



Are CPAs Prepared to Discuss the U.S. Government's Financial Position?

By Michael Doorley

CPA's often engage in conversations with others about the United States' financial condition. These conversations can be part of a CPA's practice or they may be casual conversations. Some people expect that a CPA has a greater degree of knowledge than the public about the country's financial position. This expectation can place an unwelcomed burden on CPAs, especially those who do not follow the topic closely as part of their practice. Regardless of CPAs' expertise, they know what may sound like a simple question to a nonprofessional is often more complicated for a professional to answer.

What the public reads or hears about the country's financial position may be greatly influenced by a particular publication or by a media source's host or guest economist. Where the country is heading is difficult to predict with precision because it requires analyzing and extrapolating many variables across multiple disciplines, including economics, finance, and politics. And an economist's point of view may be formed based on varying theories, estimates, predictions or projections, and ideology.

Unlike peering into the future, discussing the country's financial position should not be as difficult for a CPA because it has been said that accounting can be viewed as a process for writing the economic/financial history of an organization. That financial history, to a great degree, is memorialized in the annual audited *Financial Report of the United States Government*, which is available to the public. CPAs know that interpreting a financial statement is more complicated than merely understanding the format and the amounts presented. Interpretation requires a deeper understanding because it encompasses the accounting standards and notes, and knowing what is and is not included—and why.

Therefore, a CPA does not need to become an expert in federal government accounting to understand the reported financial position. A good place to start to understand the numbers is the first page of the executive summary, which presents a two-year, high-level summary of net operating cost on an accrual and budget basis (income statement), net position (assets less liabilities), and sustainability measures (statement of long-term fiscal projections and statement of social insurance). Details for each are included later in the report.

Interpreting the statements and becoming conversant in the numbers is more difficult. There are some important points to consider: the government operates primarily on the cash basis, which follows federal government budgetary concepts and policies, rather than on the accrual basis; the accounting treatment and the balance sheet recognition (or nonrecognition) of certain commitments and obligations of the federal government; and what is consolidated and why can be complicated; and the government, in each of the 20-plus years since annual audits

have been required, has only received a Disclaimer of Opinion from the U.S. Government Accountability Office (its auditor).

For example, in a conversation about the federal government's financial position, one person may say he heard that the debt to gross domestic product, a widely accepted measure of broad economic performance, was 105% on June 30, 2020. Another person may say she heard from it was 136%. Would the CPA know the difference, and why?

The difference lies in the debt amount used in the calculation. The U.S. Treasury Department's website reports, for every business day, the total public debt outstanding broken down into two broad categories—debt held by the public and intragovernmental holdings. Debt held by the public (\$20.5 trillion at June 30) is the aggregate of publicly traded U.S. Treasury securities issued and outstanding to pension and mutual funds, banks, foreigners, the Federal Reserve, and others. It is the amount of treasury debt that appears on the balance sheet. Using this amount yields 105%. Total public debt outstanding (\$26.4 trillion at June 30) is the sum of debt held by the public plus intragovernmental holdings. Intragovernmental holdings (\$5.9 trillion at June 30) is the aggregate of U.S. Treasury securities issued and outstanding to Social Security, Medicare, and other trust funds and some government pension funds. With the exception of not being publicly tradeable, these Treasury securities are *pari passu* with those issued as debt held by the public. Using this amount yields 136%.

According to Note 11, intragovernmental holdings do not appear as debt on the balance sheet. Because they represent money borrowed by one government department (for the general account for current spending) from other government departments that hold excess cash from the trusts and pension funds, this debt is eliminated in consolidation. But Note 20 states, in part: "These securities require redemption if a fund's disbursements exceed its receipts. Redeeming these securities will increase the government's financing needs and require more borrowing from the public (or less repayment of debt) or will result in higher taxes than otherwise would have been needed, or less spending on other programs than otherwise would have occurred, or some combination thereof." A bit confusing? Yes, to many CPAs as well as citizens.

Joseph DioGuardi was the first practicing CPA elected to Congress, serving from 1985 to 1989. In 1987, he introduced the original version of the CFO Act of 1990, which required every major U.S. government department to have a CFO. The act required, among other things, the annual preparation and audit of organization-wide financial statements of the executive branch departments and certain independent agencies.

DioGuardi implores accountants to become more knowledgeable about the U.S. government's accounting and financial position. CPAs might consider investing a few minutes to acquaint themselves with the U.S. government's financial statements and financial position so they can be better prepared when conversing with clients and others. ■

Michael Doorley, CPA, is a former Deloitte auditor, and a 35-year financial services executive, as well as a guest lecturer at Fordham University's Gabelli School of Business. He is the founder of <https://usdebtforsum.com/>.