United States General Accounting Office

GAO

Report to the Secretary of the Treasury

March 1999

FINANCIAL AUDIT

Bureau of the Public Debt's Fiscal Years 1998 and 1997 Schedules of Federal Debt

GAO/AIMD-99-70

GAO

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

Comptroller General

B-279642

March 1, 1999

The Honorable Robert E. Rubin
The Secretary of the Treasury

Dear Mr. Secretary:

This 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, 1998 and 1997. The Schedules of Federal Debt present the beginning balances, increases and decreases, and ending balances for (1) Federal Debt Held by the Public and Federal Debt Held by Federal Entities, (2) the related Accrued Interest Payables, and (3) the related Net Unamortized Discounts and Premiums, managed by the bureau.

As of September 30, 1998 and 1997, federal debt managed by the bureau totaled about $5.5 trillion and $5.4 trillion, respectively, for monies borrowed to fund the government's operations. These balances consisted of (1) $3.8 trillion as of September 30, 1998 and 1997 owed to the public and (2) $1.7 trillion as of September 30, 1998, and $1.6 trillion as of September 30, 1997, owed to federal entities, such as the Social Security Trust funds. Total interest expense for fiscal years 1998 and 1997 was $363 billion and $356 billion, respectively. These amounts consisted of (1) $243 billion and $246 billion of interest expense on debt owed to the public for fiscal years 1998 and 1997, respectively, and (2) $120 billion and $110 billion of interest expense on debt owed to federal entities for fiscal years 1998 and 1997, respectively.

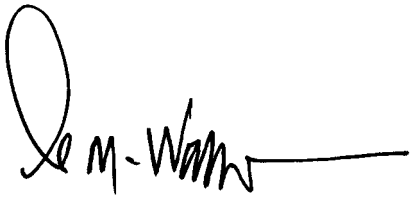
This report contains our (1) opinion on the Schedules of Federal Debt for the fiscal years ended September 30, 1998 and 1997, (2) opinion on bureau management's assertion about the effectiveness of related internal control in place on September 30, 1998, and (3) conclusion on the bureau's compliance in fiscal year 1998 with a selected provision of a significant law and regulation we tested.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Appropriations and its Subcommittee on Treasury and General Government; Senate Committee on Finance; Senate Committee on Governmental Affairs; Senate Committee on the Budget; House Committee on Appropriations and its Subcommittee on Treasury, Postal Service, and General Government; House Committee on Ways and Means; House Committee on Government Reform and its Subcommittee on Government Management, Information, and Technology;

and House Committee on the Budget. We are also sending copies to other interested congressional committees, the Commissioner of the Bureau of the Public Debt, and the Director of the Office of Management and Budget. Copies will be made available to others upon request.

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, Associate Director, Governmentwide Accounting and Financial Management Issues, Accounting and Information Management Division. Should you or members of your staff have any questions concerning this report, please contact Mr. Engel on (202) 512-3406. Major contributors to this report are listed in appendix II.

Sincerely yours,



David M. Walker
Comptroller General
of the United States

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Abbreviations

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

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Washington, D.C. 20548

Comptroller General

B-279642

To the Commissioner of the Bureau of the Public Debt

In connection with fulfilling our requirement to audit the consolidated financial statements of the U.S. government, we audited the federal debt managed by the Bureau of the Public Debt (BPD) due to the significance of the federal debt on the federal government's financial statements.[1]

This report presents the results of our audits of the Schedules of Federal Debt Managed by BPD for the fiscal years ended September 30, 1998 and 1997. The Schedules of Federal Debt present the beginning balances, increases and decreases, and ending balances for (1) Federal Debt Held by the Public and Federal Debt Held by Federal Entities, (2) the related Accrued Interest Payables, and (3) the related Net Unamortized Discounts and Premiums, managed by BPD.

In our audits of the Schedules of Federal Debt for the fiscal years ended September 30, 1998 and 1997, we found

- the Schedules of Federal Debt were reliable in all material respects;
- management fairly stated that the related internal control in place on September 30, 1998, was effective in assuring that there were no material misstatements in the Schedule of Federal Debt for the fiscal year ended September 30, 1998, including safeguarding assets, as reflected in note 5 to the Schedules of Federal Debt, from material loss, and assuring material compliance with laws governing the use of budget authority and with other laws and regulations relevant to the Federal Debt managed by BPD; and
- no reportable noncompliance in fiscal year 1998 with a selected provision of a law and regulation we tested.

The following sections outline each conclusion in more detail and discuss the scope of our audits.

Opinion on Schedules of Federal Debt

The Schedules of Federal Debt including the accompanying notes present fairly, in all material respects, in conformity with federal accounting standards as described in note 1, the balances as of September 30, 1998, 1997, and 1996, for Federal Debt managed by BPD, the related Accrued Interest Payables and Net Unamortized Discounts and Premiums, and the

[1] 31 U.S.C. 331(e) (1994).

related increases and decreases for the fiscal years ended September 30, 1998 and 1997. The basis of accounting described in note 1 is a comprehensive basis of accounting other than generally accepted accounting principles.

Opinion on Management's Assertion About the Effectiveness of Internal Control

We evaluated management's assertion about the effectiveness of its internal control designed to provide reasonable assurance that the following objectives are met:

- Reliability of 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, 1998, in accordance with federal accounting standards and assets are safeguarded, as reflected in note 5 of the Schedules of Federal Debt, against loss from unauthorized acquisition, use, or disposition and
- Compliance with applicable laws and regulations – transactions on the Schedule of Federal Debt for the fiscal year ended September 30, 1998, 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 Schedules of Federal Debt and any other laws, regulations, and governmentwide policies identified by the Office of Management and Budget (OMB) in Bulletin No. 98-08, Audit Requirements for Federal Financial Statements, Appendix C.

Management of BPD fairly stated that internal control in place on September 30, 1998, provided reasonable assurance that misstatements, losses, or noncompliance, material in relation to the Schedule of Federal Debt for the fiscal year ended September 30, 1998, would be prevented or detected on a timely basis. Management made this assertion based upon criteria established under the Federal Managers' Financial Integrity Act of 1982 and OMB Circular No. A-123, Management Accountability and Control.

We found matters involving computer controls that we do not consider to be reportable conditions.[2] We will communicate these matters separately

[2]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 that could adversely affect the organization's ability to meet the objectives of reliable financial reporting and compliance with applicable laws and regulations.

to BPD's management, along with our suggestions for improvement.

Compliance With Laws and Regulations

Our tests for compliance in fiscal year 1998 with Statutory Debt Limits, 31 U.S.C. 3101(b), as amended, disclosed no instances of noncompliance that would be reportable under generally accepted government auditing standards or OMB Bulletin No. 98-08. However, the objective of our audit of the Schedule of Federal Debt for the fiscal year ended September 30, 1998, was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Year 2000 Date Conversion

The Year 2000 date conversion poses a challenge for many organizations, including federal agencies. The Year 2000 problem is rooted in the way dates are recorded and calculated in many computer systems. For the past several decades, systems have typically used two digits to represent the year in order to conserve on electronic data storage and reduce operating costs. With this two-digit format, however, the year 2000 is indistinguishable from the year 1900. As a result, system or application programs that use dates to perform calculations, comparisons, or sorting may generate incorrect results when working with years after 1999.

Because many of BPD's core business areas and processes involve information systems, it is critical that BPD ensures that its mission-critical and other key systems are Year 2000 compliant. BPD officials stated that BPD has completed actions and has actions planned to ensure that it is Year 2000 compliant. A review of such actions was not included in the scope of our audits of the Schedules of Federal Debt. We are working with the Congress and the executive branch to monitor the progress being made by federal agencies and to identify specific recommendations for resolving the Year 2000 problem.

Objectives, Scope, and Methodology

Management is responsible for

- preparing the Schedules of Federal Debt in conformity with federal accounting standards;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act of 1982 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 reliable (free of material misstatement and presented fairly, in all material respects, in conformity with federal accounting standards as described in note 1) and (2) management's assertion about the effectiveness of related internal control is fairly stated, in all material respects, based upon criteria established under the Federal Managers' Financial Integrity Act of 1982 and OMB's Circular No. A-123, Management Accountability and Control. We are also responsible for testing compliance with selected provisions of laws and regulations.[3]

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 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 for the fiscal year ended September 30, 1998, and related to financial reporting, including safeguarding assets, as reflected in note 5 to the schedules, and compliance with laws and regulations including execution of transactions in accordance with budget authority;
- tested relevant internal controls over financial reporting, including safeguarding assets, as reflected in note 5 to the schedules, and compliance, and evaluated management's assertion about the effectiveness of internal control related to the Schedule of Federal Debt for the fiscal year ended September 30, 1998;
- considered the process required by the Federal Managers' Financial Integrity Act of 1982 for evaluating and reporting on internal control and financial management systems; and
- tested compliance in fiscal year 1998 with Statutory Debt Limits, 31 U.S.C 3101(b), as amended.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to those

[3]These are laws and regulations that have a direct and material effect on the Schedules of Federal Debt or that are listed in OMB guidance and could have a material effect on the Schedules of Federal Debt.

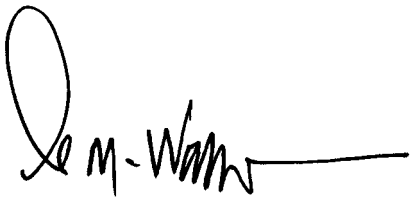
controls necessary to achieve the objectives outlined in our opinion on management's assertion about the effectiveness of internal control. Because of inherent limitations in internal control, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting 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 those required by OMB Bulletin No. 98-08 and which we deemed applicable to the Schedule of Federal Debt for the fiscal year ended September 30, 1998. 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 did our work in accordance with generally accepted government auditing standards and applicable OMB guidance.

Agency Comments

We requested comments on a draft of this report from BPD. On February 18, 1999, the Commissioner of BPD provided us with written comments, which are presented in appendix I. BPD concurred with our audit report's conclusions.



David M. Walker
Comptroller General
of the United States

January 29, 1999

Schedules and Notes

Schedules of Federal Debt

Schedules of Federal Debt
Managed by the Bureau of the Public Debt
For the Fiscal Years Ended September 30, 1998 and 1997
(Dollars in Millions)

	Federal Debt					
	Held by the Public			Held by Federal Entities		
	Principal (Note 2)	Accrued Interest Payable	Net Unamortized Discounts	Principal (Note 3)	Accrued Interest Payable	Net Unamortized Premiums
Balance as of September 30, 1996	$3,778,759	$45,574	($72,871)	$1,431,051	$27,317	$13,194
Increases						
Borrowings from the Public	2,343,511		(39,270)			
Net Increase in Amounts Borrowed from Federal Entities				152,408		(744)
Accrued Interest (Note 4)		204,230			110,513	
Total Increases	2,343,511	204,230	(39,270)	152,408	110,513	(744)
Decreases						
Repayments of Debt Held by the Public	2,307,583					
Interest Paid		203,752			108,906	
Net Amortization (Note 4)			(41,889)			235
Total Decreases	2,307,583	203,752	(41,889)	0	108,906	235
Balance as of September 30, 1997	$3,814,687	$46,052	($70,252)	$1,583,459	$28,924	$12,215
Increases						
Borrowings from the Public	2,127,992		(34,338)			
Net Increase in Amounts Borrowed from Federal Entities				166,512		(6,877)
Accrued Interest (Note 4)		205,215			120,858	
Total Increases	2,127,992	205,215	(34,338)	166,512	120,858	(6,877)
Decreases						
Repayments of Debt Held by the Public	2,181,457					
Interest Paid		205,837			119,268	
Net Amortization (Note 4)			(37,870)			611
Total Decreases	2,181,457	205,837	(37,870)	0	119,268	611
Balance as of September 30, 1998	$3,761,222	$45,430	($66,720)	$1,749,971	$30,514	$4,727

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, 1998 and 1997
(Dollars in Millions)

Note 1. Significant Accounting Policies

Basis of Presentation

The Schedules of Federal Debt Managed by the Bureau of the Public Debt have been prepared to report fiscal year 1998 and 1997 balances and activity relating to monies borrowed from the public and federal entities to fund the U.S. government's operations. All fiscal year end balances reported on the Schedules of Federal Debt, except for Accrued Interest Payable on Federal Debt Held by the Public, are not covered by budgetary resources. The administrative financial statements of the Bureau of the Public Debt (BPD) as a whole, Schedule of Loans Receivable From Federal Entities and Related Interest Receivable Serviced by the Bureau of the Public Debt, and an overview to the BPD financial statements are separately reported.

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 Treasury, BPD is responsible for issuing Treasury securities in accordance with such authority and to account for the resulting debt. Title 31 U.S.C. authorizes BPD, an organizational entity within the Fiscal Service of the Department of the Treasury, to prescribe the debt instruments and otherwise limit and restrict the amount and composition of the 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 federal accounting standards 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 the straight line method. 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.

Budgetary Authority

Permanent, indefinite appropriations are available for the payment of interest on the federal debt and on the redemption of Treasury securities.

Notes to the Schedules of Federal Debt Managed by the Bureau of the Public Debt
For the Fiscal Years Ended September 30, 1998 and 1997
(Dollars in Millions)

Note 2. Federal Debt Held by the Public

As of September 30, 1998 and 1997, Federal Debt Held by the Public consisted of the following:

	1998		1997	
	Amount	Average Interest Rates	Amount	Average Interest Rates
Marketable:				
Treasury Bills	$637,648	5.2%	$701,909	5.5%
Treasury Notes	2,051,046	6.2%	2,146,631	6.4%
Treasury Bonds	625,675	8.6%	574,954	8.9%
Total Marketable	$3,314,369		$3,423,494	
Nonmarketable	$446,853	6.2%	$391,193	6.5%
Total Federal Debt Held by the Public	$3,761,222		$3,814,687	

Treasury issues marketable bills at a discount and pays the par amount of the security upon maturity. The average interest rate on a Treasury bill represents the average effective yield on the security. Treasury bills are issued with a term of 1 year or less.

Treasury issues marketable notes and bonds as long term securities that pay semi-annual interest based on the security's stated interest rate. These securities are issued at either par value or at an amount that reflects a discount or a premium. The average interest rate on marketable notes and bonds represents the stated interest rate adjusted by any discount or premium. 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, 1998, Treasury marketable notes included $41,863 million of inflation-indexed notes and Treasury marketable bonds included $16,960 million of inflation-indexed bonds. As of September 30, 1997, Treasury marketable notes included $24,384 million of inflation-indexed notes.

As of September 30, 1998, nonmarketable securities primarily consisted of $186,006 million in U.S. Savings Securities, $164,431 million in securities issued to State and Local Governments, $35,079 million in Foreign Series Securities, and $29,995 million in Domestic Series Securities. As of September 30, 1997, nonmarketable securities primarily consisted of $186,315 million in U.S. Savings Securities, $111,863 million in securities issued to State and Local Governments, $34,909 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 weighted effective yield. 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, 1998 and 1997
(Dollars in Millions)

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

Government Account Series (GAS) securities are nonmarketable securities issued to federal entities. Federal Debt Held by the Public includes GAS securities issued to certain federal entities. One example is the GAS security held by the Thrift Savings Fund. Federal employees and retirees who have individual accounts own the GAS securities held by the fund. For this reason, the fund is considered part of the Federal Debt Held by the Public rather than Federal Debt Held by Federal Entities. Also, the GAS securities held by the Thrift Savings Fund consist of overnight investments redeemed one business day after their issue. The net increase in amounts borrowed from the fund during fiscal years 1998 and 1997 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 $478 billion and $440 billion of Federal Debt Held by the Public as of September 30, 1998 and 1997, respectively. These securities are held in the FRB System Open Market Account (SOMA) for the purpose of conducting monetary policy.

Note 3. Federal Debt Held by Federal Entities

As of September 30, 1998 and 1997, Federal Debt Held by Federal Entities is owed to the following:

		1998	1997
SSA:	Federal Old-Age and Survivors Insurance Trust Fund	$653,282	$567,445
OPM:	Civil Service Retirement and Disability Fund*	431,757	399,404
DOD:	Military Retirement Fund	133,843	126,022
HHS:	Federal Hospital Insurance Trust Fund	118,250	116,621
SSA:	Federal Disability Insurance Trust Fund*	76,996	63,562
DOL:	Unemployment Trust Fund*	70,641	61,923
HHS:	Federal Supplementary Medical Insurance Trust Fund	39,502	34,464
FDIC:	The Bank Insurance Fund	27,445	26,329
RRB:	Railroad Retirement Account	19,764	17,486
OPM:	Employees' Life Insurance Fund	19,377	18,038
DOT:	Highway Trust Fund	17,926	22,341
Treasury:	Exchange Stabilization Fund	15,981	15,460
HUD:	FHA - Liquidating Account	14,344	13,467
VA:	National Service Life Insurance Fund	12,008	12,023
DOE:	Nuclear Waste Disposal Fund	11,169	6,249
Other Programs and Funds		87,686	82,625
Total Federal Debt Held By Federal Entities		$1,749,971	$1,583,459

* 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, 1998 and 1997
(Dollars in Millions)

Note 3. Federal Debt Held by Federal Entities (continued)

	GAS Securities	Marketable Treasury Securities	Total
As of September 30, 1998:			
Civil Service Retirement and Disability Fund	$430,595	$1,162	$431,757
Federal Disability Insurance Trust Fund	76,947	49	76,996
Unemployment Trust Fund	70,598	43	70,641
As of September 30, 1997:			
Civil Service Retirement and Disability Fund	$398,242	$1,162	$399,404
Federal Disability Insurance Trust Fund	63,513	49	63,562
Unemployment Trust Fund	61,880	43	61,923

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

Federal Debt Held by Federal Entities primarily consists 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 1998 and 1997 were 7.1 percent and 7.4 percent, respectively. GAS securities are issued with a term of on demand to 30 years.

Note 4. Interest Expense

Interest expense on Federal Debt Managed by BPD for fiscal years 1998 and 1997 consisted of the following:

	1998	1997
Federal Debt Held by the Public		
Accrued Interest	$205,215	$204,230
Net Amortization of Premiums and Discounts	37,870	41,889
Total Interest Expense on Federal Debt Held by the Public	243,085	246,119
Federal Debt Held by Federal Entities		
Accrued Interest	120,858	110,513
Net Amortization of Premiums and Discounts	(611)	(235)
Total Interest Expense on Federal Debt Held by Federal Entities	120,247	110,278
Total Interest Expense on Federal Debt Managed by BPD	$363,332	$356,397

Notes to the Schedules of Federal Debt Managed by the Bureau of the Public Debt
For the Fiscal Years Ended September 30, 1998 and 1997
(Dollars in Millions)

Note 5. Fund Balance With Treasury

Appropriated Funds Obligated as of September 30, 1998	$45,652
Appropriated Funds Obligated as of September 30, 1997	$46,255

Interest accruals on Federal Debt Held by the Public are charged over the life of the security to the Interest on Public Debt appropriation. Such amounts are maintained in BPD's Fund Balance With Treasury (FBWT), a non-entity, intragovernmental account, until the semi-annual interest payments are disbursed. The balances in the FBWT account as of September 30, 1998 and 1997, are primarily attributable to this process. Amounts related to other debt related accounts, which are minor, also make up this balance. The FBWT and other debt related accounts are not included on the Schedules of Federal Debt and are presented for informational purposes.

Note 6. Other Debt Related Balances

As of September 30, 1998 and 1997, other debt related balances consisted of the following:

	1998	1997
Accounts Receivable from Overpayments	$6	$7
Advances Received for Purchases of Federal Debt	(123)	(90)
Other Miscellaneous Balances	(82)	(85)
Total Other Debt Related Balances	($199)	($168)

Comments From the Bureau of the Public Debt

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

February 18, 1999

Mr. Gary T. Engel
Associate Director
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Engel:

Thanks for the opportunity to respond to your audit of the *Schedules of Federal Debt Managed by the Bureau of the Public Debt* for the fiscal years ended September 30, 1998 and 1997. We agree with your audit report's conclusions.

I would like to thank you and your staff for conducting a thorough audit of these schedules. Your audit team was knowledgeable and professional. Specifically, your team's experience with our accounting operations and our experience with your expectations made this audit efficient and less burdensome all around. Our staffs continue to work well together and we look forward to continuing this productive and effective relationship.

Sincerely,

Van Zeck
Commissioner

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