



November 2020

FINANCIAL AUDIT

Bureau of the Fiscal Service's FY 2020 and FY 2019 Schedules of Federal Debt

GAO Highlights

Highlights of [GAO-21-124](#), a report to the Secretary of the Treasury

Why GAO Did This Study

GAO audits the consolidated financial statements of the U.S. government. Because of the significance of the federal debt to the government-wide financial statements, GAO audits Fiscal Service's Schedules of Federal Debt annually to determine whether, in all material respects, (1) the schedules are fairly presented and (2) Fiscal Service management maintained effective internal control over financial reporting relevant to the Schedule of Federal Debt. Further, GAO tests compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements related to the Schedule of Federal Debt.

Federal debt managed by Fiscal Service consists of Treasury securities held by the public and by certain federal government accounts, referred to as intragovernmental debt holdings.

Debt held by the public primarily represents the amount the federal government has borrowed to finance cumulative cash deficits and is held by investors outside of the federal government—including individuals, corporations, state or local governments, the Federal Reserve, and foreign governments. The majority of debt held by the public consists of marketable Treasury securities, such as bills, notes, and bonds that are sold through auctions and can be resold by whoever owns them.

View [GAO-21-124](#). For more information, contact Dawn B. Simpson at (202) 512-3406 or simpsondb@gao.gov.

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What GAO Found

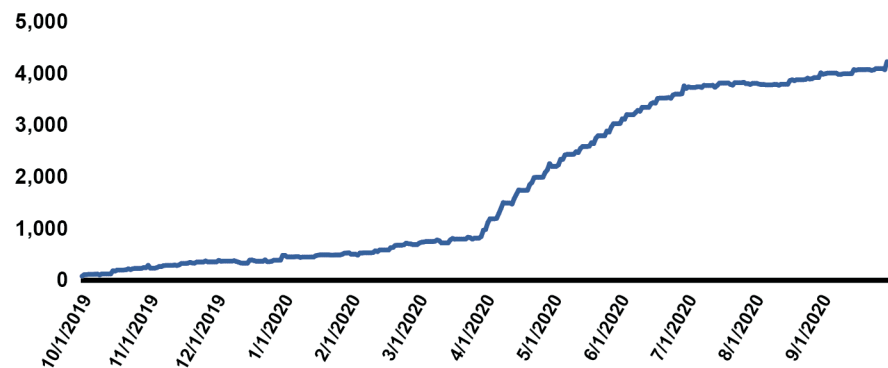
In GAO's opinion, the Bureau of the Fiscal Service's (Fiscal Service) Schedules of Federal Debt for fiscal years 2020 and 2019 are fairly presented in all material respects, and although internal controls could be improved, Fiscal Service maintained, in all material respects, effective internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2020. GAO's tests of selected provisions of applicable laws, regulations, contracts, and grant agreements related to the Schedule of Federal Debt disclosed no instances of reportable noncompliance for fiscal year 2020. Although Fiscal Service made progress in addressing prior year deficiencies, unresolved information system controls deficiencies continued to represent a significant deficiency in Fiscal Service's internal control over financial reporting, which although not a material weakness, is important enough to merit attention by those charged with governance of Fiscal Service.

Debt Held by the Public in Fiscal Year 2020

During fiscal year 2020, debt held by the public increased by \$4,210 billion—the largest annual dollar increase in history.

Cumulative Change in Debt Held by the Public, October 1, 2019, through September 30, 2020

Dollars in billions



Source: GAO analysis of Bureau of the Fiscal Service information. | GAO-21-124

The primary factor for the significant increase in debt held by the public was the federal deficit, which was reported as \$3,132 billion for fiscal year 2020—up from \$984 billion for fiscal year 2019. The deficit increased primarily because of the economic disruptions caused by the COVID-19 pandemic and the additional spending by the federal government in response. The increase in debt held by the public was greater than the deficit primarily because of increases in the government's cash balance given the uncertainty of COVID-19-related outflows. The Department of the Treasury (Treasury) met its borrowing needs by initially increasing auction sizes for regularly scheduled short-term bills and increasing the issuance of cash management bills (CMB). From mid-March to September 30, 2020, Treasury issued 116 CMBs, compared to five CMBs during fiscal year 2019. Starting in May 2020, Treasury also began shifting its financing to longer-term securities, including the reintroduction of the 20-year bond in June.

Why GAO Did This Study (continued)

Intragovernmental debt holdings represent debt owed by Treasury to federal government accounts—primarily federal trust funds such as Social Security and Medicare—that typically have an obligation to invest their excess annual receipts (including interest earnings) over disbursements in federal securities.

The total amount of federal debt that can be outstanding at one time is subject to a legal limit known as the debt limit. However, the debt limit is not a control on debt but rather an after-the-fact measure that restricts Treasury's authority to borrow to finance the decisions already enacted by Congress and the President. Delays in raising the debt limit have created uncertainty and disruptions in the Treasury market and increased borrowing costs. On August 2, 2019, the Bipartisan Budget Act of 2019 suspended the debt limit through July 31, 2021, thereby covering all of fiscal year 2020. Absent action to increase or suspend the debt limit by the end of the current suspension period, on August 1, 2021, the debt limit will be increased to the amount of qualifying federal debt securities outstanding on that date.

In commenting on a draft of this report, Fiscal Service concurred with GAO's conclusions.

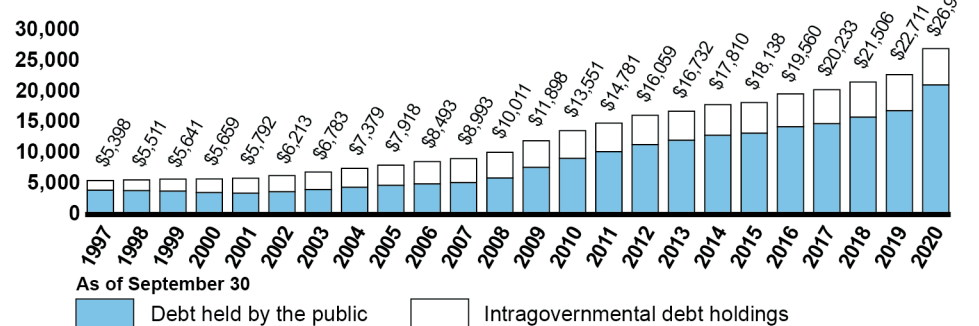
While debt held by the public increased substantially during fiscal year 2020, interest on debt held by the public decreased to \$371 billion in fiscal year 2020—down from \$404 billion in fiscal year 2019—in part because of the significant decline in interest rates during fiscal year 2020. Currently, low interest rates on Treasury securities are reducing the cost of newly issued debt.

Debt Held by the Public over Time

From fiscal year 1997, the first year of audit, through September 30, 2020, total federal debt managed by Fiscal Service has increased from \$5,398 billion to \$26,938 billion, with debt held by the public increasing from \$3,815 billion to \$21,019 billion.

Total Federal Debt Outstanding, September 30, 1997, through September 30, 2020

Dollars in billions



Source: GAO analysis of Bureau of the Fiscal Service information. | GAO-21-124

Note: A small amount of total federal debt is not subject to the debt limit.

As a share of gross domestic product (GDP)—an approximation of the overall size of the economy—debt held by the public increased from about 79 percent at the end of fiscal year 2019 to about 100 percent at the end of fiscal year 2020. The ratio of debt to GDP is used to gauge a country's ability to pay its debt. The increase in the ratio reflects not only the rise in debt held by the public but also the decline in GDP as the economy entered a recession in February 2020.

As GAO has previously reported, in the longer term, federal spending is projected to increase more rapidly than revenue. Federal spending on health care is a key driver of projected growth in spending because of greater enrollment, particularly in Medicare, and increasing expenditures per beneficiary. In addition, in the longer term, interest on debt held by the public is projected to increase overall and as a share of the federal budget as debt grows—from the imbalance between spending and revenues—and interest rates rise. The structural imbalance between the federal government's spending and revenue that is built into current law and policy is projected to lead to continued growth in debt held by the public as a share of GDP.

As GAO testified in October 2020, the long-term fiscal challenges facing the United States have been complicated by the COVID-19 pandemic and actions taken in response. Absent action to address the growing imbalance between spending and revenue, the federal government faces unsustainable growth in its debt. GAO has previously stated that the federal government needs a long-term plan to help put it on a sustainable fiscal path. Once the current crisis abates, having a long-term plan with clear goals and objectives agreed to by Congress and the administration, as well as strategies for achieving those goals and objectives, would provide transparency over the fiscal impacts of budget decisions for each year as well as over the long term. GAO has suggested that Congress consider including fiscal rules and targets—such as a debt-to-GDP target—and alternative approaches to the debt limit—such as linking action on the debt limit to the budget resolution—as part of a long-term fiscal plan.

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Abbreviations

COVID-19	Coronavirus Disease 2019
Fiscal Service	Bureau of the Fiscal Service
FMFIA	Federal Managers' Financial Integrity Act
GDP	gross domestic product
Overview	Overview on Federal Debt Managed by the Bureau of the Fiscal Service
Schedule of Federal Debt	Schedule of Federal Debt Managed by the Bureau of the Fiscal Service
Treasury	Department of the Treasury

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November 9, 2020

The Honorable Steven T. Mnuchin
Secretary of the Treasury

Dear Mr. Secretary:

The accompanying independent auditor’s report presents the results of our audits of the fiscal years 2020 and 2019 Schedules of Federal Debt Managed by the Bureau of the Fiscal Service (Schedule of Federal Debt). The independent auditor’s report contains (1) our opinion that the Schedules of Federal Debt for the fiscal years ended September 30, 2020, and 2019, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles; (2) our opinion that although internal controls could be improved, the Bureau of the Fiscal Service (Fiscal Service) maintained, in all material respects, effective internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2020; and (3) the results of our tests of Fiscal Service’s compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements related to the Schedule of Federal Debt, which identified no instances of reportable noncompliance. The report also discusses deficiencies that we identified in information system controls that collectively represent a significant deficiency in internal control over financial reporting relevant to the Schedule of Federal Debt.¹

The Schedules of Federal Debt present the beginning balances, increases and decreases, and ending balances for (1) Federal Debt Held by the Public and Intragovernmental Debt Holdings, (2) the related Accrued Interest Payables, and (3) the related Net Unamortized Premiums and Discounts managed by the Department of the Treasury’s (Treasury) Fiscal Service, and include accompanying notes. As of September 30, 2020, and 2019, federal debt managed by Fiscal Service

¹A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

totaled \$26,938 billion and \$22,711 billion, respectively, primarily for borrowings to fund the federal government's operations. As shown on the Schedules of Federal Debt, these balances consisted of approximately (1) \$21,019 billion as of September 30, 2020, and \$16,809 billion as of September 30, 2019, of debt held by the public and (2) \$5,919 billion as of September 30, 2020, and \$5,902 billion as of September 30, 2019, of intragovernmental debt holdings.

Debt held by the public primarily represents the amount the federal government has borrowed from the public to finance cumulative cash deficits. When a cash surplus occurs, the annual excess funds can be used to reduce debt held by the public. In other words, annual cash deficits or surpluses generally represent the annual net change in the amount of federal government borrowing from the public. Debt held by the public represents federal debt issued by Treasury and held by investors outside of the federal government—including individuals, corporations, state or local governments, the Federal Reserve, and foreign governments. The majority of debt held by the public consists of marketable Treasury securities, such as bills, notes, bonds, floating rate notes, and Treasury Inflation-Protected Securities that are sold through auctions and can be resold by whoever owns them. Treasury also issues a smaller amount of nonmarketable securities, such as savings securities and State and Local Government Series securities.

As we have noted in previous years, Treasury reporting shows that foreign ownership of Treasury securities represents a significant portion of debt held by the public.² As of June 30, 2020, the reported amount of foreign holdings of Treasury securities represented an estimated 34 percent of debt held by the public. This percentage is lower than the 41 percent of debt held by the public as of June 30, 2019, but higher than the estimated 30 percent of debt held by the public as of June 30, 2001.³ Treasury estimated that the amount of foreign holdings of Treasury securities has increased from \$983 billion as of June 30, 2001, to \$6,638 billion as of June 30, 2019, and \$7,047 billion as of June 30, 2020.⁴ While

²GAO, *Financial Audit: Bureau of the Fiscal Service's FY 2019 and FY 2018 Schedules of Federal Debt*, GAO-20-117 (Washington, D.C.: Nov. 8, 2019).

³June 30, 2001, is a recent approximate low point for foreign holdings of Treasury securities.

⁴Department of the Treasury, *Major Foreign Holders of Treasury Securities*, accessed November 2, 2020, <http://ticdata.treasury.gov/Publish/mfh.txt>.

estimated foreign holdings increased by \$409 billion from June 30, 2019, to June 30, 2020, foreign holdings as a percentage of debt held by the public decreased because of the significant increases in debt held by the public starting in mid-March 2020, as discussed later in this report, which had a higher percentage of domestic ownership.⁵ Estimates of foreign ownership of Treasury securities are derived from information reported under the Treasury International Capital reporting system, not from the financial system used to prepare the Schedule of Federal Debt.⁶ These estimates are not reported on the Schedules of Federal Debt, and as such, we do not audit these amounts.

Intragovernmental debt holdings represent federal debt owed by Treasury to federal government accounts—primarily federal trust funds such as Social Security and Medicare—that typically have an obligation to invest their excess annual receipts (including interest earnings) over disbursements in federal securities. Most federal government accounts invest in special nonmarketable Treasury securities that represent legal obligations of Treasury and are guaranteed for principal and interest by the full faith and credit of the U.S. government. The federal government uses the federal government accounts' invested cash surpluses to assist in funding other federal government operations. Unlike debt held by the public, intragovernmental debt holdings are not shown as balances on the federal government's consolidated financial statements because they represent loans from one part of the federal government to another. Under U.S. generally accepted accounting principles, when the federal government's financial statements are consolidated, those offsetting balances are eliminated.

Debt held by the public and intragovernmental debt holdings are very different. Debt held by the public represents a claim on today's taxpayers and absorbs resources from today's economy. In addition, the interest paid on this debt may reduce budget flexibility because, unlike most of the budget, it cannot be controlled directly. In contrast, intragovernmental debt holdings reflect a claim on taxpayers and the economy in the future. Specifically, when federal government accounts redeem Treasury

⁵Domestic investors include private investors, the Federal Reserve, and state and local governments.

⁶The data reported under the Treasury International Capital reporting system are collected primarily from U.S.-based custodians. According to Treasury, since U.S. securities held in overseas custody accounts may not be attributed to the actual owners, the data may not provide a precise accounting of individual country ownership of Treasury securities.

securities to obtain cash to fund expenditures, Treasury usually borrows from the public to finance these redemptions.⁷

We have audited the Schedule of Federal Debt since fiscal year 1997. Over this period, total federal debt has increased from \$5,398 billion as of September 30, 1997, to \$26,938 billion as of September 30, 2020. The increase in total federal debt has been driven largely by the increase in debt held by the public over the same period, from \$3,815 billion as of September 30, 1997, to \$21,019 billion as of September 30, 2020. During fiscal year 2020, total federal debt increased by \$4,227 billion and consisted of a (1) \$4,210 billion increase in debt held by the public—the largest annual dollar increase in history—and (2) \$17 billion increase in intragovernmental debt holdings.

The primary factor for the significant increase in debt held by the public was the federal deficit.⁸ The reported federal deficit increased for the fifth consecutive year to \$3,132 billion for fiscal year 2020—the largest recorded federal deficit in history—up from \$984 billion, \$779 billion, \$666 billion, \$586 billion, and \$439 billion for fiscal years 2019, 2018, 2017, 2016, and 2015, respectively. The deficit increased in fiscal year 2020 primarily because of economic disruptions caused by the Coronavirus Disease 2019 (COVID-19) pandemic and the additional spending by the federal government in response.⁹ The fiscal year 2020 increase in debt held by the public of \$4.2 trillion was greater than the reported fiscal year 2020 federal deficit of \$3.1 trillion primarily because of increases in the government's cash balance of about \$1.4 trillion and direct loan financing

⁷For more information regarding the federal debt, see GAO, *America's Fiscal Future: Federal Debt*, accessed November 2, 2020, https://www.gao.gov/americas_fiscal_future?t=federal_debt#understanding_the_debt.

⁸The federal deficit is the amount by which the government's spending exceeds its revenues for a given period, usually a fiscal year.

⁹On January 31, 2020, the Secretary of Health and Human Services declared a public health emergency for the United States stemming from confirmed cases of COVID-19, retroactive to January 27, 2020. On March 11, 2020, the World Health Organization characterized the outbreak of COVID-19 as a pandemic. Pandemic outbreaks can lead to catastrophic loss of life, as well as sustained damage to the economy, societal stability, and global security. In response to the national public health and economic threats caused by COVID-19, four relief laws making appropriations of about \$2.6 trillion had been enacted as of April 24, 2020. No additional relief laws were enacted as of September 30, 2020. See GAO, *COVID-19: Opportunities to Improve Federal Response and Recovery Efforts*, [GAO-20-625](#) (Washington, D.C.: June 25, 2020).

of about \$0.2 trillion, offset by guaranteed loan financing of \$0.5 trillion.¹⁰ Since mid-March 2020, Treasury has dramatically increased its cash balance to historically high levels. As of September 30, 2020, Treasury's cash balance was \$1,782 billion, compared to \$326 billion as of March 13, 2020—an increase of \$1,456 billion. According to Treasury, it is maintaining an elevated cash balance to maintain prudent liquidity in light of the size and relative uncertainty of COVID-19–related outflows.

Treasury met its unprecedented borrowing needs in fiscal year 2020 by initially increasing auction sizes for regularly scheduled short-term bills and increasing the issuance of cash management bills (CMB).¹¹ From mid-March to September 30, 2020, Treasury issued 116 CMBs, compared to five CMBs issued during fiscal year 2019. As of September 30, 2020, there were \$1,955 billion of CMBs outstanding. Starting in May 2020, Treasury began to shift its financing to longer-term securities by increasing the auction sizes of the 2-, 3-, 5-, 7-, and 10-year notes, as well as the 30-year bond. Treasury also reintroduced the 20-year bond in June 2020.¹² In addition, Treasury used its borrowing authority to issue special nonmarketable securities to special purpose vehicles (SPV)

¹⁰Federal direct loan and guaranteed loan financing are governed by the Federal Credit Reform Act of 1990 (FCRA), which requires agencies to estimate the cost to the government of extending or guaranteeing credit. The policies enacted under FCRA, sometimes referred to simply as credit reform, recognized that the actual cost of a direct loan or loan guarantee was not captured by its cash flows in any one year, but rather by the net present value—worth in terms of money paid immediately—of its cash flows over the life of the loan. Under FCRA, the budget records the federal government's estimated net long-term cost—referred to as subsidy cost—in the year the direct loan or loan guarantee is made. As such, although the full amount of the loans were disbursed for direct loans, which require Treasury to borrow to fund the loans, only the subsidy cost was reflected in the federal deficit. In the case of loan guarantees, even though the federal government may not have made payments and therefore Treasury would not have immediate borrowing needs, the subsidy cost was reflected in the federal deficit.

¹¹CMBs are short-term securities that are issued with variable maturity dates. These securities are issued to meet any short-term cash needs as determined by Treasury.

¹²Treasury last issued a 20-year bond in 1986.

established by the Federal Reserve.¹³ As of September 30, 2020, the total amount of SPV securities outstanding was \$96 billion.

While debt held by the public increased substantially during fiscal year 2020, interest on debt held by the public decreased to \$371 billion in fiscal year 2020—down from \$404 billion in fiscal year 2019—in part because of the significant decline in interest rates during fiscal year 2020.¹⁴ For example, the average interest rate on Treasury bills decreased to 0.2 percent as of September 30, 2020, compared to 2.1 percent as of September 30, 2019. Interest on debt held by the public depends not only on the amount of debt but also on interest rates. Currently, low interest rates on Treasury securities are reducing the cost of newly issued debt.

As a share of gross domestic product (GDP), debt held by the public increased from about 79 percent at the end of fiscal year 2019 to about 100 percent at the end of fiscal year 2020.¹⁵ The share increase reflects not only the rise in debt held by the public but also the decline in GDP as the economy entered a recession in February 2020.¹⁶ As we have previously reported, in the longer term, federal spending is projected to increase more rapidly than revenue. The structural imbalance between the federal government's spending and revenue that is built into current

¹³The Federal Reserve Board, under the authority of Section 13(3) of the Federal Reserve Act, 12 U.S.C. § 343(3), with approval of the Secretary of the Treasury, authorized the Federal Reserve Banks of Boston and New York to establish lending facilities to support lending to small and medium-sized business and the flow of credit to households and businesses to help the nation respond to the COVID-19 emergency. The Federal Reserve further established legal entities known as special purpose vehicles (SPV) to implement the lending facilities. Treasury, as authorized by the Coronavirus Aid, Relief, and Economic Security Act, made equity investments in the SPVs. The SPVs may invest in special non-marketable Treasury securities (known as SPV securities), which are demand deposit certificates of indebtedness for which interest accrues daily and is paid at redemption.

¹⁴The Federal Reserve lowered interest rates as part of its strategy to support the economy during the COVID-19 pandemic.

¹⁵GDP is the value of all goods and services produced within the borders of a country in a given period. The dollar value of debt is difficult to interpret absent some sense of the size of the economy supporting it. Therefore, the ratio of debt to GDP is used to gauge a country's ability to pay its debt. Other factors being equal, increasing GDP lowers the debt-to-GDP ratio while decreasing GDP raises this ratio.

¹⁶In fiscal year 2020, GDP was about \$20,997 billion, down from about \$21,216 billion in fiscal year 2019.

law and policy is projected to lead to continued growth in debt held by the public as a share of GDP.¹⁷

Federal spending on health care is a key driver of projected growth in spending on federal programs in the longer term because of greater enrollment, particularly in Medicare, and increasing expenditures per beneficiary.¹⁸ Enrollment in the Medicare program has grown and is expected to continue growing as the number of people age 65 and older increases as a result of the relatively large baby boom generation and increases in life expectancy. Spending per beneficiary, which is estimated to rise with the costs of providing health care, is affected by various factors, including the emergence of new medical procedures and treatments.¹⁹

In addition, projected growth in spending on federal programs contributes to long-term growth in federal outlays both directly and indirectly, as spending financed by debt leads to increased payments of interest. In the longer term, interest on debt held by the public is projected to increase overall and as a share of the federal budget as debt grows—from the imbalance between spending and revenues—and as interest rates rise. For example, in its 2020 long-term budget outlook report, the Congressional Budget Office (CBO) projected that interest rates on 10-year Treasury notes will rise from an average of 0.7 percent in mid-2020 to 3.2 percent in 2030 and 4.8 percent in 2050. Interest rates can also have a compounding effect on the debt, as borrowing to make interest payments adds to the debt. Because of economic disruptions from the COVID-19 pandemic and actions taken by the Federal Reserve in response, CBO reduced selected interest rate projections in its July 2020 update to the economic outlook report; however, interest rates are still projected to rise over time.²⁰

¹⁷GAO, *The Nation's Fiscal Health: Action Is Needed to Address the Federal Government's Fiscal Future*, [GAO-20-403SP](#) (Washington, D.C.: Mar. 12, 2020).

¹⁸Medicare beneficiaries include most individuals age 65 and older, in addition to individuals under age 65 who are receiving benefits from Social Security or the Railroad Retirement Board on the basis of a disability and those with end stage renal disease.

¹⁹[GAO-20-403SP](#).

²⁰In its September 2020 long-term budget outlook report, CBO noted that its projections were consistent with those reported in July 2020.

As GAO testified in October 2020, the long-term fiscal challenges facing the United States have been complicated by the COVID-19 pandemic and actions taken in response.²¹ Absent action to address the growing imbalance between spending and revenue, the federal government faces unsustainable growth in its debt. Since 2017, we have stated that the federal government needs a long-term plan to help put it on a sustainable fiscal path. We recently suggested that Congress should consider establishing a long-term fiscal plan that includes fiscal rules and targets, such as a debt-to-GDP target, and weigh GAO's key considerations to ensure proper design, implementation, and enforcement of these rules and targets.²² Once the current crisis abates, having a long-term plan with clear goals and objectives agreed to by Congress and the administration, as well as strategies for achieving those goals and objectives, would provide transparency over the fiscal impacts of budget decisions for each year as well as over the long term.

We have also previously suggested that Congress consider alternative approaches to the debt limit, such as linking action on the debt limit to the budget resolution, as part of a long-term fiscal plan.²³ Since 1997—our first year of audit—the statutory debt limit has been raised 19 times, from \$5,950 billion to \$21,988 billion.²⁴ Notably, delays in raising the debt limit have occurred in 9 of the last 10 fiscal years, resulting in Treasury deviating from its normal debt management operations and taking extraordinary actions consistent with relevant laws to avoid exceeding the debt limit.²⁵ On August 2, 2019, the Bipartisan Budget Act of 2019 suspended the debt limit through July 31, 2021, thereby covering all of

²¹GAO, *The Nation's Fiscal Health: A Long-Term Plan Is Needed for Fiscal Sustainability*, [GAO-21-161T](#) (Washington, D.C.: Oct. 7, 2020).

²²GAO, *The Nation's Fiscal Health: Effective Use of Fiscal Rules and Targets*, [GAO-20-561](#) (Washington, D.C.: Sept. 23, 2020).

²³The debt limit is a legal limit on the total amount of federal debt that can be outstanding at one time. GAO, *The Nation's Fiscal Health: Actions Needed to Achieve Long-Term Fiscal Sustainability*, [GAO-19-611T](#) (Washington, D.C.: June 26, 2019).

²⁴A small amount of total federal debt reported on the Schedule of Federal Debt is not subject to the debt limit. This amount primarily consists of unamortized discounts on Treasury bills and zero-coupon Treasury bonds.

²⁵Treasury considers actions that are not part of its normal cash and debt management operations "extraordinary actions."

fiscal year 2020.²⁶ Pursuant to this act, the statutory debt limit established in 31 U.S.C. § 3101(b) does not apply for the suspension period. Absent action to increase or suspend the debt limit by the end of the current suspension period, on August 1, 2021, the debt limit will be increased to the amount of qualifying federal debt securities outstanding on that date.

As we have previously reported, the debt limit does not restrict Congress and the President's ability to enact spending and revenue legislation that affects the level of federal debt, nor does it otherwise constrain fiscal policy.²⁷ Rather, the debt limit is an after-the-fact measure that restricts Treasury's authority to borrow to finance the decisions that Congress and the President have already enacted. The United States benefits from the confidence investors have that debt backed by the full faith and credit of the United States will be honored. However, as we reported in 2015, delays in raising the debt limit have created uncertainty and disruptions in the Treasury market and increased borrowing costs.²⁸ GAO has recommended that Congress consider alternative approaches to the current debt limit to avoid seriously disrupting the Treasury market and increasing borrowing costs and to allow it to better manage the federal government's level of debt.²⁹

We are sending copies of this report to the appropriate congressional committees, the Fiscal Assistant Secretary of the Treasury, the Commissioner of the Bureau of the Fiscal Service, the Inspector General of the Department of the Treasury, the Director of the Office of Management and Budget, and other interested parties. In addition, this report is available at no charge on the GAO website at <https://www.gao.gov>.

²⁶Section 301 of the Bipartisan Budget Act of 2019, Pub. L. No. 116-37, § 301, 133 Stat. 1049, 1057 (Aug. 2, 2019), temporarily suspended the statutory debt limit. Pursuant to this act, 31 U.S.C. § 3101(b) does not apply for the period of August 2, 2019, through July 31, 2021.

²⁷GAO, *Debt Limit: Market Response to Recent Impasses Underscores Need to Consider Alternative Approaches*, [GAO-15-476](#) (Washington, D.C.: July 9, 2015); *Debt Limit: Analysis of 2011-2012 Actions Taken and Effect of Delayed Increase on Borrowing Costs*, [GAO-12-701](#) (Washington, D.C.: July 23, 2012); and *Debt Limit: Delays Create Debt Management Challenges and Increase Uncertainty in the Treasury Market*, [GAO-11-203](#) (Washington, D.C.: Feb. 22, 2011).

²⁸[GAO-15-476](#).

²⁹[GAO-20-403SP](#).

If you or your staff have any questions concerning this report, please contact me at (202) 512-3406 or simpsondb@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

Sincerely yours,

A handwritten signature in black ink that reads "Dawn Simpson". The signature is written in a cursive, flowing style.

Dawn B. Simpson
Director
Financial Management and Assurance



Independent Auditor's Report

To the Commissioner of the Bureau of the Fiscal Service

In our audits of the fiscal years 2020 and 2019 Schedules of Federal Debt Managed by the Bureau of the Fiscal Service (Schedule of Federal Debt), we found

- the Schedules of Federal Debt for the fiscal years ended September 30, 2020, and 2019, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- although internal controls could be improved, the Bureau of the Fiscal Service (Fiscal Service) maintained, in all material respects, effective internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2020; and
- no reportable noncompliance for fiscal year 2020 with provisions of applicable laws, regulations, contracts, and grant agreements we tested related to the Schedule of Federal Debt.

The following sections discuss in more detail (1) our report on the Schedules of Federal Debt and on internal control over financial reporting, which includes other information included with the Schedules of Federal Debt;¹ (2) our report on compliance with laws, regulations, contracts, and grant agreements; and (3) agency comments.

Report on the Schedules of Federal Debt and on Internal Control over Financial Reporting

In connection with fulfilling our requirement to audit the consolidated financial statements of the U.S. government, we have audited the Schedules of Federal Debt because of the significance of the federal debt to the federal government's consolidated financial statements.² The Schedules of Federal Debt present the beginning balances, increases and decreases, and ending balances for (1) Federal Debt Held by the Public and Intragovernmental Debt Holdings, (2) the related Accrued Interest Payables, and (3) the related Net Unamortized Premiums and Discounts managed by the Department of the Treasury's (Treasury)

¹Other information consists of the Overview on Federal Debt Managed by the Bureau of the Fiscal Service.

²31 U.S.C. § 331(e)(2). Because Fiscal Service is a bureau within the Department of the Treasury, federal debt and related activity and balances managed by it are also significant to the Department of the Treasury's financial statements (see 31 U.S.C. § 3515(b)).

Fiscal Service, and include accompanying notes.³ We also have audited Fiscal Service's internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2020, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

We conducted our audits in accordance with U.S. generally accepted government auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility

Fiscal Service management is responsible for (1) the preparation and fair presentation of the Schedules of Federal Debt in accordance with U.S. generally accepted accounting principles; (2) preparing and presenting other information included in documents containing the audited Schedules of Federal Debt and auditor's report, and ensuring the consistency of that information with the audited Schedules of Federal Debt; (3) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of Schedules of Federal Debt that are free from material misstatement, whether due to fraud or error; (4) evaluating the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and (5) its assessment about the effectiveness of internal control over financial reporting as of September 30, 2020, included in the accompanying Management's Report on Internal Control over Financial Reporting Relevant to the Schedule of Federal Debt in appendix I.

Auditor's Responsibility

Our responsibility is to express an opinion on the Schedules of Federal Debt and an opinion on Fiscal Service's internal control over financial reporting relevant to the Schedule of Federal Debt based on our audits. U.S. generally accepted government auditing standards require that we plan and perform the audits to obtain reasonable assurance about whether the Schedules of Federal Debt are free from material misstatement, and whether effective internal control over financial reporting was maintained in all material respects. We are also responsible

³Debt held by the public represents federal debt issued by Treasury and held by investors outside of the federal government, including individuals, corporations, state or local governments, the Federal Reserve, and foreign governments. Intragovernmental debt holdings represent federal debt owed by Treasury to federal government accounts, primarily federal trust funds such as Social Security and Medicare.

for applying certain limited procedures to the other information included with the Schedules of Federal Debt.

An audit of the Schedule of Federal Debt involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule of Federal Debt. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the Schedule of Federal Debt, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Schedule of Federal Debt in order to design audit procedures that are appropriate in the circumstances. An audit of the Schedule of Federal Debt also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule of Federal Debt.

An audit of internal control over financial reporting involves performing procedures to obtain evidence about whether a material weakness exists.⁴ The procedures selected depend on the auditor's judgment, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also includes obtaining an understanding of internal control over financial reporting, and evaluating and testing the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit of internal control also considered Fiscal Service's process for evaluating and reporting on internal control over financial reporting relevant to the Schedule of Federal Debt based on criteria established under FMFIA. Our audits also included performing such other procedures as we considered necessary in the circumstances.

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing

⁴A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

an opinion on whether effective internal control over financial reporting relevant to the Schedule of Federal Debt was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting relevant to the Schedule of Federal Debt that are less severe than a material weakness.

Definition and Inherent Limitations of Internal Control over Financial Reporting

Internal control over financial reporting relevant to the Schedule of Federal Debt is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of the Schedule of Federal Debt in accordance with U.S. generally accepted accounting principles and (2) transactions related to the Schedule of Federal Debt are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the Schedule of Federal Debt.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error. We also caution that projecting any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion on the Schedules of Federal Debt

In our opinion, the Schedules of Federal Debt present fairly, in all material respects, Federal Debt Managed by Fiscal Service and the related Accrued Interest Payables and Net Unamortized Premiums and Discounts as of September 30, 2020, and 2019, and the related increases and decreases for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Opinion on Internal Control over Financial Reporting

In our opinion, although internal controls could be improved, Fiscal Service maintained, in all material respects, effective internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2020, based on criteria established under FMFIA. As discussed below in more detail, our fiscal year 2020 audit continued to identify deficiencies in Fiscal Service's information system controls that collectively represent a significant deficiency in internal control over

financial reporting.⁵ We considered this significant deficiency in determining the nature, timing, and extent of our audit procedures on Fiscal Service's fiscal year 2020 Schedule of Federal Debt.

Although the significant deficiency in internal control did not affect our opinion on Fiscal Service's fiscal year 2020 Schedule of Federal Debt, misstatements may occur in unaudited financial information reported internally and externally by Fiscal Service because of this significant deficiency.

We will be reporting additional details concerning this significant deficiency to Fiscal Service management separately, along with recommendations for corrective actions. In addition to the significant deficiency in internal control over Fiscal Service's information system controls, we also identified other deficiencies in Fiscal Service's internal control over financial reporting relevant to the Schedule of Federal Debt that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant Fiscal Service management's attention. We have communicated these matters to Fiscal Service management and, where appropriate, will report on them separately.

Significant Deficiency in Information System Controls

During our fiscal year 2020 audit, we determined that information system control deficiencies—primarily unresolved deficiencies identified in prior audits—collectively represent a significant deficiency in Fiscal Service's internal control over financial reporting. These control deficiencies relate to information system general controls in the areas of security management, access controls, configuration management, and

⁵A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

segregation of duties.⁶ The potential effect of these deficiencies on Schedule of Federal Debt financial reporting for fiscal year 2020 was mitigated primarily by Fiscal Service's compensating management and reconciliation controls designed to detect potential misstatements on the Schedule of Federal Debt. Nevertheless, these continuing general control deficiencies increase the risk of unauthorized access to, modification of, or disclosure of sensitive data and programs and disruption of critical operations.

During fiscal year 2020, Fiscal Service made progress toward improving its procedures to reasonably assure that (1) corrective action plans fully address information system control deficiencies and (2) new or enhanced controls established as part of the corrective actions fully resolve the control deficiencies. Specifically, Fiscal Service's Internal Control Branch (ICB) enhanced its corrective action plan templates and developed a checklist with guidance for responsible officials to use in developing corrective action plans. ICB also developed its own audit finding closure review form to supplement the existing independent verification and validation (IV&V) process performed by Fiscal Service's Information and Security Services (ISS)—the organizational unit responsible for many of the information system general controls relevant to Schedule of Federal Debt financial reporting. However, we continued to identify instances in which the corrective actions taken by the responsible officials were not sufficient to address the control deficiencies and the IV&V process did not identify the shortcomings. Specifically, in certain instances, the IV&V process did not identify technical inaccuracies, inconsistencies between the documented policies and procedures, and significant control gaps in the information included in finding closure packages. Consequently, many of the deficiencies that contributed to the significant deficiency we

⁶General controls are the policies and procedures that apply to all or a large segment of an entity's information systems and help ensure their proper operation. General controls are applied at the entity-wide, system, and business process application levels. The effectiveness of general controls is a significant factor in determining the effectiveness of business process application controls, which are applied at the business process application level. Security management provides a framework and continuing cycle of activity for managing risk, developing security policies, assigning responsibilities, and monitoring the adequacy of the entity's computer-related controls. Access controls limit or detect access to computer resources, such as data, programs, equipment, and facilities, thereby protecting them against unauthorized modification, loss, and disclosure. Configuration management prevents unauthorized changes to information system resources, such as software programs and hardware configurations, and provides reasonable assurance that systems are configured and operating securely and as intended. Segregation of duties controls include policies, procedures, and an organizational structure to manage who can control key aspects of computer-related operations.

reported as of September 30, 2019—nearly all of which, according to Fiscal Service, had been remediated—remained unresolved as of September 30, 2020.

While this significant deficiency in internal control over financial reporting continued to exist as of September 30, 2020, Fiscal Service made progress in addressing certain information system control deficiencies. Specifically, Fiscal Service successfully completed corrective actions to strengthen access and monitoring controls around data sets that should only be changed through the use of its mainframe change-management tool. Fiscal Service also continued to improve its processes for monitoring compliance with its baseline security requirements. However, we continued to identify instances in which known information system vulnerabilities and deviations from baseline security requirements were not remediated on a timely basis or adequately tracked for remediation. Additionally, while considerable progress has been made, we continue to identify instances in which mainframe security controls are not employed in accordance with the concept of least privilege. We also found that the documentation describing the security architecture for the mainframe needs improvement. It will be important for Fiscal Service management to build on the progress made and to sustain focus on improving the agency's information system general controls. Specifically, it will be important for Fiscal Service management to identify potential opportunities for addressing control deficiencies through comprehensive approaches that consider the interrelationships among them.

Other Matter

Other Information

Fiscal Service's other information contains a wide range of information, some of which is not directly related to the Schedules of Federal Debt. This information is presented for purposes of additional analysis and is not a required part of the Schedules of Federal Debt. We read the other information included with the Schedules of Federal Debt in order to identify material inconsistencies, if any, with the audited Schedules of Federal Debt. Our audit was conducted for the purpose of forming an opinion on the Schedules of Federal Debt. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of the Schedules of Federal Debt, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

Fiscal Service management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to Fiscal Service.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of laws, regulations, contracts, and grant agreements applicable to Fiscal Service that have a direct effect on the determination of material amounts and disclosures in the Schedules of Federal Debt, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to Fiscal Service.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2020 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to Fiscal Service. Accordingly, we do not express such an opinion.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Agency Comments

In commenting on a draft of this report, Fiscal Service concurred with our conclusions. The complete text of Fiscal Service's response is reproduced in appendix II.

A handwritten signature in black ink that reads "Dawn Simpson". The signature is written in a cursive, flowing style.

Dawn B. Simpson
Director
Financial Management and Assurance

November 2, 2020

Overview, Schedules, and Notes Prepared by the Bureau of the Fiscal Service

Overview on Federal Debt Managed by the Bureau of the Fiscal Service

Overview on Federal Debt Managed by the Bureau of the Fiscal Service

Gross Federal Debt Outstanding

Federal debt managed by the Bureau of the Fiscal Service (Fiscal Service) comprises debt held by the public and debt held by certain federal government accounts (issued under 31 U.S.C. §§ 3101-3113), the latter of which is referred to as intragovernmental debt holdings. As of September 30, 2020 and September 30, 2019, outstanding gross federal debt managed by Fiscal Service totaled \$26,938 billion and \$22,711 billion, respectively.¹ The increase in gross federal debt of \$4,227 billion during fiscal year 2020 was due to an increase in gross debt held by the public of \$4,210 billion and an increase in gross intragovernmental debt holdings of \$17 billion. As Figure 1 illustrates, debt held by the public and intragovernmental debt holdings increased by \$6,846 billion and \$532 billion, respectively, from September 30, 2016 to September 30, 2020. The increases in debt held by the public are due primarily to total federal spending exceeding total federal revenues. During fiscal year 2020, Treasury faced unprecedented borrowing needs as a result of the federal government's response to the COVID-19 pandemic. Consequently, Treasury substantially increased its issuances, as discussed later in this Overview. The primary reason for the increases in intragovernmental debt holdings is the excess annual receipts (including interest earnings) over disbursements in the Military Retirement and Health Care funds and the Civil Service Retirement and Disability Fund (CSRDF).²

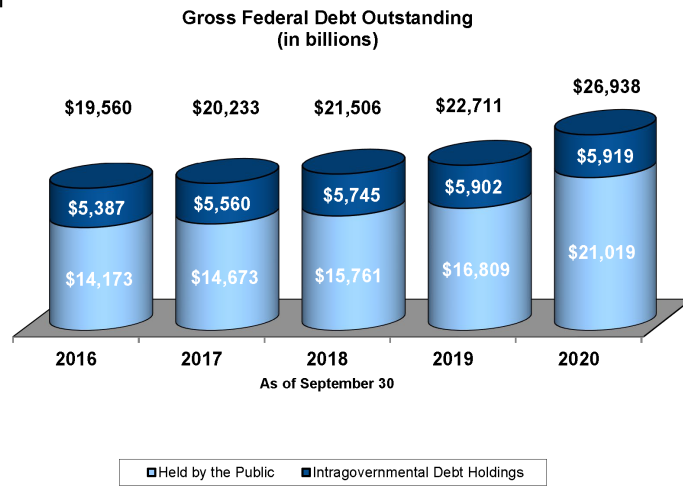
Gross federal debt (with some adjustments) is subject to a statutory debt limit. On February 9, 2018, the Bipartisan Budget Act of 2018 (Public Law 115-123) was enacted suspending the statutory debt limit through March 1, 2019. Per the act, the statutory debt limit was increased on March 2, 2019 to \$21,988 billion. On Monday, March 4, 2019, Treasury began taking certain extraordinary actions to avoid exceeding the debt limit, which continued through August 1, 2019. The extraordinary actions included (1) suspending investments in the Government Securities Investments Fund (G-Fund) of the federal employees' Thrift Savings Plan, CSRDF, and Postal Service Retiree Health Benefits Fund (Postal Benefits Fund), (2) redeeming certain investments held by CSRDF and Postal Benefits Fund earlier than normal, and (3) suspending new issuances of State and Local Government Series (SLGS) securities. On August 2, 2019, the Bipartisan Budget Act of 2019 (Public Law 116-37) was enacted, temporarily suspending the debt limit from August 2, 2019, through July 31, 2021. As of September 30, 2020 and September 30, 2019, outstanding debt obligations subject to the statutory debt limit were \$26,920 billion and \$22,687 billion, respectively.

¹ Federal debt outstanding reported here differs from the amount reported in the Financial Report of the United States Government because of the securities not maintained or reported by Fiscal Service which are issued by the Federal Financing Bank and other federal agencies.

² The Military Retirement and Health Care funds consist of the Military Retirement Fund and the Medicare-Eligible Retiree Health Care Fund.

Gross Federal Debt Outstanding, cont.

Figure 1



Interest Expense

Interest expense incurred during fiscal year 2020 consists of (1) interest accrued and paid on debt held by the public or credited to accounts holding intragovernmental debt during the fiscal year, (2) interest accrued during the fiscal year, but not yet paid on debt held by the public or credited to accounts holding intragovernmental debt, and (3) net amortization of premiums and discounts. The primary components of interest expense are interest paid on the debt held by the public and interest credited to federal government trust funds and other federal government accounts that hold Treasury securities. The interest paid on the debt held by the public affects the current spending of the federal government and represents the burden of servicing its debt (i.e., payments to outside creditors). Interest credited to federal government trust funds and other federal government accounts, on the other hand, does not result in an immediate outlay of the federal government because one part of the government pays the interest and another part receives it. However, this interest represents a claim on future budgetary resources and hence an obligation on future taxpayers. This interest, when reinvested by the trust funds and other federal government accounts, is included in the programs' excess funds not currently needed in operations, which are invested in federal securities. For fiscal year 2020, interest expense incurred totaled \$527 billion; this consisted of interest expense on debt held by the public of \$371 billion, and \$156 billion in interest incurred for intragovernmental debt holdings.

As Figure 2 illustrates, total interest expense increased from fiscal year 2016 to 2017, from \$430 billion to \$457 billion. This increase resulted from an increase in interest expense on debt held by the public and intragovernmental debt holdings of \$23 billion and \$4 billion, respectively. The \$23 billion increase in interest expense on debt held by the public primarily resulted from (1) an increase in the outstanding debt held by the public, (2) an increase in inflation adjustments, and (3) an increase in average interest rates. The \$4 billion increase in interest expense on intragovernmental debt holdings resulted from (1) an increase in inflation adjustments, (2) a decrease in net amortization, and (3) an offsetting decrease in accrued interest.

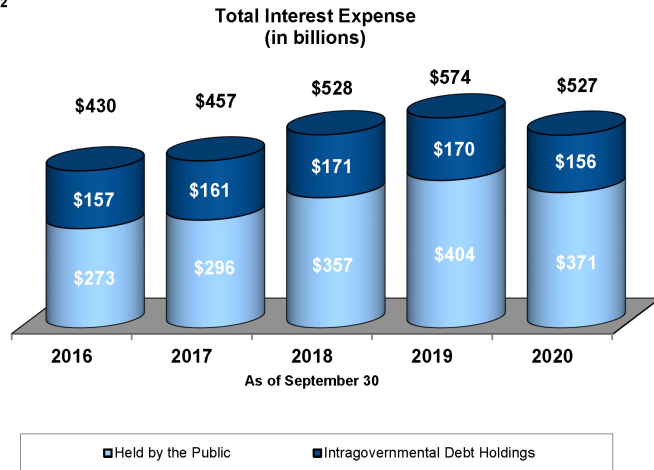
From fiscal year 2017 to 2018, total interest expense increased from \$457 billion to \$528 billion. This increase resulted from an increase in interest expense on debt held by the public and intragovernmental debt holdings of \$61 billion and \$10 billion, respectively. The \$61 billion increase in interest expense on debt held by the public primarily resulted from (1) an increase in the outstanding debt held by the public, (2) an increase in inflation adjustments, and (3) an increase in average interest rates. The \$10 billion increase in interest expense on intragovernmental debt holdings primarily resulted from an increase in inflation adjustments.

Interest Expense, cont.

From fiscal year 2018 to 2019, total interest expense increased from \$528 billion to \$574 billion. This increase resulted from an increase in interest expense on debt held by the public of \$47 billion and a decrease in interest expense on intragovernmental debt holdings of \$1 billion. The \$47 billion increase in interest expense on debt held by the public primarily resulted from an increase in the outstanding debt held by the public, offset by a decrease in inflation adjustments. The \$1 billion decrease in interest expense on intragovernmental debt holdings primarily resulted from (1) a decrease in average interest rates, (2) a decrease in inflation adjustments, and (3) an offsetting increase in outstanding intragovernmental debt holdings.

From fiscal year 2019 to 2020, total interest expense decreased from \$574 billion to \$527 billion. This decrease resulted from a decrease in interest expense on debt held by the public and intragovernmental debt holdings of \$33 billion and \$14 billion, respectively. The \$33 billion decrease in interest expense on debt held by the public primarily resulted from (1) significant decreases in average interest rates, (2) a decrease in inflation adjustments, and (3) an offsetting increase in outstanding debt held by the public. The \$14 billion decrease in interest expense on intragovernmental debt holdings primarily resulted from (1) decreases in average interest rates and (2) a decrease in inflation adjustments. Average interest rates on principal balances outstanding as of September 30, 2020 and 2019, are disclosed in the Notes to the Schedules of Federal Debt.

Figure 2



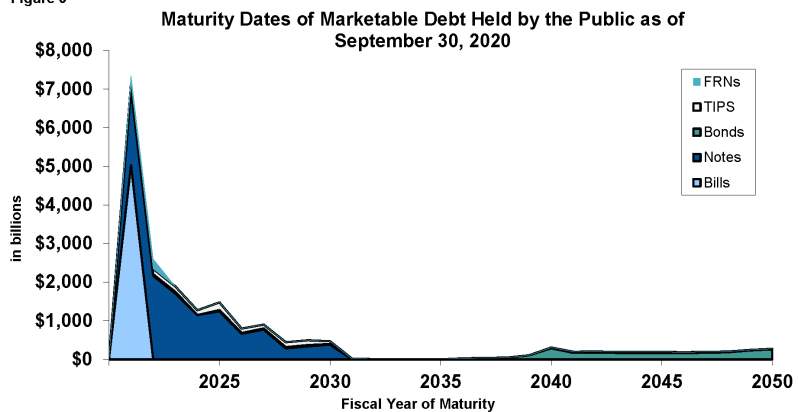
Debt Held by the Public

Debt held by the public primarily represents the amount the federal government has borrowed to finance cumulative cash deficits by the issuance of United States (U.S.) Treasury securities that are guaranteed for principal and interest by the full faith and credit of the U.S. Government. During fiscal year 2020, Treasury's borrowing needs increased substantially as a result of additional spending by the federal government in response to the COVID-19 pandemic. Consequently, Treasury increased its issuances. While the initial increases in financing were focused on Treasury bills, including increasing the issuance of cash management bills (CMBs), Treasury began to shift financing from bills to longer-term securities and increased auction sizes across all nominal coupon securities. Treasury also modestly increased auction sizes for Floating Rate Notes (FRNs).

During fiscal year 2020, Treasury primarily used the existing suite of securities to meet the borrowing needs of the federal government. Treasury bills, notes, bonds, Treasury Inflation-Protected Securities (TIPS), and FRNs increased by \$2,652 billion, \$900 billion, \$357 billion, \$68 billion, and \$54 billion, respectively in fiscal year 2020. As of September 30, 2020 and 2019, gross debt held by the public totaled \$21,019 billion and \$16,809 billion, respectively (see Figure 1), an increase of \$4,210 billion.

As of September 30, 2020, \$20,353 billion, or 97 percent, of the securities that constitute debt held by the public were marketable, meaning that once the federal government issues them, they can be resold by whoever owns them. Marketable debt is made up of Treasury bills, Treasury notes, Treasury bonds, TIPS, and FRNs with maturity dates ranging from less than one year out to 30 years. Of the marketable securities currently held by the public as of September 30, 2020, \$13,125 billion, or 64 percent, will mature within the next four years (see Figure 3). As of September 30, 2020 and 2019, total marketable debt held by the public maturing within the next 10 years totaled \$17,716 billion and \$14,078 billion, respectively, an increase of \$3,638 billion.

Figure 3



Debt Held by the Public, cont.

The federal government also issues to the public nonmarketable securities, which cannot be resold, and have maturity dates ranging from on demand out to 40 years. As of September 30, 2020, nonmarketable securities totaled \$666 billion, or 3 percent of debt held by the public. As of that date, nonmarketable securities primarily consisted of Government Account Series (GAS) securities totaling \$292 billion, U.S. Savings Securities totaling \$149 billion, Domestic Series securities totaling \$116 billion, and State and Local Government Series (SLGS) securities totaling \$107 billion. During fiscal year 2020, GAS securities, Domestic Series securities, and SLGS securities increased by \$44 billion, \$86 billion, and \$53 billion, respectively, while U.S. Savings Securities decreased by \$4 billion. The increase in nonmarketable securities is primarily due to the issuance of new Special Purpose Vehicle (SPV) Domestic Series securities. Treasury issued these securities to SPVs, which were established by the Federal Reserve to implement emergency lending facilities to respond to the COVID-19 pandemic. As of September 30, 2020 and 2019, total nonmarketable securities totaled \$666 billion and \$486 billion, respectively, an increase of \$180 billion.

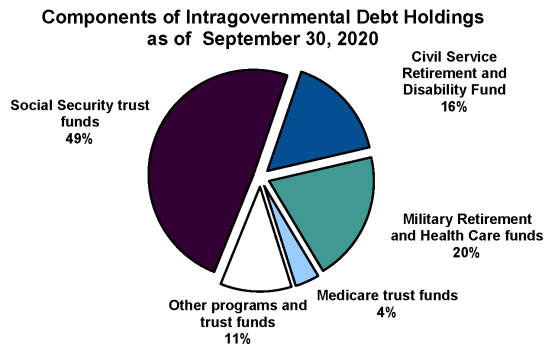
The Federal Reserve Banks (FRBs) act as fiscal agents for Treasury, as permitted by the Federal Reserve Act. As fiscal agents for Treasury, the FRBs play a significant role in the processing of marketable book-entry securities and paper U.S. savings bonds. For marketable book-entry securities, select FRBs receive bids, issue book-entry securities to awarded bidders, collect payments on behalf of Treasury, and make interest and redemption payments from Treasury's account to the accounts of security holders. For paper U.S. savings bonds, selected FRBs issue savings bonds purchased with federal income tax refunds, and redeem savings bonds, including handling the related transfers of cash.

Intragovernmental Debt Holdings

Intragovernmental debt holdings represent balances of Treasury securities held by federal government accounts. There are over 240 individual federal government accounts with either the authority or the requirement to invest excess receipts in special Treasury securities that are guaranteed for principal and interest by the full faith and credit of the U.S. Government. Intragovernmental debt holdings primarily consist of balances in the Social Security trust funds, Military Retirement and Health Care funds, CSRDF, and Medicare trust funds.³ As of September 30, 2020, such funds accounted for \$5,270 billion, or 89 percent, of the \$5,919 billion intragovernmental debt holdings balance (see Figure 4). As of September 30, 2020 and 2019, gross intragovernmental debt holdings totaled \$5,919 billion and \$5,902 billion, respectively (see Figure 1), an increase of \$17 billion. This increase is primarily the result of (1) an increase in the Military Retirement and Health Care funds of \$104 billion, (2) an increase in the CSRDF of \$24 billion, and (3) an increase in the Federal Housing Administration, Mutual Mortgage Insurance Capital Reserve Account of \$17 billion, offset by (1) a decrease in the Medicare trust funds of \$82 billion, (2) a decrease in the Unemployment Trust Fund of \$34 billion, and (3) a decrease in the Highway Trust Fund of \$16 billion.

The majority of intragovernmental debt holdings are GAS securities. GAS securities consist of par value securities and market-based securities, with terms ranging from on demand out to 30 years. Par value securities are issued and redeemed at par (100 percent of the face value), regardless of current market conditions. Market-based securities, however, can be issued at a premium or discount and are redeemed at par value on the maturity date or at market value if redeemed before the maturity date.

Figure 4



³ The Social Security trust funds consist of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund. The Military Retirement and Health Care funds consist of the Military Retirement Fund and the Medicare-Eligible Retiree Health Care Fund. The Medicare trust funds are made up of the Federal Hospital Insurance Trust Fund and the Federal Supplementary Medical Insurance Trust Fund.

Significant Events in Fiscal Year 2020

Reintroduction of 20-Year Bond

Treasury reintroduced the 20-year bond, which had not been issued since 1986, to increase financing capacity over the long-term. The first auction was held on May 20, 2020 with a settlement date of June 1, 2020, and an issuance amount of \$22 billion. Treasury intends to make the 20-year bond a benchmark issue through regular and predictable monthly issuances in sizes sufficient to maintain benchmark liquidity. The 20-year bond will be auctioned in the refunding months (i.e. February, May, August, and November), with two reopenings in the subsequent months, resulting in monthly issuances. The 20-year bond auction will settle at month-end or the first business day thereafter. The total amount of 20-year bond issuances in fiscal year 2020 was \$113 billion.

Significant Actions Related to the Impact of COVID-19

Significant Increase in Marketable Securities Issuances

Treasury's borrowing needs increased substantially as a result of the federal government's response to the COVID-19 pandemic. While the initial increases in financing related to the COVID-19 pandemic response were focused on Treasury bills, including increasing the issuance of CMBs, Treasury began to shift financing from bills to longer-term securities beginning in May 2020. Treasury continued to supplement its regular benchmark bill financing with a regular cadence of CMBs throughout fiscal year 2020. Due to the substantial increase in borrowing needs, Treasury increased its long-term issuances as a prudent means of managing its maturity profile and limiting potential future issuance volatility. Treasury increased auction sizes across all nominal coupon securities, with larger increases in longer-term securities. Treasury also modestly increased auction sizes for FRNs.

Beginning in May 2020, Treasury increased the sizes of the 2-, 3-, and 5-year note auctions by \$2 billion per month through September; the 7-year note auctions by \$3 billion per month through September; the new and reopened 10-year note auctions by \$5 billion through July and by \$6 billion from August through September; and the new and reopened 30-year bond auctions by \$3 billion through July and by \$4 billion from August through September. In addition, following the \$2 billion increase in the April and July FRN auction sizes, auction sizes were increased by \$2 billion in the two reopenings in the subsequent months.

Issuance of Nonmarketable Special Purpose Vehicle Securities

The Federal Reserve, under Section 13(3) of the Federal Reserve Act, established emergency lending facilities to help the nation respond to the COVID-19 pandemic. The Federal Reserve further established legal entities known as Special Purpose Vehicles (SPV) to implement the lending facilities. The SPVs may invest in special non-marketable Treasury securities (known as SPV securities), which are new securities that Treasury established this year within its Domestic Series. An SPV security is a demand deposit certificate of indebtedness for which interest accrues daily and is paid at redemption. The total amount of SPV issuances in fiscal year 2020 was \$96 billion, and none were redeemed.

Significant Events in Fiscal Year 2020, cont.

Increase in System Open Market Account Holdings

The amount of the Federal Reserve Bank's System Open Market Account (SOMA) holdings has increased significantly from fiscal year 2019 to fiscal year 2020. In March 2020, the Federal Open Market Committee (FOMC) directed the Open Market Trading Desk to increase the SOMA holdings of Treasury securities in the amounts needed to support the smooth functioning and effective transmission of monetary policy to broader financial conditions. As of September 30, 2020 and September 30, 2019, SOMA holdings were \$4,050 billion and \$1,638 billion, respectively. As discussed in Note 2, the SOMA holdings exclude Treasury securities used in overnight reverse repurchase transactions and amounts lent to dealers and not collateralized by other Treasury securities.

COVID-19 Pandemic Financial Effect on Certain Federal Government Account Holdings

As a result of the economic disruptions caused by the COVID-19 pandemic and the federal government's response, many federal government account investment balances fluctuated significantly from the prior year, including the following:

- The Federal Hospital Insurance Trust Fund (HI) and Federal Supplementary Medical Insurance Trust Fund (SMI) investment balances decreased from \$199 billion and \$105 billion as of September 30, 2019 to \$134 billion and \$87 billion as of September 30, 2020, respectively. These decreases were primarily due to advanced payments made from the Centers for Medicare & Medicaid Services' (CMS) Accelerated and Advance Payment Program to Medicare providers and suppliers, which are funded by HI and SMI. On March 28, 2020, CMS expanded the existing Accelerated and Advance Payment Program to a broader group of Medicare providers and suppliers. CMS made these advance payments to Medicare providers and suppliers in order to lessen the financial burden of the COVID-19 pandemic.
- The \$34 billion decrease in the Unemployment Trust Fund (UTF) investment balance, from \$84 billion as of September 30, 2019 to \$50 billion as of September 30, 2020, is primarily due to the increased unemployment claims and corresponding withdrawal of trust fund monies for payment of unemployment insurance benefits. Although additional funds of \$39 billion were advanced to the UTF, these funds did not offset the overall unemployment claim increase. In addition, the Coronavirus Aid, Relief, and Economic Security (CARES) Act expanded unemployment insurance benefits and funded these expanded benefits.
- The \$16 billion decrease in the Highway Trust Fund's investment balance, from \$28 billion as of September 30, 2019 to \$12 billion as of September 30, 2020, is primarily due to reduced collections of federal excise taxes on gasoline and diesel fuels, its primary source of funding, because of the lower demand for fuel.

Significant Events in Fiscal Year 2020, cont.

- The Exchange Stabilization Fund's (ESF) investment balance decreased from \$23 billion as of September 30, 2019 to \$11 billion as of September 30, 2020. The Board of Governors of the Federal Reserve System, with the approval of the Secretary of the Treasury, established the Money Market Mutual Fund Liquidity Facility (MMLF) and the Commercial Paper Funding Facility (CPFF) to support the flow of credit to households and businesses. Treasury provided \$10 billion and \$1.5 billion of credit protection to the Federal Reserve in connection with the CPFF and MMLF, respectively, from the ESF.
- The Airport and Airway Trust Fund (AATF) investment balance decreased from \$15 billion as of September 30, 2019 to \$8 billion as of September 30, 2020. The CARES Act suspended certain aviation excise taxes (i.e., transportation by air and kerosene for use in commercial aviation), which are AATF's primary source of funding. This tax holiday and reduced demand for travel services decreased the amount of excise taxes collected.

Historical Perspective

Federal debt outstanding is the largest legally binding obligation of the federal government. Nearly all the federal debt has been issued by Treasury with a small portion being issued by other federal agencies. Treasury issues debt securities for two principal reasons, (1) to borrow needed funds to finance the current operations of the federal government and (2) to provide an investment and accounting mechanism for certain federal government accounts⁷ (primarily federal trust funds) excess annual receipts (including interest earnings) over disbursements. As shown in Figure 5, gross federal debt outstanding has increased over the past 25 years from \$4,974 billion as of September 30, 1995, to \$26,938 billion as of September 30, 2020.

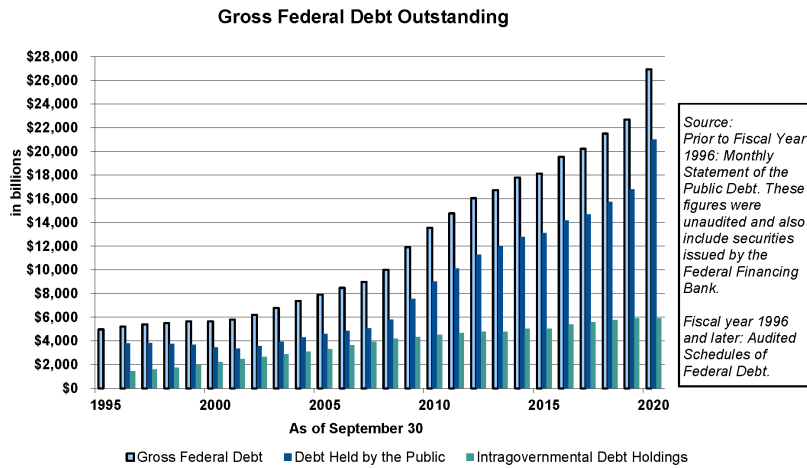
Even in those years where debt held by the public declined, gross federal debt increased because of increases in intragovernmental debt holdings. By law, federal government accounts, including trust funds, have the authority or are required to invest their excess annual receipts (including interest earnings) over disbursements in federal securities. As a result, the intragovernmental debt holdings primarily represent the cumulative surplus of funds due to the trust funds' cumulative annual excess of tax receipts, interest credited, and other collections compared to spending.

Budget deficits continued through 1997, which resulted in the continued increase in the gross federal debt from \$4,974 billion to \$5,398 billion as of September 30, 1995 and September 30, 1997, respectively. For fiscal years 1998 through 2001, the federal budget was in a surplus. During this period, the amount of debt held by the public fell by \$476 billion, from \$3,815 billion to \$3,339 billion. However, the gross federal debt continued to increase due to increases in intragovernmental holdings of \$870 billion, from \$1,583 billion to \$2,453 billion, from fiscal year 1998 through fiscal year 2001.

Beginning in fiscal year 2002, the federal budget returned to an annual deficit position, which resulted in an increase in debt held by the public. Federal debt held by the public increased from \$3,339 billion to \$5,049 billion from fiscal year 2002 through fiscal year 2007, an increase of 51 percent. From fiscal year 2008 through fiscal year 2019, federal debt held by the public more than tripled, rising by \$11,760 billion from \$5,049 billion to \$16,809 billion. From fiscal year 2019 through fiscal year 2020, federal debt held by the public grew from \$16,809 billion to \$21,019 billion, an increase of \$4,210 billion. The \$4,210 billion increase primarily resulted from the federal government's response to the COVID-19 pandemic. Since fiscal year 2002, debt held by the public has increased from \$3,339 billion as of September 30, 2001 to \$21,019 billion as of September 30, 2020. Intragovernmental debt holdings increased from \$2,453 billion to \$5,919 billion during the same time period.

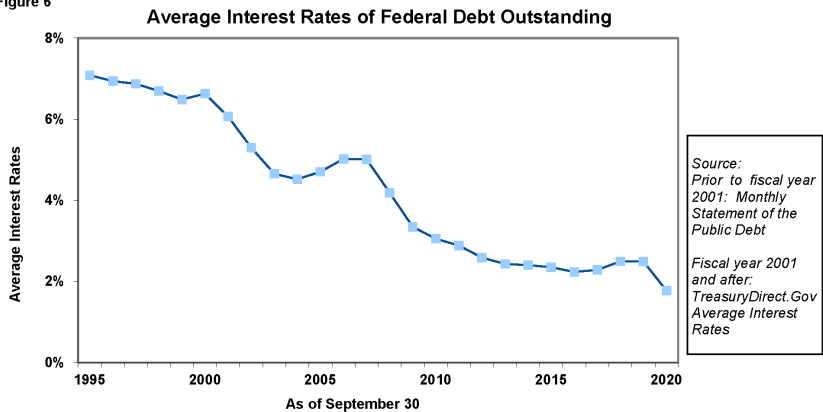
Historical Perspective, cont.

Figure 5



As shown in Figure 6, interest rates have fluctuated over the past 25 years. The average interest rates reflected here represent the original issue weighted effective yield on debt held by the public and intragovernmental debt holdings outstanding, excluding inflation-indexed securities and FRNs, at the end of the fiscal year.

Figure 6



Overview, Schedules, and Notes Prepared by
the Bureau of the Fiscal Service

Schedules of Federal Debt Managed by the Bureau of the Fiscal Service

Schedules of Federal Debt
Managed by the Bureau of the Fiscal Service
For the Fiscal Years Ended September 30, 2020 and 2019
(Dollars in Millions)

	Federal Debt					
	Held by the Public			Intragovernmental Debt Holdings		
	Principal (Note 2)	Accrued Interest Payable	Net Unamortized Premiums/ (Discounts)	Principal (Note 3)	Accrued Interest Payable	Net Unamortized Premiums/ (Discounts)
<i>Balance as of</i>						
<i>September 30, 2018</i>	\$15,761,155	\$73,528	(\$44,766)	\$5,744,564	\$39,294	\$69,865
Increases						
Borrowings from the Public	11,783,832		(59,358)			
Net Increase in Intragovernmental Debt Holdings				156,936		5,302
Accrued Interest (Note 4)		342,126			172,544	
Total Increases	11,783,832	342,126	(59,358)	156,936	172,544	5,302
Decreases						
Repayments of Debt Held by the Public	10,735,895					
Interest Paid		342,431			172,988	
Net Amortization (Note 4)			(61,436)			2,056
Total Decreases	10,735,895	342,431	(61,436)	0	172,988	2,056
<i>Balance as of</i>						
<i>September 30, 2019</i>	16,809,092	73,223	(42,688)	5,901,500	38,850	73,111
Increases						
Borrowings from the Public	18,965,153		(20,971)			
Net Increase in Intragovernmental Debt Holdings				17,677		1,841
Accrued Interest (Note 4)		334,133			158,844	
Total Increases	18,965,153	334,133	(20,971)	17,677	158,844	1,841
Decreases						
Repayments of Debt Held by the Public	14,755,293					
Interest Paid		336,756			161,800	
Net Amortization (Note 4)			(36,957)			2,694
Total Decreases	14,755,293	336,756	(36,957)	0	161,800	2,694
<i>Balance as of</i>						
<i>September 30, 2020</i>	\$21,018,952	\$70,600	(\$26,702)	\$5,919,177	\$35,894	\$72,258

The accompanying notes are an integral part of these schedules.

**Overview, Schedules, and Notes Prepared by
the Bureau of the Fiscal Service**

**Notes to the Schedules of Federal Debt Managed by the Bureau of the Fiscal
Service**

*Notes to the Schedules of Federal Debt Managed by the Bureau of the Fiscal Service
For the Fiscal Years Ended September 30, 2020 and 2019
(Dollars in Millions)*

Note 1. Significant Accounting Policies

Basis of Presentation

The Schedules of Federal Debt (Schedules) Managed by the Bureau of the Fiscal Service (Fiscal Service) have been prepared to report fiscal year 2020 and fiscal year 2019 balances and activity relating to monies borrowed from the public and certain federal government accounts under 31 U.S.C. §§ 3101- 3113 to fund the operations of the United States (U.S.) Government. Permanent, indefinite appropriations are available for the payment of interest and redemption of Treasury securities.

Reporting Entity

The Constitution empowers the Congress to borrow money on the credit of the United States. The Congress has authorized the Secretary of the Treasury to borrow monies to operate the federal government within a statutory debt limit. Title 31, U.S. Code authorizes the Department of the Treasury (Treasury) to prescribe the debt instruments and otherwise limit and restrict the amount and composition of the debt. Fiscal Service, an organizational entity within Treasury, is responsible for issuing Treasury securities in accordance with such authority and to account for the resulting debt. In addition, Fiscal Service maintains an investment program for federal government accounts, including trust funds that have legislative authority to invest temporary cash reserves not needed for current benefits and expenses. Fiscal Service issues and redeems Treasury securities for these federal government accounts based on data provided by the respective program agencies and other Treasury entities.

The Schedules do not consolidate the Federal Reserve Banks (FRBs), based on criteria established under U.S. generally accepted accounting principles (GAAP). The FRBs serve as Treasury's fiscal agent, executing certain transactions related to the issuance, payment of interest, and redemption of Treasury securities held by the public. The FRBs also hold Treasury securities in the FRB's System Open Market Account (SOMA) for the purpose of conducting monetary policy. The relevant activity and balances for the SOMA are disclosed in Note 2.

Basis of Accounting

The Schedules were prepared in accordance with U.S. GAAP and from Fiscal Service's automated debt accounting system. Accounting principles generally accepted for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official body for setting accounting standards for federal government reporting entities. The FASAB issued the Statement of Federal Financial Accounting Standards (SFFAS) No. 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board* in July 2009. SFFAS No. 34 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of general purpose financial reports of federal reporting entities that are presented in accordance with generally accepted accounting principles.

Interest costs are recorded as expenses when incurred, instead of when paid. Certain Treasury securities are issued at a discount or premium. These discounts and premiums are amortized over the term of the security using an interest method for all long-term securities and the straight line method for short-term securities. Treasury also issues Treasury Inflation-Protected Securities (TIPS). The principal for TIPS is adjusted daily over the life of the security based on the Consumer Price Index for all Urban Consumers.

**Overview, Schedules, and Notes Prepared by
the Bureau of the Fiscal Service**

*Notes to the Schedules of Federal Debt Managed by the Bureau of the Fiscal Service
For the Fiscal Years Ended September 30, 2020 and 2019
(Dollars in Millions)*

Note 2. Federal Debt Held by the Public

As of September 30, 2020 and 2019, Federal Debt Held by the Public consisted of the following:

	2020		2019	
	Amount	Average Interest Rates	Amount	Average Interest Rates
Marketable:				
Treasury Bills	\$5,028,127	0.2 %	\$2,376,370	2.1 %
Treasury Notes	10,655,969	1.9 %	9,755,985	2.2 %
Treasury Bonds	2,668,116	3.5 %	2,311,517	3.9 %
TIPS	1,522,418	0.7 %	1,454,698	0.8 %
Floating Rate Notes	478,320	0.3 %	424,067	2.0 %
Total Marketable	\$20,352,950		\$16,322,637	
Nonmarketable	\$666,002	1.1 %	\$486,455	2.2 %
Total Federal Debt Held by the Public	\$21,018,952		\$16,809,092	

Treasury issues marketable bills usually at a discount, but may also issue at par, and pays the par amount of the security upon maturity. The average interest rate on Treasury bills represents the original issue effective yield on securities outstanding as of September 30, 2020 and 2019. Treasury bills are issued with a term of one year or less.

Treasury issues marketable notes and bonds as long-term securities that pay semi-annual interest based on the security's stated interest rate. These securities are issued at either par value or at an amount that reflects a discount or a premium. The average interest rate on marketable notes and bonds represents the stated interest rate adjusted by any discount or premium on securities outstanding as of September 30, 2020 and 2019. Treasury notes are issued with a term of two to 10 years and Treasury bonds are issued with a term of more than 10 years.

Treasury issues TIPS that have interest and redemption payments that are tied to the Consumer Price Index for all Urban Consumers, a widely used measure of inflation. TIPS are issued with a term of five years or more. At maturity, TIPS are redeemed at the inflation-adjusted principal amount, or the original par value, whichever is greater. TIPS pay a semi-annual fixed rate of interest applied to the inflation-adjusted principal. The average interest rate on TIPS represents the stated interest rate on principal plus inflation, adjusted by any discount or premium on securities outstanding as of September 30, 2020 and 2019. The TIPS Federal Debt Held by the Public inflation-adjusted principal balance includes inflation of \$150,951 million and \$150,617 million as of September 30, 2020 and 2019, respectively.

Treasury issues marketable Floating Rate Notes (FRNs), which have interest rates that are indexed to the highest accepted discount rate of the most recent 13-week marketable bill auction. These securities pay interest quarterly based on the interest rate at the time of payment. These securities, like marketable notes and bonds, are issued at either par value or at an amount that reflects a discount or premium. The average interest rate on marketable FRNs represents the highest accepted discount rate of the most recent 13-week marketable bill auction as of September 30, 2020 and 2019, adjusted by any discount or premium on securities outstanding as of these dates. These notes are currently issued with a term of two years.

**Overview, Schedules, and Notes Prepared by
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*Notes to the Schedules of Federal Debt Managed by the Bureau of the Fiscal Service
For the Fiscal Years Ended September 30, 2020 and 2019
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Note 2. Federal Debt Held by the Public (continued)

Federal Debt Held by the Public includes federal debt held outside of the U.S. Government by individuals, corporations, FRBs, state and local governments, and foreign governments and central banks. As of September 30, 2020, the FRB's SOMA had total holdings of \$4,050,080 million, which (1) excludes \$395,078 million in Treasury securities used in overnight reverse repurchase transactions and (2) excludes a very small amount lent to dealers and not collateralized by other Treasury securities. As of September 30, 2019, the FRB's SOMA had total holdings of \$1,638,007 million, which (1) excludes \$475,040 million in Treasury securities used in overnight reverse repurchase transactions and (2) excludes a very small amount lent to dealers and not collateralized by other Treasury securities. For fiscal years ended September 30, 2020 and 2019, interest expense related to the FRB's SOMA holdings of Treasury securities was \$64,276 million and \$58,974 million respectively.

Treasury issues nonmarketable securities at either par value or at an amount that reflects a discount or a premium. The average interest rate on the nonmarketable securities represents the original issue weighted effective yield on securities outstanding as of September 30, 2020 and 2019. Nonmarketable securities are issued with a term of on demand out to 40 years.

As of September 30, 2020 and 2019, nonmarketable securities consisted of the following:

	2020	2019
Domestic Series	\$116,100	\$29,995
Foreign Series	264	264
State and Local Government Series	106,607	53,809
United States Savings Securities	148,677	152,355
Government Account Series	291,831	248,052
Other	2,523	1,980
Total Nonmarketable	\$666,002	\$486,455

Treasury expanded its Domestic Series to include a new special non-marketable Treasury security, known as a Special Purpose Vehicle (SPV) security. Treasury issued these securities to SPVs, which were established by the Federal Reserve to implement its emergency lending facilities under Section 13(3) of the Federal Reserve Act to respond to the COVID-19 pandemic. An SPV security is a demand deposit certificate of indebtedness for which interest accrues daily and is paid at redemption. As of September 30, 2020, the total amount of SPV securities outstanding was \$96 billion.

Government Account Series (GAS) securities are nonmarketable securities issued to federal government accounts. Federal Debt Held by the Public includes GAS securities issued to certain federal government accounts. One example is the GAS securities held by the Government Securities Investment Fund (G-Fund) of the federal employees' Thrift Savings Plan. Federal employees and retirees who have individual accounts own the GAS securities held by the fund. For this reason, these securities are considered part of the Federal Debt Held by the Public rather than Intragovernmental Debt Holdings. The GAS securities held by the G-Fund consist of overnight investments redeemed one business day after their issue. As of September 30, 2020 and 2019, the GAS securities held by the G-Fund were \$287,095 million and \$243,357 million, respectively. The net increase in the fund's principal balance during fiscal year 2020 is included in the Borrowings from the Public amount reported on the Schedules of Federal Debt. The net decrease in the fund's principal balance during fiscal year 2019 is included in the Repayments of Debt Held by the Public amount reported on the Schedules of Federal Debt.

**Overview, Schedules, and Notes Prepared by
the Bureau of the Fiscal Service**

*Notes to the Schedules of Federal Debt Managed by the Bureau of the Fiscal Service
For the Fiscal Years Ended September 30, 2020 and 2019
(Dollars in Millions)*

Note 3. Intragovernmental Debt Holdings

As of September 30, 2020 and 2019, Intragovernmental Debt Holdings are owed to the following:

	<u>2020</u>	<u>2019</u>
SSA: Federal Old-Age and Survivors Insurance Trust Fund	\$2,811,213	\$2,804,396
OPM: Civil Service Retirement and Disability Fund	954,821	930,893
DOD: Military Retirement Fund	916,264	827,414
DOD: Medicare-Eligible Retiree Health Care Fund	268,894	254,176
HHS: Federal Hospital Insurance Trust Fund	133,735	198,625
FDIC: Deposit Insurance Fund	108,949	104,015
SSA: Federal Disability Insurance Trust Fund	97,209	96,520
HHS: Federal Supplementary Medical Insurance Trust Fund	87,477	104,716
HUD: FHA, Mutual Mortgage Insurance Capital Reserve Account	67,937	50,601
DOE: Nuclear Waste Disposal Fund	54,666	54,022
DOL: Unemployment Trust Fund	50,515	84,361
OPM: Employees Life Insurance Fund	49,129	48,199
DOL: Pension Benefit Guaranty Corporation Fund	45,553	36,713
OPM: Postal Service Retiree Health Benefits Fund	41,868	44,611
OPM: Employees Health Benefits Fund	28,328	27,800
DOS: Foreign Service Retirement and Disability Fund	19,981	19,318
NCUA: National Credit Union Share Insurance Fund	16,610	15,276
USPS: Postal Service Fund	14,991	9,341
DOL: Pension Benefit Guaranty Corporation Deposit Fund	12,913	13,611
DOT: Highway Trust Fund	12,081	28,192
Treasury: Exchange Stabilization Fund	11,170	22,622
HUD: Guarantees of Mortgage-Backed Securities Capital Reserve Account	8,400	15,658
DOT: Airport and Airway Trust Fund	7,900	15,018
Other Programs and Funds	98,573	95,402
Total Intragovernmental Debt Holdings	<u>\$5,919,177</u>	<u>\$5,901,500</u>

Social Security Administration (SSA); Office of Personnel Management (OPM); Department of Defense (DOD); Department of Health and Human Services (HHS); Federal Deposit Insurance Corporation (FDIC); Department of Housing and Urban Development (HUD); Federal Housing Administration (FHA); Department of Energy (DOE); Department of Labor (DOL); Department of State (DOS); National Credit Union Administration (NCUA); United States Postal Service (USPS); Department of Transportation (DOT); Department of the Treasury (Treasury).

Intragovernmental Debt Holdings primarily consist of GAS securities. Treasury issues GAS securities at either par value or at an amount that reflects a discount or a premium. GAS securities are issued with a term of on demand out to 30 years. GAS securities include TIPS, which are reported at an inflation-adjusted principal balance using the Consumer Price Index for all Urban Consumers. As of September 30, 2020 and 2019, the inflation-adjusted principal balance of Intragovernmental Debt Holdings included inflation of \$183,009 million and \$176,035 million, respectively. The average interest rates on Intragovernmental Debt Holdings, excluding TIPS and FRNs, for fiscal years 2020 and 2019 were 2.3 percent and 2.7 percent, respectively. The average interest rates on TIPS for both fiscal years were 1.3 percent. The average interest rates on FRNs for fiscal years 2020 and 2019 were 0.2 percent and 1.9 percent, respectively. The average interest rate represents the original issue weighted effective yield on securities outstanding as of September 30, 2020 and 2019.

**Overview, Schedules, and Notes Prepared by
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*Notes to the Schedules of Federal Debt Managed by the Bureau of the Fiscal Service
For the Fiscal Years Ended September 30, 2020 and 2019
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Note 4. Interest Expense

Interest expense on federal debt for fiscal years 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Federal Debt Held by the Public		
Accrued Interest	\$334,133	\$342,126
Net Amortization of (Premiums) and Discounts	<u>36,957</u>	<u>61,436</u>
Total Interest Expense on Federal Debt Held by the Public	<u>371,090</u>	<u>403,562</u>
Intragovernmental Debt Holdings		
Accrued Interest	158,844	172,544
Net Amortization of (Premiums) and Discounts	<u>(2,694)</u>	<u>(2,056)</u>
Total Interest Expense on Intragovernmental Debt Holdings	<u>156,150</u>	<u>170,488</u>
Total Interest Expense on Federal Debt Managed by Fiscal Service	<u>\$527,240</u>	<u>\$574,050</u>

The valuation of TIPS is adjusted daily over the life of the security based on the Consumer Price Index for all Urban Consumers. This daily adjustment is an interest expense for federal debt managed by Fiscal Service. Accrued interest on Federal Debt Held by the Public includes inflation adjustments of \$14,540 million and \$25,260 million for fiscal years 2020 and 2019, respectively. Accrued interest on Intragovernmental Debt Holdings includes inflation adjustments of \$8,598 million and \$14,731 million for fiscal years 2020 and 2019, respectively.

Total interest expense on Intragovernmental Debt Holdings includes gains and losses on early redemptions of GAS securities. Early redemptions of GAS securities resulted in net losses of \$4,229 million and \$2,262 million in fiscal years 2020 and 2019, respectively.

**Overview, Schedules, and Notes Prepared by
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*Notes to the Schedules of Federal Debt Managed by the Bureau of the Fiscal Service
For the Fiscal Years Ended September 30, 2020 and 2019
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Note 5. Gain on Operational Readiness Buybacks

A buyback occurs when Treasury redeems outstanding marketable Treasury securities prior to their maturity dates. In a buyback, the owner of the security sells it to Treasury on a voluntary basis at a price determined by a competitive auction process. The first of these buybacks occurred in 2000 and continued through 2002. Treasury did not conduct buybacks again until fiscal year 2015, when it conducted two small-value buybacks to ensure operational readiness of its buyback infrastructure. Treasury expects to continue to conduct regular small-value buyback operations periodically to ensure operational readiness. These small-value buyback operations are not a precursor or signal of any pending policy changes regarding Treasury's use of buybacks more broadly. On January 19, 2000, Treasury issued a final rule adding part 375 to 31 CFR, setting out the terms and conditions by which outstanding, unmaturing marketable Treasury securities may be redeemed through Treasury buying back the securities.

Buybacks of Treasury securities are conducted by Treasury's fiscal agent, the Federal Reserve Bank of New York (FRBNY). Only primary dealers, as designated by FRBNY, may submit offers.

During fiscal years 2020 and 2019, there were two operational readiness buyback operations in each year, which involved the following:

	<u>2020</u>	<u>2019</u>
Total Amount Paid for Debt Buybacks, excluding accrued interest	\$53	\$48
Principal Amount of Debt Buybacks	<u>53</u>	<u>50</u>
Discount on Debt Buybacks	\$0	\$(2)
Write off of Net Unamortized Discounts on Debt Buybacks	<u>-</u>	<u>-</u>
Gain on Debt Buybacks	<u>\$0</u>	<u>\$(2)</u>

Appendix I: Management's Report on Internal Control over Financial Reporting Relevant to the Schedule of Federal Debt



DEPARTMENT OF THE TREASURY
BUREAU OF THE FISCAL SERVICE
WASHINGTON, DC 20227

November 2, 2020

Management's Report on Internal Control over Financial Reporting Relevant to the Schedule of Federal Debt

The Bureau of the Fiscal Service's (Fiscal Service) internal control over financial reporting relevant to the Schedule of Federal Debt is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of the Schedule of Federal Debt in accordance with U.S. Generally Accepted Accounting Principles; and (2) transactions related to the Schedule of Federal Debt are executed in accordance with provisions of applicable laws, including those governing the use of budget authority; regulations; contracts; and grant agreements, noncompliance with which could have a material effect on the Schedule of Federal Debt.

Fiscal Service management is responsible for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedule of Federal Debt that is free from material misstatement, whether due to fraud or error. Fiscal Service management evaluated the effectiveness of Fiscal Service's internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2020, based on the criteria established under 31 U.S.C. 3512(c), (d) (commonly known as the Federal Managers' Financial Integrity Act).

Based on that evaluation, we conclude that, as of September 30, 2020, Fiscal Service's internal control over financial reporting relevant to the Schedule of Federal Debt was effective.

Timothy E. Gribben
Commissioner

D. Michael Linder
Assistant Commissioner,
Fiscal Accounting

Theresa J. Kohler
Chief Financial Officer and
Assistant Commissioner,
Office of Management

Joseph Gioeli III
Chief Information Officer and
Assistant Commissioner,
Information and Security Services

Appendix II: Comments from the Bureau of the Fiscal Service



DEPARTMENT OF THE TREASURY
BUREAU OF THE FISCAL SERVICE
WASHINGTON, DC 20227

November 3, 2020

Ms. Dawn B. Simpson, Director
Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Simpson:

This letter is in response to your audit of the Schedules of Federal Debt managed by the Bureau of the Fiscal Service for the fiscal years ended September 30, 2020 and 2019. We agree with the conclusions of your audit report.

The Schedules of Federal Debt audit, for the first time, was performed entirely remotely due to the Coronavirus Disease 2019 (COVID-19) pandemic. We appreciate the knowledge and experience displayed by your audit team as we encountered unique constraints during these circumstances. Your team's experience related to our accounting operations provided timeliness and efficiency to the audit process, in addition to continued accuracy and consistency. We would like to thank you and your staff for the thorough audit of these schedules as we finalize the twenty-fourth year of our professional relationship. We look forward to sustaining a productive and successful relationship with your staff.

Sincerely,

A handwritten signature in blue ink that reads "Tim Gribben".

Timothy E. Gribben
Commissioner

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Strategic Planning and External Liaison

Stephen J. Sanford, Acting Managing Director, spel@gao.gov, (202) 512-4707 U.S. Government Accountability Office, 441 G Street NW, Room 7814, Washington, DC 20548

