United States General Accounting Office

GAO

Report to the Secretary of the Treasury

November 2003

FINANCIAL AUDIT

Bureau of the Public Debt's Fiscal Years 2003 and 2002 Schedules of Federal Debt

GAO

Accountability * Integrity * Reliability

GAO-04-177

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Bureau of the Public Debt's Fiscal Years 2003 and 2002 Schedules of Federal Debt

GAO Accountability•Integrity•Reliability

Highlights

Highlights of GAO-04-177, a report to Secretary of the Treasury

Why GAO Did This Study

GAO is required to audit the consolidated financial statements of the U.S. government. Due to the significance of the federal debt held by the public to the governmentwide financial statements, GAO has also been auditing 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 prepared are reliable, (2) BPD management maintained effective internal control relevant to the Schedule of Federal Debt, and (3) BPD complies with selected provisions of significant laws related to the Schedule of Federal Debt.

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 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. 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.

www.gao.gov/cgi-bin/getrpt?GAO-04-177.

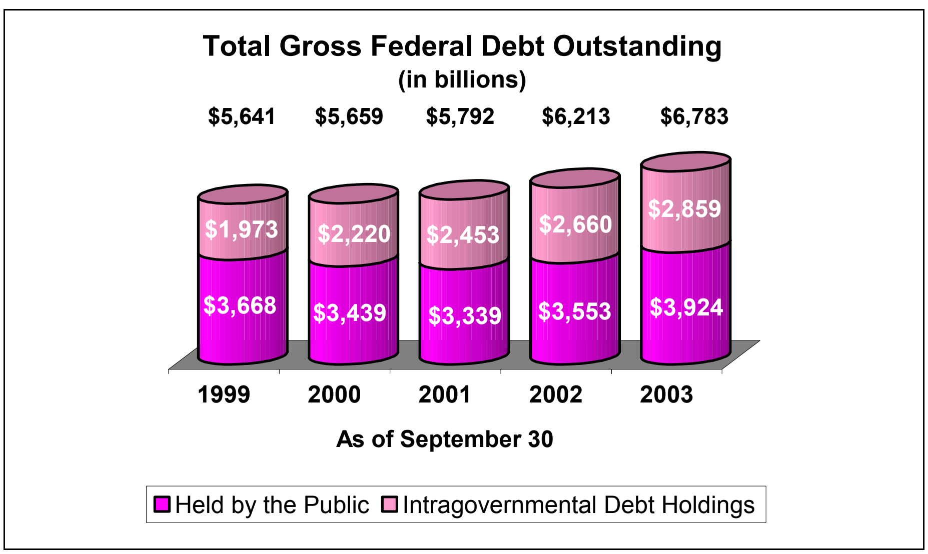
For a fuller understanding of GAO's opinion on BPD's fiscal years 2003 and 2002 Schedules of Federal Debt, readers should refer to the complete audit report, available by clicking the link above, which includes information on audit objectives, scope, and methodology. For more information, contact Gary T. Engel at (202) 512-3406.

What GAO Found

In GAO's opinion, BPD's Schedules of Federal Debt for fiscal years 2003 and 2002 were fairly presented in all material respects and BPD maintained effective internal control related to the Schedule of Federal Debt as of September 30, 2003. GAO also found no instances of noncompliance in fiscal year 2003 with selected provisions of the statutory debt limit and debt issuance suspension period laws we tested.

As of September 30, 2003 and 2002, federal debt managed by BPD totaled about $6,783 billion and $6,213 billion, respectively. In fiscal year 2003, debt held by the public as a percentage of the annual size of the U.S. economy increased by approximately 2.3 percentage points to an estimated 36.5 percent. Further, certain trust funds (e.g., Social Security and Medicare) continue to run cash surpluses, resulting in increased intragovernmental debt holdings. These debt holdings represent a priority call on future budgetary resources. During fiscal year 2003, a debt issuance suspension period was invoked to avoid breaching the statutory debt limit. On May 27, 2003, legislation was enacted to raise the debt limit by $984 billion to $7,384 billion. The Congressional Budget Office recently projected that this new debt limit will be reached during fiscal year 2004.

As shown below, total federal debt increased each year over the last 4 years. Debt held by the public decreased as a result of cash surpluses for the first 2 years of this period, but increased during fiscal years 2002 and 2003, with the return of annual deficits. Intragovernmental debt holdings steadily increased during this 4-year period primarily due to excess receipts over disbursements in federal trust funds.



Source: BPD.

Contents

Abbreviations

BPD	Bureau of the Public Debt
OMB	Office of Management and Budget

G A O

Accountability * Integrity * Reliability

United States General Accounting Office
Washington, D.C. 20548

November 7, 2003

The Honorable John W. Snow
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, 2003 and 2002. 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.[1]

The auditor's report contains our (1) opinion on the Schedules of Federal Debt for the fiscal years ended September 30, 2003 and 2002, (2) opinion on the effectiveness of related internal control as of September 30, 2003, (3) conclusion on the bureau's compliance in fiscal year 2003 with laws we tested, and (4) conclusion on the consistency between information in the Schedules of Federal Debt and the Overview on Federal Debt Managed by the Bureau of the Public Debt.

As of September 30, 2003 and 2002, federal debt managed by the bureau totaled about $6,783 billion and $6,213 billion, respectively, for moneys borrowed to fund the government's operations. As shown on the Schedules of Federal Debt, these balances consisted of approximately (1) $3,924 billion as of September 30, 2003, and $3,553 billion as of September 30, 2002, of debt held by the public and about (2) $2,859 billion as of September 30, 2003, and $2,660 billion as of September 30, 2002, of intragovernmental debt holdings.

The level of debt held by the public 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. It best represents the cumulative effect of past federal borrowing on today's economy and the federal budget. To finance a cash deficit, the government borrows from 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.

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

Cash surpluses during fiscal years 1998 through 2001 enabled Treasury to reduce debt held by the public by $476 billion, from $3,815 billion as of September 30, 1997, to $3,339 billion as of September 30, 2001. Treasury reduced this debt by redeeming maturing debt, reducing the number of auctions and size of new debt issues, conducting "buybacks" of debt before its maturity date, and redeeming callable securities when the opportunities arose.[2] However, because of the return to deficits, in fiscal years 2002 and 2003, debt held by the public increased by $585 billion, with about $371 billion of this increase occurring in fiscal year 2003. Treasury issued more debt by increasing the number of auctions and the size of new debt issues. During fiscal year 2003, Treasury reintroduced the 3-year note, which will be offered every quarter. In addition, Treasury increased the offerings of the 5-year note from quarterly to monthly offerings; the 10-year note from an offering every quarter to eight offerings a year; and the 10-year inflation indexed note from three offerings a year to an offering every quarter. Notwithstanding the increases in fiscal years 2002 and 2003, debt held by the public as a percentage of total federal debt has decreased from approximately 71 percent as of September 30, 1997, to approximately 58 percent as of September 30, 2003.

Intragovernmental debt holdings represent balances of Treasury securities held by federal government accounts, primarily federal trust funds, 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. These securities are nonmarketable; however, they represent a priority call on future budgetary resources. Certain of these trust funds, such as the Social Security and federal civilian employee and military retirement trust funds, have been running cash surpluses, which are loaned to the Treasury and reduce the current need for the government to borrow from the public. Primarily as a result of such trust fund surpluses, intragovernmental debt holdings have increased by approximately $1,276 billion during fiscal years

[2]During this period, Treasury eliminated the 3-year note and the 52-week bill. On October 31, 2001, Treasury suspended issuance of the 30-year bond.

1998 through 2003, from $1,583 billion as of September 30, 1997, to $2,859 billion as of September 30, 2003, with about $199 billion of this increase occurring in fiscal year 2003. Intragovernmental debt holdings as a percentage of total federal debt have increased from approximately 29 percent as of September 30, 1997, to approximately 42 percent as of September 30, 2003.

The transactions relating to the use of the federal government accounts' surpluses net out on the government's consolidated financial statements because, in effect, they represent loans from one part of the government to another. Importantly, these intragovernmental debt holdings also constitute future obligations of the Treasury since the Treasury must provide cash to redeem these securities in order for the individual accounts to pay their benefits or other obligations as they come due. When this occurs, if sufficient cash surpluses are not available to redeem the securities, the government would either need to increase borrowing from the public, raise future taxes, reduce future spending, retire less debt (if the budget as a whole is in surplus), or some combination thereof.

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 government pays to its outside creditors. In contrast, intragovernmental debt holdings perform an accounting function but 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 the Treasury are entirely offset by the income received by such accounts—in effect, one part of the government pays the interest and another part receives it. This intragovernmental debt and the interest on it represents a claim on future resources and hence a burden on future taxpayers and the future economy. However, these intragovernmental debt holdings do not fully reflect the government's total future commitment to trust fund financed programs. They primarily represent the cumulative cash surpluses of those trust funds and also reflect future priority claims on the U.S. Treasury. They do not have the current economic effects of borrowing from the public and do not currently compete with the private sector for available funds in the credit markets. However, when trust funds redeem Treasury securities to obtain cash to fund expenditures, and Treasury borrows from the public to finance these redemptions, there is competition with the private sector and thus an effect on the economy.

During fiscal year 2003, Treasury again faced the challenge of managing the debt within the statutory debt limit. On February 20, 2003, Treasury entered into a debt issuance suspension period that required it to depart from its normal debt management procedures and to invoke legal authorities provided to avoid breaching the debt limit. Actions taken by Treasury included suspending investment of receipts of the Government Securities Investment Fund (G-Fund) of the federal employees' Thrift Savings Plan, the Civil Service Retirement and Disability Trust Fund (Civil Service fund), and the Exchange Stabilization Fund; redeeming Civil Service fund securities early; suspending the sales of State and Local Government Series nonmarketable Treasury securities; exchanging Treasury securities for Federal Financing Bank securities; and recalling compensating balances held at some commercial banks. In addition, because the debt subject to the limit was so close to the ceiling during this period, Treasury turned to issuing bills with maturity dates of 14 days or less to manage short-term financing needs. On May 27, 2003, legislation was enacted to raise the statutory debt limit by $984 billion to $7,384 billion. Subsequently, Treasury restored all losses to the G-Fund and Civil Service fund in accordance with legal authorities provided to the Secretary of the Treasury. The Congressional Budget Office recently projected that this new debt limit will be reached during fiscal year 2004.[3]

The challenge of managing the federal debt is not likely to diminish any time soon. In fiscal year 2003 alone, debt held by the public increased by approximately 2.3 percent of gross domestic product (GDP)—from 34.2 percent at the start of the fiscal year to an estimated 36.5 percent at the end. Although the recession of 2001 has been over for almost 2 years, the federal budget deficit for fiscal year 2003 is the largest (in nominal dollars) on record, and projections suggest that the deficit for fiscal year 2004 will be even larger. Budget controls instituted to achieve balance in the past have expired, and no agreement has been reached on the appropriate structure or process for focusing on the large and growing fiscal challenges that now face the federal government.

[3]Congressional Budget Office, *The Budget and Economic Outlook: An Update* (Washington, D.C.: August 2003).

These large deficits come as the squeeze on the federal budget from the impending retirement of the baby boom generation is becoming more apparent in the fiscal outlook. Under the Congressional Budget Office's most recent 10-year budget outlook, economic growth is projected to be about half a percentage point lower on average after 2008 when the leading edge of the baby boom generation becomes eligible for early retirement. At the same time, growth in Social Security and Medicare spending is projected to accelerate while Medicaid spending is projected to continue growing even faster than these two programs. Under current law, spending for these three programs will account for nearly half of all federal spending in 2013. Indeed, GAO's long-term budget simulations continue to show that without changes to the major entitlement programs for the elderly, the nation will ultimately have to choose between escalating federal deficits and debt, significant tax increases, and/or dramatic budget cuts in other areas. Acting sooner rather than later is essential to ease these building fiscal pressures.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Appropriations; the Senate Committee on Governmental Affairs; the Senate Committee on the Budget; the Subcommittee on Transportation, Treasury, and General Government, Senate Committee on Appropriations; the House Committee on Appropriations; the House Committee on Government Reform; the House Committee on the Budget; the Subcommittee on Transportation, Treasury, and Independent Agencies, House Committee on Appropriations; and the Subcommittee on Government Efficiency and Financial Management, House Committee on Government Reform. We are also sending copies of this report to 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, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If I can be of further assistance, please call me at (202) 512-5500. This report was prepared under the direction of Gary T. Engel, Director, Financial Management and Assurance. Should you or members of your staff have any questions concerning this report, please contact Mr. Engel at

(202) 512-3406. Another key contact and staff acknowledgments are provided in appendix II.

Sincerely yours,

David M. Walker
Comptroller General
of the United States

United States General Accounting Office
Washington, D.C. 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 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, 2003 and 2002. 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 for the fiscal years ended September 30, 2003 and 2002, we found the following:

- the Schedules of Federal Debt are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;

- BPD had effective internal control over financial reporting and compliance with laws and regulations related to the Schedule of Federal Debt as of September 30, 2003; and

- no reportable noncompliance in fiscal year 2003 with laws we tested.

The following sections discuss, in more detail, (1) these conclusions and our conclusion on the Overview on Federal Debt Managed by the Bureau of the Public Debt and (2) the scope of our audits.

[1]31 U.S.C. sec. 331(e) (2000).

[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, 2003, 2002, and 2001, 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, 2003 and 2002.

Opinion on Internal Control

BPD maintained, in all material respects, effective internal control relevant to the Schedule of Federal Debt related to financial reporting and compliance with applicable laws and regulations as of September 30, 2003. The internal control provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the Schedule of Federal Debt for the fiscal year ended September 30, 2003, would be prevented or detected on a timely basis. Our opinion is based on criteria established under 31 U.S.C. sec. 3512 (c), (d) (2000) (commonly referred to as the Federal Managers' Financial Integrity Act) and the Office of Management and Budget (OMB) Circular A-123, revised June 21, 1995, *Management Accountability and Control.*

We found matters involving computer controls that we do not consider to be reportable conditions.[3] We will communicate these matters to BPD's management, along with our recommendations for improvement, in a separate letter to be issued at a later date.

Compliance with Laws and Regulations

Our tests in fiscal year 2003 disclosed no instances of noncompliance with selected provisions of laws that would be reportable under U.S. generally accepted government auditing standards or OMB audit guidance. However, the objective of our audit of the Schedule of Federal Debt for the fiscal year ended September 30, 2003, was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

[3]Reportable conditions are matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the organization's ability to meet the internal control objectives described in the Objectives, Scope, and Methodology section of this report.

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 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. Based on this limited work, we found no material inconsistencies with the schedules.

Objectives, Scope, and Methodology

Management is responsible for the following:

- preparing the Schedules of Federal Debt in conformity with U.S. generally accepted accounting principles;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met; and
- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance 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) management maintained effective related internal control as of September 30, 2003, the objectives of which are the following:

- Financial reporting: Transactions are properly recorded, processed, and summarized to permit the preparation of the Schedule of Federal Debt for the fiscal year ended September 30, 2003, in conformity with U.S. generally accepted accounting principles.
- Compliance with laws and regulations: Transactions related to the Schedule of Federal Debt for the fiscal year ended September 30, 2003, are executed in accordance with laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the Schedule of Federal Debt.

We are also responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the Schedule of Federal Debt. Further, we are responsible for performing limited procedures with respect to certain other information appearing with 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 internal control relevant to the Schedule of Federal Debt as of September 30, 2003, related to financial reporting and compliance with laws and regulations (including execution of transactions in accordance with budget authority);

- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal control related to the Schedule of Federal Debt as of September 30, 2003;

- considered the process for evaluating and reporting on internal control and financial management systems under the Federal Managers' Financial Integrity Act; and

- tested compliance in fiscal year 2003 with selected provisions of the following laws: statutory debt limit (31 U.S.C. sec. 3101(b) (2000), as amended by Pub. L. No. 107-199, sec. 1, 116 Stat. 734 (2002) and Pub. L. 108-24, 117 Stat. 710 (2003)), suspension and early redemption of investments from the Civil Service Retirement and Disability Trust Fund (5 U.S.C. sec. 8348(j)(k) (2000)), and suspension of investments from the G-Fund (5 U.S.C. sec. 8438(g) (2000)).

We did not evaluate all internal controls relevant to operating objectives as broadly described by the Federal Managers' Financial Integrity Act, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation 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 controls may deteriorate.

We did not test compliance with all laws and regulations applicable to BPD. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the Schedule of Federal Debt for the fiscal year ended September 30, 2003. 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 work in accordance with U.S. generally accepted government auditing standards and applicable OMB audit guidance.

Agency Comments

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

David M. Walker
Comptroller General
of the United States

October 24, 2003

Overview, Schedules, and Notes

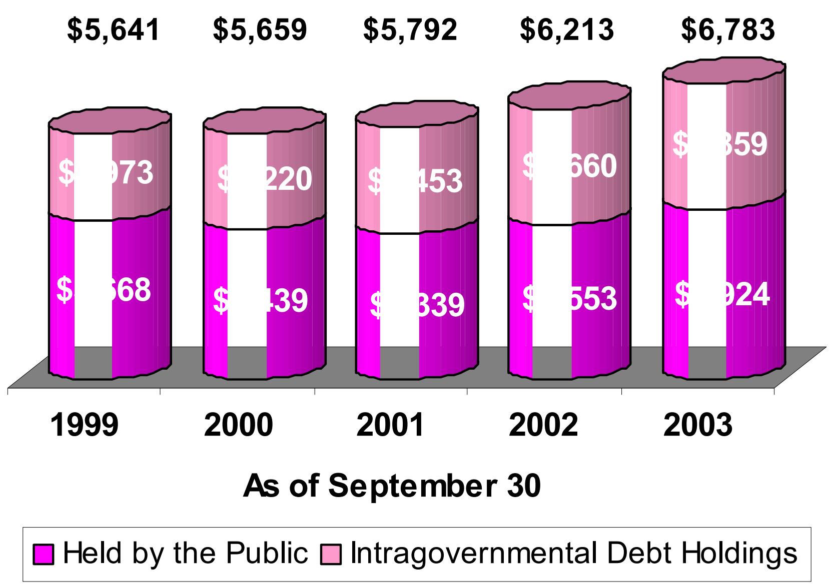
Overview on Federal Debt Managed by the Bureau of the Public Debt

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 comprises debt held by the public and debt held by certain federal government accounts, the latter of which is referred to as intragovernmental debt holdings. As of September 30, 2003 and 2002, outstanding gross federal debt managed by the bureau totaled $6,783 and $6,213 billion, respectively. The increase in gross federal debt of $570 billion during fiscal year 2003 was due to an increase in gross intragovernmental debt holdings of $199 billion and an increase in gross debt held by the public of $371 billion. As Figure 1 illustrates, intragovernmental debt holdings have steadily increased since fiscal year 1999 and debt held by the public has decreased from fiscal years 1999 through 2001, but increased in fiscal years 2002 and 2003. The primary reason for the increases in intragovernmental debt holdings is the annual cash surpluses in the Federal Old-Age and Survivors Insurance Trust Fund, Civil Service Retirement and Disability Trust Fund, Federal Hospital Insurance Trust Fund, Military Retirement Fund, and Federal Disability Insurance Trust Fund. The fiscal years 2002 and 2003 increases in debt held by the public are due primarily to total federal spending exceeding total federal revenues. As of September 30, 2003, gross debt held by the public totaled $3,924 billion and gross intragovernmental debt holdings totaled $2,859 billion.

Figure 1 **Total Gross Federal Debt Outstanding**
(in billions)

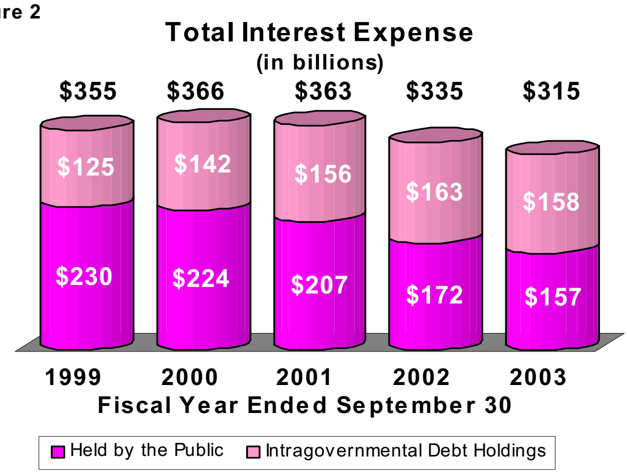


[1] Federal debt outstanding reported here differs from the amount reported in the Financial Report of the United States Government because of the securities not maintained or reported by the bureau and which are issued by the Federal Financing Bank and other federal government agencies.

Interest Expense

Interest expense incurred during fiscal year 2003 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 2003, interest expense incurred totaled $315 billion, interest expense on debt held by the public was $157 billion, and $158 billion was interest incurred for intragovernmental debt holdings. Figure 2 shows total interest expense incurred during fiscal years 1999 through 2003. Although the total federal debt continued to increase during fiscal year 2003, total interest expense decreased due to declining interest rates. Average interest rates on principal balances outstanding as of fiscal year end are disclosed in the Notes to the Schedules of Federal Debt.

Figure 2



Debt Held by the Public

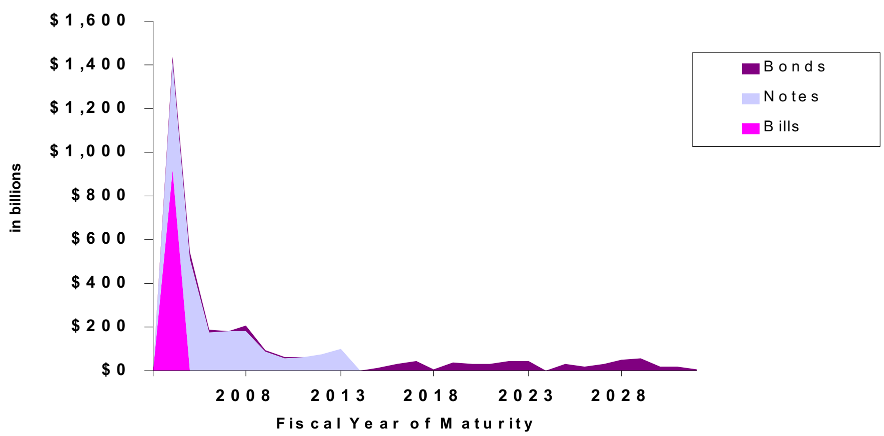
Debt held by the public reflects how much of the nation's wealth has been absorbed by the federal government to finance prior federal spending in excess of total federal revenues. As of September 30, 2003 and 2002, gross debt held by the public totaled $3,924 billion and $3,553 billion, respectively (see Figure 1), an increase of $371 billion. The borrowings and repayments of debt held by the public increased from fiscal year 2002 to 2003 primarily due to Treasury's decision to finance current operations using more short-term securities.

As of September 30, 2003, $3,460 billion, or 88 percent, of the securities that constitute debt held by the public were marketable, meaning that once the government issues them, they can be resold by whoever owns them. Marketable debt is made up of Treasury bills, notes, and bonds 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, 2003, $2,349 billion or 68 percent will mature within the next 4 years (see Figure 3). As of September 30, 2003 and 2002, notes maturing within the next 10 years totaled $1,919 billion and $1,615 billion, respectively, an increase of $304 billion.

The government also issues to the public, state and local governments, and foreign governments and central banks nonmarketable securities, which cannot be resold, and have maturity dates from on demand to more than 10 years. As of September 30, 2003, nonmarketable securities totaled $464 billion, or 12 percent of debt held by the public. As of that date, nonmarketable securities primarily consisted of savings securities totaling $202 billion and special securities for state and local governments totaling $148 billion.

Figure 3

Maturity Dates[2] of Marketable Debt Held by the Public as of September 30, 2003



[2] Callable securities mature between 2009 and 2015, but are reported by their call date.

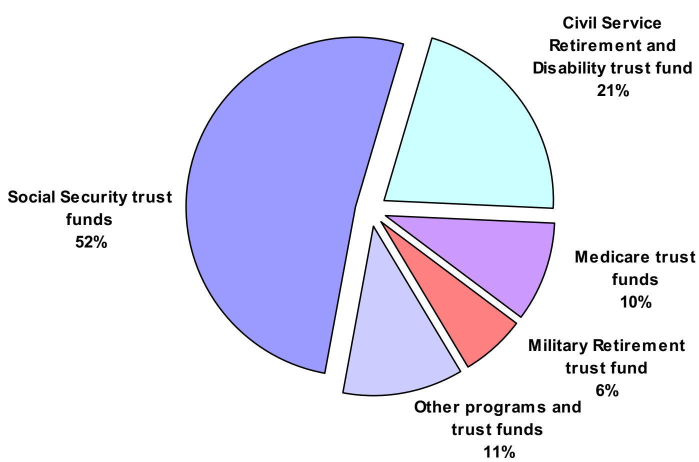
Intragovernmental Debt Holdings

Intragovernmental debt holdings represent balances of Treasury securities held by over 200 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 Civil Service Retirement and Disability trust funds.[3] As of September 30, 2003, such funds accounted for $2,535 billion, or 89 percent, of the $2,859 billion intragovernmental debt holdings balances (see Figure 4). As of September 30, 2003 and 2002, gross intragovernmental debt holdings totaled $2,859 billion and $2,660 billion, respectively (see Figure 1), an increase of $199 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, 2003



[3] The Social Security trust funds consist of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund. In addition, the Medicare trust funds are made up of the Federal Hospital Insurance Trust Fund and the Federal Supplementary Medical Insurance Trust Fund.

Significant Events in FY 2003

Railroad Retirement Account

The Railroad Retirement and Survivors' Improvement Act of 2001 established a new non-Federal entity, the National Railroad Retirement Investment Trust (Trust). The act required that upon the direction of the Railroad Board, transfers be made from the Railroad Retirement Account (RRA) to the Trust to be held outside the government with a private trust account. RRA investments in Government Account Series (GAS) securities were redeemed to generate cash transfers to the Trust totaling $19,250 million, $17,750 million was transferred during fiscal year 2003 and $1,500 million during fiscal year 2002. The cash transfers began on September 18, 2002, and were made twice a month with the last one paid on March 19, 2003, as dictated by a 6 month schedule provided to Treasury in accordance with the Memorandum of Understanding (MOU) between the Railroad Retirement Board (the RRB), the Trust, the Department of the Treasury (Treasury), and the Office of Management and Budget (OMB). In addition to the $17,750 million of GAS securities redeemed during fiscal year 2003 and transferred to the Trust, $5,130 million was redeemed by RRA for disbursements. The Railroad Retirement Account currently holds $503 million in par value securities.

Electronic Savings Bonds Introduced

In fiscal year 2003, Public Debt issued the first book-entry (electronic) savings bonds in the new TreasuryDirect system. Electronic Series I bonds were introduced in October 2002, and electronic Series EE bonds were added in May 2003. When fully implemented, TreasuryDirect will enable investors to establish accounts, purchase book-entry savings bonds and marketable securities, and manage their holdings online in a secure environment. The system will validate their identity and process transactions electronically whenever possible; communications will occur via e-mail; payments will be made electronically; and investors will be able to access statements, confirmations, and tax information online.

Department of Defense (DoD) Medicare Retirement Fund

The Department of Defense (DoD) established a new fund, the Medicare Retirement Fund, in fiscal year 2003. The purpose of the Medicare Retirement Fund is to accumulate funds in order to finance actuarially determined liabilities relating to DoD's health care programs for Medicare eligible beneficiaries. On October 3, 2002, DoD began investing into GAS securities. Initially, DoD purchased $13 billion in short-term GAS securities with various maturity dates. Throughout fiscal year 2003, DoD purchased and sold additional short-term GAS securities and also invested in overnight GAS securities. At the end of the fiscal year, the balance in the account totaled $18 billion.

Significant Events in FY 2003, cont.

Statutory Debt Ceiling Raised

From February 20 to May 27, 2003, Treasury faced a debt issuance suspension period that required it to depart from its normal debt management procedures and to invoke legal authorities provided to avoid breaching the debt limit. During this period, actions taken by Treasury included suspending investment of receipts of the Government Securities Investment Fund (G-Fund) of the federal employees' Thrift Savings Plan, the Civil Service Retirement and Disability trust fund (Civil Service fund), and the Exchange Stabilization fund; redeeming Civil Service fund securities early; suspending the sales of State and Local Government Series securities; and exchanging Government Account Series securities for Federal Financing Bank securities not reported on these schedules. In addition, because the debt subject to the limit was so close to the ceiling during these periods, Treasury issued cash management bills to manage short-term financing needs. On May 27, 2003, Public Law 108-24 was enacted, which raised the statutory debt ceiling by $984 billion to $7,384 billion.

Increased Issuance of Marketable Securities

In the February 5, 2003, Quarterly Refunding Statement, Treasury reintroduced a 3-year note to be part of future quarterly financing packages, with the first auction on May 6, 2003. The primary purpose of introducing the 3-year note was to diversify issuance. Issuance of the 3-year note was expected to provide additional capacity for fresh borrowing. During fiscal year 2003, Treasury issued a total of $50 billion in 3-year notes. The February 5, 2003, Quarterly Refunding Statement also instituted a regular reopening policy for 5-year notes, beginning with May 15, 2003. The reopening will occur one month after the initial auction (two months before the next auction for a new note).

The April 30, 2003, Quarterly Refunding Statement stated that beginning in August, Treasury will issue 5-year notes on the 15th of each month. Treasury will also regularly reopen 10-year notes on the 15th in the month following the traditional refunding and expand the issuance of 10-year inflation-indexed notes to 4 times a year. This additional issuance will help Treasury maintain its flexibility in responding to unexpected changes in financing requirements.

Depositary Compensation Securities

On July 14, 2003, Treasury issued $44.7 billion in non-marketable securities, Depositary Compensation Securities (DCS), to compensate those financial institutions serving as financial agents of the United States for essential banking services provided to the Government. The phase out of compensating balances, beginning on July 3, 2003, led to a short-term infusion of cash into Treasury accounts. Treasury implemented this temporary measure to pay financial agents and ensure that there was no interruption in services. DCS are similar to the non-marketable 2 percent Depositary Bonds first issued in 1941 as a means to compensate depositaries and financial agents of the Government for essential banking services including the collection and deposit of all Treasury receipts. The Depositary Bonds were phased out when other methods of compensation, including compensating balances, were used and the offering was terminated in 1994.

Significant Events in FY 2003, cont.

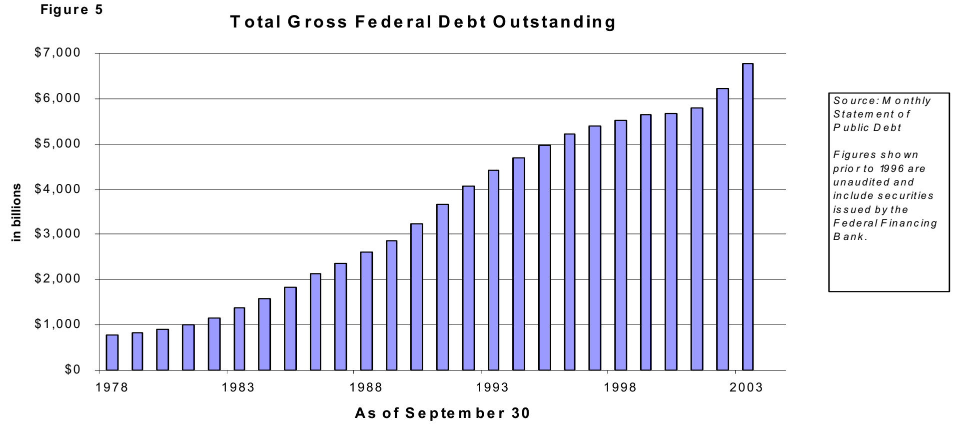
Release of Auction Results in 2 Minutes

On August 4, 2003, Treasury implemented new procedures that reduced the time to calculate the results of an auction. The results of the auction will now be published in 2 minutes with a variance of plus or minus 30 seconds after the close of the auction. The 2 minute auctions will help to reduce the premium that Treasury has to pay to compensate bidders for the period of market uncertainty between the close of the auction and the release of the results.

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 $772 billion as of September 30, 1978 to $6,783 billion as of September 30, 2003 (see Figure 5). Large budget deficits emerged during the 1970's as the economy was disrupted by oil crises and inflation. 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 nearly five fold since 1980.

Figure 5

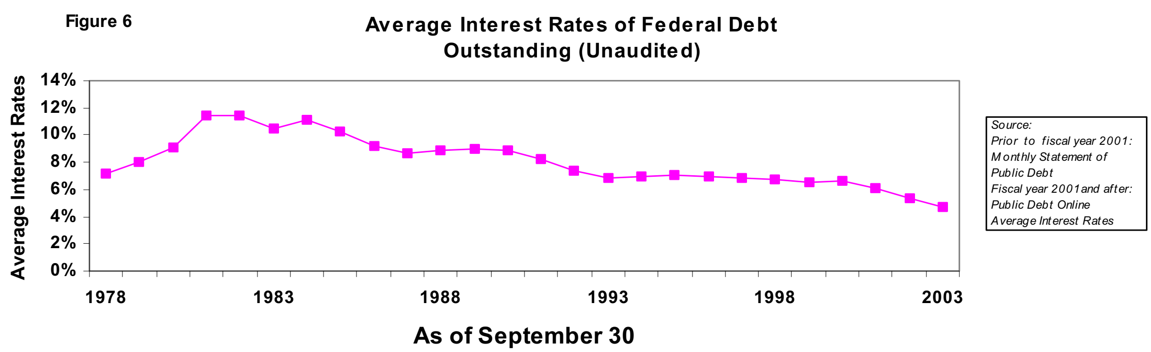


Historical Perspective, cont.

However, 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. As a consequence of the changes in the federal government's financing needs, resulting from increased federal outlays for the international war on terrorism and homeland security efforts, tax policy decisions, and the deterioration of overall economic performance, from fiscal year 2001 to 2003 debt held by the public rose by $585 billion, from $3,339 billion to $3,924 billion. 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 $886 billion, from $1,973 billion as of September 30, 1999, to $2,859 billion as of September 30, 2003. 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



Schedules of Federal Debt

Schedules of Federal Debt

Managed by the Bureau of the Public Debt
For the Fiscal Years Ended September 30, 2003 and 2002
(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, 2001	***$3,339,310***	***$39,496***	***($46,010)***	***$2,453,153***	***$39,986***	***($6,170)***
Increases						
Borrowings from the Public	3,803,649		(12,861)			
Net Increase in Intragovernmental Debt Holdings				206,903		3,309
Accrued Interest (Note 4)		152,038			161,627	
Total Increases	**3,803,649**	**152,038**	**(12,861)**	**206,903**	**161,627**	**3,309**
Decreases						
Repayments of Debt Held by the Public	3,589,779					
Interest Paid		158,660			160,537	
Net Amortization (Note 4)			(19,596)			(1,347)
Total Decreases	**3,589,779**	**158,660**	**(19,596)**	**0**	**160,537**	**(1,347)**
Balance as of September 30, 2002	***3,553,180***	***32,874***	***(39,275)***	***2,660,056***	***41,076***	***(1,514)***
Adjustment for Change in Amortization Method (Note 7)			(670)			4,271
Adjusted Balance as of September 30, 2002	***3,553,180***	***32,874***	***(39,945)***	***2,660,056***	***41,076***	***2,757***
Increases						
Borrowings from the Public	4,299,022		(10,362)			
Net Increase in Intragovernmental Debt Holdings				199,174		3,601
Accrued Interest (Note 4)		143,335			164,379	
Total Increases	**4,299,022**	**143,335**	**(10,362)**	**199,174**	**164,379**	**3,601**
Decreases						
Repayments of Debt Held by the Public	3,928,112					
Interest Paid		144,399			164,701	
Net Amortization (Note 4)			(13,461)			6,670
Total Decreases	**3,928,112**	**144,399**	**(13,461)**	**0**	**164,701**	**6,670**
Balance as of September 30, 2003	***$3,924,090***	***$31,810***	***($36,846)***	***$2,859,230***	***$40,754***	***($312)***

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, 2003 and 2002

(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 2003 and 2002 balances and activity relating to monies borrowed from the public and certain federal government accounts to fund the U.S. government's operations. Permanent, indefinite appropriations are available for the payment of interest on the federal debt, the redemption of Treasury securities, and the loss on marketable securities bought back prior to maturity through competitive redemption processes.

Reporting Entity

The Constitution empowers Congress to borrow money on the credit of the United States. 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.

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. Prior to October 1, 2002, these discounts and premiums were amortized over the term of the security using an interest method for zero-coupon bonds and the straight line method, which was not materially different from the interest method, for the other securities. As of October 1, 2002, 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 the short term securities. The Department of the Treasury also issues inflation-indexed securities. Inflation-indexed securities accrue principal over the life of the security based on the Consumer Price Index for all Urban Consumers. For marketable securities bought back prior to maturity through competitive redemption processes, the difference between the reacquisition price and the net carrying value of the extinguished debt is recognized as a gain or loss in the period of extinguishment.

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

For the Fiscal Years Ended September 30, 2003 and 2002

(Dollars in Millions)

Note 2. Federal Debt Held by the Public

As of September 30, 2003 and 2002, Federal Debt Held by the Public consisted of the following:

	2003		2002	
	Amount	Average Interest Rates	Amount	Average Interest Rates
Marketable:				
Treasury Bills	$918,196	1.0%	$868,221	1.7%
Treasury Notes	1,919,459	3.8%	1,615,309	4.7%
Treasury Bonds	622,675	7.8%	637,827	8.0%
Total Marketable	$3,460,330		$3,121,357	
Nonmarketable	$463,760	5.3%	$431,823	6.0%
Total Federal Debt Held by the Public	$3,924,090		$3,553,180	

Treasury issues marketable bills at a discount 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, 2003 and 2002, 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, 2003 and 2002. Treasury notes are issued with a term of 2 – 10 years and Treasury bonds are issued with a term of more than 10 years. As of September 30, 2003, Treasury marketable notes included $120,035 million of inflation-indexed notes and Treasury marketable bonds included $46,085 million of inflation-indexed bonds. As of September 30, 2002, Treasury marketable notes included $93,738 million of inflation-indexed notes and Treasury marketable bonds included $45,132 million of inflation-indexed bonds.

As of September 30, 2003, nonmarketable securities primarily consisted of $201,606 million in U.S. Savings Securities, $148,366 million in securities issued to State and Local Governments, $11,007 million in Foreign Series Securities, $29,995 million in Domestic Series Securities, and $14,991 million in Depositary Compensation Securities. As of September 30, 2002, nonmarketable securities primarily consisted of $193,357 million in U.S. Savings Securities, $144,286 million in securities issued to State and Local Governments, $12,519 million in Foreign Series Securities, and $29,995 million in Domestic Series Securities. 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, 2003 and 2002. Nonmarketable securities are issued with a term of on demand to more than 10 years.

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

For the Fiscal Years Ended September 30, 2003 and 2002

(Dollars in Millions)

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

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 2003 and 2002 are included in the respective Borrowings from the Public amounts reported on the Schedules of Federal Debt.

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. The FRB owned $654 billion and $603 billion of Federal Debt Held by the Public as of September 30, 2003 and 2002, respectively. These securities are held in the FRB System Open Market Account (SOMA) for the purpose of conducting monetary policy.

Note 3. Intragovernmental Debt Holdings

As of September 30, 2003 and 2002, Intragovernmental Debt Holdings are owed to the following:

		2003	2002
SSA:	Federal Old-Age and Survivors Insurance Trust Fund	$1,313,427	$1,173,759
OPM:	Civil Service Retirement and Disability Fund	601,709 *	558,713 *
HHS:	Federal Hospital Insurance Trust Fund	251,323	228,906
DOD:	Military Retirement Fund	172,362	162,396
SSA:	Federal Disability Insurance Trust Fund	170,792 *	155,286 *
DOL:	Unemployment Trust Fund	48,188	68,265
FDIC:	The Bank Insurance Fund	31,055	30,542
OPM:	Employees' Life Insurance Fund	26,778	25,350
DOE:	Nuclear Waste Disposal Fund	25,881	23,421
HHS:	Federal Supplementary Medical Insurance Trust Fund	24,922	38,804
HUD:	FHA – Liquidating Account	23,819	21,249
DOD:	DOD Medicare Retirement Fund	18,445	0
DOT:	Highway Trust Fund	13,578	18,840
DOL:	Pension Benefit Guaranty Corporation Fund	12,937	12,834
DOS:	Foreign Service Retirement & Disability Fund	12,289	11,734
FDIC:	Savings Association Insurance Fund (SAIF)	11,423	11,153
VA:	National Service Life Insurance Fund	11,246	11,465
DOT:	Airport & Airway Trust Fund	10,518	10,997
Treasury:	Exchange Stabilization Fund	10,503	9,717
RRB:	Railroad Retirement Account	503	23,383
Other Programs and Funds		67,532	63,242
Total Intragovernmental Debt Holdings		$2,859,230	$2,660,056

* These amounts include marketable Treasury securities as well as GAS securities as follows:

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

For the Fiscal Years Ended September 30, 2003 and 2002

(Dollars in Millions)

Note 3. Intragovernmental Debt Holdings (continued)

	GAS Securities	Marketable Treasury Securities	Total
As of September 30, 2003:			
Civil Service Retirement and Disability Fund	$601,429	$280	$601,709
Federal Disability Insurance Trust Fund	170,762	30	170,792
As of September 30, 2002:			
Civil Service Retirement and Disability Fund	$558,433	$280	$558,713
Federal Disability Insurance Trust Fund	155,256	30	155,286

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

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 for fiscal years 2003 and 2002 were 5.5 percent and 6.0 percent, respectively. The average interest rate represents the original issue weighted effective yield on securities outstanding as of September 30, 2003 and 2002. GAS securities are issued with a term of on demand to 30 years.

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

For the Fiscal Years Ended September 30, 2003 and 2002

(Dollars in Millions)

Note 4. Interest Expense

Interest expense on Federal Debt Managed by BPD for fiscal years 2003 and 2002 consisted of the following:

	2003	2002
Federal Debt Held by the Public		
Accrued Interest	$143,335	$152,038
Net Amortization of Premiums and Discounts	13,461	19,553 *
Total Interest Expense on Federal Debt Held by the Public	156,796	171,591
Intragovernmental Debt Holdings		
Accrued Interest	164,379	161,627
Net Amortization of Premiums and Discounts	(6,670)	1,347
Total Interest Expense on Intragovernmental Debt Holdings	157,709	162,974
Total Interest Expense on Federal Debt Managed by BPD	$314,505	$334,565

*Amount shown here differs from the net amortization amount on the Schedules of Federal Debt as of September 30, 2002 due to $43 million of net unamortized premiums and discounts written off relating to the marketable securities bought back prior to maturity through competitive redemption processes. (See note 6 for additional information on debt buybacks.)

Note 5. Fund Balance With Treasury

	As of September 30, 2003	As of September 30, 2002
Appropriated Funds Obligated	$162	$168

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

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

For the Fiscal Years Ended September 30, 2003 and 2002

(Dollars in Millions)

Note 6. Debt Buybacks

Debt buybacks are competitive redemption processes by which Treasury accepts offers to redeem particular marketable Treasury securities prior to their maturity dates. Once the securities have been redeemed from investors, they are removed from the total Treasury securities outstanding. On January 19, 2000, the Department of the 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. This authority to buy back securities enables Treasury to better manage financing needs, promote more efficient capital markets, and may lower financing costs for taxpayers.

Three factors are considered if a debt buyback is to occur and on the amount and timing of any purchases: 1) Treasury's projections of the federal government's annual, unified surplus or deficit position; 2) Treasury's three-month projections of the cash position at the time of the regular quarterly refunding announcements; and 3) Treasury's analysis of how best to minimize borrowing costs over time.

The first of these "buybacks" occurred on March 9, 2000, and the latest occurred on April 29, 2002. The premium paid represents the amount of money paid above par value to buy back securities. There were no buyback operations in fiscal year 2003. During fiscal year 2002, there were 9 buyback operations, which involved the following:

	2002
Total Amount Paid for Debt Buybacks, excluding Accrued Interest	$16,278
Principal Amount of Debt Buybacks	12,521
Premium Paid on Debt Buybacks	$3,757
Write Off of Net Unamortized Discounts on Debt Buybacks	43
Loss on Debt Buybacks	$3,800

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

For the Fiscal Years Ended September 30, 2003 and 2002

(Dollars in Millions)

Note 7. Change in Amortization Method

	Debt Held by the Public	Intragovernmental Debt Holdings
Net Unamortized Premiums/(Discounts) Balance as of September 30, 2002	($39,275)	($1,514)
Adjustment for change in Amortization Method	(670)	4,271
Net Unamortized Premiums/(Discounts) Adjusted Balance as of September 30, 2002	($39,945)	$2,757

On October 1, 2002, the method for amortizing discounts and premiums was changed from the straight line method to an interest method for notes and bonds (other than zero coupon bonds already being amortized using an interest method). This change was made to standardize the processing and recording of amortizations for intragovernmental activity. Amortization for debt held by the public securities was also changed for consistent reporting with intragovernmental debt holdings.

Comments from the Bureau of the Public Debt

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

November 3, 2003

Mr. Gary T. Engel
Director
U.S. General Accounting Office
441 G Street, NW
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, 2003 and 2002. We agree with your audit report's conclusions.

We appreciate the expertise and professionalism of your audit team and would like to thank you and your staff for conducting a thorough audit of these schedules. Although we continue to work under accelerated time frames, the audit process grows more efficient each year. Additionally, through combined efforts, the usability of these reports continues to develop, making their practical application more valuable. We look forward to continuing this productive and successful relationship.

Sincerely,

Van Zeck
Commissioner

www.treasurydirect.gov

GAO Contact and Acknowledgements

GAO Contact

Louise DiBenedetto, (202) 512-6921

Acknowledgments

In addition to the individual named above, Dawn B. Simpson, Dean D. Carpenter, Dennis L. Clarke, Chau L. Dinh, Martin J. Eble, Mickie E. Gray, Nichole Harrington, Jay McTigue, Kara M. Scott, Stacey L. Volis, and LaShawnda K. Wilson made key contributions to this report.

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