United States Government Accountability Office

GAO

Report to the Secretary of the Treasury

November 2009

FINANCIAL AUDIT

Bureau of the Public Debt's Fiscal Years 2009 and 2008 Schedules of Federal Debt

G A O

Accountability * Integrity * Reliability

GAO-10-88

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GAO Accountability•Integrity•Reliability

Highlights

Highlights of GAO-10-88, a report to the Secretary of the Treasury

Why GAO Did This Study

GAO is required to audit the consolidated financial statements of the U.S. government. Because of the significance of the federal debt held by the public to the governmentwide financial statements, GAO audits the Bureau of the Public Debt's (BPD) Schedules of Federal Debt annually. The audit of these schedules is done to determine whether, in all material respects, (1) the schedules are reliable and (2) BPD management maintained effective internal control over financial reporting relevant to the Schedule of Federal Debt. Further, GAO tests compliance with a significant provision of law related to the Schedule of Federal Debt (statutory debt limit).

Federal debt managed by BPD consists of Treasury securities held by the public and by certain federal government accounts, referred to as intragovernmental debt holdings. The level of debt held by the public primarily reflects how much of the nation's wealth has been absorbed by the federal government to finance prior federal spending in excess of federal revenues. Intragovernmental debt holdings represent balances of Treasury securities held by federal government accounts, primarily federal trust funds such as Social Security, that typically have an obligation to invest their excess annual receipts over disbursements in federal securities.

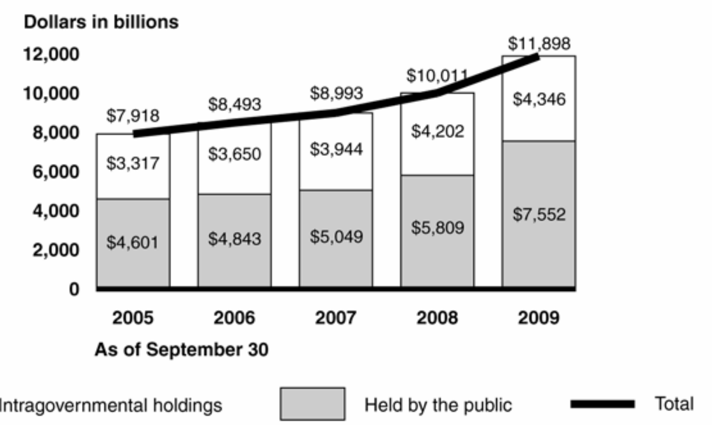
For a fuller understanding of GAO's opinion on BPD's fiscal years 2009 and 2008 Schedules of Federal Debt, readers should refer to the complete audit report, available by clicking on GAO-10-88, which includes information on audit objectives, scope, and methodology. For more information, contact Gary T. Engel at (202) 512-3406 or engelg@gao.gov.

What GAO Found

In GAO's opinion, BPD's Schedules of Federal Debt for fiscal years 2009 and 2008 were fairly presented in all material respects, and BPD maintained effective internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2009. GAO found no instances of noncompliance in fiscal year 2009 with the statutory debt limit.

As of September 30, 2009 and 2008, federal debt managed by BPD totaled about $11,898 billion and $10,011 billion, respectively. As shown in figure 1 below, total federal debt increased over each of the last 4 fiscal years.

Figure 1 – Total Gross Federal Debt Outstanding (Fiscal Years Ended September 30, 2005–2009)



Source: BPD.

During the last 4 fiscal years, managing the federal debt has continued to be a challenge as evidenced by the growth of total federal debt by $3,980 billion, or 50 percent, from $7,918 billion as of September 30, 2005, to $11,898 billion as of September 30, 2009. The increase to the federal debt has become particularly acute since the onset of the recession in December 2007. Federal government actions in response to both the financial market crisis and the economic downturn have added significantly to Treasury's borrowing needs. The fiscal year 2008 increase in total federal debt of $1,018 billion was the largest annual dollar increase in history; only to be surpassed by the fiscal year 2009 increase of $1,887 billion. During fiscal years 2008 and 2009, legislation was enacted to raise the statutory debt limit on three different occasions. During this period, the statutory debt limit went from $9,815 billion to its current level of $12,104 billion, an increase of 23 percent.

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Abbreviations

BPD	Bureau of the Public Debt
GDP	Gross Domestic Product

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United States Government Accountability Office
Washington, DC 20548

November 10, 2009

The Honorable Timothy F. Geithner
The Secretary of the Treasury

Dear Mr. Secretary:

The accompanying auditor's report presents the results of our audits of the Schedules of Federal Debt Managed by the Bureau of the Public Debt for the fiscal years ended September 30, 2009 and 2008. The Schedules of Federal Debt present the beginning balances, increases and decreases, and ending balances for (1) Federal Debt Held by the Public and Intragovernmental Debt Holdings, (2) the related Accrued Interest Payables, and (3) the related Net Unamortized Premiums and Discounts managed by the Bureau of the Public Debt (BPD).[1]

The auditor's report contains our (1) opinion on the Schedules of Federal Debt for the fiscal years ended September 30, 2009 and 2008, (2) opinion on the effectiveness of relevant internal control over financial reporting as of September 30, 2009, (3) conclusion on BPD's compliance in fiscal year 2009 with a selected provision of a law we tested, and (4) conclusion on the consistency between information in the Schedules of Federal Debt and the accompanying Overview on Federal Debt Managed by the Bureau of the Public Debt.

As of September 30, 2009 and 2008, federal debt managed by the bureau totaled about $11,898 billion and $10,011 billion, respectively, primarily for moneys borrowed to fund the federal government's operations. As shown on the Schedules of Federal Debt, these balances consisted of approximately (1) $7,552 billion as of September 30, 2009, and $5,809 billion as of September 30, 2008, of debt held by the public and about (2) $4,346 billion as of September 30, 2009, and $4,202 billion as of September 30, 2008, of intragovernmental debt holdings.

The level of debt held by the public primarily reflects how much of the nation's wealth has been absorbed by the federal government to finance prior federal spending in excess of federal revenues. It represents the cumulative effect of past federal borrowing on today's economy and the

[1]Intragovernmental Debt Holdings represent federal debt issued by Treasury and held by certain federal government accounts, such as the Social Security and Medicare trust funds.

federal budget. To finance a cash deficit, the federal government borrows from the public. When a cash surplus occurs, the annual excess funds can then be used to reduce debt held by the public. In other words, annual cash deficits or surpluses generally approximate the annual net change in the amount of federal government borrowing from the public.

Intragovernmental debt holdings represent balances of Treasury securities held by federal government accounts, primarily federal trust funds (e.g., Social Security), that typically have an obligation to invest their excess annual receipts over disbursements in federal securities. Most federal trust funds invest in special U.S. Treasury securities that are guaranteed for principal and interest by the full faith and credit of the U.S. government. The federal government uses the trust funds' invested cash surpluses to assist in funding other federal government operations. The Treasury securities held by the federal government accounts are not shown as balances on the federal government's consolidated financial statements because, under current U.S. generally accepted accounting principles, they represent loans from one part of the federal government to another. When the federal government's financial statements are consolidated, those offsetting balances are eliminated. These securities are nonmarketable; however, they represent a priority call on future federal budgetary resources.

While both are important, debt held by the public and intragovernmental debt holdings are very different. Debt held by the public approximates the federal government's competition with other sectors in the credit markets. Federal borrowing absorbs resources available for private investment and may put upward pressure on interest rates. In addition, interest on debt held by the public is paid in cash and represents a burden on current taxpayers. It reflects the amount the federal government pays to its outside creditors. In contrast, intragovernmental debt holdings typically do not require cash payments from the current budget or represent a burden on the current economy. In addition, from the perspective of the budget as a whole, interest payments to federal government accounts by Treasury are entirely offset by the income received by such accounts. This intragovernmental debt and related interest represent a claim on future resources and hence a burden on future taxpayers and the future economy. Specifically, when trust funds redeem Treasury securities to obtain cash to fund expenditures, Treasury usually borrows from the public to finance these redemptions. Such borrowings result in competition for funds with the private sector and thus an effect on the economy.

We have audited the Schedule of Federal Debt since fiscal year 1997. Over this period, total federal debt has more than doubled, increasing by 120 percent. During the last 4 fiscal years, managing the federal debt has continued to be a challenge as evidenced by the growth of total federal debt by $3,980 billion, or 50 percent, from $7,918 billion as of September 30, 2005, to $11,898 billion as of September 30, 2009. The increase to the federal debt has become particularly acute since the onset of the recession in December 2007. Federal government actions in response to both the financial market crisis and the economic downturn have added significantly to Treasury's borrowing needs. The fiscal year 2008 increase in total federal debt of $1,018 billion was the largest annual dollar increase in history; only to be surpassed by the fiscal year 2009 increase of $1,887 billion. Of the fiscal year 2009 increase, about $1,743 billion was from the increase in debt held by the public and about $144 billion was from the increase in intragovernmental debt holdings. Two primary factors contributed to the increase in debt held by the public. First, there was the largest reported deficit in history of $1.4 trillion in fiscal year 2009, compared to $455 billion in fiscal year 2008. Second, a significant amount of assets were purchased primarily relating to the Government Sponsored Enterprise Mortgage-Backed Securities Purchase Program and the Troubled Asset Relief Program in which debt was borrowed to fund the purchases. Treasury met its borrowing needs in part by reintroducing the 3-year and 7-year notes, both issued monthly, and increasing the amounts offered at public debt auctions. Further, Treasury added offerings of both the 30-year bond and the 10-year note resulting in 12 additional auctions a year. During fiscal years 2008 and 2009, legislation was enacted to raise the statutory debt limit on three different occasions. During this period, the statutory debt limit went from $9,815 billion to its current level of $12,104 billion, an increase of 23 percent. Legislation to increase the statutory debt limit to $13,029 billion was passed by the House of Representatives and referred to the Senate. In addition, the Secretary of the Treasury has requested an increase in the statutory debt limit. As of November 2, 2009, an increase had not been enacted.

Weaknesses in the economy and financial markets—and the federal government's response to them—are expected to impact both the annual federal deficit and related debt in the near term. Official estimates for fiscal year 2010 show the annual federal deficit will exceed $1 trillion. Correspondingly, debt held by the public is expected to grow from an estimated 53.1 percent of gross domestic product (GDP) at the end of fiscal year 2009 to over 60 percent of GDP at the end of fiscal year 2010. However, while addressing these near-term pressures is important, the real challenge is not this year's deficit or even next year's; it is how best to address the nation's long-term fiscal path over the coming decades.

While a lot of attention has been understandably given to the recent fiscal deterioration, the federal government faces even larger fiscal challenges that will persist long after the return to financial stability and economic growth. The budget and economic implications of the baby boom generation's retirement have already become a factor in near-term budget projections and will only intensify as the baby boomers age. The Medicare Hospital Insurance program currently pays more in benefits than it receives in cash from payroll taxes. The Social Security program, which has historically run large cash surpluses that helped reduce the need to borrow to finance other federal government activities, is expected to pay more in benefits than it receives in tax income for a sustained period beginning in 2016. GAO and the Congressional Budget Office's long-range fiscal policy simulations continue to show that, absent significant changes in policy, the federal government's fiscal condition over the coming decades is on an unsustainable path.[2] The sooner action is taken to address the long-term fiscal challenge, the less disruptive and destabilizing the changes will be. As a result, once current economic and financial issues are addressed, the nation's leaders will need to turn their attention to the long-term challenges that lie ahead.

A continuing trend that we also have noted is the increase in reported foreign ownership of Treasury securities. Treasury securities held by foreign and international investors have increased significantly since 2001. According to amounts reported in the September 2009 *Treasury Bulletin*, Treasury estimates that the amount of Treasury securities held by foreign and international investors has increased by $2,383 billion—from $1,001 billion as of June 30, 2001, to $3,384 billion as of June 30, 2009. As of June 30, 2009, this represents an estimated 45 percent of debt held by the public, down from an estimated 50 percent as of June 30, 2008, but up from about 31 percent as of June 30, 2001.

[2] See GAO, *The Federal Government's Long-Term Fiscal Outlook: Fall 2009 Update*, GAO-10-137SP (Washington, D.C.: October 2009) and the Congressional Budget Office, *The Long-Term Budget Outlook* (Washington, D.C.: June 2009).

We are sending copies of this report to interested congressional committees, the Commissioner of the Bureau of the Public Debt, the Inspector General of the Department of the Treasury, the Director of the Office of Management and Budget, and other agency officials. In addition, this report is available at no charge on the GAO Web site at http://www.gao.gov.

If you have any questions concerning this report, please contact me at (202) 512-3406 or engelg@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.

Sincerely yours,

Gary T. Engel
Director
Financial Management
  and Assurance

G A O

Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

To the Commissioner of the Bureau of the Public Debt

In connection with fulfilling our requirement to audit the financial statements of the U.S. government, we have audited the Schedules of Federal Debt Managed by the Bureau of the Public Debt (BPD) because of the significance of the federal debt to the federal government's financial statements.[1]

This auditor's report presents the results of our audits of the Schedules of Federal Debt Managed by BPD for the fiscal years ended September 30, 2009 and 2008. The Schedules of Federal Debt present the beginning balances, increases and decreases, and ending balances for (1) Federal Debt Held by the Public and Intragovernmental Debt Holdings, (2) the related Accrued Interest Payables, and (3) the related Net Unamortized Premiums and Discounts managed by BPD.[2]

In our audits of the Schedules of Federal Debt Managed by BPD for the fiscal years ended September 30, 2009 and 2008, we found

- the Schedules of Federal Debt are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- BPD maintained, in all material respects, effective internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2009; and
- no reportable noncompliance in fiscal year 2009 with a selected provision of law we tested.

The following sections discuss, in more detail, (1) these conclusions; (2) our conclusion on the Overview on Federal Debt Managed by the Bureau of the Public Debt; (3) our audit objectives, scope, and methodology; and (4) agency comments.

[1] 31 U.S.C. § 331(e). Federal debt and related activity and balances are also significant to the consolidated financial statements of the Department of the Treasury (see 31 U.S.C. § 3515).

[2] Intragovernmental Debt Holdings represent federal debt issued by Treasury and held by certain federal government accounts, such as the Social Security and Medicare trust funds.

Opinion on Schedules of Federal Debt

The Schedules of Federal Debt including the accompanying notes present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the balances as of September 30, 2009, 2008, and 2007 for Federal Debt Managed by BPD; the related Accrued Interest Payables and Net Unamortized Premiums and Discounts; and the related increases and decreases for the fiscal years ended September 30, 2009 and 2008.

Opinion on Internal Control

BPD maintained, in all material respects, effective internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2009, that provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the Schedule of Federal Debt would be prevented or detected and corrected on a timely basis. Our opinion is based on criteria established under 31 U.S.C. 3512 (c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

We identified deficiencies in BPD's system of internal control that we consider not to be material weaknesses or significant deficiencies.[3] We have communicated these matters to management and, where appropriate, will report on them separately.

Compliance with a Selected Provision of Law

Our tests of BPD's compliance with the statutory debt limit for fiscal year 2009 disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards. The objective of our audit of the Schedule of Federal Debt for the fiscal year ended September 30, 2009, was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

[3]A significant deficiency is a deficiency, or combination of deficiencies, in internal control 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 a combination of deficiencies, in internal control 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.

Consistency of Other Information

BPD's Overview on Federal Debt Managed by the Bureau of the Public Debt contains information, some of which is not directly related to the Schedules of Federal Debt. We did not audit and we do not express an opinion on this information. However, we compared this information for consistency with the schedules and discussed the methods of measurement and presentation with BPD officials. On the basis of this limited work, we found no material inconsistencies with the schedules or U.S. generally accepted accounting principles.

Objectives, Scope, and Methodology

BPD management is responsible for (1) preparing the Schedules of Federal Debt in conformity with U.S. generally accepted accounting principles; (2) establishing and maintaining internal control over financial reporting, and evaluating its effectiveness; and (3) complying with applicable laws and regulations. BPD management evaluated the effectiveness of BPD's internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2009, based on the criteria established under FMFIA. BPD management's assertion is included in appendix I.

We are responsible for planning and performing the audit to obtain reasonable assurance and provide our opinion about whether (1) the Schedules of Federal Debt are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles and (2) BPD management maintained, in all material respects, effective internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2009. We are also responsible for (1) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the Schedule of Federal Debt and (2) performing limited procedures with respect to certain other information accompanying the Schedules of Federal Debt.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the Schedules of Federal Debt;

- assessed the accounting principles used and any significant estimates made by management;

- evaluated the overall presentation of the Schedules of Federal Debt;

- obtained an understanding of the entity and its operations, including its internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2009;
- considered BPD's process for evaluating and reporting on internal control over financial reporting relevant to the Schedule of Federal Debt based on the criteria established under FMFIA;
- assessed the risk that a material misstatement exists in the Schedule of Federal Debt and the risk that a material weakness exists in internal control over financial reporting relevant to the Schedule of Federal Debt;
- evaluated the design and operating effectiveness of internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2009, based on the assessed risk;
- tested relevant internal control over financial reporting;
- tested compliance in fiscal year 2009 with the statutory debt limit (31 U.S.C. § 3101(b) (2006), as amended by Pub. L. No. 110-91, 121 Stat. 988 (2007); Pub. L. No. 110-289, Div. C, Title III, § 3083, 122 Stat. 2908 (2008); Pub. L. No. 110-343, Div. A, Title I, § 122, 122 Stat. 3790 (2008); and Pub. L. No. 111-5, Div. B, Title I, § 1604, 123 Stat. 366 (2009)); and
- performed such other procedures as we considered necessary in the circumstances.

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 laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the Schedule of Federal Debt.

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting. Because of inherent limitations, internal control may not prevent or detect and correct misstatements due to error or fraud, losses, or noncompliance. 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.

We did not test compliance with all laws and regulations applicable to BPD. We limited our tests of compliance to a selected provision of law that has a direct and material effect on the Schedule of Federal Debt for the fiscal year ended September 30, 2009. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our audit in accordance with U.S. generally accepted government auditing standards. We believe our audit provides a reasonable basis for our opinions and other conclusions.

Agency Comments

In commenting on a draft of this report, BPD concurred with the conclusions in our report. The comments are reprinted in appendix II.

Gary T. Engel

Gary T. Engel
Director
Financial Management
and Assurance

November 2, 2009

Overview, Schedules, and Notes

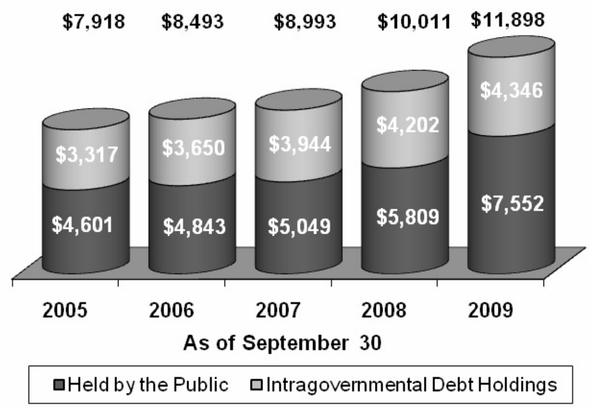
Overview on Federal Debt Managed by the Bureau of the Public Debt

Overview on Federal Debt Managed by the Bureau of the Public Debt

Gross Federal Debt Outstanding[1]

Federal debt managed by the Bureau of the Public Debt (BPD) comprises debt held by the public and debt held by certain federal government accounts (under Title 31 U.S.C. § 3101), the latter of which is referred to as intragovernmental debt holdings. As of September 30, 2009 and 2008, outstanding gross federal debt managed by the bureau totaled $11,898 and $10,011 billion, respectively. The increase in gross federal debt of $1,887 billion during fiscal year 2009 was due to an increase in gross intragovernmental debt holdings of $144 billion and an increase in gross debt held by the public of $1,743 billion. As Figure 1 illustrates, both intragovernmental debt holdings and debt held by the public have increased since fiscal year 2005. The primary reason for the increases in intragovernmental debt holdings is the Department of the Treasury's use of the surpluses in the Federal Old-Age and Survivors Insurance Trust Fund, Civil Service Retirement and Disability Fund, Federal Supplementary Medical Insurance Trust Fund, Military Retirement Fund, and DOD Medicare-Eligible Retiree Health Care Fund. The increases in debt held by the public are due primarily to total federal spending exceeding total federal revenues. As of September 30, 2009, gross debt held by the public totaled $7,552 billion and gross intragovernmental debt holdings totaled $4,346 billion.

Figure 1 Total Gross Federal Debt Outstanding (in billions)

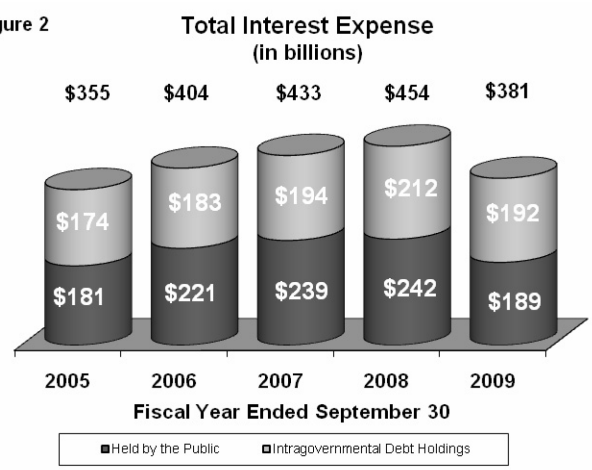


[1] Federal debt outstanding reported here differs from the amount reported in the Financial Report of the United States Government because of the securities not maintained or reported by the bureau and which are issued by the Federal Financing Bank and other specific securities issued outside of the authority of Title 31 U.S.C. § 3101.

Interest Expense

Interest expense incurred during fiscal year 2009 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 in 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. During fiscal year 2009, interest expense incurred totaled $381 billion, interest expense on debt held by the public was $189 billion, and $192 billion was interest incurred for intragovernmental debt holdings. As Figure 2 illustrates, total interest expense has increased from fiscal years 2005 through 2008, but decreased from fiscal year 2008 to fiscal year 2009. Due to the current economic conditions, there has been a significant increase in the demand for government backed securities, which resulted in lower average interest rates and interest expense. For example, the average interest rates on Treasury bills outstanding as of September 30, 2009 and 2008, were 0.3 percent and 1.6 percent, respectively. Average interest rates on principal balances outstanding as of September 30, 2009 and 2008, are disclosed in the Notes to the Schedules of Federal Debt.

Figure 2

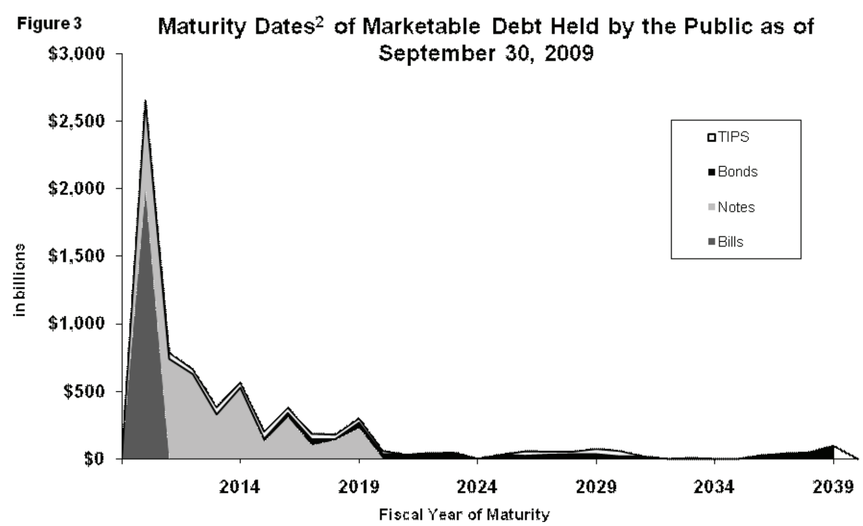


Debt Held by the Public

Debt held by the public primarily reflects how much of the nation's wealth has been absorbed by the Federal Government to finance prior federal spending in excess of total federal revenues. During the fiscal year, changes in economic conditions resulted in the need for an increase in borrowings from the public to finance federal spending. Treasury responded to the increase in marketable borrowing requirements by raising issuance sizes of regular weekly and monthly bills, increasing the frequency and issuance sizes of cash management bills, increasing the issuance sizes of nominal coupon security offerings, and adjusting the securities offering calendar to include the reintroduction of certain Treasury notes. As a result of this change in debt management strategy, Treasury bill and Treasury note issuances increased by $2,288 billion and $1,008 billion, respectively, in fiscal year 2009. Due to the increase in short-term debt issuances, repayments increased by $2,317 billion during the fiscal year. As of September 30, 2009 and 2008, gross debt held by the public totaled $7,552 billion and $5,809 billion, respectively (see Figure 1), an increase of $1,743 billion.

As of September 30, 2009, $6,988 billion, or 93 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, and Treasury Inflation-Protected Securities (TIPS) with maturity dates ranging from less than 1 year out to 30 years. Of the marketable securities currently held by the public as of September 30, 2009, $4,509 billion, or 65 percent, will mature within the next 4 years (see Figure 3). As of September 30, 2009 and 2008, notes and TIPS held by the public maturing within the next 10 years totaled $4,169 billion and $3,004 billion, respectively, an increase of $1,165 billion.

Figure 3



[2] The callable security will mature in fiscal year 2015, and is reported by its call date.

Debt Held by the Public, cont.

The Federal Government also issues to the public nonmarketable securities, which cannot be resold, and have maturity dates from on demand out to 40 years. As of September 30, 2009, nonmarketable securities totaled $564 billion, or 7 percent of debt held by the public. As of that date, nonmarketable securities primarily consisted of savings securities totaling $192 billion, special securities for state and local governments totaling $216 billion, and Government Account Series securities totaling $119 billion.

The Federal Reserve Banks (FRBs) act as fiscal agents for Treasury, as permitted by the Federal Reserve Act. As fiscal agents for Treasury, the FRBs play a significant role in the processing of marketable book-entry securities and paper U.S. savings bonds. For marketable book-entry securities, selected FRBs receive bids; issue book-entry securities to awarded bidders and collect payment 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 sell, print, and deliver savings bonds; redeem savings bonds; and handle the related transfers of cash.

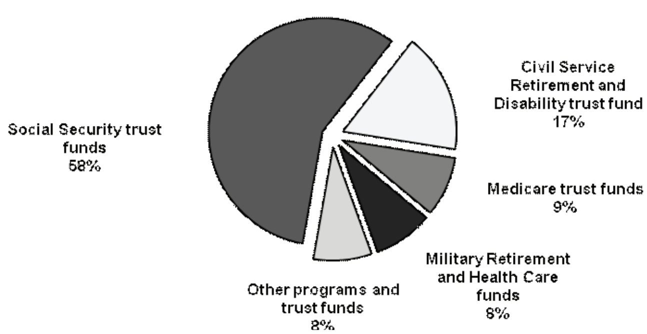
Intragovernmental Debt Holdings

Intragovernmental debt holdings represent balances of Treasury securities held by over 230 individual federal government accounts with either the authority or the requirement to invest excess receipts in special U.S. 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, Medicare, Military Retirement and Health Care, and Civil Service Retirement and Disability trust funds.[3] As of September 30, 2009, such funds accounted for $3,986 billion, or 92 percent, of the $4,346 billion intragovernmental debt holdings balances (see Figure 4). As of September 30, 2009 and 2008, gross intragovernmental debt holdings totaled $4,346 billion and $4,202 billion, respectively (see Figure 1), an increase of $144 billion.

The majority of intragovernmental debt holdings are Government Account Series (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, 2009



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

Significant Events in Fiscal Year 2009

Changes to the Statutory Debt Ceiling

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 was signed into law becoming Public Law No. 110-343. This legislation, as amended by the Helping Families Save Their Homes Act of 2009, Pub. L. No. 111-22, Div. A, provides authority for the Department of the Treasury to purchase or insure almost $700 billion in troubled assets held by financial institutions for the purposes of, among other things, restoring liquidity and stability to the financial system. Section 122 of this law increased the statutory debt limit by $700 billion from $10,615 billion to $11,315 billion.

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 was signed into law becoming Public Law No. 111-5. This legislation supports job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, and State and Local fiscal stabilization. Section 1604 of this law increased the statutory debt limit by $789 billion from $11,315 billion to $12,104 billion.

The House of Representatives approved a $925 billion increase in the statutory debt limit on April 29, 2009. H.J. Res. 45 passed the House pursuant to the provisions of S. Con. Res. 13. In an August 7, 2009, letter to Senate Majority Leader Harry Reid, the Secretary of the Treasury requested that the statutory debt limit be raised. An increase in the limitation is now awaiting Senate approval. As of September 30, 2009, the total public debt outstanding subject to the statutory debt limit was $11,853 billion.

Increase in System Open Market Account Holdings

The amount of the Federal Reserve Bank's System Open Market Account (SOMA) holdings has increased significantly from fiscal year 2008 to fiscal year 2009. Specifically, total SOMA holdings were $769 billion as of September 30, 2009 compared to $477 billion as of September 30, 2008. This increase is due to the Treasury portion of the large scale asset purchase program announced by the Federal Open Market Committee on March 18, 2009. This portion of the program authorized the Federal Reserve to purchase up to $300 billion of U.S. Treasury securities to help improve conditions in private credit markets.

Decrease in the Supplementary Financing Program

The Supplementary Financing Program (SFP) is a temporary program announced on September 17, 2008, by Treasury and the Federal Reserve to provide emergency cash for Federal Reserve initiatives aimed at addressing the ongoing crisis in financial markets. At the height of this program's activity, during the week of November 6, 2008, there were a total of 15 cash management bills outstanding that totaled $560 billion. As of September 30, 2009, there were a total of 5 cash management bills outstanding that totaled $165 billion. The decrease is a result of outstanding SFP bills that have matured and have not been reinvested in the program. On September 16, 2009, Treasury announced its intention to reduce the balance to $15 billion in the short run to preserve flexibility in the conduct of debt management policy.

Significant Events in Fiscal Year 2009, cont.

Equity Decline in Unemployment Trust Fund Investments

Amounts invested in Government Account Series securities by the Unemployment Trust Fund have significantly declined during fiscal year 2009. This reduction is primarily attributable to elevated nationwide unemployment rates and the corresponding withdrawal of trust fund monies for payment of unemployment insurance benefits to eligible claimants. Additionally, the fund's investment holdings have been further reduced as a result of statutory changes enacted during the year. In response to recent economic conditions, Congress passed legislation authorizing the creation of new and modification of existing unemployment programs, including Unemployment Compensation Modernization Incentive Payments, Administrative Grants to States, and extension of Emergency Unemployment Compensation benefits. In accordance with statutory language, much of the funding for the aforementioned programs was derived from amounts held within the Unemployment Trust Fund.

Reopening of the 10-year Note and 30-year Bond and the Reintroduction of the 3-Year and 7-Year Note

In response to the large increase in projected financing needs, to better manage the overall debt portfolio, and to create additional flexibility in meeting uncertainty in borrowing requirements, Treasury implemented changes to the auction calendar. The changes included adding monthly 3-year notes and 7-year notes; adding a reopening of 10-year notes; and issuing 30-year bonds on a monthly basis. During the fiscal year, Treasury conducted over 290 auctions, resulting in the issuance of over $8 trillion dollars in marketable securities.

On November 5, 2008, Treasury announced the reintroduction of the 3-year note as a result of the ongoing assessment of its debt management strategy. The last issue date for a 3-year note was in May 2007. The first auction of the reintroduced 3-year notes occurred on November 10, 2008, with a settlement date on November 17, 2008.

On November 5, 2008, Treasury announced it was moving to new-issue quarterly 30-year bond auctions beginning with the February 2009 quarterly refunding. The first auction of the reopening of 30-year bonds occurred on March 12, 2009, with a settlement on March 16, 2009. On April 29, 2009, Treasury announced a second reopening of the 30-year bond. The second reopening results in a monthly issuance of the 30-year bond. The auction of the second reopening of the 30-year bond occurred on July 9, 2009, with a settlement on July 15, 2009.

On November 5, 2008, Treasury announced the addition of a regular second reopening of the 10-year note in the month following the first reopening. Specifically, Treasury auctioned a new-issue 10-year note on November 12, 2008 during the refunding, reopened the security in December 2008, and then reopened the security again in January 2009. The first auction of the second reopening of the 10-year note occurred on January 8, 2009, for settlement on January 15, 2009. The issuance pattern of the 10-year note changed from twice a quarter to monthly.

On February 4, 2009, Treasury announced the reintroduction of the 7-year note as a result of the ongoing assessment of its debt management strategy. The last issue date for a 7-year note was in April 1993. The first auction of the reintroduced 7-year note occurred on February 26, 2009, with a settlement on March 2, 2009.

Significant Events in Fiscal Year 2009, cont.

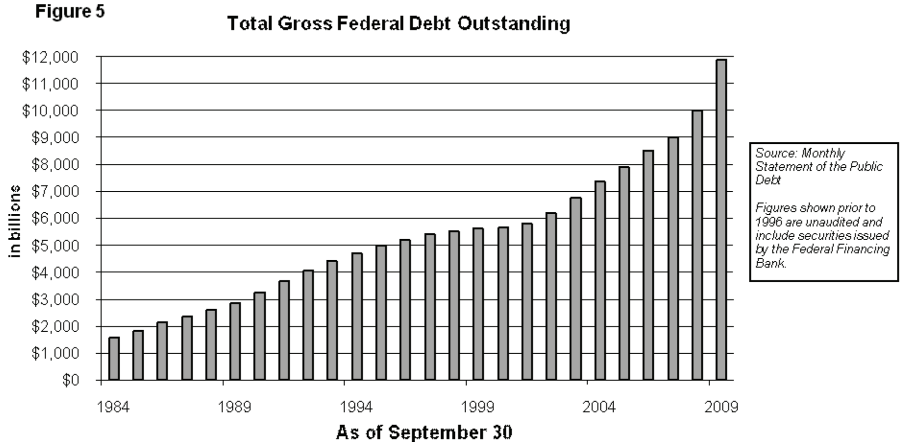
Improved Retail Securities Services

TreasuryDirect, BPD's internet-accessed retail system that is integral to Treasury's goal of promoting paperless systems, continues to grow. Account establishments rose by 88 thousand this past year, from 696 thousand in FY 2008 to 784 thousand in FY 2009--an increase of 13 percent. TreasuryDirect became fully functional as it was expanded to enable entities such as trusts, corporations, fiduciaries, and estates to open accounts and conduct transactions. BPD modified TreasuryDirect to support changes in Treasury's auction schedule to offer 7-year notes and to more frequently re-open notes and bonds.

Historical Perspective

Federal debt outstanding is one of the largest legally binding obligations of the Federal Government. Nearly all the federal debt has been issued by the Treasury with a small portion being issued by other federal government 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' excess receipts, primarily trust funds. Total gross federal debt outstanding has dramatically increased over the past 25 years from $1,572 billion as of September 30, 1984, to $11,898 billion as of September 30, 2009 (see Figure 5). Large budget deficits emerged during the 1980's due to tax policy decisions and increased outlays for defense and domestic programs. Through fiscal year 1997, annual federal deficits continued to be large and debt continued to grow at a rapid pace. As a result, total federal debt increased more than three fold between 1984 and 1997.

Figure 5



By fiscal year 1998, federal debt held by the public was beginning to decline. In fiscal years 1998 through 2001, the amount of debt held by the public fell by $476 billion, from $3,815 billion to $3,339 billion. However, federal debt held by the public began to increase in fiscal year 2002 as a result of higher federal outlays and tax policy decisions. Federal debt held by the public increased by 51.2 percent from fiscal year 2002 to fiscal year 2007. From fiscal year 2008 to fiscal year 2009, federal debt held by the public increased an additional 49.6 percent rising by $2,503 billion. This increase is primarily a result of the federal government's response to the financial market crisis and the economic downturn. As a result, debt held by the public has increased from $3,339 billion in 2001 to $7,552 billion in 2009.

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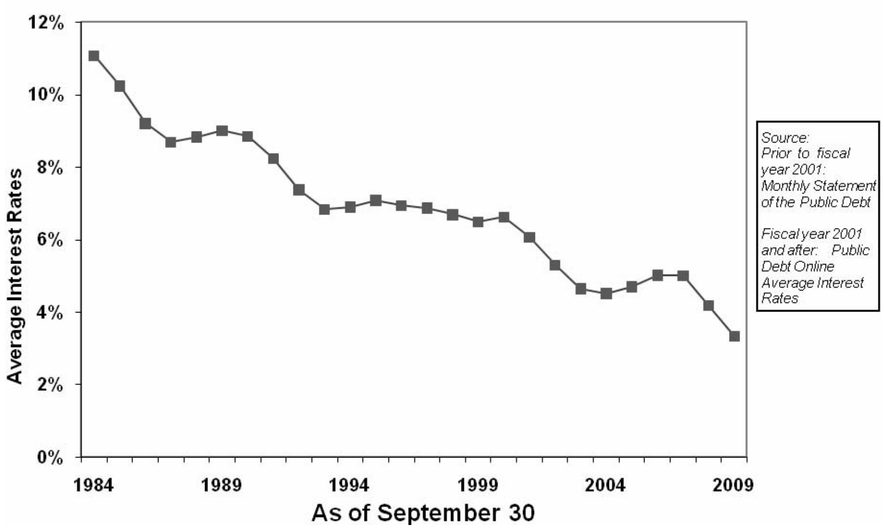
Historical Perspective, cont.

Even in those years where debt held by the public declined, total federal debt increased because of increases in intragovernmental debt holdings. Over the past 4 fiscal years, intragovernmental debt holdings increased by $1,029 billion, from $3,317 billion as of September 30, 2005, to $4,346 billion as of September 30, 2009. By law, trust funds have the authority or are required to invest surpluses in federal securities. As a result, the intragovernmental debt holdings balances 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.

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 securities outstanding at the end of the fiscal year.

Figure 6 Average Interest Rates of Federal Debt Outstanding



Schedules of Federal Debt

Schedules of Federal Debt

Managed by the Bureau of the Public Debt
For the Fiscal Years Ended September 30, 2009 and 2008
(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, 2007	**$5,049,305**	**$44,386**	**($39,441)**	**$3,944,348**	**$48,611**	**$3,730**
Increases						
Borrowings from the Public	5,645,014		(29,192)			
Net Increase in Intragovernmental Debt Holdings				257,656		30,342
Accrued Interest (Note 4)		209,068			213,943	
Total Increases	**5,645,014**	**209,068**	**(29,192)**	**257,656**	**213,943**	**30,342**
Decreases						
Repayments of Debt Held by the Public	4,885,627					
Interest Paid		213,327			212,161	
Net Amortization (Note 4)			(32,509)			1,505
Total Decreases	**4,885,627**	**213,327**	**(32,509)**	**0**	**212,161**	**1,505**
Balance as of September 30, 2008	**5,808,692**	**40,127**	**(36,124)**	**4,202,004**	**50,393**	**32,567**
Increases						
Borrowings from the Public	8,946,010		(15,054)			
Net Increase in Intragovernmental Debt Holdings				143,550		1,718
Accrued Interest (Note 4)		171,875			191,955	
Total Increases	**8,946,010**	**171,875**	**(15,054)**	**143,550**	**191,955**	**1,718**
Decreases						
Repayments of Debt Held by the Public	7,202,840					
Interest Paid		170,654			192,905	
Net Amortization (Note 4)			(17,273)			399
Total Decreases	**7,202,840**	**170,654**	**(17,273)**	**0**	**192,905**	**399**
Balance as of September 30, 2009	**$7,551,862**	**$41,348**	**($33,905)**	**$4,345,554**	**$49,443**	**$33,886**

The accompanying notes are an integral part of these schedules.

Notes to the Schedules of Federal Debt

Notes to the Schedules of Federal Debt Managed by the Bureau of the Public Debt

For the Fiscal Years Ended September 30, 2009 and 2008

(Dollars in Millions)

Note 1. Significant Accounting Policies

Basis of Presentation

The Schedules of Federal Debt Managed by the Bureau of the Public Debt (BPD) have been prepared to report fiscal year 2009 and fiscal year 2008 balances and activity relating to monies borrowed from the public and certain federal government accounts under Title 31 U.S.C. § 3101 to fund the U.S. government's operations. Permanent, indefinite appropriations are available for the payment of interest on the federal debt and the 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.C. authorizes Treasury to prescribe the debt instruments and otherwise limit and restrict the amount and composition of the debt. BPD, an organizational entity within the Fiscal Service of the Department of the Treasury, is responsible for issuing Treasury securities in accordance with such authority and to account for the resulting debt. In addition, BPD has been given the responsibility to issue Treasury securities to trust funds for trust fund receipts not needed for current benefits and expenses. BPD issues and redeems Treasury securities for the trust funds based on data provided by program agencies and other Treasury entities. BPD also issues other specific securities outside of the authority of Title 31 U.S.C. § 3101, such as HOPE Bonds. These securities are not reported on the Schedules of Federal Debt Managed by the Bureau of the Public Debt.

Basis of Accounting

The schedules were prepared in conformity with U.S. generally accepted accounting principles and from BPD's automated accounting system, Public Debt Accounting and Reporting System. Interest costs are recorded as expenses when incurred, instead of when paid. Certain Treasury securities are issued at a discount or premium. These discounts and premiums are amortized over the term of the security using an interest method for all long term securities and the straight line method for short term securities. The Department of the Treasury also issues Treasury Inflation-Protected Securities (TIPS). The principal for TIPS is adjusted daily over the life of the security based on the Consumer Price Index for all Urban Consumers.

Notes to the Schedules of Federal Debt Managed by the Bureau of the Public Debt

For the Fiscal Years Ended September 30, 2009 and 2008

(Dollars in Millions)

Note 2. Federal Debt Held by the Public

As of September 30, 2009 and 2008, Federal Debt Held by the Public consisted of the following:

	2009		2008	
	Amount	Average Interest Rates	Amount	Average Interest Rates
Marketable:				
Treasury Bills	$1,986,174	0.3%	$1,484,332	1.6%
Treasury Notes	3,772,964	3.0%	2,623,364	4.1%
Treasury Bonds	677,491	6.5%	578,504	7.1%
TIPS	551,308	2.1%	523,951	2.0%
Total Marketable	$6,987,937		$5,210,151	
Nonmarketable	$563,925	3.7%	$598,541	4.1%
Total Federal Debt Held by the Public	$7,551,862		$5,808,692	

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, 2009 and 2008, respectively. 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 securities' 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, 2009 and 2008. Treasury notes are issued with a term of 2 – 10 years and Treasury bonds are issued with a term of more than 10 years.

Treasury also issues TIPS that have interest and redemption payments, which are tied to the Consumer Price Index for all Urban Consumers, a widely used measure of inflation. TIPS are issued with a term of 5 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, 2009 and 2008. The TIPS Federal Debt Held by the Public inflation-adjusted principal balance includes inflation of $57,552 million and $72,930 million as of September 30, 2009 and 2008, respectively.

Federal Debt Held by the Public includes federal debt held outside of the U. S. government by individuals, corporations, Federal Reserve Banks (FRB), state and local governments, and foreign governments and central banks. As of September 30, 2009, the FRB had total holdings of $769 billion, with a very small amount lent to dealers and not collateralized by other Treasury securities. As of September 30, 2008, the FRB owned $221 billion, net of $256 billion in securities lent to dealers and not collateralized by other Treasury securities, for total holdings of $477 billion. These securities are held in the FRB System Open Market Account (SOMA) for the purpose of conducting monetary policy.

Notes to the Schedules of Federal Debt Managed by the Bureau of the Public Debt

For the Fiscal Years Ended September 30, 2009 and 2008

(Dollars in Millions)

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

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, 2009 and 2008. Nonmarketable securities are issued with a term of on demand out to 40 years.

As of September 30, 2009 and 2008, nonmarketable securities consisted of the following:

	2009	2008
Domestic Series	$29,995	$29,995
Foreign Series	4,886	2,986
R.E.A. Series	1	1
State and Local Government Series	216,488	260,238
United States Savings Securities	192,452	194,253
Government Account Series	118,636	107,498
Other	1,467	3,570
Total Nonmarketable	$563,925	$598,541

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. The net increase in amounts borrowed from the fund during fiscal years 2009 and 2008 are included in the respective Borrowings from the Public amounts reported on the Schedules of Federal Debt.

Notes to the Schedules of Federal Debt Managed by the Bureau of the Public Debt

For the Fiscal Years Ended September 30, 2009 and 2008

(Dollars in Millions)

Note 3. Intragovernmental Debt Holdings

As of September 30, 2009 and 2008, Intragovernmental Debt Holdings are owed to the following:

		2009	2008
SSA:	Federal Old-Age and Survivors Insurance Trust Fund	$2,296,316	$2,150,651
OPM:	Civil Service Retirement and Disability Fund	742,322	714,850
HHS:	Federal Hospital Insurance Trust Fund	309,702	318,741
DOD:	Military Retirement Fund	240,807	215,949
SSA:	Federal Disability Insurance Trust Fund	207,932	216,487
DOD:	DOD Medicare-Eligible Retiree Health Care Fund	126,821	112,726
HHS:	Federal Supplementary Medical Insurance Trust Fund	61,764	59,090
DOE:	Nuclear Waste Disposal Fund	44,643	42,570
OPM:	Employees Life Insurance Fund	36,146	34,397
OPM:	Postal Service Retiree Health Benefits Fund	35,115	32,294
DOL:	Unemployment Trust Fund	19,628	72,432
Treasury:	Exchange Stabilization Fund	18,615	16,847
DOL:	Pension Benefit Guaranty Corporation	17,459 *	22,367 *
FDIC:	The Deposit Insurance Fund	16,076	29,937
OPM:	Employees Health Benefits Fund	15,367	15,563
DOS:	Foreign Service Retirement and Disability Fund	15,334	14,855
DOT:	Highway Trust Fund	11,484	12,811
HUD:	FHA – Liquidating Account	10,664	19,085
Other Programs and Funds		119,359	100,352
Total Intragovernmental Debt Holdings		$4,345,554	$4,202,004

* These amounts include $2,676 million and $5,580 million of marketable Treasury securities as well as $14,783 million and $16,787 million of GAS securities as of September 30, 2009 and 2008, respectively.

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

Notes to the Schedules of Federal Debt Managed by the Bureau of the Public Debt

For the Fiscal Years Ended September 30, 2009 and 2008

(Dollars in Millions)

Note 3. Intragovernmental Debt Holdings (continued)

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. The average interest rates on Intragovernmental Debt Holdings for fiscal years 2009 and 2008 were 4.3 and 4.8 percent, respectively. The average interest rate represents the original issue weighted effective yield on securities outstanding as of September 30, 2009 and 2008. GAS securities are issued with a term of on demand 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, 2009 and 2008, the inflation-adjusted principal balance included inflation of $54,775 million and $54,776 million, respectively.

Note 4. Interest Expense

Interest expense on Federal Debt Managed by BPD for fiscal years 2009 and 2008 consisted of the following:

	2009	2008
Federal Debt Held by the Public		
Accrued Interest	$171,875	$209,068
Net Amortization of Premiums and Discounts	17,273	32,509
Total Interest Expense on Federal Debt Held by the Public	189,148	241,577
Intragovernmental Debt Holdings		
Accrued Interest	191,955	213,943
Net Amortization of Premiums and Discounts	(399)	(1,505)
Total Interest Expense on Intragovernmental Debt Holdings	191,556	212,438
Total Interest Expense on Federal Debt Managed by BPD	$380,704	$454,015

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 the Bureau of the Public Debt. Accrued interest on Federal Debt Held by the Public includes deflation adjustments of $10,607 million and inflation adjustments of $26,982 million for fiscal years 2009 and 2008, respectively. Accrued interest on Intragovernmental Debt Holdings includes deflation adjustments of $6,571 million and inflation adjustments of $14,479 million for fiscal years 2009 and 2008, respectively.

Notes to the Schedules of Federal Debt Managed by the Bureau of the Public Debt

For the Fiscal Years Ended September 30, 2009 and 2008

(Dollars in Millions)

Note 5. Fund Balance With Treasury

	As of September 30, 2009	As of September 30, 2008
Appropriated Funds Obligated	$115	$168
Fiduciary Funds Obligated	$3	$0
Total FBWT	$118	$168

The Fund Balance with Treasury (FBWT), a non-entity, intragovernmental account, is not included on the Schedules of Federal Debt and is presented for informational purposes.

Prior to October 1, 2008, all FBWT balances were recognized on Treasury's Balance Sheet as Appropriated Funds Obligated. Beginning with fiscal year 2009, and in conjunction with SFFAS No. 31: *Accounting for Fiduciary Activities*, FBWT related to Fiduciary Funds Obligated are no longer shown on the face of Treasury's financial statements but are presented as a note disclosure. The $3 million of Fiduciary Funds Obligated relates to agency securities backed by the full faith and credit of the federal government.

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

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

The Bureau of the Public Debt's (BPD) internal control over financial reporting related 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 laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the Schedule of Federal Debt.

BPD management is responsible for establishing and maintaining effective internal control over financial reporting. BPD management evaluated the effectiveness of BPD's internal control over financial reporting related to the Schedule of Federal Debt as of September 30, 2009, based on the criteria established under 31 U.S.C. 3512 (c), (d) (commonly known as the Federal Manager's Financial Integrity Act).

Based on that evaluation, we conclude that, as of September 30, 2009, BPD's internal control over financial reporting related to the Schedule of Federal Debt was effective.

Bureau of the Public Debt
November 2, 2009

Van Zeck
Commissioner

Fred Pyatt
Chief Financial Officer

Debra L. Hines
Assistant Commissioner, OPDA

Kimberly McCoy
Chief Information Officer

Comments from the Bureau of the Public Debt

DEPARTMENT OF THE TREASURY
BUREAU OF THE PUBLIC DEBT
WASHINGTON, DC 20239-0001

November 6, 2009

Mr. Gary T. Engel
Director, Financial Management and Assurance
Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Engel:

This letter is our response to your audit of the Schedules of Federal Debt Managed by the Bureau of the Public Debt for the fiscal years ended September 30, 2009 and 2008. We agree with your audit report's conclusions.

This year was an especially challenging year as we were faced with the compliance of the auditing standard, AT Section 501, and the implementation of the Management's Report on Internal Control over Financial Reporting Related to the Schedule of Federal Debt letter. We appreciate the knowledge and experience displayed by your audit team as we finalize the thirteenth consecutive year of our professional relationship. We would like to thank you and your staff for your efficiency and timeliness as we face more stringent audit requirements. Through combined efforts, the usability of these reports continues to grow and we look forward to continuing this productive and successful relationship.

Sincerely,

Van Zeck
Commissioner

www.treasurydirect.gov

GAO Contact and Staff Acknowledgments

GAO Contact

Gary T. Engel, (202) 512-3406 or engelg@gao.gov

Acknowledgments

The following individuals made key contributions to this report: Dawn B. Simpson, Assistant Director; Dean D. Carpenter; Lauren J. Catchpole; Dennis L. Clarke; Francisco Diaz, Jr.; Michael T. Grimes; Vivian M. Gutierrez; Nicole M. McGuire; Yvonne D. Moss; Seong Bin Park; Gabrielle N. Perret; Eric H. Stalcup; Carolyn M. Voltz; Melissa A. Wolf; and Tory E. Wudtke.

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