
From: Christopher Hanks

Sent: Wednesday, January 8, 2025 4:20 PM **To:**

FASAB <FASAB@FASAB.gov>

Subject: Comment on 2024 Annual Report

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This letter is to offer comments on the FASAB's "Mission Statement (the "MISSION" paragraph in particular) as it currently appears at the beginning of the 2024 Annual Report:

The Mission Supports Public Accountability Financial reports, which include financial statements prepared in conformity with GAAP, are essential for public accountability and for an efficient and effective functioning of our democratic system of government. Thus, the Board plays a major role in fulfilling the government's responsibility to be publicly accountable. Federal financial reports should be useful in assessing (1) the government's accountability and its efficiency and effectiveness and (2) the economic, political, and social consequences, whether positive or negative, of the allocation and various uses of federal resources.

My main comment concerns the assertion in the MISSION paragraph that financial statements prepared in conformity

with GAAP are *"essential for public accountability and for an efficient and effective functioning of our democratic system of government."* Before offering my main comment, however, a preliminary comment is necessary:

The "financial statements" addressed within the Mission paragraph are not defined anywhere within the Mission paragraph itself. That failure to define what precisely is meant by the term "financial statements" will confuse those among your readers who understand what financial statements are and the purposes they serve in the context of business and non-profit entities in the private-sector; they will be puzzled (justifiably) by what purposes such statements serve in the government context. The readers I'm referring to understand that the federal government and its agencies, by both their nature and definition, are "public-sector" entities - *not* private-sector entities - and thus require wholly different forms of "performance-evaluation" mechanisms, different from the performance-evaluation function that financial statements provide for private-sector entities. For that reason, I suggest that the Mission paragraph be revised to *clearly* explain that the financial statements in question first became required following the passage the CFO Act of 1990, thereby creating the need for the creation of a wholly new set of "Generally Accepted Accounting Principles" for the federal government, in recognition of the fact that GAAP sensibly applies to private-sector entities, not public-sector entities. Rewriting the

MISSION paragraph to make that clear and placing it before of the ORGANIZATION paragraph (rather than after, where it currently sits) would accomplish that goal.

And now my main comment - on the assertion that *"financial statements prepared in conformity with GAAP are essential for public accountability and for an effective and efficient functioning of our democratic system of government."*

That assertion is tautologically true and thus a "fact" when stated as follows: "financial statements (balance sheets, income statements, and statements of cash flow) prepared in conformity with traditional (i.e., private-sector) GAAP are essential for public accountability and for effective and efficient functioning of our market-system economy.

With the replacement of the phrase "our market-system economy" with "our democratic system of government," however, the assertion relies on the truth of the market-system version of the statement to fool readers into thinking that your government-system version of the statement must also be a true - when it arguably isn't: For example, the financial statements being produced by the Department of Defense are not "essential" to the Department's "accountability" to the public. It is only because the GAO (and the media in lockstep) has spent the last 30 years, year in and year out, claiming the Department is at "high risk" for waste,

fraud and abuse for lack of auditor-blessed financial statements that the public now considers the DoD to be perniciously "unaccountable." The GAO's claim would be true if the DoD were a publicly traded business in the private sector, but it isn't. The DoD's "failure" to produce auditor-blessed, private-sector-style financial statements has nothing to do with how adequately (or not) the DoD is delivering on its national-security mission. Nor are federal financial-statements "essential for an effective and efficient functioning of our democratic system of government." Recent history has shown that proper functioning of our democratic system of government depends on many intangible things far more meaningful and important than auditor opinions on balance sheets and income statements. Indeed, it has become increasingly more likely that the Congress will begin "punishing" the DoD by reducing or rescinding funding based not on what the DoD says it needs or how well it's performing its national- security missions but rather on its perceived financial-management sins.

The problem, which the FASAB has never squarely faced, is that the federal agencies run on budgets (and thus budget-formulation, approval, execution, and review processes) that require sound and reliable budgetary accounting and reporting, not private-sector-style financial accounting and reporting. Yes, it is true that the long-term liabilities - driven mainly by growth in non-discretionary spending - are a problem

for the country, but the FASAB has famously side-stepped *that* problem (based on the argument that because the Congress can always do something, it's not for accountants and auditors to be the arbiters) and focussed its attention instead on trying to shoehorn traditional GAAP into something that makes sense for government operations (which will never happen because the government is not, and never will be, a business).

The fundamental category error made by the Congress when it passed the CFO Act (and subsequent legislation) calling for the production of private-sector-style financial statements by federal agencies has been compounded by the FASAB's decision to devote the lion's share of its attention and energies over the last 30 years on a hopeless quest to adapt private-sector-style financial-accounting and reporting procedures to the government, when what has been needed all along are improved budgetary accounting and reporting procedures and systems to make it clearer to both the Congress and the public about how well (or not) the government is doing its job.

-Christopher Hanks
