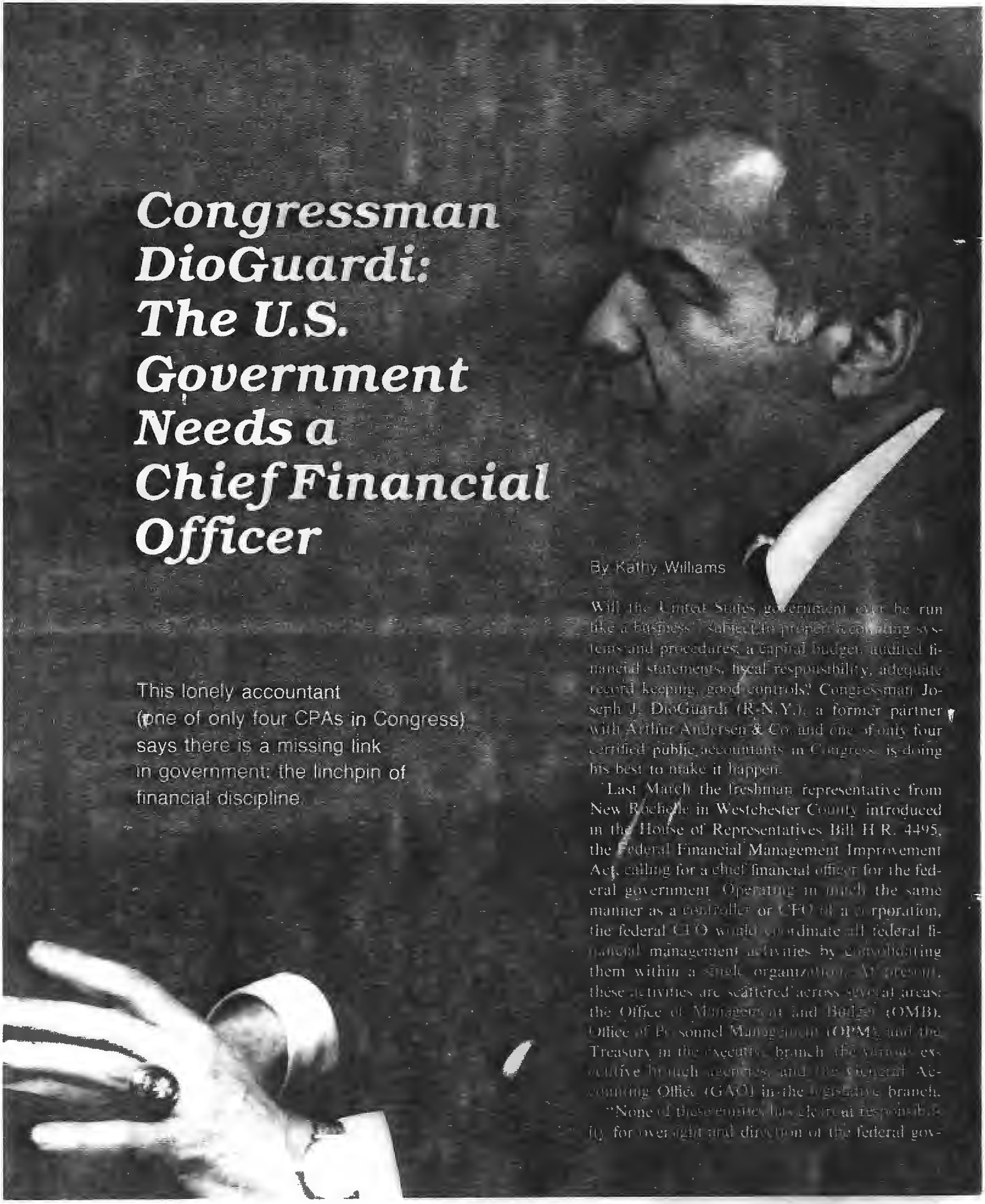
Congressman DioGuardi: 'The U.S. Government Needs a Chief Financial Officer'



Congressman DioGuardi: The U.S. Government Needs a Chief Financial Officer

This lonely accountant (one of only four CPAs in Congress) says there is a missing link in government: the linchpin of financial discipline.

By Kathy Williams

Will the United States government ever be run like a business? subject to proper accounting systems and procedures, a capital budget, audited financial statements, fiscal responsibility, adequate record keeping, good controls? Congressman Joseph J. DioGuardi (R-N.Y.), a former partner with Arthur Andersen & Co. and one of only four certified public accountants in Congress, is doing his best to make it happen.

Last March the freshman representative from New Rochelle in Westchester County introduced in the House of Representatives Bill H.R. 4495, the Federal Financial Management Improvement Act, calling for a chief financial officer for the federal government. Operating in much the same manner as a controller or CFO of a corporation, the federal CFO would coordinate all federal financial management activities by consolidating them within a single organization. At present, these activities are scattered across several areas: the Office of Management and Budget (OMB), Office of Personnel Management (OPM), and the Treasury in the executive branch, the various executive branch agencies, and the General Accounting Office (GAO) in the legislative branch.

"None of these entities has clear-cut responsibility for oversight and direction of the federal government's financial management operations and activities," Mr. DioGuardi notes. "In addition, financial management responsibilities have frequently been shifted from one central agency to another, and in each central agency, financial management functions must compete with a number of other assigned responsibilities for their fair share of attention. There is a missing link in the federal government. The linchpin of financial discipline is nowhere to be found. The financial management leadership void must be filled."

Mr. DioGuardi became determined to try to change the government's accounting systems after hearing "horror story after horror story regarding the lack of established businesslike financial management practices" during his first year on the Government Operations Committee and attending hearings on the deficit and government waste. The businessman of 22 years was appalled by the reactive attitude and actions of Congress, "robbing Peter to pay Paul, putting out fires every day, staying one step ahead of the sheriff—that's our budgetary process."

"I thought I was going to Congress to get on the Board of Directors of Government," he exclaims. "Accountability is key to a Board of Directors, but I found we didn't have reliable financial information upon which to make decisions and report back to the public, our shareholders." He also discovered that the U.S. government operates on "a Mickey Mouse, cash basis of accounting and has no strategic planning whatsoever. The government is trained to think only a year ahead. It asks *what* we spent instead of *how* we spent it. It builds the home from the fifth floor down instead of the ground floor up. We have conditioned people in government to spend, not save," he admonishes.

He felt the time was right to introduce his legislation because of the current emphasis on reducing the federal deficit and curbing waste. A CFO could pull together previous attempts at coordinating government financial management practices. For example, the GAO for years has been reporting that "Our departments and agencies are a veritable jungle of special-purpose, incompatible, antiquated accounting systems producing unreliable, incompatible, and often irrelevant financial information. One of the latest GAO studies, moreover, reports that the federal government now uses 427 separate accounting systems, of which 53% do not conform to GAO accounting principles, standards, and related requirements," the congressman says.

The now-famous Grace Commission declared its "War on Waste" after uncovering in the government an estimated $424 billion of mismanagement and projecting a $1.96 trillion national deficit by the year 2000. J. Peter Grace, head of the Commission and chairman of W.R. Grace & Co., is, in fact, spending his own money to bring this message before the public via television commercials and print ads. The Citizens Against Government Waste, co-chaired by Mr. Grace and columnist Jack Anderson, is a nonprofit, bipartisan foundation formed to educate the public and Congress about the Grace Commission recommendations. The Grace Caucus, of which Mr. DioGuardi is an avid member, is a group of about 150 senators and representatives proselytizing to "not let the Grace Commission recommendations sit on the shelf."

Other predecessors to Bill H.R. 4495 include the Inspector General Act of 1978; the Federal Managers' Financial Integrity Act of 1982; Debt Collection Act of 1982; President Reagan's Council on Integrity and Efficiency; the President's Council on Management Improvement; a proposal by the Association of Government Accountants to strengthen controllership in the federal government; and various attempts by executive branch departments and agencies to reform their systems. These efforts aren't new—over the past 30-35 years, various systems and controls experts have developed coordinated accounting systems for the military and for other governmental operations, only to have them squelched right before actual implementation or implemented only partially. Even William E. Simon, former secretary of the treasury, 1974-77, tried to institute similar procedures in the Treasury function before he left office, but to no avail, and after he left, the matter dropped. Now Congressman Joe DioGuardi has picked up the gauntlet.

Setting up the Organization

The management structure Mr. DioGuardi envisions encompasses the CFO, who would serve in the executive office of the President; an assistant secretary for financial management in each executive department; and a controller in each executive agency. All would be appointed by the President, with the advice and consent of the Senate. The CFO would serve a 10-year nonreappointable term, and the assistant secretaries and controllers would serve a four-year, reappointable term. A Federal Finance Council, consisting of the CFO and the assistant secretaries for financial management, also would be established to assist the CFO in formulating plans and objectives, comment on proposed major changes in financial management operations, and prepare recommendations on selected issues.

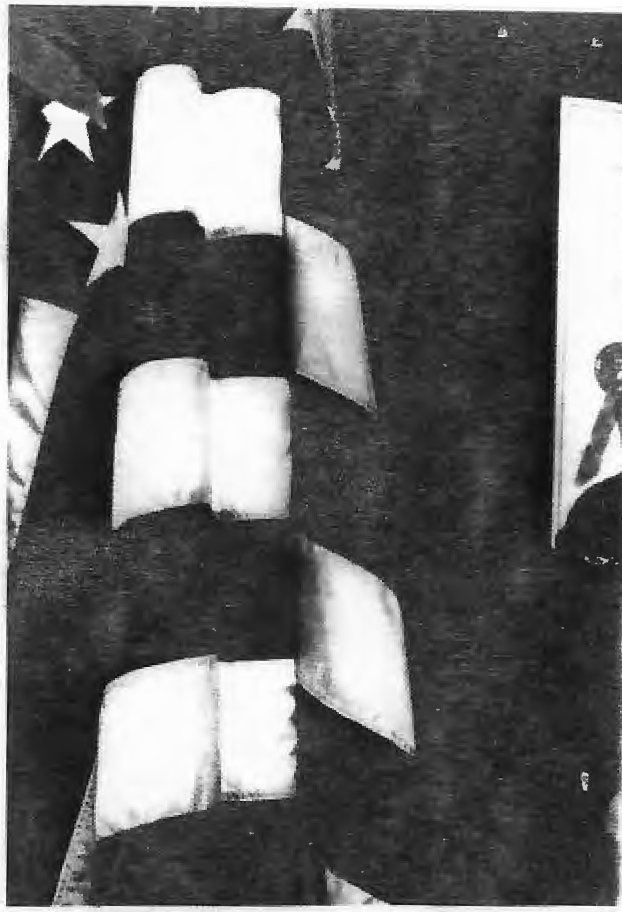
In general, the federal CFO would provide leadership and direction while monitoring executive agencies in their financial management and reporting activities. He would develop and maintain a five-year strategic plan that would cover "system enhancements, staffing needs, technology improvements, required legislative actions, financial management objectives, information requirements, and budget priorities," Mr. DioGuardi explains. The CFO also would create financial statements for the government, which would be subjected to audits, as well as maintain the government's central accounting and reporting records. He also would ensure that personnel were managing the financial operations properly—even down to the details of making sure cash and checks were deposited as soon as they came in, something that doesn't happen now. "He needs tentacles going into each governmental agency and operation if this thing is to work. Otherwise, he's going to be on Cloud Nine, talking about accounting principles and not knowing what's happening in the trenches," Mr. DioGuardi exclaims.

A natural candidate for the position, he muses, would be "someone from a major company—like ITT, Texaco, IBM—where you have to literally pull together all kinds of pieces of financial information from various divisions and industries and even holding companies. You need someone who has been in the trenches gathering information, managing the financial function—a CFO from the private sector, whether he or she is certified or not."

Is a CFO Necessary?

When criticized by other congressmen for concentrating too much on numbers and not enough on compassion, he instantly fires back that he is just as concerned as the next person about humanity, and cites other bills he has introduced—those on drug abuse, child abuse, suicide legislation, and homeless housing assistance. "I'm making qualitative judgments. I know there's a deficit problem, but I'm willing to increase some programs and decrease others based on how they are managed and what their needs are. Cutting right across the board to reduce the deficit is nonsense," he explodes. "We've got to exercise every bit of compassion to identify social needs, programs we need, and allocate resources. Once we allocate those resources, however, we must *manage* that program the way we'd manage any business. Let's make sure we hold people responsible. If they don't do their job, out! If they do their job, give them a bonus."

He reiterates his accounting background and speculates that if more members of Congress were attuned to business, they would better understand long-term ramifications of their decisions. "We've counted 245 attorneys and only four accountants in Congress—at a time when we are trying to balance the books in government, dealing with budget issues, tax issues, economic issues. More than half of what we do relates to analysis, either quantitative or qualitative, that almost requires an accounting or business background. . . budget systems don't tie in with accounting systems. We have a budgetary system, an appropriation system, and continuing resolutions and supplementary budgets. I'm a CPA, and you can't imagine how difficult it is for me to follow what's going on. How other legislators are making these multi-billion dollar decisions, don't ask me. Then waste—waste isn't one big thing. Waste is thousands of small things. It's structural, it's systemic, and it must be approached from the point of view of systems and planning—a CFO's point of view. That's why I have to make this issue my crusade."



Joe DioGuardi isn't alone in his efforts to install a CFO in the federal government. "The idea first began to be proposed seriously in the early part of 1980 by leaders in financial management in both the public and private sectors," he notes. "Roland W. Burris, the comptroller of the state of Illinois, and Joseph E. Connor, chairman of Price Waterhouse & Co., have both assumed a key role in promoting the need for a CFO." Various other individuals, nonprofit organizations, and private-sector groups are continuing this effort.

The General Accounting Office, charged with setting uniform accounting standards and principles for all federal agencies, is the government's independent auditor and a strong proponent for financial management reform. Comptroller General Charles A. Bowsher, head of the GAO, says, "We need better financial reporting at the federal level. It's the key to the whole issue. We have the

auditor (the GAO) and we need a strong CFO function in the government—a scorekeeper for the executive branch. OMB is in charge of the budget, and the CFO would keep score of how the budgeted money is spent, so the two would work closely."

In a letter to a member of the Senate Governmental Affairs Committee, the counterpart to the House Government Operations Committee, Mr. Bowsher noted that "financial management in the federal government is a major problem facing us today. Poor systems, information inadequacies, and weak controls have frequently resulted in wasteful spending, inefficient management and losses totaling billions of dollars." He added, ". . . current financial reporting practices of the federal government do not disclose the actual cost of operations; do not disclose the financial condition of the federal government; do not disclose the current and probably future costs of investment or policy decisions; do not permit effective comparison of actual costs or accomplishments to budget plans; and do not provide the timely information required for efficient management of programs. . . . there is no official with clearly defined authority and responsibility for assuring the effective and efficient operation of the federal government's accounting and other financial management systems. Clearly the original concept of tieing management improvement to the budget just hasn't worked; the time has come to find a more workable solution to these problems. I believe the establishment of an independent Chief Financial Officer is a major element of such an approach."

A Companion Bill

In addition, Senator William V. Roth, Jr., (R-Del.), this spring introduced in the Senate a bill that would be a companion effort to Mr. DioGuardi's bill. Covering the same issue—financial management—it expands that scope to include credit management and debt collection, the federal credit system, subsidies, collection procedures, and controls. "We view financial management as one very important function of information management," Bob Gilmour, a spokesman from Mr. Roth's office, said. Because Mr. DioGuardi's bill "splinters out financial management," they consider it weaker than Mr. Roth's bill, he added.

The Roth bill would set up the director of OMB, rather than a separate individual, as the CFO, and the CFO would serve "at the pleasure of the President, with the advice and consent of the Senate." Mr. Roth's bill has had a few Senate hearings already, in May, and was marked up from committee in late June. If it passes the Senate, the House probably would take a look at it, Mr. Gilmour said.

Each group is confident its bill, or a modified version, will be passed, albeit when. It is doubtful, they predict, that legislation will be passed before Congress ends its term in early October, but not impossible. They could be back in session after the elections this November.

Mr. DioGuardi would like Mr. Roth to cosponsor his bill, but Mr. Roth hasn't agreed. Nevertheless, the DioGuardi contingent isn't upset about a divergent effort. "Having the counterpart chairman propose legislation that to the untrained eye looks a great deal like ours is a very positive development," notes Kieran Mahoney, legislative director in Mr. DioGuardi's Washington office. "If the Senate moves on it, it will force the House to move. We're hopeful the House will take a closer look at the legislation we've put together. Whether it gets passed in the 99th session is an open question, but it is an idea whose time has come."

A Young Turk

How did someone with Joe DioGuardi's conservative numbers-crunching background happen to land in the House of Representatives and try to accomplish so much in his first term? "It's all part of my strategic plan," he grins. He always had "lurking in the back of my mind," the idea of running for Congress, but probably not until he was in his 50s. At 43, however, he saw an opportunity and grabbed it. As a partner with Arthur Andersen & Co., he concentrated his efforts outside the

Congressman DioGuardi

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office—within his community instead of inside the firm. As tax partner with firmwide responsibility in the not-for-profit and public sectors of his firm, he became involved both professionally and as a volunteer in a host of charitable, civic, and cultural organizations, bringing to bear his financial, tax, and accounting background.

He had joined the firm in 1962 but quickly decided auditing wasn't his forte. By 1965 he had switched to taxes, "a marriage made in Heaven," he smiles. As a young partner, he was called in to participate in the firm's work on New York City during its fiscal crisis and then worked on the audit of Yonkers, N.Y. "New York City's books were trucked in on dollies," he sighs, remembering. "People trying to run the City weren't getting the financial information they required, and politicians were setting the accounting standards. . . the crisis in the federal government today is similar to the NYC crisis. We took away New York's cash basis of accounting. . . and now we're using the same system."

He next turned to nonprofit groups, working with the Boy Scouts, Phoenix House, American Cancer Society, YMCA, Fordham University, and the Archdiocese of New York. "I saw firsthand how social welfare functions were efficiently managed by quasi-public, quasi-private organizations as good bridges between the private and public sectors. I had this interesting combination of experience looking at what happens professionally when you don't manage well, you don't account well, and looking at how public services are rendered better by nongovernmental agencies."

By 1984, he had been a partner for 12 years when the opportunity to run for Congress came along, "a natural extension of what I tried to do in the community, what I tried to do at Arthur Andersen as a professional—to educate municipalities about how to organize themselves better, how to get a meaningful database, how to account better, how to report better professionally, and how to better render services to the public." A conservative Republican in a liberal Democratic county, he won by a slim margin (4,000 votes) an election he was supposed to lose by 25,000 votes. He's up for reelection this November.

The Story of America

On occasion he still feels the glow of those first few weeks in Congress, before the hard work started, when his parents and other family members and friends were in Washington "to see Joey get sworn in." An Italian immigrant, his father came through Ellis Island in 1929 at age 15, unable to speak English and looking for work. After two years of shining shoes and other odd jobs, he bought a vegetable stand in Harlem in 1931, then a grocery store in the South Bronx, where his son was later born and raised. He met Joe's mother, the first in her family to be born in America, on 100th Street on the east side of New York. She was making ties in a factory and getting paid by the piece. They met, married, had children and moved to Westchester County in 1957. "It's not the story of the DioGuardi family—it's the story of America," Joe DioGuardi smiles.

Although he enrolled in Fordham University in 1958, "I didn't know what I wanted to be when I grew up. When you come out of an immigrant environment, your main concern is 'am I going to make enough money for my family?' " After talking with the father of one of his friends, he decided to try accounting, liked it, majored in it, and decided to use it as a basis for later attending law school. In his senior year, however, after being accepted to law school, "Our dean comes up to me and says, 'Joe, we're starting an internship program, and we'd like you to be one of the four to represent us at a Big 8 accounting firm. We've chosen Arthur Andersen for you. You'll get exemptions from your exams, and you'll get $100 a week.' I said, 'I'll take it.' The next thing I know I'm on a plane to Sylvania Electric Products in Camillas, N.Y., on an audit. I really got to see the inside of accounting. It caused me to delay my plans to go to law school, thinking I'd go at night, but I never did. I joined Arthur Andersen fulltime instead, and went from an intern to partner in 10 years. I worked hard. I took that grocery store upbringing and literally worked seven days a week. I was very proud when I became a partner." In his late 20s he married Carol Asselta. They have two children: Kara, 15, and John, 12.

Now he's charging through Congress in hopes of instituting what he considers necessary reform. He served as a trustee of the Citizens Public Expenditure Survey Foundation, a taxpayer watchdog group, and started the Commonsense Educational Fund, a group formed to educate the public about accountability issues and to help them understand why the legislative process is not responding to the challenge of planning. His main concerns at present are pushing the CFO legislation through and getting reelected. What if he doesn't get reelected and has to revise his strategic plan? "We'll see," he philosophizes. "Legislators *talk* about things, and I'm a *doer*. One of my biggest frustrations is that I want to take many of these ideas on accounting reform and make them work almost immediately. They say, 'hey, that's not your job.' I want to try to make it my job, if not as a congressman, then as a citizen through the foundation. We'll just have to see where it goes." —

Opinion

Robert L. Shultis, Executive Director

A Tale of Two Bills

Charles Dickens brought us *A Tale of Two Cities* about life in London and Paris nearly 200 years ago during the days of the French Revolution. Since the old boy has been dead for well over 100 years, I doubt that he will object to my semi-plagiarizing the title as a lead-in to this month's column.

The "bills" mentioned in the title are lowercase bills—that is, bills introduced recently in the House of Representatives which, if passed, could have a significant effect on us as accountants and as taxpayers. One looks good; the other, in its present form, could be a real problem.

In case you haven't guessed by now, the first of these is reproduced, in part, on the cover of this issue of MANAGEMENT ACCOUNTING. It is H.R. 4495, and was introduced by Congressman Joseph DioGuardi (R.-N.Y.) about whom you can read more elsewhere in this issue. As you will see there, Joe DioGuardi is one of a very small handful of congressmen who have an accounting background and probably the only one who has jumped directly from a Big 8 partnership to Congress.

Therefore, he knows whereof he speaks when it comes to financial controls of an organization. His bill would set up the Office of Chief Financial Officer in the Executive Office of the President and establish an Office of Assistant Secretary for Financial Management within each executive department and an Office of Controller in each executive agency. The proposed title of the Act itself is "Federal Financial Management Improvement Act."

Does the federal government need improvement in its financial management? Does it ever! Here is the biggest business in the world and there's no CFO, by whatever name, to guide and coordinate its activities.

The President's Private Sector Survey on Cost Control (the Grace Commission) reported three years ago that there were *332* separate federal accounting systems, of which *123*, or 37%, were *not* in compliance with General Accounting Office standards as required by law. Of course, that was three years ago. Things have improved since then, haven't they? Well, a recent GAO report disclosed that the federal government now uses *427* separate accounting systems, of which *226*, or 53%, are not in compliance with GAO standards. The number of systems not in compliance with GAO standards has grown by 84%!

What about the existing accounting offices in the federal government? What about the Comptroller General and the General Accounting Office, for example? Those titles are misnomers if there ever were any. They are really the audit arm of Congress and, even there, only about 25% of the audits are of a financial nature. The Comptroller General is not a controller within the usual meaning of the term.

The Secretary of the Treasury? Or the Office of Management and Budget? No real accounting responsibility there, either. There is no person or group of people with overall financial and accounting responsibility to help run a trillion-dollar-a-year business! As accountants and as citizens we should be ashamed of ourselves for allowing this to exist.

For that reason, all of us should bring this worthwhile bill to the attention of our Congressional representatives and express our support for it. Could *your* business run very well without someone responsible for the accounting and finances?

Now let's look at H.R. 4886, which carries with it the short title, "Financial Fraud Detection and Disclosure Act of 1986." It was introduced by Congressman Ronald Wyden, with Congressman Dingell and five other congressmen as co-sponsors, at least five of whom are attorneys.

This is a bill "to amend the Securities Exchange Act of 1934 to require audits performed under the Federal securities laws to include reasonable procedures for financial fraud detection, and to require that auditors report fraudulent activities to appropriate enforcement and regulatory authorities." The bill would require that auditors conduct their work "in accordance with specific and substantive procedures that reasonably ensure the detection and reporting of *any* illegal or irregular activity by any director, officer, employee, or agent of, or other person associated with, the entity being audited or examined." All of this is supposed to end up as a written report by the auditor to the SEC or to any other federal, state or local enforcement authority that may have jurisdiction.

There's more, but that's enough for starters. Think about this for a minute and consider how

Opinion

it might affect either the management accountant or the public accountant.

- What would happen to the valuable mutually cooperative relationship between auditor and client?
- What is an "irregular" activity?
- Are the auditors to be put in a position of defining what is legal and what isn't? What is fraud and what isn't?
- What is "a weakness" in internal control? (The auditors must report on *any* such weakness.)
- What happens if the auditors *don't* find a fraud, which then turns up later?
- If passed, what would happen to the audit fees? How about legal fees?

As I said, those questions are just for starters. In his floor statement, Congressman Wyden cites the usual well-known cases such as the "intricate and blatantly illegal shell game at ESM Government Securities that ultimately brought down the entire state-insured savings and loan industry in Ohio," (his words) as rationale for his bill to safeguard the public. Again, using his words: "Hundreds of thousands of investors and creditors were out hundreds of millions of dollars."

There *have* been cases of management fraud. There *have* been cases of auditor deficiency. No one can deny that. No one and no law can guarantee it won't happen again. But a little perspective is needed. The perspective I would like to bring into focus is a comparison between the "millions" which Congressman Wyden cites and the *billions* being wasted or uselessly spent by the federal government, as cited by the Grace Commission and the GAO.

There is an old expression that in business "you have to dance the fast ones." In other words, concentrate your efforts on the big show—and in this case the big show is the federal government. All of us as taxpayers are getting gored by monumental costs and it's time some measures were taken to control or manage these costs.

Congressman DioGuardi's bill (H.R. 4495) is a start in the right direction. It's an attempt to put some semblance of order to a totally chaotic situation. It deserves the support of all accountants who know more than anyone the contributions a capable CFO can make. Congressman Wyden's bill (H.R. 4886), on the other hand, would, if passed, raise costs, straitjacket an honorable profession and do little to improve the situation, which isn't all that bad or pervasive to begin with.

. . . .

Note: You can obtain a copy of either or both bills by writing to NAA, 10 Paragon Drive, Montvale, NJ 07645-1760, Attention James Collier.

WESTCHESTER COMMERCE

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VOLUME 2, NUMBER 5 MAY, 1987

CUTTING CREDIT

ON THE WORLD'S COSTLIEST CHARGE CARD...

....Congressman DioGuardi's Campaign For Fiscal Accountability On Capitol Hill

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Congressman Joseph DioGuardi

Cutting The Credit Line On The World's Costliest Charge Card:

Congressman DioGuardi's Campaign For Credible Accounting On Capitol Hill

Westchester Congressman Joseph DioGuardi has introduced some refreshingly simple concepts into the smoke-filled, debt-laden deliberation that has kept federal accounting—and fiscal accountability—dangerously muddled.

He has begun to refer to his voting card, used by each Congressman to register his votes, as the world's costliest charge card. And people are starting to listen to the feisty financial wizard from New Rochelle who has torn some pages from Management Accounting 101 to write a new chapter on responsible Federal Financial Management. In the exclusive guest essay that follows, Congressman DioGuardi calls for a U.S.-Chief Financial Officer to bring leadership and stability to a "credit card" system run awry.—S.A.

Any good accountant taking a hard look at federal budget management would tell his client—the taxpayer—that safeguards were everywhere wanting.

Accessibility is nowhere discernible in a management accounting system that is simply not working.

Well-intentioned efforts to reach Gramm-Rudman deficit reduction targets and the "smoke and mirrors" means of reaching such targets are painful reminders of the poor quality of accounting in the Federal government. Some systems are not in very good shape, and many don't tell us if we're making good decisions on cutting programs. All require a new form of management leadership.

There is nothing new about the problem per se. For years, the General Accounting Office's famous blue-covered reports have been telling us the same story: our departments and agencies are a veritable jungle of special purpose, incompatible, antiquated accounting systems producing unreliable, and often irrelevant financial information. One of the latest GAO studies,moreover, reports that 53% of agency accounting systems do not conform to GAO accounting principles, standards and related requirements. The indicators, again, spell it out for us: Federal financial management is in shambles and there is little accountability to the American taxpayer for the revenues spent on their behalf.

A bill we introduced in the House of Representatives, the Federal Financial Management Improvement Act of 1987, is designed to put in place the linchpin of financial discipline that is nowhere to be found in Washington.

The Federal Financial Management Improvement Act would:

1) Establish an independent Office of the Chief Financial Officer of the United States within the Executive Office of the President for the purpose of providing government-wide direction and coordination of finanical management activities;
2) Establish an office of the Assistant Secretary for Financial Management within each executive agency; and
3) Create a Federal Financial Management Council chaired by the Chief Financial Officer (CFO) and composed of the Assistant Secretaries of each executive agency.

Other voices besides my own and that of the GAO have called attention to the inadequacy of Federal accounting systems and the lack of accountability inherent in the existing Federal financial management system. The Grace Commission dealt at length with the problem, and one can also look to a September 1985 study by the Systems Committee of the President's Council on Management Improvement concerning a "Strategic Plan for Federal Financial Management."

That study is unique in that it does not depend on the assessments of outside critics. Its results come from those on the firing line: financial management executives in Federal departments and agencies. Those interviewed for the study regarded less than 50% of governmental accounting and financial reporting systems as capable of producing timely, accurate and relevant information for management decisionmaking. 61% of the systems cannot provide the data necessary for assessing management performance. 35% of the systems were considered incapable of providing sufficient data to support the allocation of funds, and 33% do not provide effective control over and accountability for assets.

The extent to which the government as a whole departs from basic accounting textbook requirements—to say nothing of common sense—defies logic. An earlier GAO study, Managing the Cost of Government, pointed out for example, that agency budgeting and accounting for program costs are largely done on different bases, and are isolated from one another. Budgets are requested and justified in terms of programs and projects, such as infant health care or dams for flood control. Accounting and other financial reports, however, often focus on appropriations and categories of expenses such as travel or personnel, without relating them to the particular programs or projects for which the money was requested and approved.

As well as producing bad financial information, inadequate accounting systems are a pervasive source of government waste—that bottomless use of the "credit card" of government. But countless other instances of costly financial mismanagement abound—the Grace Commission found 47 volumes worth.

In the case of both faulty internal control evaluations and faulty accounting system compliance assessments, the GAO has cited the Office of Management and Budget (OMB) failure to develop adequate guidelines as a principal cause. But something more fundamental is at issue. Despite OMB's best intentions, the development of such guidelines may require more time, resources and expertise—and the actual process more leadership—than OMB can provide, or is likely to provide under the current system. OMB's lack of resources, and frankly, the secondary role of financial management to budgetary considerations, hampers the Office's ability to give adequate emphasis to financial management matters.

The management which Administration officials say is alive and well in OMB is administrative management, and they can justly take credit for helping to revive the situation. Whether financial management is equally alive and well is an entirely different question. It is a highly specialized area which deserves independent, top level attention in its own right.

It does not now have that status. Despite the number of financial management improvement initiatives that have been undertaken, no structure or mechanism has been developed to improve financial management on a government-wide basis and insure not only continuity of effort across successive administrations, but systematic progress toward a set of established, long term financial management goals.

Instead, almost the opposite is true. As the Grace Commission and the President's Commission on Management Improvement have pointed out, financial management leadership responsibilities and functions are seriously fragmented and disorganized, resulting in inconsistencies, overlap and duplication.

Federal financial management functions are split among three central agencies in the executive branch: OMB, the Office of Personnel Management (OPM) and the Department of the Treasury, the various executive branch agencies and the GAO in the legislative branch. None of these entities has clear cut responsibility for oversight and direction of the Federal government's finanical management operations and activities. In addition, financial management responsibilities have frequently been shifted from one central agency to another; and in each central agency, financial management functions must compete with a number of other assigned responsibilities for their fair share of attention.

There is a missing link in the Federal government. The financial management leadership void must be filled — a CFO would achieve this goal.

Instituting a Chief Financial Officer for the United States would be a quantum leap forward in addressing the issue of Federal financial management accountability and it is appropriate to highlight several key components of the Federal Financial Management Improvement Act.

First, creation of an independent office for the CFO. We have considered the difficult question of where a CFO function should be placed. At one time or another, OMB, the Treasury Department or a new office of Federal Management have all been considered as alternatives. In my opinion, the best organizational approach would be a new, independent office in the Executive Office of the President. History has shown that financial management functions placed in other organizations do not receive the attention they deserve.

Second, duties of the CFO. The CFO will have responsibility for operational financial management leadership—comparable to the responsibility accorded a controller in the private sector.

Third, term of office of the CFO. Financial Managment improvements have a long gestation period. Progress cannot be interrrupted by changes in priorities and direction from administration to administration. Obviously, a certain amount of dislocation will occur under the best of circumstances, but I have attempted to insure maximum, long term continuity by establishing a CFO tenure of ten years.

Fourth, creation of the position of Assistant Secretary for Financial Management. The establishment of this position will ensure top level, department-wide attention to the implementation of financial management initiatives and activities at the agency level; eliminate inconsistencies that exist among agencies in the status and structure of financial management operations; and eliminate internal agency overlap, duplication, and inconsistency in financial management activities.

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Finally, creation of a Federal Financial Management Council. This Council will be composed of the CFO and the agency-level Assistant Secretaries for Financial Management. The Council will provide an important avenue of communication and interchange between the central financial management function and its counterparts in the departments and agencies—resulting in more effective implementation and coordination of financial management initiatives.

Gramm-Rudman was called a bad idea whose time had come. A Chief Financial Officer for the Federal Government is a good idea whose time is long overdue. Sound financial management practices are not just accountant's issues. It is not just a Republican issue and it is not just a Democratic issue. Colleagues on both sides of the aisle can agree on the clear need for action in this vital area. If we do not give our efforts to build fiscal discipline into the system a solid foundation of valid financial information and genuine financial discipline, the entire structure is capable of collapsing right around us.

Thus, while the word "accountability" has been most often used in a foreign policy context, lately, there is a great need to apply it to financial areas: how tax payer dollars are managed and spent. A CFO would go a long way in finally giving the taxpayer the kind of management that is not just needed, but deserved.

It's wrong to allow governmental charge card debits, subject only to an antiquated monitoring system, to accrue unabated, only to be passed along to generations ahead of this one for payment. It's time for a new accountability.