



The Solari Report

September 28, 2017

The Missing Money: \$18 Trillion in Undocumentable Adjustments and Counting with Dr. Mark Skidmore



Catherine Austin Fitts

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C. Austin Fitts: Ladies and gentlemen, welcome to The Solari Report. It is a pleasure to be with you today and be joined by someone you've been reading about. You've read his work and seen the product of what he and his team are doing, which I think is very exciting, and this is going to be your first chance to hear him.

It's a pleasure to introduce Dr. Mark Skidmore, who is a professor of state and local government finance and policy at Michigan State University and has a very distinguished academic career. I am thrilled because he and his mighty team have become interested in the missing money and are digging in.

We have a wonderful commentary with a report by him on the website. It will be linked in the commentary to The Solari Report. As you can see, we now have links to all the government documentation for the missing money that Dr. Skidmore and his students have found so far.

If you look at how much they've found of the \$18 trillion, it is neck-and-neck with the same number for outstanding debt for the United States. My prediction is that it wouldn't surprise me if Dr. Skidmore and his students surpass the outstanding debt very soon. They may be digging into NASA but we'll see.



Anyway, it is a pleasure to welcome him, and I am anxious to hear what he has to say. Dr. Skidmore, welcome to The Solari Report.

Dr. Mark Skidmore: Thank you, Catherine. As a quick update, we did find another nearly \$1 trillion in DOD that we will be sending you. We also started looking at NASA, and the NASA adjustments are not so huge. They seem to be within the realm of reasonableness for unsupported adjustments. We'll talk more later about what that is.

Fitts: That's good news.

Skidmore: Yes. The NASA calculations and estimates of undocumented adjustments are much smaller – just a fraction of their full budget. So that feels right. However, with the DOD, one in particular is just so large, and we'll talk more about that later, as well.

Fitts: Before we dive in, tell us a little more about you and how it is that you became interested in this issue.

Skidmore: I hold a chair in state and local government and policy. What that means is that I have additional resources to do research and outreach oriented types of activities. So I actually worked in the past, until my role changed here at the university, with people who are connected to Michigan State University in providing training to new county commissioners – how to read a budget, what are the primary functions of government, what is your role as a county commissioner, and other similar information. So it's very practical variety of helpful things.



A newly elected county commissioner might be interested in one particular aspect of county government, but now have to know: Where do the revenues come from? What is the full scope of responsibilities – which are very extensive?

We do that kind of thing, and we also do good applied research. We'll use statistical tools to do evaluations. During the past number of years, I worked plenty on the Detroit crisis and bankruptcy and the collapse of the housing market there as part of the financial crisis. So that was, in part, what helped me to start thinking about things a bit differently.

I do a mix of more formal research. I do some modeling, but more statistical analysis. I do practical kinds of things that hopefully will help communities. That is the type of data research that I do, but a couple of things happened to start shifting my frame. Maybe I'll take a few minutes to talk about those things. I suppose that there were many questions that emerged over the years, even starting 15 years ago when the dot-com bubble was in full bloom.

I remember talking with my students and saying, "Many of these companies have very high valuations, and yet they've never earned a profit. How is this possible?"

We would talk about the discounted present value of future revenue streams. So I said, "Somebody is really optimistic," but what I didn't know was that the rules had changed and that all of this money was flooding into the system.

After that crash, we had the housing bubble. I was looking at this, and said, "This doesn't make sense."



I knew people who had very limited income and maybe no job history, with no down payment, and yet they were getting loans. My wife and I would shake our heads and say, “What is going on here?”

Then, of course, the entire thing came tumbling down and we all remember that. So in the midst of all of this, I was looking at Detroit. During the housing bubble, there was plenty of subprime credit flowing into Detroit. With an urban regional economic background, I was thinking to myself, “How can they have rising housing prices in a city that has substantial population decline? They can’t tear down houses fast enough – dilapidated houses that aren’t cared for and aren’t lived in – and yet housing prices are going up.”

It troubled me. When I went on sabbatical, I spent time in New Zealand comparing the housing markets in the United States and policies against New Zealand, because they are concerned about rising housing prices also. New Zealand looks like a small place, but it is actually a very large place, and have only 4 million people there. I was thinking, “What is happening? This is a global thing.”

While I was on sabbatical, I said, “I have to try to figure out what is happening on the economic side,” because my traditional models and frameworks for thinking about how the world works weren’t helping me; they were misleading.

That’s when I finally had time to look at things more carefully. I started asking questions like: What interests do our leaders have? Are they thinking of us as they make these policies? What is the power structure? What are the incentives? What is happening? Is my family and my community’s well-being central to some of these decisions?



Obviously, whether or not you're very aware or only partially aware, you get the idea that there are many competing forces at play, but I had an opportunity to take time and peek behind the curtain in a world and a venue that I knew very well. I have a PhD in economics, and yet I didn't understand numerous things.

After a while, you start looking at all of the quantitative easing. This is not only US money printing, but globally. I thought, "Wow! We're buying all kinds of things with printed money. Right now the Swiss National Bank is buying our IT stock, and 75% of the Japanese ETF funds are owned by the Japanese Central Bank."

Now, we've somewhat backed off, but the ECB is buying corporate bonds and sovereign bonds. We are suppressing interest rates now and \$15 trillion globally is in the negative interest rate territory.

Without suppression, that shouldn't happen and so there is a massive intervention. As I looked at all of this, I thought, "I'm going to diversify my portfolio." So I invested some in gold and silver. Then I started watching those markets, and I was thinking, "Wow!"

I think that there is plenty of evidence available to show that those markets are also suppressed.

So, you have a great deal of suppression happening everywhere, and not necessarily free market activity. My framework began to shift; indicating that we don't actually have free markets at all but increasingly, we have massive interventions. From my point of view, this is not a sustainable path. When you hold things back or try to force things for long, you run the risk of creating big distortions and potential shocks down the road.



This worried me. I can remember looking at things going from, “Jeez, this doesn’t look good,” and then digging a little deeper and, “Wow! This is really bad!”

You go a layer deeper and say, “Wow! This is dangerous because, not only is there suppression, but apparently there is illegal activity at some scale and a lack of rule of law.” Then you start looking behind the places that you know, and see all this information. That gives you an opportunity to say, “Well, I wonder what else is happening?” Then you start geopolitics and such.

I think the thing that really got to me – and for the folks who listen to your reports and read your articles, this is not a surprise to them – was that, up until a couple of years ago, I didn’t fully understand what happened at 9/11. When I started looking at that, there is plenty of evidence to suggest that the official reports don’t fly at all; they are far from what is true. It’s hard to know for sure exactly what happened, but you can certainly refute the official report.

You can look at the two towers that fell; I remember watching the third building, Building 7, and seeing that fall in an absolute freefall. I watched it over and over again. I didn’t need an engineer to tell me that that was something other than fire. How could that have happened?

If you come to terms with that, then you have to conclude that the media is complicit, our government leaders are complicit, our core business leaders are complicit, and covering up all of this for some reason. Now you realize, “I see what’s going on.”



That caused a real shift for me and, of course, now I am thinking about it more. That wasn't the only event. I'm reading *The Devil's Chessboard*, which is something that you recommended, and we can see that these sorts of things have happened a long time.

Fitts: Right. This has been evolving for a long while.

Skidmore: That is my background and where I am presently. I decided that I needed to go back to school. For several years I've been digging into information and doing my best to sort through and make sense of the world and create a new frame for me to think about things. I think that is all good, and I think that I'll be doing that for the rest of my life.

Fitts: It's interesting because, if you see real change, what is essential is that you change how time and money work at the local and state governmental level. In other words, the rubber meets the road when you switch how things are working at the local level. So you are right at the heart of where the change has to come.

Skidmore: That was part of my motivation for looking at state and local government and regional economics. There is an abundance that happens at the local level that is within our purview and control that we can do something about. There are a lot of experiments, and we still have considerable autonomy at the local level for experimenting and we can learn about what works and what doesn't. That has really been the mainstay of my research and I want to lay out what works and what doesn't.



Fitts: Did you, by any chance, read the Lafayette, Louisiana study that Chuck Marohn and the Strong Town team did?

Skidmore: Actually, I recently invited him to give a talk on our little podcast at the rural development center I direct. I listen to that, and talk about how, for every dollar of private infrastructure above ground, there is \$2 underground. This is not sustainable, especially in places where the population is flat or declining. It's a real challenge and, in many cases, we've overbuilt and have to figure out how to do this smarter.

Fitts: I think if we can get the Federal money turned around, you're still going to have to reverse what is happening at the state and local level. That's where you have to perform a positive return on investment to the governmental money. It's has to be Federal, state, and local.

What I saw when I worked in the first Bush Administration was the Federal investment is making the world much tougher and more expensive for the state and local governments.

Skidmore: Yes, but there is always this incentive at the local level to take those Federal dollars. You need them, and are worried about your tax base, and yet can potentially settle for more infrastructure than you actually need. Then you have all of these asymmetries of negotiating power with larger retail and other types of establishments looking to locate in places where they have the largest tax breaks.



So now you're thinking about, "I have to put in all this infrastructure." Sure, the retail expands a bit, and this is good for the community and it creates some jobs, but what about the long run when this shuts down and moves on? How are we going to pay for all of this?

Those are real challenges. Some places seem to be doing it well, and other places are struggling.

Fitts: Let's turn to the missing money. We have posted \$18 trillion of, what is called, 'undocumentable adjustments' in the DOD and HUD accounts. It sounds as if you have found another trillion dollars, so it's up to \$19 trillion. What is an undocumentable adjustment, and what does this mean with the \$18 trillion of undocumentable adjustments at HUD and DOD?

Skidmore: Let's talk about the definition and what it might mean. I think that what I would like to emphasize is, from my perspective in pulling up public documents, I don't know for sure what all of this means.

Whether or not I know what it is – for reasons we'll discuss – we all have an interest in full disclosure and transparency because it doesn't make any sense.



Let's start with the formal definition. I'm going to read it from a Federal government document:

Journal vouchers are summary level accounting adjustments made when balances made between systems cannot be reconciled. Often these journal vouchers are unsupported (and that is what we are talking about), meaning they lack supporting documentation to justify the adjustment or are not tied to specific accounting transactions.

While many of these transactions are valid, having too many journal vouchers may be an indicator of underlying problems such as weak internal controls. For an auditor, journal vouchers are a red flag for transactions not being capture, reported, or summarized correctly.

Basically, these are adjustments made to the budget when an auditor doesn't really know what a transaction is.

If I can think back to something a little simpler like a local government budget, there might be some adjustments, but they are very small, and they are never larger than the entire budget of a city or a school district; they are typically minor adjustments because there was a missing receipt or a transaction where it wasn't clear what it was used for. That thing happens all the time.

In the case of the 2016 report for the Army that you had referred to in an interview – and this is what got me interested in this whole issue – – you said that the Army had unsupported journal voucher adjustments of \$6.5 trillion.



The entire DOD budget is only \$5-6 hundred billion. So the vouchers were ten times that. I thought, “That does not sound right.” I actually thought that you were wrong. I thought, “She must be making a mistake.”

I looked at it, and sure enough, it was there. I thought, “How can this be?” There are many explanations about missing records and no documentation or systems within DOD that don’t communicate with each other, but there was no clear explanation of what was happening.

This troubled me, and I decided to send you an email. Within ten minutes of sending that email, you called me.

I was asked you if it would help if we spent a little time digging through the government websites to try to find other documents that indicated the magnitudes of these adjustments. So you called and said, “Yes, that would be great. That would be a great service.”

What we did wasn’t rocket science; we spent a little time searching through the government’s documents, trying to find what the size and magnitude of these adjustments are, going back to 1998.

What we found to date is far from complete, but we are approaching \$19 trillion of adjustments. Putting in context, if you were to add up all the appropriated spending for DOD from 1998 to 2002, you would get about \$8.5 trillion – which is a substantial investment in defense.

However, the adjustments were more than double that, so how can that be?



That is what troubles me and I don't have an answer. I think that with your experiences and contacts and your time at HUD, you have some good contacts. From my perspective as somebody sitting in an office here in the Midwest, it just doesn't pass muster.

I was trying to think of a way to put it in context, and \$19 trillion is about \$160,000 per household in adjustments – things that we can't account for. Some of us have been to school board meetings or a county commissioner meeting, and we somewhat know how that works when we talk about budgets. Maybe more of us have been in a church meeting where we have somebody who handles the bookkeeping for them.

Suppose you're a small to medium-sized church with a \$500,000 budget, and you have revenues. Typically, there are always two people who track the money coming in. There is never one person who you rely on solely. Everybody is happy to do that because you want to be transparent and honest about it. Then you have a bookkeeper who tracks things. In your church meeting, when you're approving a budget, I can imagine your accounting person –our accounting person is someone who is retired and has a degree from the University of Chicago. She is very good. I can imagine her trying to explain what we were doing with the money over the past year and how we spent it.

Then she says, "Oh, by the way, we have a bit of an adjustment that we had to make. So in addition to the \$500,000 that came in through our normal processes, we spent \$5 million, but we actually don't know where it went."



It might be \$2.5 million coming in and \$2.5 million going out. The adjustments don't always say in the reports whether it was money flowing in or out or across departments or whatever.

If you were in that meeting, you would say, "That doesn't make any sense. I trust my pastor, but I think we have to look under the hood here and find out what is happening. That is in your purview and you're used to that.

Fitts: One of the first things that really sent me into the place where I saw big red flags was when my attorney first found the report from HUD that \$59 billion had been missing the year before, and \$17 billion the year before that. In the report, the Inspector General said that they couldn't reconcile what had happened. They couldn't balance the books, and they couldn't figure out what occurred, but they were going to make sure that it didn't happen again.

So to the church example, if your CPA said, "Look, we have these \$5 million of undocumented adjustments, but we've done this in this business system, and it won't happen again." I daresay that you would not be satisfied and say, "Oh, well then it's okay." You would be saying, "No, I want to know."

Skidmore: You would want to know what happened. Where did the money come from, and where did it go?

If your elder board said, "Don't worry about it; it's not a big deal. It's all good. We'll get the system fixed," -but my frame of mind has changed as have a lot of your listeners – and we are a little more skeptical.



But even if you weren't skeptical when you looked at this report, you would say, "This doesn't make any sense. We should really look at it. We should go and dig in and find out what those transactions are."

What is interesting in that 2016 report-where we have the \$6.5 trillion for fiscal year 2015-they do have some information. For example, they have almost \$1 trillion flowing into the Army from Treasury. So part of the unsupported journal voucher adjustment is about \$800 billion flowing in. Then there is about \$900 billion flowing out through accounts payable to somebody. Apparently nobody knows where that money came from or where the money went.

Remember, the entire DOD budget is only about \$500 - \$600 billion, and the Army is only a fraction of that total. So I don't fully understand. Even if it were to reconcile previous budget activity to somewhat get things up to speed, when you see this pattern over and over again, even if you're not skeptical, you can't even do good cost benefit analysis if you have no idea what is happening with spending in the budget. How can you evaluate that?

Fitts: You can't evaluate performance or assessed performance or changed policies.

I'll never forget that when I first got to HUD, there were no financial statements. Finally I lobbied the White House and had the accounts moved to reports for me, and I asked them to do cash flow estimations of where we were making and losing money. It turned out that there were ten Federal regions at the time, and we were losing money in two regions and making money in eight regions, and the result was a net loss.



We had lost \$1 billion the year before in region six, which was Texas and Arkansas. It was during the Iran-Contra Affair. We had a regional administrator and a deputy regional administrator who were arguably some of our finest managers. They were very competent, very good, very capable, and very caring.

I called them and said, “How much money do you think you lost last year?”

They said, “Oh, we think we broke even.”

I said, “No, you lost \$1 billion. I’m going to get you the financial statements.”

I flew down the next day, and they had gone to a smoke-filled room in a restaurant off campus, and literally put together the ten steps that they needed to take to stop all the monkey business, and I didn’t need to do a thing. They knew exactly what to do as long as they had the transparency. You’ll see the same thing with communities when they get transparency about the real housing money and credit in their place.

People need a map. It’s like driving to California with a map that’s wrong: You’re going to end up in Mexico. You’re not going to end up in the right place.

I wanted to talk a little about some of the excuses before we go on to the history. One of the excuses that you always hear is, “The systems don’t talk to each other.”



The reality is that, if you look at what it does, if you take an operation that has many different subsidiary operations, all you have to do is reconcile each one. If you look at the money involved, it certainly is worth paying the people who sit around and do it. If you examine the amount of money that the Department of Defense spends on both civil service and on contractors, and you look at the very high competency of both the civil service and the contractors that they pay, these are people who run very sophisticated operations, and their systems work in their companies. The civil service is perfectly competent to run anything that is required for the Department of Defense.

So whether it's contractors or civil service, the excuse that, somehow incompetency occurs because it's too complicated or they're incompetent or it's too big or it's too much information, if you've ever been associated with any of those bureaucracies, it doesn't make sense and it doesn't hold water.

Skidmore: Part of the funding for the center that I operate comes from the USDA. I have regular interactions with really good people there. They work very hard, and they are extremely competent. The last thing that I would say is that our defense people are incompetent. I have close friends that have been and who are in the military. I once taught at the Air Force Academy.

I think we need to make a distinction between competence within the system and something happening at a higher level that is leading to this.



I don't know for sure what is happening with these adjustments, but I'm willing to ask the question, "What is happening? Why don't our legislators inquire and open up the books? Why don't they look under the hood and see where these transactions are really flowing to and from?"

Fitts: Right. Here is the reality: The Appropriations Clause says that you can't spend money that isn't envisioned in an appropriation, and Congress has the ability to shut off the spigot. In other words, Congress doesn't have to keep appropriating; they can say, "Look, until you produce audited financial statements as is required by law and is required by the Constitution and prove that your spending is as envisioned in appropriation, we are going to turn off the spigot." They have the power to do that, but they haven't.

Skidmore: They could use that power. Maybe there are some barriers to prevent that from happening.

Fitts: I always have these magical moments on email. I got an email from you, and I forget exactly what it was, but you had finally realized that the New York Fed member banks are the depository for the US government. So whatever transactions are happening, they have a record – and most of them are going through the depository for the Treasury and for the agencies. There is a complete record at the banks of all transactions made. So if you want to look at this on a cash basis – and including the credit that they service – you can see an abundance of data, if not everything.

There was this magical moment when you realized, "Wait a minute."



Skidmore: It was another moment. It was like the 9/11 moment. “Oh, all these organizations are complicit in this – in some way, somehow.”

The Feds know, or they could know if they wanted to.

Fitts: Before we go on, I want to mention how much is \$18 trillion – \$19 trillion. When the housing bubble burst and we had the bailouts, \$8 trillion would have paid off all of the single mortgages in the country.

\$18 trillion is a great deal of money. If you look at all of the issues we’re talking about – whether it’s tax reform or healthcare, etc. – it’s certainly enough money to fund all these different things that we say we can’t afford.

Skidmore: It’s still a large amount of money, but I think when we talk about adjustments in excess of the appropriated amounts, we have to be talking about adjustments of revenues flowing in from somewhere and flowing out somewhere.

Now we have \$18 or \$19 trillion of adjustments, but we don’t know how much of that is flowing in and how much is flowing out. If you were to take a guess, you could say \$9 or \$10 trillion flowing in, and \$9 or \$10 trillion flowing out. That is based on what we know so far, which is only partial for all the years for which we collected information. That’s a large amount of money.

Fitts: From a cash standpoint, the real money could be much lower or much more; there is no way to know.



Skidmore: If you read some of these reports, it will say, “We have these multiple things happening from one system to the next, and money is moving back and forth. So you are double- and triple-counting transactions.”

That doesn’t fully make sense to me because you would know that. You would know that there was this transfer, and it wouldn’t be unsupported; you could explain it.

Anyway, all of this is to say that just looking at the reports, it’s mysterious.

Fitts: I wanted to touch base and quickly give a little a history so that the folks who are listening to this – who haven’t heard much about the missing money – have this information.

I’ve been trying to keep the question alive since 1997. It started with me in 1997 when I was meeting with a group of pension fund leaders who were on one of my boards for my subsidiary, and I had given them a presentation of how we could re-engineer government investment in communities to significantly improve the performance of Federal spending and investment in places.

I was using Philadelphia as an example. I was outside of Safeguard Scientifics near Pennsylvania, who was a big investor. We were waiting there, and the President of CalPERS was on the board. He looked at me and said, “You don’t understand. It’s too late. They’ve given up on the country. They’re going to move all of the money out starting in the fall. You have to get to Nick Brady (who was the Secretary of Treasury) and tell him that it’s not hopeless and that things can really be fixed.”



I thought he meant that the pension funds were planning on shifting their allocations into the emerging markets and other things. It never occurred to me that they might be emptying the coffers of the government assets.

So that fall, money started to go missing. I didn't realize that it was going missing from the Federal government. What I started to see was some of the big investors suddenly, magically raising huge amounts of money with no problem to do investments in China and in the emerging markets. It was as though they were suddenly exploding with billions of dollars in investment.

I thought, "Where is this coming from?" It was during the impeachment, and no one was interested. Everybody was talking about Monica Lewinsky's dress, and I kept trying to interest people in this and say, "There is something strange happening. All these guys are getting billions of dollars, and they are making all of these investments. What is going on?"

Everybody was talking about Monica Lewinsky, and they weren't paying attention to the money.

Then my attorney was reading an IG report that was on the 1997 or the 1998 year, and it was testimony that they had given. It was another testimony on why they couldn't complete audited financial statements. The first Bush Administration had laws passed requiring audited financial statements, and I was part of writing that law for HUD. That was the one that had triggered the law that was then taken government-wide.



The IG was fundamentally saying, “There is \$59 billion missing this year. There was \$17 billion missing in the opening accounts. We’ve thrown up our hands in disgust, but we promise that it won’t happen again next year.”

We almost fell off our chair. It was amazing when I started to send it around and pass it to people.

If you look at the mortgage fraud and predatory loans that were occurring, it was perfectly reasonable that they would be financing it with mortgage fraud because the mortgage fraud was exploding. It was an astonishing experience because no one would pay attention to it. One thing that they would say is, “I’m sure there is no problem. Go away.” Or they would say, as you thought, “You’re not making any sense. I’m sure this is not happening. You must have it wrong.”

It went on like this for a while. Then I was on KPFA radio, which is a little community radio station in Berkeley and is quite good. Cynthia McKinney followed me with the same host and confirmed that what I was saying was true – that there were billions of dollars missing and that something was going on. She was a sitting Congresswoman at the time, and her willingness to confirm it made it credible.

We had *Insight Magazine* do the series, and then 9/11 happened. Many of the things that happened in 9/11 were critical in covering it up. Sometimes I think it was a ‘missing money knowledge management operation’.

Jim Corbett has a great video, if anybody is interested, called *9/11 Trillions: Follow the Money*.



Skidmore: I've seen it; it's very good.

Fitts: Yes, it is. Then Senator Thompson did a report on Government Affairs, which I sent to you, talking about the inability of the Federal government to comply with the financial management laws, which, number one, is producing audited financial statements. To this day, the Federal government never has. A primary reason was DOD, and 9/11 was used as an excuse on much of that.

Then we hit the financial crisis and the bailouts, and, literally, between 9/11 and the financial crisis, it's been very difficult to interest people in the topic. Then, of course, in 2015 the stunning \$6.5 trillion seemed to be so big and so ridiculous that I think people are finally beginning to realize: "Wait a minute. If you have a Federal financial mechanism that has no transparency, no accountability, then the real control and governance of the government can be run by the people who control that."

In other words, this is a fundamental governance issue: "As long as you want to do whatever you want, you can do it as long as you can finance it."

Skidmore: I would agree with you. If you don't have a level of transparency, how can you verify what is happening? I understand there probably are some programs that – at some level – would have to be concealed, but I don't think that what we're seeing here is that. I can't make any sense of it.

I have a call into the primary contact for this 2016 report. I was hoping that she would call me back before this interview so I could have some context from her perspective.



The IG is reporting on this, so, in some sense, they are doing their job. If our legislators don't follow up, they are missing their role.

If we don't have something happening at an agency level, in terms of transparency and checks and balances, and if we don't have our legislators and our elected officials doing anything, then in a represented democracy it falls on us. That is, in part, why I thought, "I can do at least one thing, and that is to reduce the cost of people digging in and finding all this stuff." People can now go to your website, and click on all of the reports. We've identified the page number. You can look yourself and read the reports and see if they make sense to you.

We have plenty of highly intelligent people. I think that if you read these reports you would say, "This doesn't really make a lot of sense. We need to look at this."

Fitts: The other thing that you can do is, whenever you meet with your state or Federal officials, bring this up.

I sent you the information about one of the Tennessee Congressmen who was running for governor. I went to a town hall meeting at a local bank, and there were about 30 or 40 of my neighbors present. At the time there was \$3.3 trillion missing. I said, "There is \$3.3 trillion missing from the Federal government."

He said in front of everyone, "Yes, I know." The local banker almost fell off his chair.

I said, "What are you doing about it?" because he was on both Defense Appropriations and the Budget Committee.



He looked at me and said, “Nothing. There is nothing that I can do.”

I think if many, many citizens started bringing it up and if you look at all of the different budget discussions we’re having – particularly about retirement savings or social security – whatever amount \$19 trillion translates into, that is real money. Somehow we have to find a way within the budget to make everything real and reduce it to real money, and then start to shift it into a framework that can support real performance.

Skidmore: You’ve said this before in other interviews and discussions, “Could we possibly get this money back if we could follow the paper trail?”

I don’t have the answer to that question because I don’t know where the money went, but that seems like a discussion that is on the table as well. If this was not authorized and a large amount of money flowed to places or into investments that are still in ownership, it might be possible to get that back.

Fitts: It is possible. Believe it or not, I litigated for many years with the Department of Justice over something called ‘common law right of offset’. The Federal government has taken the position that if you’ve done something as a contractor inappropriately or if you’ve made an illegal transaction or if you’ve done something that lost the government money, then they can assert the common law right of offset and demand ownership of your assets or payment for whatever that was.

So wherever this money went, it created an asset or it is associated with an entity that has assets, and you can assert a common law right of offset.



Not only can you get those assets, but you can also say, “Every household owes the big banks \$160,000. We’ll just assert a common law right of offset and tear up that \$160,000.”

It sounds a little cute, but there are absolutely ways of holding the process accountable and asserting rights to those assets.

You have many people running around this country promoting the idea that we should balance the budget. If we balance the budget with our assets on the table and that \$19 trillion is not on the table, it’s a very different picture than if it is on the table.

Skidmore: It’s hard for me to imagine how that would actually happen. Unless enough of us ask questions, we will never know. My thinking on it is that if enough of us say, “This doesn’t pass the smell test, and we need to look under the hood and find out what the nature of these transactions are over the last 20 years,” then we can say, “What can we do about this?” If we don’t do that, it, in fact, falls on us.

Fitts: When I watch the politics around the budget, what I hear is that the American people are wasteful, the American people have misused their time and money, the American people are dependent on too many entitlements from government, and the American people need to cut back.

There is this spin occurring, and I think that by putting this \$19 trillion back on the table, at a minimum, you shift the spin. You say, “Okay, it’s true. We drink too much carbonated drinks,” or, “We eat too much sugar.



We can confess to our sins, but we need all of the money on the table, and we need to look at where the money has actually gone and how we got to where we are.”

I think that the politics of transforming the budget is going to be very, very different.

The other thing is, I think that what has the budget negotiations stuck is there is so much happening that you can't be honest about it. I don't only mean about illegal things, but political things.

We've reached the point where the absence of the ability to go into the invention room and have an honest conversation about real needs has reached a point where it is so dysfunctional, and we have to do it. Anything that brings transparency to how the money really has worked, how it works now, and what we need going forward, is essential.

I return to the fact that much of the policies with what is happening in Washington are basically dedicated to creating global domination in a way, which is against the wishes of the American people, but they can continue to do it as long as they can finance it.

Skidmore: It's interesting, as a state and local finance economist, that one of the benefits of a decentralized structure is that you end up with different places meeting the needs of their people because each place is different and they know what is needed. So regarding this entire centralization thing, I agree with you. There is this globalization and centralization, and there is tremendous pushback as people say, "This doesn't meet our needs."



That's one of the nice things about looking at communities. You have to have many places doing different things to meet the needs of people.

It's not perfect, and there are experiments, but when I think about the Brexit in the EU and the way the EU is structured now, I understand it. There is no mechanism or voice for people to express their concerns or vote on the leadership of the EU. In my mind, the Brexit response was people just being mad. They thought, "I can't do anything. I don't have any option."

My response to the EU is that if you want people to buy in, you have to give them a voice and you have to be flexible. But I don't think that is what the goal of the EU is.

Fitts: If you look at the chart that I sent you from *Fortune Magazine*, it shows the revenues of the Fortune 500 growing by more than double the GNP of the country since 1995. So from 1955 to 1995 they tracked approximately the same. Fortune 500 revenues went up about the same amount that the GNP climbed.

Then you hit 1995, and pull the tech companies into the Dow index, and then do globalization. Suddenly you're centralizing everything into publicly traded stock.

We're watching a political mechanism that is under constant pressure to feed running the economy through. Unfortunately, what I saw at HUD was that they constantly were making policy decisions that would lift stock in a variety of different companies but didn't make economic sense on the ground.



So you had this corporate tornado hitting a local community, and you were generating a wealth of fees for friends, and it was lifting the corporate stock, but you weren't getting a serious improvement with the economy that was sustainable.

You're using government to facilitate a win-lose relationship between large corporations or publicly traded companies and the local economy. I think you have to get that back in balance; you have to create a win-win relationship because the more its win-lose, the more politics becomes ugly. Ultimately, the Dow can't keep going up if we're having a civil war.

It seems better to get this back into a positive alignment. So whether it's the Federal money or the state and local money, the question starts with how to get that money re-engineered into a positive return on investment or get it optimized. It's going to take involvement of the citizens to do that. They're going to want to have this happen.

Skidmore: I think we all have to feel a stake in it. Going back to these undocumented adjustments, in a sense, we have to be willing to step out and ask these questions and bring transparency and checks and balances to the system. It could be that there are good reasons for what is occurring, but somehow if it's cloaked, I have my doubts.

We have to take a look at it. If enough of us ask questions and share information, maybe we can make some headway there.

Fitts: I so appreciate what you and your students are doing. It's made an enormous difference to many of the people who go to our website and are interested in this and have direct access to all of the government documents and to have someone of your position and caliber reviewing it -



and looking at it and checking it and describing it. It's been very energizing for all of us, and I can't tell you how much we appreciate it.

Skidmore: Thank you. It's a bit of hard work to go in and dig in. If we can centralize that effort a little and make it easier for people, then we feel like we're helping some. I wouldn't have thought to look at this if I hadn't heard you talk about it. I know that you've been asking these questions for a very long time.

Fitts: People have been thinking for 20 years that I've been wrong.

Skidmore: I understand why people doubt this.

Fitts: I do, too.

Skidmore: Some people refer to the matrix or Jon Rappoport's work. I really have appreciated him. His work has helped me come out of my tailspin as I thought about all these issues.

If you question things, it's not too far-fetched to say, "Wow! This is not right." But if you have an underlying faith in the structure of the system, it's very easy to say, "They've got a handle on it."

As part of the report in 2016, the Federal government is supposed to be audit-ready by the end of this month. A recent article was published questioning whether the DOD will be audit-ready.

There is always the swirl in, "Well, they're working on it." So it will be interesting to see what happens in this next fiscal year to see if we do any better within government.



Fitts: Even if we're audit-ready, I want to know how much has disappeared and how we get it back. Just because we stopped stealing doesn't mean that it's okay to keep what we stole.

Skidmore: I agree. We can't give up on what has happened in the past.

I guess that is one of the reasons I thought this would be a useful thing to do. Whether or not you are skeptical or doubtful, you can look at this and, even if there isn't any ill intent, we still can't conduct effective cost benefit analysis. We have no idea how these funds are being used and whether we can evaluate what is good and what is bad within DOD or HUD.

Even if you're not skeptical, you can still take this and say, "We really need to look under the hood to find out why we have all of these unsupported adjustments. Where did it go?"

Fitts: I'm going to be a tough person now and differentiate between DOD and HUD. If you look at fairly reliable polls, the military is the most admired institution in America. They still hold 50% or better respect by the population, whereas most Washington institutions don't. I think Congress is now at 16% and has been as low as 10%.

HUD is a different story. I know HUD well, having worked there in 1989 and brought in an auditor, brought in computers, and brought in systems. There was absolutely no reason for HUD not to produce audited financial statements as required by law all along. The undocumentable adjustments were easily figured out and found, and there is absolutely no excuse.



If you look at all of the other experiences and stories and phenomena, including the housing bubble, I assure you that massive fraud was occurring at HUD.

I differentiate between the two. The reason I am so confident is because I saw the collusion of the New York Fed member banks and the Treasury and all types of different government agencies. You know my story of visiting the Chief of Staff to the Senate Appropriations Chair. I was trying to get my company paid because HUD owed me money. The Chief of Staff said, “What do you think is going on at HUD?”

I was trying to be discreet, and I said, “I don’t know. What do you think is going on at HUD?”

He said, “HUD is being run as a criminal enterprise.”

I said, “I don’t disagree.”

I can’t speak for DOD because I don’t have enough personal knowledge, but I can speak for HUD. As far as I’m concerned, the undocumented adjustments at HUD represent the tip of the iceberg of serious illegality and fraud.

Skidmore: I think that you know from our discussions and emails that I, too, am skeptical. I’m trying to think about it as a way of bringing people together because it’s oftentimes hard to have conversations about this level of corruption or downright evil when you think about what happened at 9/11 or other types of things.



Fitts: I agree completely. Let's just work from the documented facts; let's ask questions and work from the documented facts.

Skidmore: Whether you think there is a darkness happening here or deep corruption or just bad systems, this is very harmful for the country not to know what is occurring and there is a way to find out.

Fitts: I, for one, am thrilled that you are helping. We are in cahoots. I'm going to encourage everybody, listening if they have any questions, to send them to Dr. Skidmore. I will batch and forward them and maybe we will get them answered. I know this conversation has only begun. You keep finding trillions of dollars more – a trillion here and a trillion there. Soon, you're talking about a large sum of money.

Skidmore: We'll just keep plugging away at it. I think, at this juncture, when you're up to \$18 trillion or \$20 trillion, the point has been made. We'll keep looking at it. It was actually encouraging to see that NASA didn't have these same kinds of adjustments occurring; they were more within the normal range for what you would think of as an unsupported journal voucher adjustment.

Fitts: I'm surprised, because at one point, in 2000, we found a \$500 billion undocumentable adjustment. I'll see if I can find my notes on it.

Skidmore: If that was for NASA, please let me know. Maybe that will give us a hint that perhaps we were looking in the wrong place.

Fitts: It could have been reconciled but I'll see if I can find it.



Skidmore: Before we close, I would like to say that I want to talk to the person who developed the 2016 report soon, but it is interesting that we have these reports that show us how big the adjustments are. I think that is interesting, and I'm not sure what to make of it. If you wanted to hide it, it seems like it might be possible to do that. However, on the other hand, maybe the mechanisms are in place that there is still an accountability procedure that helps us see what is happening. That is encouraging, also.

Fitts: I'm hoping that you still have plenty of good people in the civil service. You certainly put into place superb financial management laws, and if you have good people left in the civil service, then there is definitely something to work with.

Dr. Mark Skidmore, thank you again and have a wonderful afternoon.

Skidmore: Thank you, Catherine.



MODIFICATION

Transcripts are not always verbatim. Modifications are sometimes made to improve clarity, usefulness and readability, while staying true to the original intent.

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