United States Government Accountability Office

Report to the Secretary of the Treasury

November 2021

FINANCIAL AUDIT

Bureau of the Fiscal Service's FY 2021 and FY 2020 Schedules of Federal Debt

Accessible Version

A Century of Non-Partisan Fact-Based Work

GAO-22-104592

GAO Highlights

Highlights of GAO-22-104592, 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. Intragovernmental debt holdings represent balances of Treasury securities held by 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.

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

View GAO-22-104592. For more information, contact Cheryl E. Clark at (202) 512-3406 or clarkce@gao.gov.

November 2021

FINANCIAL AUDIT

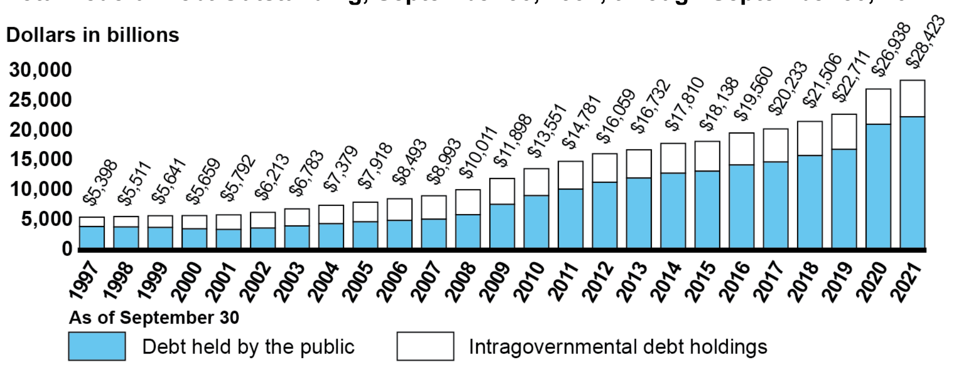
Bureau of the Fiscal Service's FY 2021 and FY 2020 Schedules of Federal Debt

What GAO Found

GAO found (1) the Bureau of the Fiscal Service's Schedules of Federal Debt for fiscal years 2021 and 2020 are fairly presented in all material respects, and (2) 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, 2021. 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 2021. Although Fiscal Service made some progress in addressing previously reported control deficiencies, unresolved information system control 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.

From fiscal year 1997, GAO's first year auditing the schedules, through September 30, 2021, total federal debt managed by Fiscal Service has increased from $5.4 trillion to $28.4 trillion, and the debt limit has been raised 21 times.

Total Federal Debt Outstanding, September 30, 1997, through September 30, 2021



Source: GAO analysis of Bureau of the Fiscal Service information. | GAO-22-104592
Note: A small amount of total federal debt is not subject to the debt limit.

During fiscal year 2021, total federal debt increased by $1.5 trillion, with debt held by the public increasing by $1.3 trillion, and intragovernmental debt holdings increasing by $0.2 trillion. The main factor for the increase in debt held by the public was the reported $2.8 trillion federal deficit in fiscal year 2021, which was due primarily to economic disruptions caused by COVID-19 and federal spending in response. The increase in debt held by the public was less than the deficit primarily because of a $1.6 trillion decrease in the government's cash balance.

Due to delays in raising the debt limit during fiscal year 2021, the Department of the Treasury deviated from its normal debt management operations and took extraordinary actions—consistent with relevant laws—to avoid exceeding the debt limit. Delays in raising the debt limit have created disruptions in the Treasury market and increased borrowing costs. To improve federal debt management and place the government on a sustainable long-term fiscal path, GAO has previously suggested that Congress consider establishing a long-term plan that includes alternative approaches to the debt limit, and fiscal rules and targets.

Contents

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

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

November 9, 2021

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 2021 and 2020 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, 2021, and 2020, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- our opinion that although internal controls could be improved, the Bureau of the Fiscal Service maintained, in all material respects, effective internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2021; 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.

The independent auditor's 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

[1]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. 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.

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, 2021, and 2020, federal debt managed by Fiscal Service totaled $28,423 billion and $26,938 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, September 30, 2021, and 2020 (Dollars in Billions)

	September 30, 2021	September 30, 2020
Debt held by the public	22,283	21,019
Intragovernmental debt holdings	6,140	5,919
Total federal debt	**28,423**	**26,938**

Source: GAO analysis of Fiscal Service information. | GAO-22-104592

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 ownership of Treasury securities represents a significant portion of debt held by the public.[2] As of June 30, 2021, the reported amount of foreign holdings of Treasury securities represented an estimated 34 percent of debt held by the public. This percentage is the same as the 34 percent of debt held by the public as of June 30, 2020, 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

[2]GAO, *Financial Audit: Bureau of the Fiscal Service's FY 2020 and FY 2019 Schedules of Federal Debt*, GAO-21-124 (Washington, D.C.: Nov. 9, 2020).

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

securities has increased from $983 billion as of June 30, 2001, to $7,047 billion as of June 30, 2020, and $7,497 billion as of June 30, 2021.[4] While estimated foreign holdings increased by $450 billion from June 30, 2020, to June 30, 2021, foreign holdings as a percentage of debt held by the public remained the same because domestic ownership of debt held by the public also increased.[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

[4]Department of the Treasury, *Major Foreign Holders of Treasury Securities*, accessed November 2, 2021, http://ticdata.treasury.gov/Publish/mfh.txt.

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

[6]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.

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

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 $28,423 billion as of September 30, 2021—an increase of 427 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 $22,283 billion as of September 30, 2021. During the last 4 fiscal years, as noted in the Overview on Federal Debt Managed by the Bureau of the Fiscal Service (Overview), total federal debt has increased by $8,190 billion, or 40 percent, from $20,233 billion as of September 30, 2017, to $28,423 billion as of September 30, 2021, with an increase of $4,210 billion—the largest annual dollar increase in history—occurring in fiscal year 2020. During fiscal year 2021, total federal debt increased by $1,485 billion and consisted of a (1) $1,264 billion increase in debt held by the public and (2) $221 billion increase in intragovernmental debt holdings.

The primary factor for the increase in debt held by the public was the federal deficit.[8] The reported federal deficit of $2,772 billion for fiscal year 2021 was the second largest recorded federal deficit in history, down from $3,132 billion for fiscal year 2020—the largest recorded federal deficit in history—and up from $984 billion, $779 billion, and $666 billion for fiscal years 2019, 2018, and 2017, respectively. The larger deficits in fiscal years 2020 and 2021 were due primarily to economic disruptions caused by the Coronavirus Disease 2019 (COVID-19) pandemic, which decreased revenues, and the additional spending by the federal

[7]For more information regarding the federal debt, see GAO, *America's Fiscal Future: Federal Debt*, accessed November 2, 2021, https://www.gao.gov/americas-fiscal-future/federal-debt.

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

government in response.[9] The fiscal year 2021 increase in debt held by the public of $1.3 trillion was less than the reported fiscal year 2021 federal deficit of $2.8 trillion primarily because of decreases in the government's cash balance of about $1.6 trillion and uninvested principal totaling $0.2 trillion, as discussed below, offset by guaranteed loan financing of $0.3 trillion.[10]

The federal government's fiscal response to the COVID-19 pandemic dramatically increased the government's borrowing needs.[11] During fiscal year 2020, Treasury met its unprecedented borrowing needs by initially increasing auction sizes for regularly scheduled short-term bills and increasing the issuance of cash management bills (CMB).[12] Starting in May 2020, Treasury began to shift its financing to longer-term securities. According to Treasury, it increased its long-term issuances as a prudent means of managing the debt maturity profile and limiting potential future

[9]The COVID-19 pandemic has resulted in catastrophic loss of life and substantial damage to the global economy, stability, and security. In response to the continuing crisis caused by COVID-19, Congress passed and the President signed legislation to fund response and recovery efforts. Together, this legislation appropriated about $4.8 trillion to fund the COVID-19 response and recovery efforts. As of March 2021, six relief laws had been enacted. No additional relief laws were enacted as of September 30, 2021. See GAO, *The Nation's Fiscal Health: After Pandemic Recovery, Focus Needed on Achieving Long-Term Fiscal Sustainability*, GAO-21-275SP (Washington, D.C.: Mar. 23, 2021), and *COVID-19: Additional Actions Needed to Improve Accountability and Program Effectiveness of Federal Response*, GAO-22-105051 (Washington, D.C.: Oct. 27, 2021).

[10]Federal guaranteed loan financing is 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, 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.

[11]GAO, *Federal Debt Management: Treasury Quickly Financed Historic Government Response to the Pandemic and Is Assessing Risks to Market Functioning*, GAO-21-606 (Washington, D.C.: Aug. 17, 2021).

[12]CMBs 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. In fiscal year 2021, Treasury modified its regular cadence of CMBs that was introduced in fiscal year 2020. Treasury discontinued the issuance of the 15- and 22-week CMBs in mid-February 2021 and the 6-week CMB in mid-August 2021, while the issuance of the 17-week CMB continued through the end of the fiscal year.

issuance volatility. During fiscal year 2021, Treasury continued to face sizable borrowing needs. Treasury met its borrowing needs with weekly bill auctions; CMBs; and monthly note, bond, Treasury Inflation-Protected Securities, and 2-year Floating Rate Note auctions. Treasury also continued to shift its financing to longer-term securities by increasing the auction sizes for these securities.

During fiscal year 2021, Treasury faced the additional challenge of managing federal debt close to the statutory debt limit.[13] The debt limit suspension that began in fiscal year 2019 continued through July 31, 2021, in accordance with the Bipartisan Budget Act of 2019.[14] Pursuant to this act, the statutory debt limit established in 31 U.S.C. § 3101(b) did not apply for the suspension period, which included the first 10 months of fiscal year 2021. Since neither an increase in the debt limit nor further suspension was enacted before the expiration of the suspension period, the debt limit was raised on August 1, 2021, to $28,401 billion—the amount of qualifying federal debt securities outstanding on that date.[15]

On August 2, 2021, Treasury began taking certain extraordinary actions consistent with relevant laws to avoid exceeding the debt limit and continued taking extraordinary actions beyond the end of the fiscal year.[16] These extraordinary actions included not issuing federal debt securities to certain federal government accounts, resulting in uninvested principal totaling $217 billion and related interest totaling $0.4 billion as of September 30, 2021. These amounts are appropriately not reported on the fiscal year 2021 Schedule of Federal Debt.

[13]The debt limit is a legal limit on the total amount of federal debt that can be outstanding at one time.

[14]Section 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 from August 2, 2019, through July 31, 2021, and established a process that resulted in an increase of the debt limit on August 1, 2021.

[15]A 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.

[16]Treasury considers actions that are not part of its normal cash and debt management operations “extraordinary actions.”

On October 14, 2021, the President signed into law legislation increasing the debt limit by $480 billion, from $28,401 billion to $28,881 billion.[17] Subsequent to the October 2021 debt limit increase, Treasury continued taking certain extraordinary actions consistent with relevant laws to avoid exceeding the debt limit. The Overview and Note 6 to the Schedules of Federal Debt provide details on the (1) extraordinary actions that Treasury took from August 2, 2021, through September 30, 2021; (2) uninvested principal as of September 30, 2021, and related interest; and (3) Treasury's continuation of certain extraordinary actions subsequent to the October 2021 increase in the debt limit.

Since 1997—our first year of auditing the Schedules of Federal Debt—the statutory debt limit has been raised 21 times, from $5,950 billion to $28,881 billion. As we have previously reported, 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.[18] 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.[19] Notably, delays in raising the debt limit have occurred in 10 of the last 11 fiscal years.

As part of a long-term fiscal plan, we have suggested that Congress consider alternative approaches to the current debt limit to avoid seriously disrupting the Treasury market and increasing borrowing costs and to

[17]Promoting Physical Activity for Americans Act, Pub. L. No. 117-50, 135 Stat.407 (Oct. 14, 2021).

[18]GAO, *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).

[19]GAO-15-476.

improve federal debt management.[20] We have described possible alternatives, such as linking action on the debt limit to the budget resolution, which better align decisions about the level of debt with decisions about spending and revenue.[21]

The federal government has run a deficit and added to its debt in every fiscal year since 2002. While responsive to the emergency, the pandemic response caused a substantial increase in the nation's debt, further complicating our government's fiscal condition and outlook. Debt held by the public as a share of gross domestic product (GDP) at the end of fiscal year 2021 was approximately 100 percent, similar to (but slightly below) the ratio at the end of fiscal year 2020, and up from approximately 79 percent at the end of fiscal year 2019.[22] This ratio decreased slightly in fiscal year 2021 because GDP, which increased as the economy continued to recover from the effects of the pandemic, grew faster than the debt.[23] 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 law and policy is projected to lead to continued growth in debt held by the public as a share of GDP.[24]

Interest on debt held by the public increased to $392 billion in fiscal year 2021—up from $371 billion in fiscal year 2020. As we have previously reported, persistently low interest rates have resulted in lower interest costs for the government in recent years.[25] However, 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

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[20]GAO-21-275SP.

[21]GAO, *The Nation's Fiscal Health: Action Needed to Achieve Long-Term Fiscal Sustainability*, GAO-19-611T (Washington, D.C.: June 26, 2019).

[22]GDP 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.

[23]In fiscal year 2021, GDP was about $22,358 billion, up from about $20,997 billion in fiscal year 2020.

[24]GAO, *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).

[25]GAO-21-275SP.

example, in its 2021 long-term budget outlook report, the Congressional Budget Office projected that interest rates on 10-year Treasury notes will rise from an average of 1.1 percent in mid-2021 to 3.4 percent in 2031 and 4.9 percent in 2051. Interest rates can also have a compounding effect on the debt, as borrowing to make interest payments adds to the debt.

Absent action to address the growing imbalance between spending and revenue, the federal government faces unsustainable growth in its debt. Once the pandemic recedes and the economy continues to recover, Congress and the administration should quickly pivot to developing an approach to place the government on a sustainable long-term fiscal path.

Such a plan is needed to ensure that the United States remains in a strong economic position to meet its security and social needs and would preserve the flexibility to address unforeseen events, such as public health emergencies. When developing this plan at the appropriate time, fiscal rules and targets can be used to help frame and control the overall results of spending and revenue decisions.[26] 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 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.

[26]Since 2017, we have reported that a plan is needed to put the federal government on a sustainable fiscal path. In September 2020, we raised a matter to Congress suggesting it establish a long-term fiscal plan that includes fiscal rules and targets. GAO, *The Nation's Fiscal Health: Effective Use of Fiscal Rules and Targets*, GAO-20-561 (Washington, D.C.: Sept. 23, 2020).

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

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Washington, DC 20548

Independent Auditor's Report

To the Commissioner of the Bureau of the Fiscal Service

In our audits of the fiscal years 2021 and 2020 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, 2021, and 2020, 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 maintained, in all material respects, effective internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2021; and
- no reportable noncompliance for fiscal year 2021 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

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

[2]31 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 Treasury's financial statements (see 31 U.S.C. § 3515(b)).

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.[3] We also have audited Fiscal Service's internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2021, 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, 2021, 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

[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.

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 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

[4]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.

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 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, 2021, and 2020, 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, 2021, based on criteria established under FMFIA. As discussed below in more detail, our fiscal year 2021 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 2021 Schedule of Federal Debt.

Although the significant deficiency in internal control did not affect our opinion on Fiscal Service's fiscal year 2021 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 2021 audit, we determined that information system control deficiencies—primarily unresolved deficiencies identified in prior

[5]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.

audits—collectively represent a significant deficiency in Fiscal Service's internal control over financial reporting. While Fiscal Service made some progress addressing previously reported information system control deficiencies, we continued to identify instances in which known information system vulnerabilities and deviations from baseline security requirements were not remediated on a timely basis. We also continued to identify instances in which certain controls for an information system did not properly restrict access to individuals requiring access, and the documentation describing the security architecture of the system needs improvement. Additionally, we continued to identify weaknesses in Fiscal Service's change management process. These control deficiencies relate to information system general controls in the areas of security management, access controls, and configuration management.[6] The potential effect of these deficiencies on Schedule of Federal Debt financial reporting for fiscal year 2021 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.

Fiscal Service made some progress in addressing information system general control weaknesses during fiscal year 2021. Specifically, Fiscal Service strengthened segregation of duties controls over certain administrator accounts and took steps toward remediating other previously reported control weaknesses.[7] However, most of the target dates Fiscal Service established for fully addressing the remaining previously identified control deficiencies extend beyond fiscal year 2021.

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[6]General 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.

[7]Segregation of duties controls include policies, procedures, and an organizational structure to manage who can control key aspects of computer-related operations.

Consequently, nearly all of the deficiencies that contributed to the significant deficiency we reported as of September 30, 2020, remained unresolved as of September 30, 2021. Further, based on our review of the corrective action plans for the unresolved deficiencies, the actions Fiscal Service has proposed to address many of these deficiencies do not appear sufficient to fully resolve the weaknesses. It will be important for Fiscal Service management to build on the progress made to improve existing processes for remediating control deficiencies. A good first step was Fiscal Service forming, in fiscal year 2021, an executive audit committee comprising senior executives charged with overseeing the agency's audit finding remediation efforts. Strengthening the role of this committee and ensuring that its members collectively have the technical expertise needed to oversee, question, and evaluate the corrective actions that management proposes and executes will be essential to addressing this significant deficiency and improving Fiscal Service's information system general controls.

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 2021 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.

Cheryl E. Clark

Cheryl E. Clark
Director
Financial Management and Assurance

November 2, 2021

Overview, Schedules, and Notes Prepared 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, 2021 and September 30, 2020, outstanding gross federal debt managed by Fiscal Service totaled $28,423 billion and $26,938 billion, respectively.[34] The increase in gross federal debt of $1,485 billion during fiscal year 2021 was due to an increase in gross debt held by the public of $1,264 billion and an increase in gross intragovernmental debt holdings of $221 billion. As Figure 1 illustrates, debt held by the public and intragovernmental debt holdings increased by $7,610 billion and $580 billion, respectively, from September 30, 2017 to September 30, 2021. The increases in debt held by the public are due primarily to total federal spending exceeding total federal revenues. During fiscal year 2021, Treasury continued to face sizable borrowing needs as a result of the federal government's response to the COVID-19 pandemic. Consequently, Treasury 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, Federal Housing Administration, Mutual Mortgage Insurance Capital Reserve Account, and the Medicare trust funds.[35]

Gross federal debt (with some adjustments) is subject to a statutory debt limit. 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. Per the act, the statutory debt limit was increased on August 1, 2021 to $28,401 billion. On Monday, August 2, 2021, Treasury began taking extraordinary actions to avoid exceeding the debt limit, which continued through the end of the fiscal year. The extraordinary actions included (1) suspending investments in the Government Securities Investments Fund (G-Fund) of the federal employees' Thrift Savings Plan and Civil Service Retirement and Disability Fund (CSRDF), (2) redeeming certain investments held by CSRDF and Postal Service Retiree Health Benefits Fund (Postal Benefits Fund) earlier than normal, and (3) suspending new issuances of State and Local Government Series (SLGS) securities. As of September 30, 2021 and September 30, 2020,

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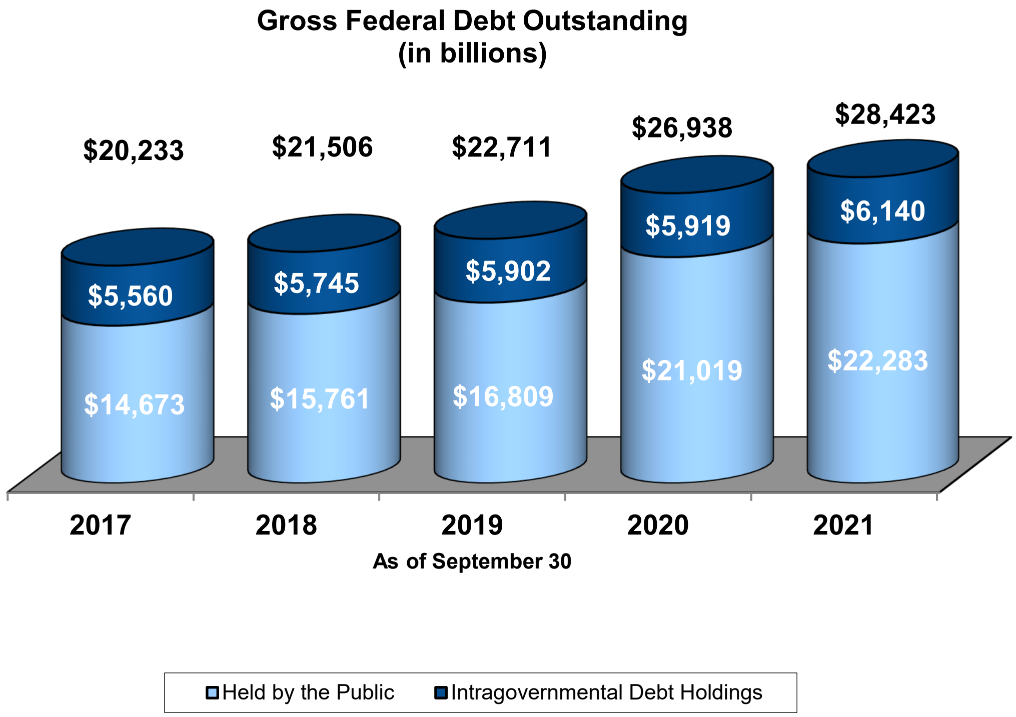
[34] Federal debt outstanding reported here differs from the amount reported in the Financial Report of the United States Government because of the securities not maintained or reported by Fiscal Service which are issued by the Federal Financing Bank and other federal agencies.

[35] 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.

outstanding debt obligations subject to the statutory debt limit were $28,401 billion and $26,920 billion, respectively.

Figure 1



Interest Expense

Interest expense incurred during fiscal year 2021 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 2021, interest expense incurred totaled $575 billion; this consisted of interest expense on debt held by the public of $392 billion, and $183 billion in interest incurred for intragovernmental debt holdings.

As Figure 2 illustrates, total interest expense increased from fiscal year 2017 to 2018, 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.

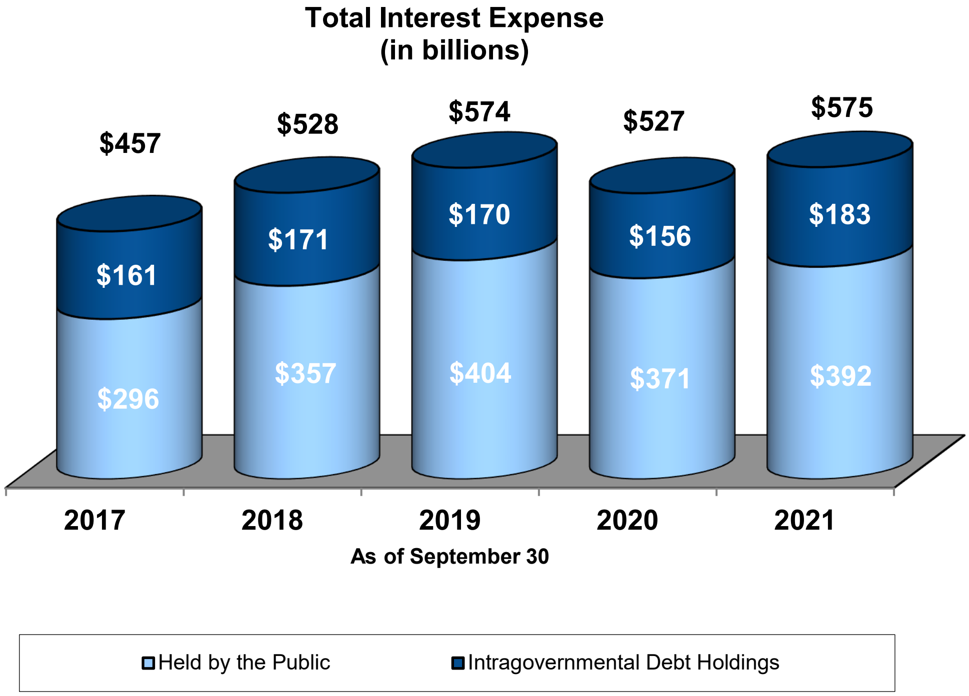
From fiscal year 2018 to 2019, total interest expense increased from $528 billion to $574 billion. This increase resulted from an increase in interest expense on debt held by the public of $47 billion and a decrease in interest expense on intragovernmental debt holdings of $1 billion. The $47 billion 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.

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. Average interest rates on principal balances outstanding as of September 30, 2021 and 2020, are disclosed in the Notes to the Schedules of Federal Debt.

Figure 2



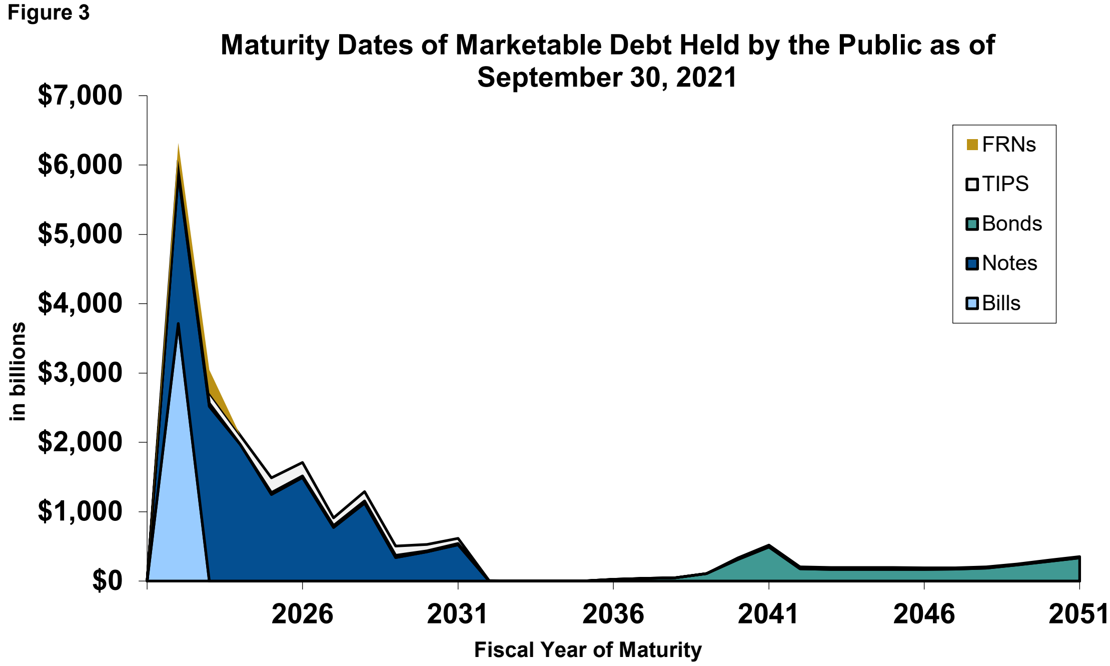
Debt Held by the Public

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 2021, Treasury continued to face sizeable borrowing needs as a result of spending by the federal government in response to the COVID-19 pandemic. Consequently, Treasury continued to increase auction sizes across all nominal coupon securities and Floating Rate Notes (FRNs) through January 2021, with a gradual increase in TIPS issuances throughout fiscal year 2021.

During fiscal year 2021, Treasury primarily used the existing suite of securities to meet the borrowing needs of the federal government. Treasury notes, bonds, TIPS, and FRNs increased by $1,914 billion, $673 billion, $130 billion, $101 billion, respectively, while Treasury bills decreased by $1,315 billion in fiscal year 2021. As of September 30, 2021 and 2020, gross debt held by the public totaled $22,283 billion and $21,019 billion, respectively (see Figure 1), an increase of $1,264 billion.

As of September 30, 2021, $21,855 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, 2021, $12,946 billion, or 59 percent, will mature within the next four years (see Figure 3). As of September 30, 2021 and 2020, total marketable debt held by the public maturing within the next 10 years totaled $18,501 billion and $17,716 billion, respectively, an increase of $785 billion.

Figure 3



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, 2021, nonmarketable securities totaled $427 billion, or 2 percent of debt held by the public. As of that date, nonmarketable securities primarily consisted of U.S. Savings Securities totaling $144 billion, State and Local Government Series (SLGS) securities totaling $127 billion, Government Account Series (GAS) securities totaling $121 billion, and Domestic Series securities totaling $33 billion. During fiscal year 2021, U.S. Savings Securities, GAS securities, and Domestic Series securities decreased by $5 billion, $171 billion, $83 billion, respectively, while SLGS securities increased by $20 billion. As of September 30, 2021 and 2020, total nonmarketable securities totaled $427 billion and $666 billion, respectively, a decrease of $239 billion. This decrease primarily resulted from (1) the suspension of investments to the G-Fund related to the extraordinary actions taken due to the delay in raising the debt limit that continued to exist as of September 30, 2021, and (2) the redemption of Special Purpose Vehicle (SPV) Domestic Series securities, as discussed in Note 2.

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.

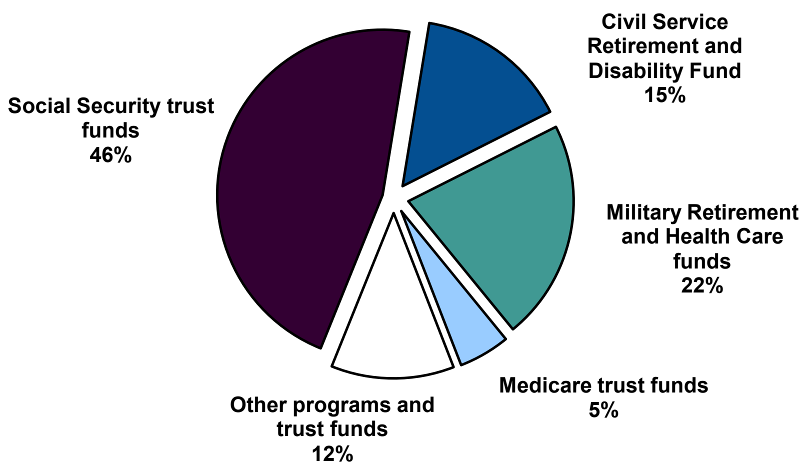
Intragovernmental Debt Holdings

Intragovernmental debt holdings represent balances of Treasury securities held by federal government accounts. There are over 235 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.[36] As of September 30, 2021, such funds accounted for $5,402 billion, or 88 percent, of the $6,140 billion intragovernmental debt holdings balance (see Figure 4). As of September 30, 2021 and 2020, gross intragovernmental debt holdings totaled $6,140 billion and $5,919 billion, respectively (see Figure 1), an increase of $221 billion. This increase is primarily the result of (1) an increase in the Military Retirement and Health Care funds of $137 billion, (2) an increase in the Medicare trust funds $85 billion, (3) an increase in the Federal Housing Administration, Mutual Mortgage Insurance Capital Reserve Account of $26 billion, (4) an increase in the Exchange Stabilization Fund of $12 billion, (5) an increase in the Postal Service Fund of $10 billion, and (6) an increase in the Airport and Airway Trust Fund of $8 billion, offset by (1) a decrease in the Federal Old-Age Survivors Insurance Trust Fund of $55 billion, and (2) a decrease in the CSRDF of $35 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, 2021



[36] 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 2021

Delay in Raising the Statutory Debt Limit

A delay in raising the statutory debt limit began on August 2, 2021 and continued through the end of fiscal year 2021. During this period, 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, and (3) suspending new issuances of SLGS securities.

A delay in raising the statutory debt limit continued to exist as of September 30, 2021. Many extraordinary actions taken by Treasury during the period August 2, 2021 through September 30, 2021 resulted in federal debt securities not being issued to certain federal government accounts. Consequently, the resulting uninvested principal as of September 30, 2021, totaling $217,188 million and related interest totaling $409 million are not reported on the fiscal year 2021 Schedule of Federal Debt. Uninvested principal amounts for the G-Fund and the CSRDF were $156,696 million and $60,492 million respectively, as of September 30, 2021. Additionally, the related interest for the G-Fund, CSRDF, and Postal Benefits Fund that would have been accrued and/or paid during the period of August 2, 2021 through September 30, 2021, would have been $339 million, $68 million, and $2 million, respectively, on September 30, 2021.

Significant Actions Related to the Continued Impact of COVID-19

Significant Actions Related to the Issuance of Marketable Securities

In fiscal year 2020, 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 cash management bills (CMBs), Treasury began to shift financing from bills to longer-term securities beginning in May 2020. Treasury increased its long-term issuances as a prudent means of managing its maturity profile and limiting potential future issuance volatility. During fiscal year 2021, Treasury continued to face sizable borrowing needs and continued to increase auction sizes across all nominal coupon and FRN securities through January 2021, with a gradual increase in TIPS issuances throughout fiscal year 2021. Further, Treasury reduced the outstanding bills balance as of September 30, 2021 compared to the balance as of September 30, 2020. In fiscal year 2021, Treasury modified its regular cadence of CMBs that was introduced in fiscal year 2020. Treasury discontinued the issuance of the 15- and 22-week CMBs in mid-February 2021 and the 6-week CMB in mid-August 2021, while the issuance of the 17-week CMB continued through the end of fiscal year 2021.

Significant Events in Fiscal Year 2021, cont.

Nonmarketable Special Purpose Vehicle Securities

In fiscal year 2020, 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. In fiscal year 2020, certain SPVs invested in special nonmarketable Treasury securities (known as SPV securities), which are securities that

Treasury established 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 redemptions in fiscal year 2021 was $74 billion, including $22 million in capitalized interest, and there were no issuances. As of fiscal year 2021 and 2020, the total amount of SPV securities outstanding were $22 billion and $96 billion, respectively.

System Open Market Account Holdings

On December 17, 2020, the Federal Open Market Committee directed the Open Market Trading Desk to continue to increase System Open Market Account (SOMA) holdings of Treasury securities by $80 billion per month. As of September 30, 2021 and September 30, 2020, SOMA holdings were $3,804 billion and $4,050 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 Continuing 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 continued response, many federal government account investment balances fluctuated significantly from the prior year, including the following:

- The Federal Supplementary Medical Insurance Trust Fund (SMI) investment balances increased from $87 billion as of September 30, 2020 to $171 billion as of September 30, 2021. The Continuing Appropriations Act, 2021 and Other Extensions Act (P.L. 116-159) (Act) enacted new provisions that resulted in the transfers of funds from the General Fund of the Treasury into the SMI, which account for the majority of the increase in the SMI investment balance. First, the Act authorized the transfer of funds into the SMI to cover the expenditures associated with the COVID-19 Accelerated and Advance Program (AAP) payments, which the Centers for Medicare & Medicaid Services (CMS) advanced to Medicare providers and suppliers in order to lessen the financial burden of the COVID-19 pandemic. The Act amended the repayment terms for all AAPs by delaying the repayment period by one year and authorized a transfer from the General Fund of the Treasury to the SMI, which will be repaid as AAP payments are collected. Second, the Act changed how certain 2021 actuarial rates are calculated, resulting in lower premiums. The lower revenue will be replaced by a transfer from the General Fund of the Treasury to the SMI.

Significant Events in Fiscal Year 2021, cont.

- The Exchange Stabilization Fund's (ESF) investment balance increased from $11 billion as of September 30, 2020 to $23 billion as of September 30, 2021. During fiscal year 2020, Treasury, from the ESF, provided $10 billion and $1.5 billion of credit protection to the Federal Reserve in connection with the Money Market Mutual Fund Liquidity Facility (MMLF) and the Commercial Paper Funding Facility (CPFF), respectively, which were established to support the flow of credit to households and businesses. During fiscal year 2021, both programs expired, and the investments in the MMLF and CPFF were returned to Treasury.
- The Airport and Airway Trust Fund (AATF) investment balance increased from $8 billion as of September 30, 2020 to $16 billion as of September 30, 2021. During fiscal year 2020, the AATF investment balance decreased as a result of the Coronavirus Aid, Relief, and Economic Security (CARES) Act suspending certain air travel excise taxes (i.e., transportation by air and kerosene for use in commercial aviation), which are the main source of funding for the AATF, along with the reduced demand for travel services

decreasing the amount of excise taxes collected. The Continuing Appropriations Act, 2021 and Other Extensions Act, (Public Law 116–159) appropriated $14 billion to the AATF, which, along with the expiration of the CARES Act suspension of air travel excise taxes, contributed to the increase in the AATF investment balance.

- The Postal Service Fund investment balance increased from $15 billion as of September 30, 2020 to $25 billion as of September 30, 2021. The increase is primarily due to funding provided by the CARES Act to be used for operating expenses related to the impact of the COVID-19 pandemic.

Historical Perspective

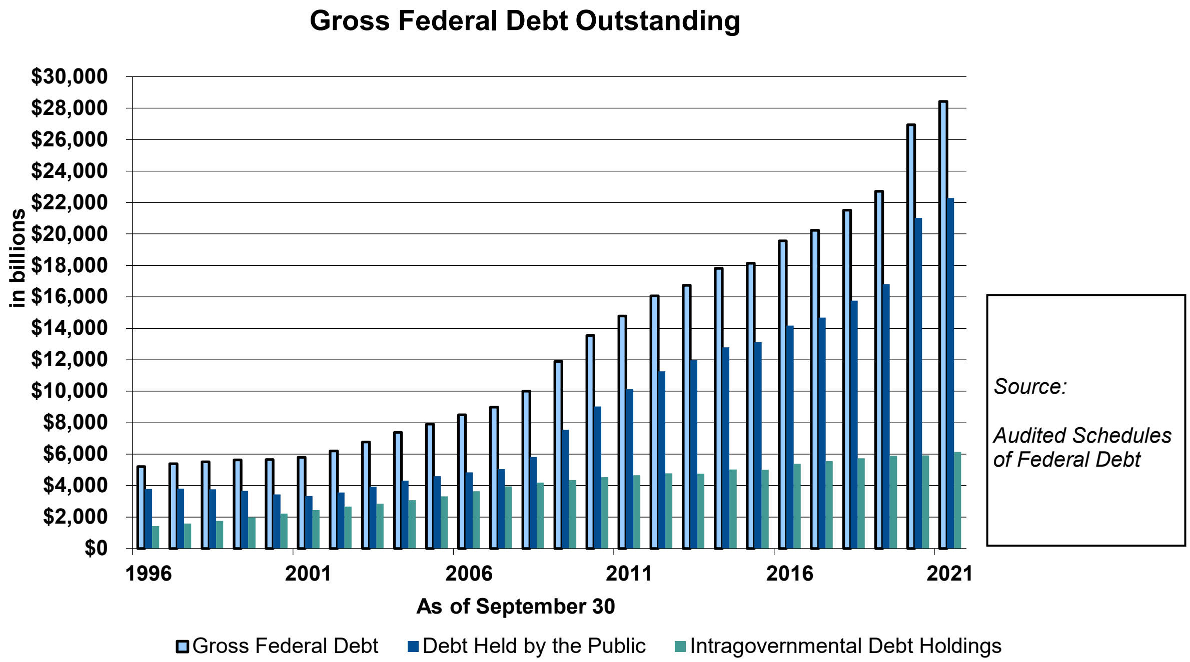
Federal debt outstanding is the largest legally binding obligation of the federal government. Nearly all the federal debt has been issued by Treasury with a small portion being issued by other federal agencies. Treasury issues debt securities for two principal reasons, (1) to borrow needed funds to finance 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 $5,210 billion as of September 30, 1996, to $28,423 billion as of September 30, 2021.

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 increase in the gross federal debt from $5,210 billion to $5,398 billion as of September 30, 1996 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.

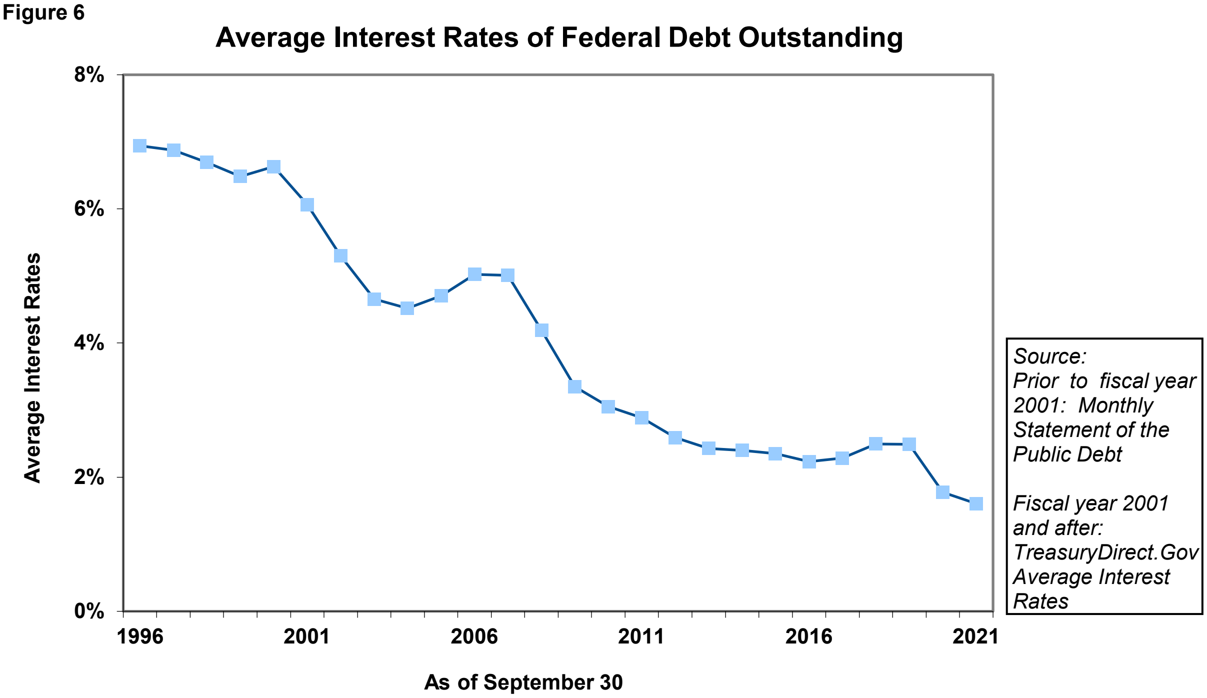
Beginning in fiscal year 2002, the federal budget returned to an annual deficit position, which resulted in an increase in debt held by the public. Federal debt held by the public increased from $3,339 billion to $5,049 billion from fiscal year 2002 through fiscal year 2007, an increase of 51 percent. 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 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. Since fiscal year 2002, debt held by the public has increased from $3,339 billion as of September 30, 2001 to $22,283 billion as of September 30, 2021. Intragovernmental debt holdings increased from $2,453 billion to $6,140 billion during the same time period.

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



Significant Change After Fiscal Year 2021 Affecting Federal Debt

A delay in raising the statutory debt limit existed at the end of fiscal year 2021 and continued into fiscal year 2022. On Thursday, 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. On Monday, October 18, 2021, the Secretary of the Treasury notified Congress that the recent increase in the statutory debt limit provided only a temporary reprieve, and that Treasury would need to continue to use certain extraordinary actions. With the increase in the debt limit and the continued use of extraordinary actions, Treasury expects to be able to manage under the debt limit until December 3, 2021.

Schedules of Federal Debt

Managed by the Bureau of the Fiscal Service
For the Fiscal Years Ended September 30, 2021 and 2020
(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, 2019	**$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**
Balance as of September 30, 2020	**21,018,952**	**70,600**	**(26,702)**	**5,919,177**	**35,894**	**72,258**
Increases						
Borrowings from the Public	20,407,021		(9,466)			
Net Increase in Intragovernmental Debt Holdings				220,788		25,404
Accrued Interest (Note 4)		382,661			194,172	
Total Increases	**20,407,021**	**382,661**	**(9,466)**	**220,788**	**194,172**	**25,404**
Decreases						
Repayments of Debt Held by the Public	19,143,073					
Interest Paid		384,103			195,193	
Net Amortization (Note 4)			(9,328)			11,473
Total Decreases	**19,143,073**	**384,103**	**(9,328)**	**0**	**195,193**	**11,473**
Balance as of September 30, 2021	**$22,282,900**	**$69,158**	**($26,840)**	**$6,139,965**	**$34,873**	**$86,189**

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 2021 and fiscal year 2020 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, 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.

Note 2. Federal Debt Held by the Public

As of September 30, 2021 and 2020, Federal Debt Held by the Public consisted of the following:

	2021		2020	
	Amount	Average Interest Rates	Amount	Average Interest Rates
Marketable:				
Treasury Bills	$3,712,952	0.1 %	$5,028,127	0.2 %
Treasury Notes	12,570,463	1.4 %	10,655,969	1.9 %
Treasury Bonds	3,340,760	3.1 %	2,668,116	3.5 %
TIPS	1,651,998	0.5 %	1,522,418	0.7 %
Floating Rate Notes	579,292	0.4 %	478,320	0.3 %
Total Marketable	$21,855,465		$20,352,950	
Nonmarketable	$427,435	1.3 %	$666,002	1.1 %
Total Federal Debt Held by the Public	$22,282,900		$21,018,952	

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, 2021 and 2020. 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, 2021 and 2020. 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, 2021 and 2020. The TIPS Federal Debt Held by the Public inflation-adjusted principal balance includes inflation of $217,054 million and $150,951 million as of September 30, 2021 and 2020, 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, 2021 and 2020, adjusted by any discount or premium on securities outstanding as of these dates. These notes are currently issued with a term of two years.

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, 2021, the FRB's SOMA had total holdings of $3,803,739 million, which (1) excludes $1,627,968 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, 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. For fiscal years ended September 30, 2021 and 2020, interest expense related to the FRB's SOMA holdings of Treasury securities was $87,129 million and $64,276 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, 2021 and 2020. Nonmarketable securities are issued with a term of on demand out to 40 years.

As of September 30, 2021 and 2020, nonmarketable securities consisted of the following:

	2021	2020
Domestic Series	$32,781	$116,100
Foreign Series	264	264
State and Local Government Series	127,047	106,607
United States Savings Securities	143,662	148,677
Government Account Series	120,537	291,831
Other	3,144	2,523
Total Nonmarketable	$427,435	$666,002

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. The total amount of SPV redemptions in fiscal year 2021 was $74 billion, including $22 million in capitalized interest, and there were no issuances. As of September 30, 2021 and 2020, the total amount of SPV securities outstanding were $22 billion and $96 billion, respectively.

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, 2021 and 2020, the GAS securities held by the G-Fund were $116,063 million and $287,095 million, respectively.

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

The net decrease in the fund’s principal balance during fiscal year 2021 is included in the Repayments of Debt Held by the Public amount reported on the Schedules of Federal Debt. 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.

Note 3. Intragovernmental Debt Holdings

As of September 30, 2021 and 2020, Intragovernmental Debt Holdings are owed to the following:

		2021	2020
SSA:	Federal Old-Age and Survivors Insurance Trust Fund	$2,755,785	$2,811,213
DOD:	Military Retirement Fund	1,032,000	916,264
OPM:	Civil Service Retirement and Disability Fund	919,793	954,821
DOD:	Medicare-Eligible Retiree Health Care Fund	289,738	268,894
HHS:	Federal Supplementary Medical Insurance Trust Fund	170,677	87,477
HHS:	Federal Hospital Insurance Trust Fund	136,168	133,735
FDIC:	Deposit Insurance Fund	115,527	108,949
SSA:	Federal Disability Insurance Trust Fund	98,032	97,209
HUD:	FHA, Mutual Mortgage Insurance Capital Reserve Account	94,132	67,937
DOE:	Nuclear Waste Disposal Fund	55,319	54,666
DOL:	Unemployment Trust Fund	53,135	50,515
DOL:	Pension Benefit Guaranty Corporation Fund	50,323	45,553
OPM:	Employees Life Insurance Fund	50,151	49,129
OPM:	Postal Service Retiree Health Benefits Fund	38,849	41,868
OPM:	Employees Health Benefits Fund	27,976	28,328
USPS:	Postal Service Fund	24,655	14,991
Treasury:	Exchange Stabilization Fund	22,837	11,170
DOS:	Foreign Service Retirement and Disability Fund	20,347	19,981
NCUA:	National Credit Union Share Insurance Fund	18,528	16,610
DOT:	Airport and Airway Trust Fund	15,902	7,900
DOL:	Pension Benefit Guaranty Corporation Deposit Fund	14,984	12,913
HUD:	Guarantees of Mortgage-Backed Securities Capital Reserve Account	14,171	8,400
DOC:	Public Safety Trust Fund, NTIA	12,159	7,666
DOT:	Highway Trust Fund	12,043	12,081
Other Programs and Funds		96,734	90,907
Total Intragovernmental Debt Holdings		$6,139,965	$5,919,177

Social Security Administration (SSA); Department of Defense (DOD); Office of Personnel Management (OPM); 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); United States Postal Service (USPS); Department of the Treasury (Treasury); Department of State (DOS); National Credit Union Administration (NCUA); Department of Transportation (DOT); Department of Commerce (DOC); National Telecommunications and Information Administration (NTIA).

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, 2021 and 2020, the inflation-adjusted principal balance of Intragovernmental Debt Holdings included inflation of $236,642 million and $183,009 million, respectively. The average interest rates on Intragovernmental Debt Holdings, excluding TIPS and FRNs, for fiscal years 2021 and 2020 were 2.1 percent and 2.3 percent, respectively. The average interest rates on TIPS for fiscal years 2021 and 2020 were 1.1 percent and 1.3 percent, respectively. The average interest rates on FRNs for fiscal years 2021 and 2020 were 0.1 percent and 0.2 percent, respectively. The average interest rate represents the original issue weighted effective yield on securities outstanding as of September 30, 2021 and 2020.

Note 4. Interest Expense

Interest expense on federal debt for fiscal years 2021 and 2020 consisted of the following:

	2021	2020
Federal Debt Held by the Public		
Accrued Interest	$382,661	$334,133
Net Amortization of (Premiums) and Discounts	9,328	36,957
Total Interest Expense on Federal Debt Held by the Public	391,989	371,090
Intragovernmental Debt Holdings		
Accrued Interest	194,172	158,844
Net Amortization of (Premiums) and Discounts	(11,473)	(2,694)
Total Interest Expense on Intragovernmental Debt Holdings	182,699	156,150
Total Interest Expense on Federal Debt Managed by Fiscal Service	$574,688	$527,240

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 $82,754 million and $14,540 million for fiscal years 2021 and 2020, respectively. Accrued interest on Intragovernmental Debt Holdings includes inflation adjustments of $52,983 million and $8,598 million for fiscal years 2021 and 2020, 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 a net gain of $365 million in fiscal year 2021 and a net loss of $4,229 million in fiscal year 2020.

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.

There was one operational readiness buyback during fiscal year 2021 and two operational readiness buybacks in fiscal year 2020, which involved the following:

	2021	2020
Total Amount Paid for Debt Buybacks, excluding accrued interest	$25	$53
Principal Amount of Debt Buybacks	25	53
Discount on Debt Buybacks	$0	$0
Write off of Net Unamortized Discounts on Debt Buybacks	-	-
(Gain)/Loss on Debt Buybacks	$0	$0

Note 6. Uninvested Principal and Related Interest and Subsequent Event

A delay in raising the statutory debt limit existed as of September 30, 2021. When delays in raising the statutory debt limit occur, Treasury often must deviate from its normal debt management operations and take a number of extraordinary actions consistent with relevant laws and regulations to meet the government's obligation as they come due without exceeding the debt limit. Many extraordinary actions taken by Treasury during the period of August 2, 2021 through September 30, 2021 resulted in federal debt securities not being issued to certain federal government accounts. Consequently, the resulting uninvested principal as of September 30, 2021, totaling $217,188 million and related interest totaling $409 million are not reported on the fiscal year 2021 Schedule of Federal Debt. Uninvested principal amounts for the G-Fund, and the Civil Service Retirement and Disability Fund (CSRDF) were $156,696 million, and $60,492 million respectively, as of September 30, 2021. Additionally, the related interest for the G-Fund, CSRDF, and Postal Service Retirees Health Benefits Fund (Postal Benefits Fund) that would have been accrued and/or paid during the period of August 2, 2021 through September 30, 2021, would have been $339 million, $68 million, and $2 million, respectively, on September 30, 2021.

On Thursday, 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. On Monday, October 18, 2021, the Secretary of the Treasury notified Congress that the recent increase in the statutory debt limit provided only a temporary reprieve, and that Treasury would need to continue to use extraordinary actions. With the increase in the debt limit and the continued use of extraordinary actions, Treasury expects to be able to manage under the debt limit until December 3, 2021.

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

November 2, 2021

Management's Report on Internal Control over Financial ReportingRelevant 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 preparationof 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 frommaterial 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 Scheduleof Federal Debt as of September 30, 2021, 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, 2021, 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

Daniel P. Berge Chief Financial Officer and Assistant Commissioner, Office of Management (Acting)

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

Appendix II: Comments from the Bureau of the Fiscal Service

November 3, 2021

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, 2021 and 2020. We agree with the conclusions of your audit report.

This year continued to challenge us with a continued all virtual work environment as a result of the Coronavirus Disease 2019 (COVID-19) pandemic. We were also faced with a Debt Issuance Suspension Period (DISP), which went into effect beginning in August 2021 and continued into the next fiscal year. The knowledge and experience displayed by your audit team related to our accounting operations provided timeliness and efficiency to the audit process even as we encountered unique constraints during these circumstances. We would like to thank you and your staff for the thorough audit of these schedules as we finalize the twenty-fifth year of our professional relationship. We look forward to sustaining a productive and successful relationship with your staff.

Sincerely,

Timothy E. Gribben Commissioner

(104592)

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