United States Government Accountability Office

Report to the Secretary of the Treasury

November 2023

FINANCIAL AUDIT

Bureau of the Fiscal Service's FY 2023 and FY 2022 Schedules of Federal Debt

GAO-24-106340

Highlights of GAO-24-106340, 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 debt held by the public and 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. Intragovernmental debt holdings represent federal debt owed by Treasury to federal government accounts that typically have an obligation to invest their excess annual receipts (and interest earnings) over disbursements in federal securities.

What GAO Recommends

GAO has previously recommended that Congress consider developing a plan that includes fiscal rules and targets to place the government on a sustainable fiscal path and that the plan include considering alternative approaches to the debt limit.

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

View GAO-24-106340. For more information, contact Cheryl E. Clark at (202) 512-3406 or clarkce@gao.gov.

November 2023

FINANCIAL AUDIT

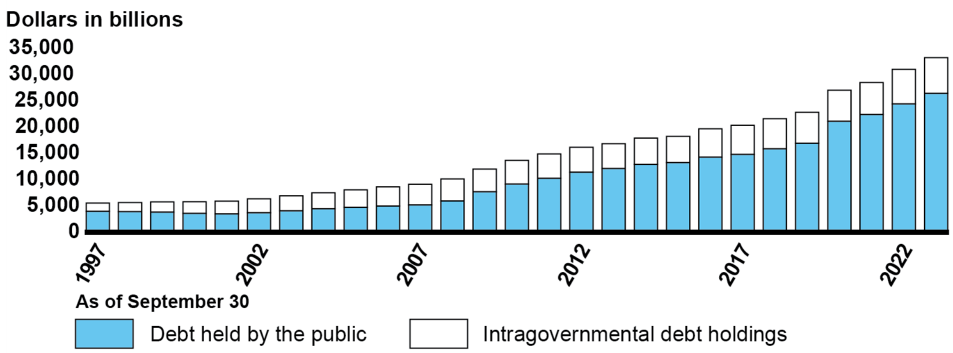
Bureau of the Fiscal Service's FY 2023 and FY 2022 Schedules of Federal Debt

What GAO Found

GAO found (1) the Bureau of the Fiscal Service's Schedules of Federal Debt for fiscal years 2023 and 2022 are fairly presented in all material respects, and (2) Fiscal Service maintained, in all material respects, effective internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2023. 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 2023.

From fiscal year 1997, GAO's first year auditing the schedules, through fiscal year 2023, total federal debt managed by Fiscal Service has increased from $5.4 trillion to $33.2 trillion, and the debt limit has been raised 22 times.

Total Federal Debt Outstanding, September 30, 1997, through September 30, 2023



Source: GAO analysis of Bureau of the Fiscal Service information. | GAO-24-106340

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

During fiscal year 2023, total federal debt increased by about $2.2 trillion, with about $2.0 trillion of the increase in debt held by the public. Additionally, interest on debt held by the public increased to $678 billion in fiscal year 2023—up from $497 billion in fiscal year 2022 and $392 billion in fiscal year 2021. The primary reason for the increase in debt held by the public was the federal deficit, which was $1.7 trillion for fiscal year 2023.

On January 19, 2023, the Department of the Treasury determined that the federal debt had reached the debt limit and began taking extraordinary actions—consistent with relevant laws—to avoid exceeding the debt limit. On June 3, 2023, the Fiscal Responsibility Act of 2023 was enacted, suspending the debt limit through January 1, 2025. On June 5, 2023, Treasury discontinued its use of extraordinary actions and resumed normal debt operations.

The current approach to the debt limit has created uncertainty and disruptions in the Treasury securities market and increased borrowing costs. Under current policy, spending is expected to exceed revenue, causing debt held by the public to rise continuously relative to the economy, which is an unsustainable fiscal path over the long term.

Contents

Abbreviations

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

U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

November 9, 2023

The Honorable Janet L. Yellen
Secretary of the Treasury

Dear Madam Secretary:

The accompanying independent auditor's report presents the results of our audits of the fiscal years 2023 and 2022 Schedules of Federal Debt Managed by the Bureau of the Fiscal Service (Schedule of Federal Debt). Specifically, the independent auditor's report contains

- our opinion that the Schedules of Federal Debt for the fiscal years ended September 30, 2023, and 2022, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- our opinion that 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, 2023; and
- 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 for fiscal year 2023.

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 Fiscal Service, and include accompanying notes. As of September 30, 2023, and 2022, federal debt managed by Fiscal Service totaled $33,162 billion and $30,924 billion, respectively, primarily for borrowings to fund the federal government's operations (see table 1).

Table 1: Federal Debt Managed by the Bureau of the Fiscal Service, as of September 30, 2023, and 2022

Dollars in billions

	September 30, 2023	September 30, 2022
Debt held by the public	26,330	24,299
Intragovernmental debt holdings	6,832	6,625
Total federal debt	**33,162**	**30,924**

Source: GAO analysis of Fiscal Service information. | GAO-24-106340

Debt held by the public primarily represents the amount the federal government has borrowed from the public to finance cumulative cash deficits. Debt held by the public consists of 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, Treasury Inflation-Protected Securities, and Floating Rate Notes, 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 holdings of Treasury securities represents a significant portion of debt held by the public.[1] As of June 30, 2023, the reported amount of foreign holdings of Treasury securities represented an estimated 30 percent of debt held by the public, similar to the percentages as of June 30, 2022, and June 30, 2001.[2] Treasury estimated that the amount of foreign holdings of Treasury securities increased from $983 billion as of June 30, 2001, to $7,431 billion as of June 30, 2022, and to $7,580 billion as of June 30, 2023.[3] 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

[1]GAO, *Financial Audit: Bureau of the Fiscal Service's FY 2022 and FY 2021 Schedules of Federal Debt*, GAO-23-105586 (Washington, D.C.: Nov. 9, 2022).

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

[3]Department of the Treasury, *Major Foreign Holders of Treasury Securities*, accessed November 2, 2023, https://ticdata.treasury.gov/resource-center/data-chart-center/tic/Documents/slt_table5.html.

to prepare the Schedule of Federal Debt.[4] Since these estimates are not reported on the Schedules of Federal Debt, 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 those established for 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 its accounts' invested cash surpluses to assist in funding other federal 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 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 securities to obtain cash to fund expenditures, Treasury usually borrows from the public to finance these redemptions.[5]

We have audited the Schedules of Federal Debt annually since fiscal year 1997. Over this period, total federal debt has increased from $5,398 billion as of September 30, 1997, to $33,162 billion as of September 30, 2023—an increase of 514 percent. 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 $26,330

[4]The 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.

[5]For more information regarding the federal debt, see GAO, *America's Fiscal Future: Federal Debt*, accessed November 2, 2023, https://www.gao.gov/americas-fiscal-future/federal-debt.

billion as of September 30, 2023. As noted in the Overview on Federal Debt Managed by the Bureau of the Fiscal Service (Overview), during the last 4 fiscal years, total federal debt has increased by $10,451 billion, or 46 percent, from $22,711 billion as of September 30, 2019, to $33,162 billion as of September 30, 2023. During fiscal year 2023, total federal debt increased by $2,238 billion: a $2,031 billion increase in debt held by the public and $207 billion increase in intragovernmental debt holdings.

On January 19, 2023, Treasury determined that the federal debt had reached the statutory debt limit of $31,381 billion. Absent action by Congress to suspend or raise the debt limit, Treasury began to take extraordinary actions—consistent with relevant laws—to avoid exceeding the debt limit. Extraordinary actions included suspending investments to certain federal government accounts. On June 3, 2023, the Fiscal Responsibility Act of 2023 was enacted, suspending the debt limit through January 1, 2025.[6]

On Monday, June 5, 2023, Treasury discontinued its use of extraordinary actions and resumed normal debt operations. Treasury subsequently restored principal and interest to the affected federal government accounts in accordance with relevant laws. The Overview to the Schedules of Federal Debt provides details on the extraordinary actions Treasury took and its restoration of the uninvested principal and interest.

Since 1997—our first year of auditing the Schedule of Federal Debt—the statutory debt limit has been raised 22 times, from $5,950 billion to $31,381 billion. The debt limit does not restrict Congress's 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. Rather, the debt limit is an after-the-fact measure that restricts Treasury's authority to borrow to finance the obligations that arise from laws 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 U.S. government will be honored. However, the current approach to the debt limit has created uncertainty and disruptions in the Treasury securities market and increased

[6]Section 401 of Division D "Increase in Debt Limit" of the Fiscal Responsibility Act of 2023, Pub. L. No. 118-5, div. D, § 401, temporarily suspended the statutory debt limit. Pursuant to this act, 31 U.S.C. § 3101(b) does not apply for the period of June 3, 2023, through January 1, 2025. The act establishes a process that may result in an increase of the statutory debt limit on January 2, 2025.

borrowing costs.[7] Notably, Congress has delayed raising or suspending the debt limit in 12 of the last 13 fiscal years.

Our work has shown that even without a default, a debt limit impasse can be costly. For example, during prior impasses, financial indicators showed that investors demanded a greater return for the increased risk of default. In August 2011, S&P Global lowered its long-term sovereign credit rating on the United States from its highest level to its second highest level, citing the rising public debt burden and greater uncertainty around the debt limit. After this most recent impasse, on August 1, 2023, Fitch Ratings downgraded the United States' sovereign credit rating from its highest level to its second highest level. The credit rating agency said repeated debt limit standoffs and last-minute resolutions have eroded confidence in the nation's fiscal management.

To avoid disrupting the Treasury market and increasing borrowing costs and to improve federal debt management, Congress should consider alternative approaches to the debt limit as part of a long-term fiscal plan. We have identified alternative approaches, each of which has strengths and weaknesses, and all of which would maintain congressional control and oversight of federal borrowing.[8] These approaches would better align decisions about the level of debt with decisions on spending and revenue at the time those decisions are made. We do not endorse a specific option, but have suggested Congress consider approaches such as

- linking action on the debt limit to the budget resolution,
- providing the administration with the authority to propose a change in the debt limit that would take effect absent enactment of a joint resolution of disapproval within a specified time frame, or
- delegating broad authority to the administration to borrow as necessary to fund enacted laws.

The primary reason for the increase in debt held by the public was the federal deficit.[9] In fiscal years 2020 and 2021, the deficits were $3,132 billion and $2,772 billion, respectively. The deficit fell to $1,375 billion in fiscal year 2022 but increased to $1,695 billion for fiscal year 2023. The larger deficits in fiscal years 2020 and 2021 were due primarily to

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[7]GAO, *The Nation's Fiscal Health: Road Map Needed to Address Projected Unsustainable Debt Levels*, GAO-23-106201 (Washington, D.C.: May 8, 2023).

[8]GAO-23-106201.

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

economic disruptions caused by the COVID-19 pandemic—which decreased revenues in fiscal year 2020—and the additional spending by the federal government in response.[10] Both revenue growth and the phasedown of the pandemic-related spending—partially offset by the long-term costs of certain forms of federal student loan debt relief—drove a $1,397 billion decline in the fiscal year 2022 deficit.[11]

The deficit increased in fiscal year 2023 primarily as a result of higher interest costs, continued growth of spending on Social Security and Medicare, and lower individual tax receipts, partially offset by the impact of actions related to student loans in fiscal year 2023.[12] The fiscal year 2023 increase in debt held by the public of $2,031 billion was greater than the reported fiscal year 2023 federal deficit of $1,695 billion primarily because of the reduction of the student loan subsidy cost.

The federal government has run a deficit and added to its debt in every fiscal year since 2002. Debt held by the public as a share of gross domestic product (GDP) at the end of fiscal year 2023 was approximately 97 percent, similar to (but slightly above) the ratio at the end of fiscal year 2022. The fiscal year 2023 federal budget deficit was the third-largest

[10]In response to the COVID-19 pandemic, Congress passed and the President signed legislation to fund response and recovery efforts. Congress and the President have provided about $4.6 trillion in budgetary resources to protect public health and reduce economic impacts on individuals and businesses. See GAO, *The Nation's Fiscal Health: Federal Action Critical to Pivot toward Fiscal Sustainability*, GAO-22-105376 (Washington, D.C.: May 5, 2022).

[11]In September 2022, in accordance with the budgetary procedures used for federal credit programs, the Department of Education recorded a subsidy cost of $379 billion to reflect its estimate of the long-term costs of the student loan debt relief plan announced in fiscal year 2022. Costs for federal credit programs are initially recorded when loans are disbursed in an amount representing the present value cost to the government, commonly referred to as credit subsidy cost. Federal agencies also record in the budget annual updates, or reestimates, of subsidy costs, as well as "modification" costs due to certain government actions, such as forgiving student loan balances. These subsidy reestimates are included in the budget as a noncash flow amount and are part of the government's fiscal year expenses. While the September 2022 outlay recorded by Education increased the fiscal year 2022 deficit, this cost did not increase the debt for fiscal year 2022.

[12]On June 30, 2023, the Supreme Court blocked the Education student loan debt relief plan announced in fiscal year 2022 from taking effect. In August 2023, Education recorded about $330 billion to reduce subsidy costs in the budget for the student loan program to reflect the Supreme Court's decision. The cost reduction is less than the cost recorded in September 2022, primarily because a new income-driven repayment plan, which was finalized in June 2023, increased the cost of outstanding student loans. By recording a subsidy cost in fiscal year 2022 and largely reversing it in fiscal year 2023, the deficit was larger in fiscal year 2022 and is smaller in 2023 by amounts that are largely offsetting. These modifications to subsidy cost had no effect on the federal debt.

recorded nominal federal deficit in history, behind the budget deficits in fiscal years 2021 and 2020.[13]

Increasing deficits require more borrowing and result in growing interest spending. Interest on debt held by the public increased to $678 billion in fiscal year 2023, up from $497 billion in fiscal year 2022 and $392 billion in fiscal year 2021.[14] The increase in fiscal year 2023 was due primarily to an increase in the average interest rates and an increase in the outstanding debt held by the public. The increase from fiscal year 2021 to fiscal year 2022 primarily resulted from an increase in inflation adjustments,[15] an increase in the average interest rates, and an increase in the outstanding debt held by the public. In recent years, the federal government's net interest spending (primarily interest on debt held by the public) has represented a relatively small share of total federal spending, primarily because interest rates have been relatively low. However, interest rates are projected to rise in the long term, and federal net interest spending is projected to increase. Interest rates can have a compounding effect on the debt, as borrowing to make interest payments adds to the debt.

As we have previously reported, the federal government is on an unsustainable long-term fiscal path, as current government fiscal policy is projected to cause debt held by the public to rise continuously relative to the economy. Under current revenue and spending policy, federal spending is projected to increase more rapidly than revenue.[16] The underlying conditions driving the unsustainable fiscal path pose serious economic, security, and social challenges if not addressed. Managing the nation's complex challenges requires effective strategies to better plan for and manage risks in highly uncertain environments and changing conditions.

Since 2017, we have stated that a plan is needed to address the government's unsustainable fiscal path and promote fiscal sustainability. In September 2020, we suggested that as part of a long-term fiscal plan,

[13]Nominal dollar amounts are not adjusted for inflation.

[14]Interest on debt held by the public is described here in nominal terms. Nominal figures are not adjusted for inflation and tend to be higher than real figures, which are adjusted for inflation.

[15]Certain types of securities, such as Treasury Inflation-Protected Securities (TIPS), are set up to provide protection against inflation. The principal for TIPS is adjusted daily over the life of the security based on the Consumer Price Index for all Urban Consumers. These inflation adjustments are included in interest.

[16]GAO-23-106201.

Congress consider including fiscal rules and targets to place the government on a sustainable fiscal path, where government spending and revenue policy do not cause debt to rise continuously relative to the economy.[17] A long-term plan can provide a cohesive picture of the government's long-term goals. It can also serve as a mechanism for building consensus around these goals, as well as a road map for achieving them. The sooner actions are taken to alter the government's fiscal path, the less drastic the changes will need to be.

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.

If you or your staff have any questions concerning this report, please contact me at (202) 512-3406 or clarkce@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,

Cheryl E. Clark

Cheryl E. Clark
Director
Financial Management and Assurance

[17] GAO-23-106201.

U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
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Independent Auditor's Report

To the Commissioner of the Bureau of the Fiscal Service

In our audits of the fiscal years 2023 and 2022 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, 2023, and 2022, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- 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, 2023; and
- no reportable noncompliance for fiscal year 2023 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

Opinion on the Schedules of Federal Debt

In connection with fulfilling our requirement to audit the consolidated financial statements of the U.S. government, and consistent with our authority to audit statements and schedules prepared by executive agencies, we have audited the Schedules of Federal Debt because of the significance of the federal debt to the federal government's consolidated

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

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 relatedNet Unamortized Premiums and Discounts managed by the Department of the Treasury's Fiscal Service, and include accompanying notes.[3]

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, 2023, and 2022, 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

We also have audited Fiscal Service's internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2023, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act of 1982 (FMFIA). In our opinion, Fiscal Service maintained, in all material respects, effective internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2023, based on criteria established under FMFIA.

During our fiscal year 2023 audit, we identified 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

[2]31 U.S.C. §§ 331(e)(2), 3521(g), (i). Because Fiscal Service is a bureau within the Department of the Treasury, federal debt and related activity and balances that it manages are also significant to Treasury's financial statements. See 31 U.S.C. § 3515(b).

[3]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. Intragovernmental debt holdings represent federal debt owed by Treasury to federal government accounts, primarily federal trust funds such as Social Security and Medicare.

significant deficiencies.[4] 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.

Basis for Opinions

We conducted our audits in accordance with U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Schedules of Federal Debt and Internal Control over Financial Reporting section of our report. We are required to be independent of Fiscal Service and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Schedules of Federal Debt and Internal Control over Financial Reporting

Management is responsible for

- the preparation and fair presentation of the Schedules of Federal Debt in accordance with U.S. generally accepted accounting principles;
- 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;
- designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of Schedules of Federal Debt that are free from material misstatement, whether due to fraud or error;
- assessing the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and
- its assessment about the effectiveness of internal control over financial reporting as of September 30, 2023, included in the accompanying Management's Report on Internal Control over

[4]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. 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 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.

Financial Reporting Relevant to the Schedule of Federal Debt in appendix I.

Auditor's Responsibilities for the Audits of the Schedules of Federal Debt and Internal Control over Financial Reporting

Our objectives are to (1) obtain reasonable assurance about whether the Schedules of Federal Debt as a whole are free from material misstatement, whether due to fraud or error, and whether effective internal control over financial reporting was maintained in all material respects, and (2) issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of the Schedules of Federal Debt or an audit of internal control over financial reporting conducted in accordance with U.S. generally accepted government auditing standards will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the Schedules of Federal Debt.

In performing an audit of the Schedules of Federal Debt and an audit of internal control over financial reporting in accordance with U.S. generally accepted government auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the Schedules of Federal Debt, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the Schedules of Federal Debt.
- Obtain an understanding of internal control relevant to our audit of the Schedule of Federal Debt in order to design audit procedures that are appropriate in the circumstances.
- Obtain an understanding of internal control relevant to our audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate 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 based on criteria established under FMFIA. 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 an opinion on whether effective internal control over financial reporting was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the Schedules of Federal Debt.
- Perform other procedures we consider necessary in the circumstances.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the Schedule of Federal Debt audit.

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 internal control over financial reporting are to provide reasonable assurance that

- transactions are properly recorded, processed, and summarized to permit the preparation of the Schedules of Federal Debt in accordance with U.S. generally accepted accounting principles and
- transactions related to the Schedules 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 Schedules 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.

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. Management is responsible for the other information included in documents containing the audited Schedules of Federal Debt and auditor's report. The other information comprises the Overview section but does not include the Schedules of Federal Debt and our auditor's report thereon. Our opinion on the Schedules of Federal Debt does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the Schedules of Federal Debt, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the Schedules of Federal Debt, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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 responsibilities discussed below.

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 2023 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 that have a direct effect on the determination of material amounts and disclosures in the Schedule of Federal Debt. Accordingly, we do not express such an opinion.

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

We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

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

Auditor's Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements

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 Schedule of Federal Debt, and to perform certain other limited procedures. Accordingly, we did not test compliance with all provisions of laws, regulations, contracts, and grant agreements applicable to Fiscal Service. We caution that noncompliance may occur and not be detected by these tests.

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.

Cheryl E. Clark

Cheryl E. Clark
Director
Financial Management and Assurance

November 2, 2023

Overview, Schedules, and Notes Managed 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 Title 31, U.S. Code §§ 3101-3113), the latter of which is referred to as intragovernmental debt holdings. As of September 30, 2023 and September 30, 2022, outstanding gross federal debt managed by Fiscal Service totaled $33,162 billion and $30,924 billion, respectively.[1] The increase in gross federal debt of $2,238 billion during fiscal year 2023 was due to an increase in gross debt held by the public of $2,031 billion and an increase in gross intragovernmental debt holdings of $207 billion. As Figure 1 illustrates, debt held by the public and intragovernmental debt holdings increased by $9,521 billion and $930 billion, respectively, from September 30, 2019 to September 30, 2023. The increases in debt held by the public are due primarily to total federal spending exceeding total federal revenues. 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, Civil Service Retirement and Disability Fund (CSRDF), and Federal Housing Administration, Mutual Mortgage Insurance Capital Reserve Account.[2]

Gross federal debt (with some adjustments) is subject to a statutory debt limit. A delay in raising the debt limit that began in fiscal year 2021 continued into fiscal year 2022. During the period August 2, 2021, through December 15, 2021, Treasury departed from its normal debt management operations and undertook extraordinary actions to avoid exceeding the debt limit. On October 14, 2021, Public Law 117-50 was enacted which raised the statutory debt limit by $480 billion, from $28,401 billion to $28,881 billion. Even with this increase, extraordinary actions continued in order for Treasury to manage below the debt limit. On December 16, 2021, Public Law 117-73 was enacted, increasing the debt limit by $2,500 billion, from $28,881 billion to $31,381 billion. On this date, Treasury discontinued its use of extraordinary measures and resumed normal debt management operations.

Due to a delay in raising the debt limit, on January 19, 2023, Treasury began taking extraordinary actions to avoid exceeding the debt limit, which continued through June 2, 2023. The extraordinary actions included (1) suspending investments in the Government Securities Investments Fund (G-Fund) of the federal employees' Thrift Savings Plan and CSRDF, (2) redeeming certain investments held by CSRDF and Postal Service Retiree Health Benefits Fund (Postal Benefits Fund) earlier than normal, (3) suspending new issuances of State and Local Government Series (SLGS) securities, and (4) exchanging $1.9 billion of Treasury securities held by the CSRDF for securities issued by the Federal Financing Bank.

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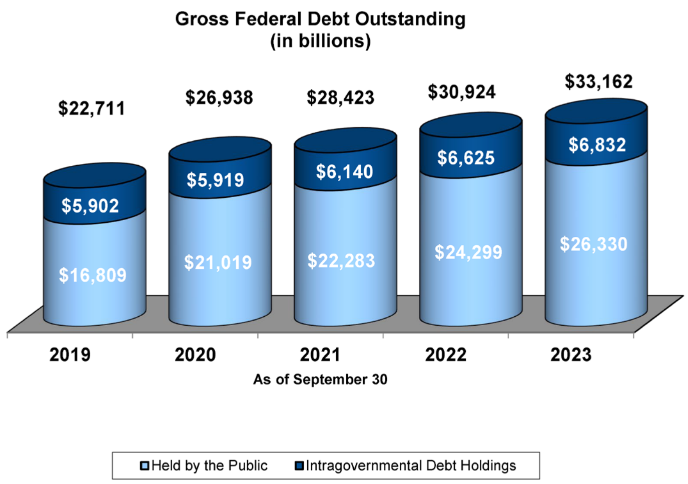
[1] Federal debt outstanding reported here differs from the amount reported in the Financial Report of the United States Government because of the securities not maintained or reported by Fiscal Service which are issued by the Federal Financing Bank and other federal agencies.

[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.

On Saturday, June 3, 2023, Public Law 118-5 was enacted, suspending the debt limit through January 1, 2025. On Monday, June 5, 2023, Treasury discontinued its use of extraordinary measures and resumed normal debt management operations. As of September 30, 2023 and September 30, 2022, outstanding debt obligations subject to the statutory debt limit were $33,070 billion and $30,869 billion, respectively.

Figure 1



Interest Expense

Interest expense incurred during fiscal year 2023 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 2023, interest expense incurred totaled $875 billion; this consisted of interest expense on debt held by the public of $678 billion, and $197 billion in interest incurred for intragovernmental debt holdings.

As Figure 2 illustrates, total interest expense decreased from fiscal year 2019 to 2020, 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.

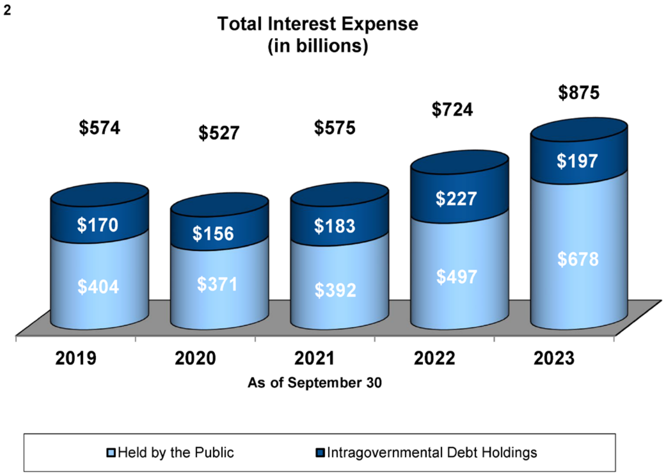
From fiscal year 2020 to 2021, total interest expense increased from $527 billion to $575 billion. This increase resulted from an increase in interest expense on debt held by the public of $21 billion and an increase in interest expense on intragovernmental debt holdings of $27 billion. The $21 billion increase in interest expense on debt held by the public primarily resulted from (1) an increase in inflation adjustments, which were offset by a decrease in the average interest rates and (2) an increase in the outstanding debt held by the public. The $27 billion increase in interest expense on intragovernmental debt holdings primarily resulted from (1) an increase in inflation adjustments, which were offset by a decrease in the average interest rates and (2) an increase in outstanding intragovernmental debt holdings.

Interest Expense, cont.

From fiscal year 2021 to 2022, total interest expense increased from $575 billion to $724 billion. This increase resulted from an increase in interest expense on debt held by the public of $105 billion and an increase in interest expense on intragovernmental debt holdings of $44 billion. The $105 billion increase in interest expense on debt held by the public primarily resulted from (1) an increase in inflation adjustments, (2) an increase in the average interest rates, and (3) an increase in the outstanding debt held by the public. The $44 billion increase in interest expense on intragovernmental debt holdings primarily resulted from (1) an increase in inflation adjustments, (2) an increase in the average interest rates, and (3) an increase in outstanding intragovernmental debt holdings.

From fiscal year 2022 to 2023, total interest expense increased from $724 billion to $875 billion. This increase resulted from an increase in interest expense on debt held by the public of $181 billion, offset by a decrease in interest expense on intragovernmental debt holdings of $30 billion. The $181 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 and (2) an increase in the average interest rates, which were offset by a decrease in inflation adjustments. The $30 billion decrease in interest expense on intragovernmental debt holdings primarily resulted from (1) a decrease in inflation adjustments, which were offset by an increase in the average interest rates and (2) an offsetting increase in outstanding intragovernmental debt holdings. Average interest rates on principal balances outstanding as of September 30, 2023 and 2022, are disclosed in the Notes to the Schedules of Federal Debt.

Figure 2



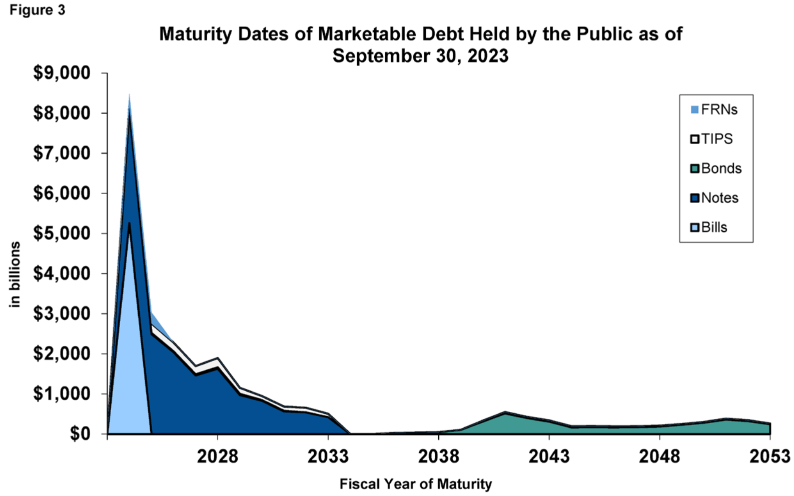
Debt Held by the Public

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 2023, Treasury primarily used the existing suite of securities to meet the borrowing needs of the federal government. Treasury bills, bonds, Treasury Inflation-Protected Securities (TIPS), and notes increased by $1,616 billion, $372 billion, $95 billion, and $28 billion, respectively, while Treasury Floating Rate Notes (FRNs) decreased by $50 billion in fiscal year 2023. As of September 30, 2023 and 2022, gross debt held by the public totaled $26,330 billion and $24,299 billion, respectively (see Figure 1), an increase of $2,031 billion.

As of September 30, 2023, $25,735 billion, or 98 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, 2023, $15,488 billion, or 60 percent, will mature within the next four years (see Figure 3). As of September 30, 2023 and 2022, total marketable debt held by the public maturing within the next 10 years totaled $21,327 billion and $19,714 billion, respectively, an increase of $1,613 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, 2023, nonmarketable securities totaled $595 billion, or 2 percent of debt held by the public. As of that date, nonmarketable securities primarily consisted of Government Account Series (GAS) securities totaling $299 billion, U.S. Savings Securities totaling $176 billion, SLGS securities totaling $94 billion, and Domestic Series securities totaling $22 billion. During fiscal year 2023, GAS securities, SLGS securities, and Domestic Series securities decreased by $22 billion, $15 billion, and $3 billion, respectively, while U.S. Savings Securities increased by $9 billion. As of September 30, 2023 and 2022, total nonmarketable securities totaled $595 billion and $625 billion, respectively, a decrease of $30 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.

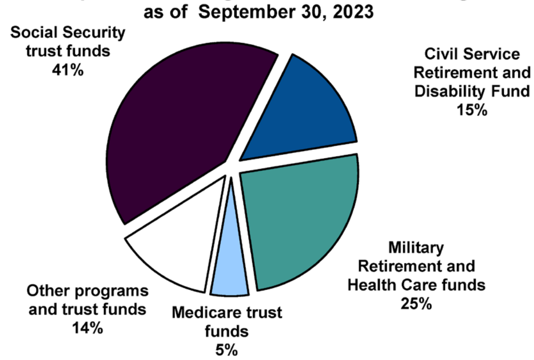
Intragovernmental Debt Holdings

Intragovernmental debt holdings represent balances of Treasury securities held by federal government accounts. There are 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, the Military Retirement and Health Care funds, CSRDF, and the Medicare trust funds.[3] As of September 30, 2023, such funds accounted for $5,923 billion, or 86 percent, of the $6,832 billion intragovernmental debt holdings balance (see Figure 4). As of September 30, 2023 and 2022, gross intragovernmental debt holdings totaled $6,832 billion and $6,625 billion, respectively (see Figure 1), an increase of $207 billion. This increase is primarily the result of (1) an increase in the Military Retirement and Health Care funds of $204 billion, (2) an increase in CSRDF of $24 billion, (3) an increase in Federal Housing Administration, Mutual Mortgage Insurance Capital Reserve Account of $13 billion, offset by (4) a decrease in Deposit Insurance Fund of $41 billion and (5) a decrease in the Social Security trust funds of $22 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

Components of Intragovernmental Debt Holdings as of September 30, 2023



[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 consist of the Federal Hospital Insurance Trust Fund and the Federal Supplementary Medical Insurance Trust Fund.

Significant Events in Fiscal Year 2023

Delay in Raising the Statutory Debt Limit

Due to a delay in raising the statutory debt limit, from January 19, 2023 through June 2, 2023, Treasury departed from its normal debt management procedures and invoked legal authorities to avoid exceeding the debt limit. Extraordinary actions taken by Treasury to ensure the debt limit was not exceeded included (1) suspending investments to the G-Fund and CSRDF, (2) redeeming certain investments held by CSRDF and Postal Benefits Fund earlier than normal, (3) suspending new issuances of SLGS securities, and (4) exchanging $1.9 billion of Treasury securities held by the CSRDF for securities issued by the Federal Financing Bank.

On Saturday, June 3, 2023, Public Law 118-5 was enacted, which suspended the statutory debt limit through January 1, 2025. On Monday, June 5, 2023, Treasury discontinued its use of extraordinary actions and resumed normal debt management operations. On June 5, 2023, and in accordance with relevant laws, Fiscal Service restored uninvested principal amounts to the G-Fund and CSRDF in the amounts of $289,108 million and $21,391 million, respectively.

In accordance with relevant laws, Fiscal Service restored the interest related to the uninvested principal during the period January 23, 2023 through June 2, 2023, to the G-Fund on June 6, 2023, in the amount of $3,009 million. Interest related to the uninvested principal during the period of January 19, 2023 through June 2, 2023, for CSRDF and Postal Benefits Fund were restored on June 30, 2023, the next semi-annual interest payment date, in the amounts of $279 million and $3 million, respectively.

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 accounts' (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 $5,511 billion as of September 30, 1998, to $33,162 billion as of September 30, 2023.

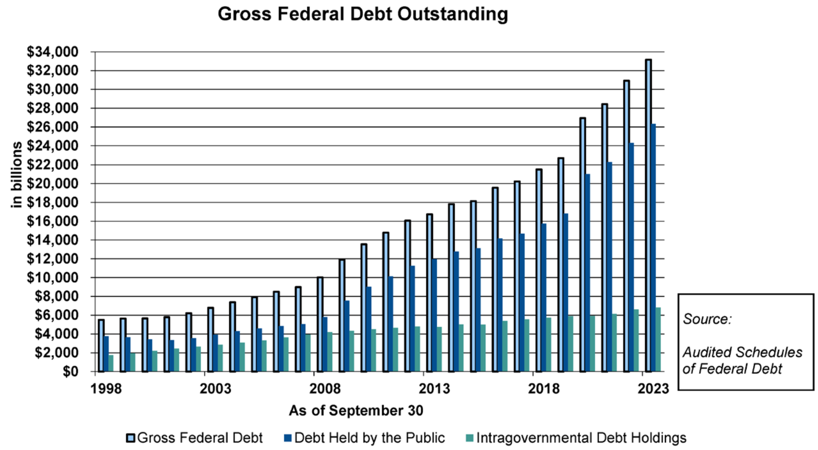
Even in those years where debt held by the public declined, gross federal debt increased because of increases in intragovernmental debt holdings. By law, federal government accounts, including trust funds, have the authority or are required to invest their excess annual receipts (including interest earnings) 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.

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 2020 through fiscal year 2021, federal debt held by the public grew from $16,809 billion to $22,283 billion, an increase of $5,474 billion. The $5,474 billion increase primarily resulted from the federal government's response to the COVID-19 pandemic. From fiscal year 2022 through 2023, federal debt held by the public increased from $22,283 billion to $26,330 billion, an increase of $4,047 billion. Since fiscal year 2002, debt held by the public has increased from $3,339 billion as of September 30, 2001 to $26,330 billion as of September 30, 2023. Intragovernmental debt holdings increased from $2,453 billion to $6,832 billion during the same time period.

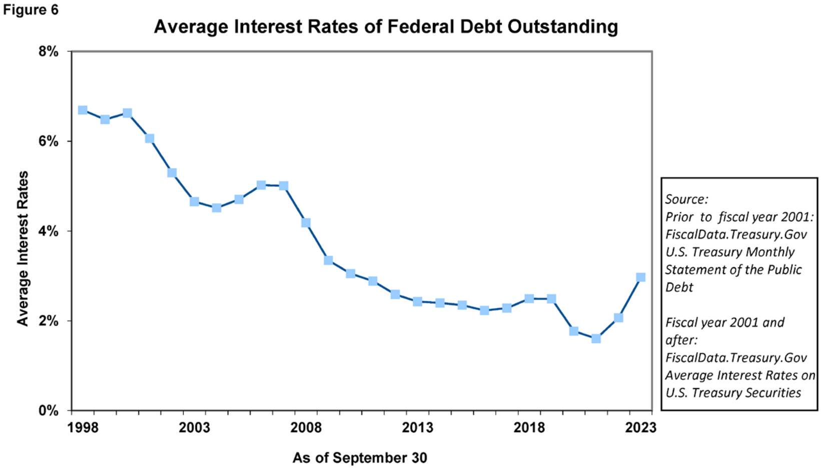
Historical Perspective, cont.

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



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, 2023 and 2022
(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)
Balance as of September 30, 2021	**$22,282,900**	**$69,158**	**($26,840)**	**$6,139,965**	**$34,873**	**$86,189**
Increases						
Borrowings from the Public	17,760,144		(73,576)			
Net Increase in Intragovernmental Debt Holdings				484,907		14,217
Accrued Interest (Note 4)		467,798			238,759	
Total Increases	**17,760,144**	**467,798**	**(73,576)**	**484,907**	**238,759**	**14,217**
Decreases						
Repayments of Debt Held by the Public	15,743,851					
Interest Paid		455,773			238,329	
Net Amortization (Note 4)			(28,735)			11,660
Total Decreases	**15,743,851**	**455,773**	**(28,735)**	**0**	**238,329**	**11,660**
Balance as of September 30, 2022	**24,299,193**	**81,183**	**(71,681)**	**6,624,872**	**35,303**	**88,746**
Increases						
Borrowings from the Public	20,142,063		(236,948)			
Net Increase in Intragovernmental Debt Holdings				206,827		(46,630)
Accrued Interest (Note 4)		488,098			200,667	
Total Increases	**20,142,063**	**488,098**	**(236,948)**	**206,827**	**200,667**	**(46,630)**
Decreases						
Repayments of Debt Held by the Public	18,111,114					
Interest Paid		452,559			199,155	
Net Amortization (Note 4)			(189,900)			3,181
Total Decreases	**18,111,114**	**452,559**	**(189,900)**	**0**	**199,155**	**3,181**
Balance as of September 30, 2023	**$26,330,142**	**$116,722**	**($118,729)**	**$6,831,699**	**$36,815**	**$38,935**

The accompanying notes are an integral part of these schedules.

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, 2023 and 2022

(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 2023 and fiscal year 2022 balances and activity relating to monies borrowed from the public and certain federal government accounts under Title 31, U.S. Code §§ 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, rather than 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.

Notes to the Schedules of Federal Debt Managed by the Bureau of the Fiscal Service
For the Fiscal Years Ended September 30, 2023 and 2022
(Dollars in Millions)

Note 2. Federal Debt Held by the Public

As of September 30, 2023 and 2022, Federal Debt Held by the Public consisted of the following:

	2023		2022	
	Amount	Average Interest Rates	Amount	Average Interest Rates
Marketable:				
Treasury Bills	$5,259,329	5.4 %	$3,643,675	2.5 %
Treasury Notes	13,724,904	2.1 %	13,696,488	1.6 %
Treasury Bonds	4,240,162	3.1 %	3,867,672	3.0 %
TIPS	1,934,947	0.6 %	1,839,843	0.5 %
Floating Rate Notes	575,539	5.0 %	625,897	3.3 %
Total Marketable	$25,734,881		$23,673,575	
Nonmarketable	$595,261	3.7 %	$625,618	2.7 %
Total Federal Debt Held by the Public	$26,330,142		$24,299,193	

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, 2023 and 2022. 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, 2023 and 2022. 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 the inflation-adjusted principal, adjusted by any discount or premium on securities outstanding as of September 30, 2023 and 2022. The TIPS Federal Debt Held by the Public inflation-adjusted principal balance includes inflation of $362,285 million and $336,080 million as of September 30, 2023 and 2022, respectively.

Treasury issues marketable Floating Rate Notes (FRNs), which accrue interest daily and pay the aggregated interest on a quarterly basis. The interest rate is based on two components; the index rate tied to the highest accepted discount rate of the most recent 13-week marketable bill auction and the spread rate, which is the highest accepted discount rate determined at auction when the FRN is first offered. 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, 2023 and 2022, adjusted by any discount or premium on securities outstanding as of these dates. These notes are currently issued with a term of two years.

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

For the Fiscal Years Ended September 30, 2023 and 2022

(Dollars in Millions)

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, 2023, Treasury securities held by the FRB's SOMA totaled $2,786,660 million, which (1) excludes $2,139,431 million in Treasury securities used in overnight reverse repurchase transactions and (2) excludes $26,824 million lent to dealers and not collateralized by other Treasury securities. As of September 30, 2022, Treasury securities held by the FRB's SOMA totaled $2,731,085 million, which (1) excludes $2,907,597 million in Treasury securities used in overnight reverse repurchase transactions and (2) includes a net of $3,741 million held by the FRB as collateral for securities lending activities. For fiscal years ended September 30, 2023 and 2022, interest expense related to the FRB's SOMA holdings of Treasury securities was $105,104 million and $114,704 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, 2023 and 2022. Nonmarketable securities are issued with a term of on demand out to 40 years.

As of September 30, 2023 and 2022, nonmarketable securities consisted of the following:

	2023	2022
Domestic Series	$22,418	$25,894
Foreign Series	0	264
State and Local Government Series	94,169	109,236
United States Savings Securities	175,702	166,292
Government Account Series	298,893	320,634
Other	4,079	3,298
Total Nonmarketable	$595,261	$625,618

In fiscal year 2020, Treasury expanded its Domestic Series to include a new special nonmarketable 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. In fiscal years 2023 and 2022, the total amounts of SPV redemptions were $3,954 million and $7,009 million, including $477 million and $122 million of capitalized interest, respectively. There were no new SPV issuances in fiscal years 2023 and 2022. As of September 30, 2023 and 2022, the total amount of SPV securities outstanding were $11,914 million and $15,391 million, respectively.

Foreign Series securities, which include zero coupon bonds, were purchased by foreign governments directly from Treasury. On March 31, 2023, the last outstanding Foreign Series zero coupon bond was redeemed.

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, 2023 and 2022 the GAS securities held by the G-Fund were $293,383 million and $315,369 million, respectively.

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

For the Fiscal Years Ended September 30, 2023 and 2022

(Dollars in Millions)

Note 2. Federal Debt Held by the Public (continued)

The net decrease in the G-Fund's principal balance during fiscal year 2023 is included in the Repayments of Debt Held by the Public amount reported on the Schedules of Federal Debt. The net increase in the G-Fund's principal balance during fiscal year 2022 is included in the Borrowings from the Public amount reported on the Schedules of Federal Debt.

Fiscal year-end September 30, 2023, occurred on a Saturday. As a result, $134,926 million of marketable Treasury notes and $82 million of GAS securities, matured but not repaid are included in the balance of the Federal Debt Held by the Public as of September 30, 2023. Settlement of this debt repayment occurred on Monday, October 2, 2023.

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

For the Fiscal Years Ended September 30, 2023 and 2022

(Dollars in Millions)

Note 3. Intragovernmental Debt Holdings

As of September 30, 2023 and 2022, Intragovernmental Debt Holdings are owed to the following:

		2023	2022
SSA:	Federal Old-Age and Survivors Insurance Trust Fund	$2,673,749	$2,723,601
DOD:	Military Retirement Fund	1,366,845	1,194,652
OPM:	Civil Service Retirement and Disability Fund	1,031,144	1,006,832
DOD:	Medicare-Eligible Retiree Health Care Fund	354,219	321,960
HHS:	Federal Hospital Insurance Trust Fund	194,362	177,397
HHS:	Federal Supplementary Medical Insurance Trust Fund	159,537	167,964
SSA:	Federal Disability Insurance Trust Fund	142,906	114,679
HUD:	FHA, Mutual Mortgage Insurance Capital Reserve Account	133,105	119,950
DOT:	Highway Trust Fund	115,673	127,547
FDIC:	Deposit Insurance Fund	84,298	125,471
DOL:	Unemployment Trust Fund	81,846	73,587
DOL:	Pension Benefit Guaranty Corporation Fund	61,162	55,626
DOE:	Nuclear Waste Disposal Fund	60,458	56,632
OPM:	Employees Life Insurance Fund	52,526	50,990
OPM:	Postal Service Retiree Health Benefits Fund	32,050	35,607
OPM:	Employees Health Benefits Fund	25,568	27,305
NCUA:	National Credit Union Share Insurance Fund	21,560	20,712
DOS:	Foreign Service Retirement and Disability Fund	21,055	20,681
HUD:	Guarantees of Mortgage-Backed Securities Capital Reserve Account	21,030	18,370
USPS:	Postal Service Fund	18,415	20,924
DOT:	Airport and Airway Trust Fund	16,601	10,818
Treasury:	Exchange Stabilization Fund	14,698	18,401
DOI:	Abandoned Mine Reclamation Fund	14,663	14,379
DOL:	Pension Benefit Guaranty Corporation Deposit Fund	11,297	13,731
EPA:	Hazardous Substance Superfund	11,006	9,360
ACE:	Harbor Maintenance Trust Fund	10,372	9,370
Other Programs and Funds		101,554	88,326
Total Intragovernmental Debt Holdings		$6,831,699	$6,624,872

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

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, 2023 and 2022, the inflation-adjusted principal balance of Intragovernmental Debt Holdings included inflation of $387,875 million and $336,203 million, respectively. The average interest rates on Intragovernmental Debt Holdings, excluding TIPS and FRNs, for fiscal years 2023 and 2022 were 2.7 percent and 2.3 percent, respectively. The average interest rates on TIPS for fiscal years 2023 and 2022 were 1.1 percent and 1.0 percent, respectively. The average interest rates on FRNs for fiscal years 2023 and 2022 were 5.4 percent and 3.0 percent, respectively. The average interest rate represents the original issue weighted effective yield on securities outstanding as of September 30, 2023 and 2022.

Fiscal year-end September 30, 2023, occurred on a Saturday. As a result, $1,908 million of GAS securities held by federal government accounts matured but not repaid is included in the balance of the Intragovernrnental Debt Holdings as of September 30, 2023. Settlement of this debt repayment occurred on Monday, October 2, 2023.

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

For the Fiscal Years Ended September 30, 2023 and 2022

(Dollars in Millions)

Note 4. Interest Expense

Interest expense on federal debt for fiscal years 2023 and 2022 consisted of the following:

	2023	2022
Federal Debt Held by the Public		
Accrued Interest	$488,098	$467,798
Net Amortization of (Premiums) and Discounts	189,900	28,735
Total Interest Expense on Federal Debt Held by the Public	677,998	496,533
Intragovernmental Debt Holdings		
Accrued Interest	200,667	238,759
Net Amortization of (Premiums) and Discounts	(3,181)	(11,660)
Total Interest Expense on Intragovernmental Debt Holdings	197,486	227,099
Total Interest Expense on Federal Debt Managed by Fiscal Service	$875,484	$723,632

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 $59,226 million and $143,326 million for fiscal years 2023 and 2022, respectively. Accrued interest on Intragovernmental Debt Holdings includes inflation adjustments of $42,224 million and $97,350 million for fiscal years 2023 and 2022, respectively.

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

For the Fiscal Years Ended September 30, 2023 and 2022

(Dollars in Millions)

Note 5. (Gain)/Loss 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, unmatured 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 2023 and 2022, there was one operational readiness buyback operation in each year, which involved the following:

	2023	2022
Total Amount Paid for Debt Buybacks, excluding accrued interest	$22	$20
Principal Amount of Debt Buybacks	24	25
Discount on Debt Buybacks	($2)	($5)
Write off of Net Unamortized Discounts on Debt Buybacks	0	1
(Gain)/Loss on Debt Buybacks	($2)	($4)

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, 2023

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 designing, implementing, and maintaining effective internal control over financial reporting 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 assessed the effectiveness of Fiscal Service's internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2023, 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 assessment, we conclude that, as of September 30, 2023, Fiscal Service's internal control over financial reporting relevant to the Schedule of Federal Debt was effective.

Tim Gribben

Timothy E. Gribben
Commissioner

Sandra R. Paylor

Sandra Paylor
Assistant Commissioner,
Fiscal Accounting

Daniel P. Berger
Chief Financial Officer,
Office of the Chief Financial Officer

Joseph Gioeli III
Chief Information Officer and
Assistant Commissioner,
Office of 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, 2023

Ms. Cheryl E. Clark, Director
Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Clark:

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, 2023, and 2022. We agree with the conclusions of your audit report.

This year we were faced with a Debt Issuance Suspension Period (DISP), which began in January and continued until the Statutory Debt Limit was suspended in June. The knowledge and experience displayed by your audit team related to our accounting operations provided timeliness and efficiency to the audit process as we encountered unique reporting requirements during these circumstances. We would like to thank you and your staff for the thorough audit of these schedules as we finalize the twenty-seventh year of our professional relationship. We look forward to sustaining a productive and successful relationship with your staff.

Sincerely,

Tim Gribben

Timothy E. Gribben
Commissioner
Bureau of the Fiscal Service

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