

## **FLASHBACK: \$21 Trillion of US Government Undocumented Transactions**

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# Holding U.S. Treasurys? Beware: Uncle Sam Can't Account For \$21 Trillion

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In two prior columns, which can be accessed [here](#) and [here](#), Mark Skidmore and I wrote about \$21 trillion in federal government transactions in the Departments of Defense (DOD) and Housing and Urban Development (HUD) that our government indicated were undocumented and unexplained. As the concerns and questions we raised gained traction, investigative reporter Dave Lindorff dug into the issue, recently publishing the article [“Exclusive: The Pentagon’s Massive Accounting Fraud Exposed”](#) in The Nation. Based on a series of interviews with current and former government officials, Lindorff concluded that Pentagon accounting is “phony”, composed of made up numbers designed to obfuscate and thus propelling “US military spending higher year after year”.

The issue received additional attention in the media when incoming Representative Alexandria Ocasio-Cortez referred to the \$21 trillion in a Tweet:

*\$21 TRILLION of Pentagon financial transactions “could not be traced, documented, or explained.” \$21T in Pentagon accounting errors. Medicare for All costs ~\$32T. That means %66% of Medicare for All could have been funded already by the Pentagon. And that’s before premiums.*

This comment captured the attention of numerous media outlets including the New York Times and the Washington Post where the focus was on fact checking (see [here](#) and [here](#), for example). The near universal

assessment was that the comment by Ocasio-Cortez was misleading—the \$21 trillion in undocumented transactions do not reflect actual unauthorized spending. However, there is a very important point that is missed by nearly everyone.

Despite our efforts as well as those of Dave Lindorff, our government has not shared any underlying data or information regarding the nature of the undocumented transactions. For example, both Mark Skidmore and Dave Lindorff have repeatedly asked the Office of the Inspector General (OIG) to provide an addendum to a [report](#) published by the OIG in 2016, which indicated that the Army had \$6.5 trillion in undocumented transactions. Typically, undocumented transactions are a just small fraction of authorized spending. How could a \$122 billion Army financial statement generate undocumented adjustments that were 54 times authorized spending?

More specifically, both Skidmore and Lindorff requested that the OIG provide more detailed information about the nature of 170 transactions that generated \$2.1 trillion in undocumented transactions (see page 6 of the OIG [report](#)). Why would the Army make up such huge phony numbers, as Lindorff and his sources assert? And yet is difficult to imagine that such huge sums could flow in and/or out of the Army financial statement in a way that was unauthorized. It is impossible to verify without greater transparency.

We have consistently argued that in order to determine what these transactions were presumably for, one would need access to the underlying data. And yet the OIG has refused to provide any additional information, even with a FOIA request. Without any supporting documentation, we are all left with having to decide whether or not we “trust” that government authorities are sharing accurate information. At some level, we all must operate with some degree of underlying faith, but in this context there is reason to doubt. As we demonstrated in our last [article](#), Comptroller of the DOD, David Norquist, clearly withheld critical information from Congressman Walter Jones, thus making his testimony deceptive. Greater transparency is needed to re-establish public trust. Instead, we are blocked from accessing any further information. Indeed, the most recent OIG [report](#) was fully redacted!

Last year the Pentagon conducted its first ever independent audit, which it failed. During the audit process Pentagon officials became concerned that the audit would reveal potentially sensitive information. Several months after beginning the audit, the [Federal Accounting Standards Advisory Board](#) (FASAB) posted a new [document](#), which recommended that the government be allowed to misstate and move funds in order to hide expenditures if it is deemed necessary for national security purposes.

See page 3 of the document for a summary:

This Statement permits modifications that do not affect net results of operations or net position. In addition, this Statement allows a component reporting entity to be excluded from one reporting entity and consolidated into another reporting entity, and the effect of the modification may change the net results of operations and/or net position.

On October 4, 2018 federal government officials accepted the FASAB recommendation. See [here](#) and [here](#) for more detail and [here](#) for the final statement – Statement of Federal Financial Accounting Standards 56. Standard 56 applies to all federal entities that issue unclassified general purpose reports (GPFRR), including entities that are: 1) budgeted for by elected federal officials, 2) owned by the federal government, 3) or controlled by the federal government. Standard 56 applies to at least 154 entities including the Department of Agriculture, Department of Housing and Urban Development, Farm Credit System Insurance Corporation, and the Overseas Private Investment Corporation, and many other entities that seem wholly unrelated to issues of national security. Why is it necessary that Standard 56 apply to HUD, for example? What is it about housing and home loans that would be

an issue of national security? Also troubling is the fact that Standard 56 can include publicly traded corporations with significant funding and/or federal government control.

With the change in accounting guidelines, which is a full departure from Generally Accepted Accounting Principles (GAAP), only a few people with high level security clearances have the authority to determine what is deemed to be an issue of national security and these same people will now be allowed to restate financial statements in order to conceal actual expenditures without any disclosure. No one but those few people would know that such modifications were made, thus making evaluation of government financial statements impossible. From this point forward, the federal government will keep two sets of books, one modified (and useless) book for the public and one true book that is hidden.

The FASAB recommendation effectively institutionalizes opacity in federal financial reporting. Up till now, many aspects of federal finances have been non-transparent because the government has failed to comply with existing financial reporting laws. However, at least citizens had the laws working in their favor. Now citizens have no recourse; opacity is now the law of the land, controlled by executive branch authority and policy.

Accounting rules are often thought of as boring and unimportant. In this case, it's not the case. The new FASAB ruling has enormous and highly dangerous implications for our nation. People should know about these changes so they have an opportunity to voice their concerns and reverse the decision. For investors, pension fund managers, and others who buy or hold U.S. government bonds, caveat emptor. If the government is free to lie about what it's spending, it can also lie about how much it's borrowing. And the larger its red ink, the higher the chances it will explicitly default on its debt (an idea President Trump [raised](#)) or implicitly default on its debt by printing money to pay its bills, precipitating inflation, and paying back its debt in watered-down dollars.

*This column was written in collaboration with Mark Skidmore, a Professor of Economics at Michigan State University.*

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<https://www.forbes.com/sites/kotlikoff/2019/01/09/holding-u-s-treasuries-beware-uncle-sam-cant-account-for-21-trillion/#660694c37644>

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