OFFICE OF THE INSPECTOR GENERAL

DEFENSE HOMEOWNERS ASSISTANCE FUND
FINANCIAL STATEMENTS FOR FY 1992

Report No. 93-140

June 30, 1993

Department of Defense

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MEMORANDUM FOR SECRETARY OF DEFENSE
COMPTROLLER AND CHIEF FINANCIAL OFFICER OF
THE DEPARTMENT OF DEFENSE


We are providing this audit report for your information and use, and for use by Congress. Financial statement audits are required by the Chief Financial Officers Act of 1990. Office of Management and Budget (OMB) Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993, requires the Inspector General to render an opinion on the fairness of financial statements. Also, we are required to report on the adequacy of internal controls and compliance with laws and regulations.

We found that the financial statements do not present fairly the financial position or the results of operations or cash flows in accordance with OMB Bulletin No. 93-02, "Form and Content of Agency Financial Statements," October 22, 1993, and DoD guidance on form and content. We are rendering an Adverse Opinion because the Defense Finance and Accounting Service did not have an adequate accounting system to accumulate and report financial information. Specifically, the General Ledger was unreliable and account balances were not reconciled to the U.S. Army Corps of Engineers (USACE) accounting records. As a result, accounts were materially misstated (accounts receivable were understated by $2.3 million, revenues and financing sources by $18.1 million, and expenses by $8.4 million; liabilities were overstated by $1.1 million). All accounts pertaining to the purchase and sale of homes were misclassified and overstated. Other accounts such as net position and equity transfers were estimated and not supported by the accounting records.

We also found internal control weaknesses in classifying and valuing homes, safeguarding checks, processing accounting transactions, and administering the labor distribution system. Additionally, we noted that the USACE did not properly account for revenue in accordance with DoD Manual 7220.9-M, "DoD Accounting Manual," as amended, June 1991; the Overview to the financial statements was not consistent with DoD guidance on form and content; and USACE districts did not comply with the Federal Acquisition Regulation when procuring services. Details of those weaknesses are discussed in Parts II and III of the report. This report contains no recommendations that are subject to resolution in accordance with DoD Directive 7650.3; accordingly, comments are not required.
The courtesies extended to the audit staff during the audit are appreciated. If you have any questions about this audit report, please contact Mr. Raymond D. Kidd, Program Director, at (703) 614-1682 (DSN 224-1682) or Mrs. Saundra G. Elion, Project Manager, at (703) 693-0457 (DSN 223-0469). The distribution of this report is listed in Part IV, Appendix D.

Robert J. Lieberman  
Assistant Inspector General  
for Auditing
Office of the Inspector General, Department of Defense

Report No. 93-140
(Project No. 2FH-2002)

AUDIT REPORT ON THE DEFENSE HOMEOWNERS ASSISTANCE
FUND FINANCIAL STATEMENTS FOR FY 1992

EXECUTIVE SUMMARY

Introduction. The Chief Financial Officers Act requires an annual audit of funds such as the Defense Homeowners Assistance Fund (the Fund). The Fund is a revolving fund that provides financial assistance to DoD civilian, military, and Coast Guard homeowners who incur financial losses when selling their homes in areas where real estate values have declined because of base closures or realignments. The U.S. Army Corps of Engineers (USACE) manages and operates the Fund, and the Defense Finance and Accounting Service (DFAS) prepares the financial reports and financial statements. The Fund receives annual appropriations from Congress. In FY 1992 the USACE received $90.0 million to operate the Fund ($84.0 million from appropriations and $6.0 million carried forward from previous years). The Fund also earned $10.2 million in revenue. The Defense Homeowners Assistance Fund and the Defense Emergency Response Fund are the two funds that make up the Army Defense Revolving Fund.

Objectives. The primary objective of the audit was to determine whether the Fund's FY 1992 financial statements were presented fairly in accordance with generally accepted accounting principles for Federal entities. We evaluated the internal control structure established for the Fund and assessed compliance with applicable laws and regulations that could have a direct and material effect on the financial statements. We also evaluated the reliability and usefulness of financial information reported to the Office of Management and Budget (OMB), the Department of the Treasury of the United States, the DoD, and Fund management.

Independent Auditor's Opinion. We are rendering an Adverse Opinion on the financial statements. The statements and footnote disclosures do not present fairly the Fund's financial position, results of operations, or cash flows in accordance with OMB Bulletin No. 93-02, "Form and Content of Agency Financial Statements," October 22, 1993, and DoD guidance on form and content. The Army Standard General Ledger used to prepare the financial statements was unreliable and the account balances did not agree with amounts recorded in the USACE accounting system. As a result, accounts receivable were understated by $2.3 million, revenues and financing sources by $18.1 million, and expenses by $8.4 million. Also, liabilities were overstated by $1.1 million. Additionally, all accounts pertaining to the purchase and sale of homes were misclassified and overstated.

Internal Controls. Material internal control weaknesses existed. We found that procedures were not in place at the DFAS-Indianapolis Center to accurately accumulate and report costs. Also, the USACE had not established procedures to properly classify, value, and account for homes acquired by the Fund; safeguard checks; process accounting transactions; and distribute labor charges. Part II contains our report on material internal control weaknesses identified in our audit.
Compliance with Laws and Regulations. We found material instances of noncompliance with laws and regulations. The USACE did not comply with DoD Manual 7220.9-M, "DoD Accounting Manual," as amended, June 1991, to record revenue on an accrual basis. The Overview to the statements was not prepared in accordance with OMB Bulletin No. 93-02 and "DoD Guidance on Form and Content of Financial Statements for FY 1992 Financial Activity," October 27, 1992. Part III discusses material instances of noncompliance with those regulations. Appendix A of Part IV lists all laws and regulations tested.

Usefulness of Financial Statements. The Fund’s FY 1992 financial statements are not reliable nor useful. Since the DFAS neither coordinated with the USACE to fully understand how transactions were posted nor understood the USACE financial management system, accounts were inaccurately presented on the financial statements. In any event, correcting the deficiencies found by the audit will significantly improve the accuracy of future financial information and financial statements. Also, managers will have more accurate data to use in their decisionmaking processes.

Management Comments. We provided draft reports of Parts II and III to management on May 14, 1993, and asked for comments by May 28, 1993. No comments were received.
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This report was prepared by the Financial Management Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate (703) 614-6303 (DSN 224-6303).
Part I - Independent Auditor's Opinion on the Financial Statements
Introduction

The Defense Homeowners Assistance Fund (the Fund) is a DoD revolving fund created to provide financial assistance to eligible DoD civilian, military, and Coast Guard homeowners who incur financial losses when selling their homes in areas where real estate values have declined because of base closures or realignments. The U.S. Army Corps of Engineers (USACE) manages and operates the Fund for the DoD. The Defense Finance and Accounting Service (DFAS) prepares the financial reports and financial statements. Headquarters, USACE, and 10 USACE district offices made disbursements from the Fund in FY 1992.

The Fund receives annual appropriations that can be carried forward indefinitely. In FY 1992 the Fund received $100.2 million ($84.0 million from appropriations, $6.0 million carried forward, and $10.2 million in revenue).

The Chief Financial Officers Act requires an annual audit of funds such as the Defense Homeowners Assistance Fund. The Fund is one of two funds included in the Army Defense Revolving Fund (the Defense Emergency Response Fund is the other fund). The USACE manages and operates the Fund, and the DFAS prepares the financial reports and financial statements. Our responsibility is to express an opinion on those statements based on our audit.

Scope

We have audited the Principal Financial Statements of the Defense Homeowners Assistance Fund as of and for the year ended September 30, 1992. The statements include the Statement of Financial Position, Statement of Operations, Statement of Cash Flows, and Statement of Budget and Actual Expenses. The statements also include Footnotes and an Overview.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in financial statements, including the accompanying notes. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We developed a client profile and cycle memorandums that assessed the internal control structure for financial reporting, funds control, disbursements, revenue, administrative (direct and indirect labor) expenses, and procurement. Also, we used multistage random sampling to perform substantive testing of disbursements (see Appendix B of Part IV). This financial statement audit was made during the period October 1991 through April 1993. See Appendix C of Part IV for the organizations visited or contacted. We believe that our audit efforts provide a reasonable basis for our results.
Auditing Standards

We conducted our audit in accordance with generally accepted Government auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense, and Office of Management and Budget (OMB) Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the principal statements are free of material misstatements.

Accounting Principles

Accounting principles are currently being studied by the Federal Accounting Standards Advisory Board (the Board). Generally accepted accounting principles for Federal entities are to be promulgated by the Joint Financial Management Improvement Program principals, based on advice from the Board. In the interim, Federal agencies are to use a comprehensive basis of accounting as defined in OMB Bulletin No. 93-02, "Form and Content of Agency Financial Statements," October 22, 1992. The summary of significant policies included in the Notes to the Principal Statements should describe the accounting principles and methods of applying those principles that management has concluded are the most appropriate for presenting the Fund's significant assets, liabilities, net position, results of operations, cash flows, and reconciliation to the budget.

Adverse Opinion

The Army Standard General Ledger used by the DFAS-Indianapolis Center to prepare the financial statements was unreliable, and the account balances did not agree with amounts recorded in the USACE accounting system. As a result, accounts receivable were understated by $2.3 million, revenues and financing sources by $18.1 million, and expenses by $8.4 million; liabilities were overstated by $1.1 million; and net position and equity transfers were not supported by accounting records or otherwise documented.

The DFAS misclassified all accounts pertaining to the purchase and sale of the homes acquired by the Fund. Homes were reported as property, plant and equipment on the Statement of Financial Position and as capital assets on the Statement of Budget and Actual Expenses. Revenue from home sales and the related cost of goods sold were reported as intragovernmental rather than as to the public on the Statement of Operations. The reported value of the homes exceeded the book value by $1.7 million. Furthermore, using acquisition costs overstates assets by more than 30 percent. Due to the criteria for entry into the Homeowners Assistance Program, it is illogical to use acquisition costs. Net
realizable value is a more acceptable method and is used by other Federal agencies that sell homes.

The USACE incorrectly combined accounting bases: they recorded revenue on a cash basis and expenses on an accrual basis. As a result, revenue was overstated by $1.7 million and accounts receivable were understated by $2.3 million.

We are issuing an Adverse Opinion because the effects of material departures from applicable accounting principles cause the Statement of Financial Position, the Statement of Operations, the Statement of Cash Flows, and the Statement of Budget and Actual Expenses not to present fairly, in conformity with DoD and generally accepted accounting principles, the financial position of the Defense Homeowners Assistance Fund as of September 30, 1992, or the results of its operations or its cash flows for the year then ended.

Additional Information

During the audit, we reported deficiencies to the DFAS and the USACE management in a Quick Reaction Report and three advisory memorandums (Part VI). The material deficiencies described in those issuances are presented in this report. As the Fund manager, the USACE has initiated actions to correct most of those problems; however, implementation of some actions requires the concurrence of the Comptroller of the Department of Defense (DoD Comptroller) and the DFAS. Actions such as changing the classification and valuation methods for the homes requires the DoD Comptroller to revise existing policy. The DoD Comptroller prefers not to change the policy even though the current policy is contrary to generally accepted accounting principles and the practices used by other Federal organizations that sell homes to the public and does not recognize the realities of the Homeowners Assistance Program. Other actions to ensure accurate presentation of operations require the DFAS to understand the Fund's objectives. In some cases, although the USACE agreed to the adjustments we recommended, the DFAS, responsible for preparing and printing the financial statements, would not make the changes. Since the DFAS did not effectively communicate with the USACE, certain line items were misstated (e.g., accounts receivable and operating expenses were excluded and a $1.2 million debt included). The USACE was aware of these misstatements but could not change the statements.
Part II - Internal Controls
Internal Controls

Introduction

We audited the internal control structure for the Defense Homeowners Assistance Fund (the Fund) as of and for the year ended September 30, 1992.

The U.S. Army Corps of Engineers (USACE) and the Defense Finance and Accounting Service (DFAS) are responsible for establishing and maintaining an internal control structure for the Fund. In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable but not absolute assurance that transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets; funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the Principal Statements and any other laws and regulations that the Office of Management and Budget (OMB), the entity management, or the Inspector General, Department of Defense, has identified as being significant for which compliance can be objectively measured and evaluated; and data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information.

Objectives and Scope

The objective of the audit was to determine whether there were adequate internal controls over the Fund to ensure that the financial statements were free of material error.

In planning and performing our audit of the Fund for the year ended September 30, 1992, we evaluated management's internal control structure. The purposes of this evaluation were to determine the auditing procedures we would use to express our opinion on the Principal Statements, and to determine whether an internal control structure was established to ensure that statements were free of material misstatements. We obtained an understanding of the internal control policies and procedures and assessed the level of control risk for all significant cycles, classes of transactions, and account balances. For those significant internal control policies and procedures that had been properly designed and placed in operation, we performed sufficient tests to provide reasonable assurance that the controls were effective and working as designed.

For purposes of this report, we classified the Fund's significant policies and procedures into the following categories: financial reporting, funds control, disbursements, revenue, administrative (direct and indirect labor) expenses, and
procurement. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions, and would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Except for the matters noted, we believe there is reasonable assurance that the internal control structure meets the objectives. The DFAS reported weaknesses in the general ledger to the DoD in its Federal Managers' Financial Integrity Act Annual Statement for FY 1992. The USACE also reported weaknesses to the Secretary of the Army.

We conducted our audit in accordance with generally accepted Government auditing standards, issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense, and OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Principal Statements are free of material misstatements.

Prior Audit Coverage

The Army Audit Agency reviewed the operating procedures at the USACE Headquarters and the Fort Worth District, then issued Information Memorandum SW 91-752, "Review of the Homeowners Assistance Program, U.S. Army Corps of Engineers," March 20, 1991. The review found improvements were needed to ensure effective program administration, proper tracking of costs, and reporting of taxes.

Results of Audit

Internal controls were not adequate to ensure that the financial statements were free of material error. Internal control weaknesses existed that we consider to be material and reportable conditions under standards established by OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to effectively control and manage its resources and ensure reliable and accurate financial information to manage and evaluate operational performance. A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities could occur. Such errors would be in amounts material to the statements being audited, or material to a performance measure or aggregation of related performance measures, and
might not be detected in a timely period by employees in the normal course of performing their assigned functions.

We found that procedures were not in place at the DFAS-Indianapolis Center to accurately accumulate and report costs. We also found internal control weaknesses at the USACE; however, those weaknesses did not have a material effect on the FY 1992 statement account balances. The weaknesses presented in this report were presented to the DFAS and the USACE in a Quick Reaction Report and three advisory memorandums (see Part VI).

**Accumulating and Reporting Costs.** The DFAS internal control structure was not adequate to ensure that costs were properly accumulated, reported, and reconciled. As a result, the FY 1992 financial statements contained material misstatements (accounts receivable were understated by $2.3 million, revenues and financing sources by $18.1 million, and expenses by $8.4 million; liabilities were overstated by $1.1 million). Balances for net position and equity transfers were not supported by the accounting records.

Because the DFAS did not have an adequate internal control structure, the DFAS-Indianapolis Center did not maintain a reliable General Ledger; verify the financial data received from the USACE; reconcile the trial balance and certified reports; coordinate with the DFAS departments that were receiving, consolidating, and preparing various reports; or maintain documentation to support specific line-item account balances. We addressed those controls in our Quick Reaction Report (Report No. 93-040), dated December 28, 1992, and the DFAS responded that the General Ledger was used to prepare the FY 1992 statements, memorandum balances (from the USACE) were verified to accounting records, and estimations were limited but fully documented. During our March 1992 review at the DFAS-Indianapolis Center, however, we found the same weaknesses as reported in our Quick Reaction Report.

**Classifying, Valuing, and Maintaining Records.** The USACE did not have internal controls in place to properly classify, value, or maintain comprehensive inventory records on the homes purchased in FY 1992. The homes that were purchased, but not sold, were recorded as buildings and were reported on the Statement of Financial Position as property, plant and equipment. All homes were recorded at their acquisition costs (equity payment to the applicant plus the outstanding mortgage).

**Classification.** Since the purpose of the Fund is to provide financial assistance to eligible DoD civilian, military, and Coast Guard homeowners by buying their homes to resell, the homes should be classified as "Inventory Held for Sale." Reporting those homes as property, plant and equipment for this revolving fund incorrectly asserts that the homes are fixed assets owned by the Fund instead of the only source of revenue for the Fund.
Valuation. Acquisition cost is not a clearly acceptable method of valuing homes purchased at prices exceeding the market value. Acquisition cost overstates asset value.

Although DoD regulations are not clear and the Federal Accounting Standards Advisory Board has not recommended standards for accounting for real property held as inventory, we used the Statement of Financial Accounting Standards No. 67, “Accounting for Costs and Initial Operations of Real Estate Projects,” to determine the most acceptable valuation method. Standard No. 67 recommends using net realizable value (estimated selling price minus estimated closing, repair, and improvement costs) to value the homes. We understand that the DoD is not required to follow industry standards, but we found that two other Federal agencies, the Department of Housing and Urban Development (HUD) and the Department of Veterans Affairs, use net realizable value to record homes in their inventories. We did not calculate the net realizable value for the homes because we did not have historical costs; we did determine that sales prices were an average of 31 percent less than acquisition costs. The actual loss rate is much higher since closing, repair, and improvement costs were not included in our calculation.

Classification and valuation were addressed in our Quick Reaction Report to the DFAS, dated December 28, 1992, and in our advisory memorandum to the USACE, dated December 3, 1992. The DFAS management and the Comptroller of the Department of Defense (the DoD Comptroller) disagreed with our proposed method and made no changes. The USACE agreed with our methodology, but cannot take corrective action without approval from the DoD Comptroller.

Inventory Records. The USACE did not maintain comprehensive property records for the homes purchased and sold. Each district purchased the homes, then gave custody to the HUD. The HUD periodically notified the USACE when homes were sold. The USACE did not reconcile the districts' purchases to HUD reports to ensure that all homes were properly accounted for. As a result, 38 homes that were purchased in FY 1991 were excluded from the beginning inventory. Subsequent to our audit field work, the USACE established a comprehensive database of homes. The database showed an ending balance of 218 homes valued at $14.6 million. The adjusted balance was $1.7 million less than reported on the financial statements.

Safeguarding Checks. The New York District did not have controls to monitor and safeguard the receipt and distribution of checks from the Fund. As a result, liabilities of the Fund may not have been liquidated. We found checks, in two applicants' folders, that were intended for tax payments. The checks, totaling $12,515, had been in the applicants' folders for over a year.

Processing Transactions. The USACE did not have adequate internal control procedures to ensure that all districts processed accounting transactions consistently and in accordance with DoD and Army accounting regulations.
While we found only one instance of a potential Antideficiency Act violation, other instances may occur if controls are not established.

Commitment of Funds. Each district determines which, if any, of the Fund’s costs will be recorded as commitments in the accounting records. Some districts commit funds for purchasing homes; others commit only funds for contractual services. Since home purchases represent about 80 percent of the disbursements at most locations, such costs should be committed when an offer is made to purchase a home. By not making administrative reservations of funds (commitments), the districts were in violation of Army Regulation 37-1, "Army Accounting and Fund Control," which requires all costs to be committed. Based on statistical sampling procedures, we estimated that 2,221 of 14,379 line items were not committed (see Appendix C of Part IV). If funds are not committed, the districts’ liabilities could exceed available funds.

Sequence of Transactions. Although the USACE accounting system was designed to link commitments to obligations, obligations to accruals (accounts payable), and accruals to disbursements, we found instances where transactions were not recorded in the proper sequence. Some districts recorded accruals and disbursements before funds were obligated. Such practices could cause the districts to disburse more funds than they are allotted.

Payment of Invoices. Some districts did not process invoices in a timely manner. We found invoices from one vendor dated October 2, 1991, that had not been processed as of March 1993. Technically, the district was not in violation of Public Law 100-496, the Prompt Payment Act, which requires Federal agencies to make payments within 30 days. The vendor incorrectly sent the invoices to the program office instead of to the finance and accounting office as stipulated in the contract. Because the district’s program office had not sent the invoices to the finance and accounting office, the district technically was not in violation of the Prompt Pay Act; the 30-day payment period does not start until the finance and accounting office receives the approved invoice. Taking over 18 months to process invoices, however, clearly demonstrates the lack of adequate internal control procedures for processing payments.

Cost Codes. We determined that the costs evaluated in our sample were incurred to accomplish the objectives of the Homeowners Assistance Program; however, some costs were not charged to the appropriate accounting code. Charging to the wrong cost code resulted in misclassification and inaccurate reporting of expenses. Specifically, the USACE improperly recorded as interest expense HUD’s administrative costs for managing and disposing of the homes. Interest expense was overstated by $1.2 million on the Statement of Operations. One district purchased computers that were immediately sent to USACE Headquarters; therefore, that district’s administrative expenses were overstated. Another district charged computers to an installation account even though the computers were for district use. That district's administrative expenses were understated. Improper coding at the districts could affect the Overview to the financial statements if district costs are used as performance indicators.
Potential Antideficiency Act Violation. We found that one district obligated and disbursed more funds than it had been allotted. That potential Antideficiency Act violation occurred because internal control procedures were not adequate or strictly enforced to alert USACE Headquarters of the overobligation. The USACE is updating its funds control system to prevent future occurrences of overobligations.

Labor Distribution System. Internal controls at the districts did not ensure that all labor costs charged to the Fund were for services received. Timekeepers were not required to keep copies of employee timesheets, supervisors did not always review the cost codes employees charged or sign the certified labor reports prepared by the timekeeper, and the payroll liaisons did not maintain current lists of authorized supervisors. The discrepancies we found did not have a material effect on the account balances; however, since many districts do not have personnel assigned to the Fund on a full-time basis and the Fund’s managers are not required to approve time charged to the Fund, it is essential that the districts have an effective labor distribution system.
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Part III - Compliance with Laws and Regulations
Compliance with Laws and Regulations

Introduction

We have audited the financial statements for the Defense Homeowners Assistance Fund (the Fund) for material instances of noncompliance as of and for the year ended September 30, 1992.

Objectives and Scope

The objective of our audit was to determine whether the Fund activities were conducted in compliance with applicable laws and regulations and whether the financial statements were free of material misstatements. Material instances of noncompliance are failures to follow requirements of, or violations of prohibitions contained in, laws or regulations. Such failures or violations are those that cause us to conclude that the aggregation of the material misstatements resulting from those failures or violations is material to the financial statements, or those whose sensitive nature would cause them to be perceived as significant by others.

The Commander, U.S. Army Corps of Engineers (USACE), and the Director, Defense Finance and Accounting Service (DFAS), are responsible for compliance with laws and regulations applicable to the Fund. To obtain reasonable assurance about whether the financial statements were free of material misstatements, we tested compliance with laws and regulations that may directly affect the financial statements and with certain other laws and regulations designated by the Office of Management and Budget (OMB) and the DoD (see Appendix A of Part IV). As part of our audit, we reviewed management's process for evaluating and reporting on internal control and accounting systems as required by the Federal Managers' Financial Integrity Act (FMFIA). We compared the audited entity's most recent FMFIA reports with the evaluation we conducted on the entity's policies, procedures, and systems for documenting and supporting financial, statistical, and other information as presented to us in the Overview section of the financial statements. Our objective, however, was not to provide an opinion on overall compliance with such provisions.

We conducted our audit in accordance with generally accepted Government auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense, and OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance that the Principal Statements are free of material misstatements.
Compliance with Laws and Regulations

Prior Audit Coverage

The Army Audit Agency reviewed the operating procedures at the USACE Headquarters and the Fort Worth District, then issued Information Memorandum SW 91-752, "Review of the Homeowners Assistance Program, U.S. Army Corps of Engineers," March 20, 1991. The review found improvements were needed to ensure effective program administration, proper tracking of costs, and reporting of taxes.

Results of Audit


Revenue Recorded When Checks Received. The USACE did not record revenue on an accrual basis as required by the DoD Manual 7220.9-M. As a result, revenue was overstated by $1.7 million and accounts receivable were understated by $2.3 million.

The DFAS would not allow the USACE to record revenue until checks were deposited. The DoD Manual 7220.9-M, Chapter 64, states that "Revenues shall be recognized when they become realizable with reasonable practical certainty...." and Chapter 81, Section C.5.m (3) specifically requires the Fund's revenue to be recorded "at the time of the sale of the property."

The USACE had an agreement with the Department of Housing and Urban Development (HUD) to manage and dispose of homes acquired by the Fund. The HUD recorded the sale and the expenses associated with each home and periodically sent checks to the USACE for the net proceeds (sales price minus expenses). Since the USACE received some checks more than 6 months after the actual sale of the property, revenue was improperly recorded in an accounting period different than the one in which the revenue was earned.

Homes sold in FY 1991 were reported as FY 1992 revenue because the USACE received the checks in April 1992. On the other hand, homes sold during July, August, and September 1992 were excluded from FY 1992 revenue because the checks were received in FY 1993. Using the cash basis caused revenue to be overstated by $1.7 million. Accounts receivable were understated by
Compliance with Laws and Regulations

$2.3 million, the proceeds from the sale of homes during July, August, and September 1992.

Our memorandum to the USACE, dated December 3, 1992, advised that the USACE should not use the cash basis to record revenue. The cash basis is acceptable only when there is uncertainty that the funds will be collected. Since the HUD is a Federal agency acting on behalf of the DoD, the likelihood of the DoD not collecting funds from the HUD is very remote.

**Financial Statement Overview.** The Overview to the Fund's Principal Statements was inadequate because some of the facts were inconsistent with the reported account balances and performance indicators were omitted. As a result, the Overview did not fully present the results of operations or the financial condition of the Fund as required by DoD guidance.

The USACE prepared the Overview, and the DFAS was responsible for validating the information presented for the Fund. The "DoD Guidance on Form and Content of Financial Statements for FY 1992 Financial Activity," October 27, 1992, specifically requires the Overview to include an adequate description of the Fund's financial results and condition, accomplishments, problems, and needs. One of the essential measures used to report information in the Overview is the use of performance indicators. Such measures facilitate an understanding of how the Fund has changed and of expectations for the future.

The Overview was not consistent with the statements. The Overview stated that $2.5 million worth of mortgages was written off and that the Fund had no outstanding debt. The Statement of Financial Position, however, showed a $1.2 million debt and did not disclose the discrepancy in the Footnotes. The Overview should support and be consistent with information included in the statements and Notes to the statements.

Performance indicators were not discussed in the Overview; therefore, the reader cannot assess how well management accomplished its objectives. For example, economy and efficiency indicators might be the total time to process (buy and sell) homes, or the average cost of processing applications. Performance indicators are essential tools of measurement to evaluate whether the Fund achieves its intended results and should be presented in the Overview.

**Contractual Services.** Not all USACE districts complied with the FAR when procuring appraisal services and title insurance policies. Requests for those services were intentionally kept under the $25,000 threshold (for small purchases) to avoid issuing contracts. While we did not note a material effect to the account balances, noncompliance with the FAR could result in excessive charges to the Fund in the future as the volume of required services increases.

We advised the USACE of this noncompliance with the FAR in our advisory memorandum dated March 26, 1993, and they agreed to take corrective action.
Compliance with Laws and Regulations

We considered these instances of material noncompliance in forming our opinion on the Fund's Principal Statements. With respect to items not tested, nothing came to our attention to cause us to believe that the DFAS and the USACE had not complied, in all material respects, with those provisions.
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Part IV - Additional Information
Appendix A. Laws and Regulations

Federal Managers' Financial Integrity Act of 1982, Public Law (P.L.) 97-255

Prompt Payment Act of 1988, P.L. 100-496


OMB Bulletin No. 93-02, "Form and Content of Agency Financial Statements," October 22, 1992


Appendix B. Statistical Sampling Plan and Analysis of Results

Sampling Plan

In support of the objectives of this audit, we analyzed a statistical sample of the dollar amounts of transactions for the Homeowners Assistance Fund at the U.S. Army Corps of Engineers (USACE) Headquarters and six USACE districts. Also, we analyzed statistically the numbers of occurrence of five kinds of internal control errors associated with those transactions.

The original audit universe included $22,541,863 at ten USACE districts and at the Headquarters. Four small districts totaling only $103,629 were dropped from the sampling plan. The revised audit universe sampled consisted of 14,379 line items totaling $20,448,392 for FY 1992 in the six districts and a total of $1,989,842 for USACE Headquarters. The sources for those data were the individual Register of Accepted Transactions (register) files maintained at each of the six district offices and the Integrated Command Accounting Report for Headquarters.

The "dollar" error measure was defined as the difference between the audited value for a transaction and the amount of that transaction reported in the register files. The "numbers of occurrences" measures for internal control errors were defined as the relative frequencies of each error type.

We employed multistage random sampling as the design for the statistical sample used in this audit. First, four selections were made from the six field district offices using probability proportional to size/with replacement (PPSwr) sampling methodology. The measure of size for those selections was the total reported line-item value for each district office. Line items within each selected district were then stratified into three levels: those greater than $25,000 (census), those greater than $1,000 and less than or equal to $25,000 (medium), and those less than or equal to $1,000 (low). The absolute values of the transactions, without regard to sign, were used for this stratification. All line items in the census stratum were audited. Within each of the other two strata at each selected district, line items were selected randomly. In total, 418 line items were sampled from the districts. For USACE Headquarters, a total of $750,663 was sampled judgmentally.

Sampling Results and Analysis

Analysis of Dollar Errors. Usually, the results of a statistical audit sample are analyzed by projecting bounds associated with a specified confidence level for
Appendix B. Statistical Sampling Plan and Analysis of Results

the population total dollar error. This process presumes a commonality underlying the dollar errors discovered in the statistical sample. The two major dollar errors found in the sampling for this audit, however, do not have common origins. Further, several minor dollar errors identified also have unique isolated causes. In this situation, it is more informative to describe the two major dollar errors separately than to group them together into a single projection.

The largest dollar error, $106,719, occurred at the Fort Worth District. It stems from two cases where personal computers, furniture, and equipment were charged to the wrong cost code. The amount of this error is known exactly because the transactions involved were included in the census stratum which was audited completely. No other dollar errors relating to personal computers were found in the sample.

At the Baltimore District Office, inadequate time and attendance records were kept to be able to verify the accuracy of employees' time charges. Because the salary and overhead transactions are in the medium and low strata ranges, they were not all audited. Therefore, we cannot quantify the total dollar error associated with this lack of documentation.

Analysis of Rates of Occurrences of Internal Control Errors. The sampling results for four of the five internal control procedures we tested are similar to those for dollar errors. Errors associated with those four internal controls are isolated, each occurring at only one or two districts, rather than system-wide. The fifth internal control weakness, "Funds Not Committed," is the only area for which the statistical sampling results indicate a systemic problem.

Statistical projection of the sample data for "Funds Not Committed" is in the Table.

<table>
<thead>
<tr>
<th></th>
<th>Lower Bound</th>
<th>Point Estimate</th>
<th>Upper Bound</th>
<th>Absolute Precision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Line Items</td>
<td>876</td>
<td>2,221</td>
<td>3,566</td>
<td>+/-60.6%</td>
</tr>
</tbody>
</table>

We are 95 percent confident that between 876 and 3,566 line items in the FY 1992 register files of the six districts contain "Funds Not Committed" internal control weaknesses. The unbiased point estimate, 2,221 line items, is the most likely number of errors in Funds Not Committed in this population. Because USACE Headquarters transactions were selected judgmentally, they are not included in this projection.
Appendix B. Statistical Sampling Plan and Analysis of Results

Improper Accounting Sequence. Errors occurred at the Fort Worth and Baltimore Districts. Those errors were associated with program costs rather than salary and overhead costs.

Wrong Cost Codes. Errors were found in the sample data for Fort Worth and Savannah. Those errors include personal computers, furniture, and equipment charged to wrong accounts at Fort Worth; overhead costs charged to wrong cost codes at Savannah; and wrong installations within the Homeowners Assistance Program charged at both districts.

Lack of Time and Attendance Authorization/Certification. Errors were discovered only at Fort Worth. Those errors include failures to maintain and to compare lists of supervisors authorized to sign timesheets.

As cited above, missing time and attendance documentation at Baltimore could have caused a substantial dollar error. In addition, five transactions with missing documentation were found at Fort Worth. Three of those errors, however, are associated with a one-time event: the transfer of a work group.

Notes:

1. Reduced Population: For the statistical projection of the number of occurrences of Funds Not Committed, Collections line items were dropped from both the sample (19 cases) and the population (69 cases) because Funds Not Committed is not a relevant issue for those line items. That reduction did not affect the projected numbers of occurrences.

2. Missing Data: Also for the statistical projection of the number of occurrences of Funds Not Committed, one Fort Worth census stratum case with inadequate documentation was dropped from the sampling. Because Funds Not Committed also is not a relevant issue for salaries and overhead costs, the sampled line items with missing data in the medium and low strata had no effect on the projected number of occurrences.

3. Duplicate Records: The Fort Worth District register files contained nine duplicate records of line items in the census stratum. The duplicate records were dropped from the analysis, and the Fort Worth population size was adjusted to reflect that change.

4. Additional Records: After the sample was drawn, 19 additional transactions were found at the Baltimore Districts. Fifteen of the additional cases fell into the census stratum and were added to the analysis with no distortion of the statistical projection. The four smaller additional transactions were excluded from both the sample and the Baltimore population.
Appendix C. Organizations Visited or Contacted

Office of the Secretary of Defense

Deputy Assistant Secretary of Defense (Installations), Washington, DC
Deputy Comptroller of the Department of Defense (Program/Budget), Washington, DC
Deputy Comptroller of the Department of Defense (Management Systems),
Washington, DC

Department of the Army

Assistant Secretary of the Army (Financial Management), Washington, DC
Headquarters, U.S. Army Corps of Engineers, Washington, DC
  New England Division, Waltham, MA
  New York District, New York, NY
  Ohio River Division, Cincinnati, OH
  Louisville District, Louisville, KY
  Baltimore District, Baltimore, MD
  Fort Worth District, Fort Worth, TX
  Huntsville District, Huntsville, AL
  Los Angeles District, Los Angeles, CA
  Omaha District, Omaha, NE
  Savannah District, Savannah, GA
  Humphreys Engineering Center for Support Activities, Fort Belvoir, VA

Defense Agencies

Headquarters, Defense Finance and Accounting Service, Washington, DC
Defense Finance and Accounting Service Center, Indianapolis, IN

Non-Defense Federal Organizations

Office of Management and Budget, Washington, DC
Department of the Treasury, Washington, DC
Department of Housing and Urban Development, Washington, DC
General Accounting Office, Washington, DC
  General Accounting Office, Cincinnati, OH
Federal Accounting Standards Advisory Board, Washington, DC
Appendix D. Report Distribution

Office of the Secretary of Defense

Secretary of Defense
Comptroller and Chief Financial Officer of the Department of Defense
Director for Military Construction, Office of the Deputy Comptroller of the
Department of Defense (Program/Budget)

Department of the Army

Secretary of the Army
Inspector General, Department of the Army
Auditor General, Army Audit Agency
Commander, U.S. Army Corps of Engineers

Department of the Navy

Assistant Secretary of the Navy (Financial Management)
Auditor General, Naval Audit Service

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Air Force Audit Agency

Defense Agencies

Director, Defense Finance and Accounting Service

Non-Defense Federal Organizations

Office of Management and Budget
U.S. General Accounting Office
NSIAD Technical Information Center
Non-Defense Federal Organizations, (cont'd)

Chairman and Ranking Minority Member of Each of the Following Congressional Committees:

- Senate Committee on Appropriations
- Senate Subcommittee on Defense, Committee on Appropriations
- Senate Committee on Armed Services
- Senate Committee on Governmental Affairs
- House Committee on Appropriations
- House Subcommittee on Defense, Committee on Appropriations
- House Committee on Armed Services
- House Committee on Government Operations
- House Subcommittee on Legislation and National Security, Committee on Government Operations
Part V - Principal Statements of the Defense Homeowners Assistance Fund for FY 1992
MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DOD

SUBJECT: Transmittal of Printed Financial Statements on FY 1992 Financial Activity

Attached are printed financial statements on FY 1992 financial activity for the Department of Defense reporting entities listed below. The printed copies are bound, have a common typeset and have been edited by the Defense Finance and Accounting Service - Indianapolis Center. The attached statements encompass the following reporting entities:

- Department of the Army (all funds and accounts)
- Department of the Navy (revolving and trust funds)
- Department of the Air Force (all funds and accounts)
- Defense Logistics Agency Revolving Funds
- Pentagon Reservation Maintenance Revolving Fund
- Defense Revolving Funds (Army as Executive Agent)
- DoD Military Retirement Trust Fund
- DoD Education Benefits Fund
- National Security Education Trust Fund
- Defense Commissary Surcharge Collections Account
- Defense Security Assistance Agency

My staff is available to provide additional assistance and information, if needed. Additionally, the Department will continue to work with your staff to make such adjustments or improvements as may be identified, and appropriate, to enhance, explain, or more fairly present the assets, liabilities, and net financial position shown in the attached unaudited financial statements.

[Signature]

Acting Chief Financial Officer

Attachments
Overview to the

Homeowners Assistance Program
The Homeowners Assistance Program (HAP) is a special relief program authorized by Congress (Public Law 89-754, Section 1013, Demonstration Cities and Metropolitan Development Act of 1966) to provide partial financial assistance to military personnel and civilian employees who suffer financial loss from disposing of their homes when local real estate prices have been depressed because of Department of Defense (DoD) actions. The U.S. Army Corps of Engineers (USACE) executes the HAP as executive agent for DoD.

Under HAP there are three types of benefits: (1) payment of partial compensation for losses sustained in the private sale of the dwelling; (2) payment of the costs of the mortgage foreclosure; or (3) purchase of the dwelling by the government.

In private sale cases, the amount paid by the Government is 95 percent of the value of the dwelling prior to the closure announcement less the fair market value at the time of the sale or the sales price, whichever is greater.

In cases of purchase by the Government, the amount paid is 75 percent of the value of the dwelling prior to the closure announcement or the amount of the outstanding mortgage.

In fixing the amount of benefits due in either private sale or Government purchase cases, the homes of the applicants are individually appraised to determine their valuation prior to the closure or reduction announcement as well as the valuation at the time of private sale or Government purchase.

HAP benefits are available to eligible service members and civilian Federal employee homeowners at overseas bases who sell their on-base or off-base property as a result of the announced closure or reduction in the scope of operations. However, since there is no authority to acquire off-base property overseas, Government purchase is not available to owners of off-base property. HAP benefits are also available to civilian employees serving overseas and entitled to reemployment at a base ordered to be closed or in the case of a service member who was transferred from an installation within three years prior to public announcement of the closure action and was informed of a future programmed reassignment to the installation.
Overview

In order for any benefits to be paid under the program, there must first be a determination that:

a. There has been a public announcement of a base closure or reduction in the scope of operations of the base; and

b. The closure or reduction has caused a substantial drop in the real estate market in the area of the base; and

c. As a result of such closure or reduction, no present market exists for the sale of property upon reasonable terms and conditions.

In order to reach this determination, a survey and economic analysis of the area real estate market is made to ascertain the impact of base closure or reduction on the residential real estate market.

Both a public announcement and order to close or realign the base is required. Either an announcement or an order of a base closure or realignment study is not sufficient. There need not be an actual closure to implement HAP, but there must have been a public announcement, an order to close or realign and the requisite adverse market impact.

The FY 92 program supported 250 acquisitions, 125 private sales and 24 foreclosure benefit payments at a cost of $20.4 million. During FY 92 we also sold 157 homes for $10.9 million, and wrote off $2.5 million worth of mortgages for net sale proceeds of $8.4 million. The financial statements reflect outstanding indebtedness on assumed mortgages of $1.2 million due to a transaction not processed. Currently no homes on hand have an outstanding mortgage balance. On-going programs in FY 92 were Castle AFB, CA; Chanute AFB, IL; Chase Field NAS, TX; Eaker AFB, AR; England AFB, LA; Fort Hood, TX; Homestead AFB, FL; Loring AFB, ME; Myrtle Beach AFB, SC; New London NUSC, CT; Pease AFB, NH; Portsmouth, NH and Wurtsmith AFB, MI. Management and disposal functions are occurring at the aforementioned installations as well as Columbus AFB, MS; Minot AFB, ND; and Dyess AFB, TX.

In FY 1992 the Corps of Engineers completed a number of initiatives to improve the management of the program which include:

a. Distributed a video tape which explains the program to installation staffs and applicants.

b. Distributed a program brochure for applicants and installation staffs.

c. Published regulations, Chapter 7 of ER 405-1-12 and AR 405-16.

d. Completed and distributed standard operating procedures.
e. Distributed training course for the Corps of Engineers and supported installation staffs. Course includes video and student manual.

f. Improved and fielded the Homeowners Assistance Program Management Information System (HAPMIS) for program management. Provided hardware to districts.

g. Implemented a manpower standard which uses workload projections to forecast staffing requirements.

h. Completed study of methodology for establishing HAP program probability based on statistical analysis of real estate market conditions.

While it is not necessary for a BRAC announcement to implement HAP, with the advent of the Base Closure and Realignment Commission (BRAC) method of determining which installations to close or realign, HAP has had a resurgence. For a number of years, HAP was a relatively small program because few bases were being closed. At the start of FY 1992, there were three approved programs and by 30 September 1992 ten additional programs were approved. The upcoming BRAC 1993 announcement is expected to add significantly to the 1994 and 1995 workload.

Since the inception of the program, the managing, marketing, and disposal of HAP properties has been accomplished by the Department Housing and Urban Development, Federal Housing Administration (HUD, FHA) under an agreement between HUD and OSD, authorized by the Metropolitan Development Act of 1966. As of 1 January 1993, this agreement will be terminated by HUD and all properties acquired under the Act will be managed and disposed of by the Corps of Engineers.

Furthermore, Congress, through Section 2822 of the National Defense Authorization Act for FY 1993 has directed DoD to use a national relocation contractor for the management and disposal of homes acquired under the Homeowners Assistance Program. In essence, the legislation requires a comparison of three alternatives in HAP disposals: (1) disposal administered by a national contractor, (2) disposal administered by local contractors, and (3) disposals administered by the Corps of Engineers.

In view of the 31 December 1992 ending date established by HUD for terminating the inter-agency agreement, the Corps of Engineers will apply one of the three alternative disposal methods at each active program, and at new programs as approved. The choice of method will depend upon that particular District's capabilities, based primarily on their manpower resources.
Homeowners Assistance

Program

Financial Statements
ASSETS

1. Financial Resources:
   a. Fund Balances with Treasury (Note 2) $89,293,780
   b. Cash (Note 2)
   c. Foreign Currency (Note 2)
   d. Other Monitory Assets (Note 3)
   e. Investments, Non-Federal (Note 4)
   f. Accounts Receivable, Net - Non-Federal
   g. Inventories Held for Sale, Net (Note 5)
   h. Loans Receivable, Net - Non-Federal (Note 6)
   i. Advances and Prepayments, Non-Federal
   j. Property Held for Sale (Note 7)
   k. Other, Non-Federal (Note 8)
   l. Intergovernmental Items:
      (1) Accounts Receivable, Federal
      (2) Loans Receivable, Federal
      (3) Investments, Federal (Note 4)
      (4) Other, Federal
   m. Total Financial Resources $89,293,780

2. Non-Financial Resources:
   a. Resources Transferable to Treasury
   b. Inventories Not Held for Sale (Note 5)
   c. Property, Plant and Equipment, Net (Note 9)
   d. Other (Note 10)
   e. Total Non-Financial Resources $16,266,800

3. Total Assets $105,560,580

LIABILITIES

4. Funded Liabilities
   a. Accounts Payable, Non-Federal 90,226
   b. Accrued Interest Payable
   c. Accrued Payroll and Benefits
   d. Accrued Entitlement Benefits
   e. Lease Liabilities (Note 11)
   f. Debt (Note 12) 1,210,890
   g. Guarantees Payable (Note 6)
   h. Other Funded Liabilities, Non-Federal (Note 13)

The accompanying notes are an integral part of these statements.
### Statement of Financial Position

#### as of September 30, 1992

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Intergovernmental Liabilities</td>
<td>$561,513</td>
</tr>
<tr>
<td>(1) Accounts Payable, Federal</td>
<td></td>
</tr>
<tr>
<td>(2) Debt (Note 12)</td>
<td></td>
</tr>
<tr>
<td>(3) Deferred Revenue (All G)</td>
<td></td>
</tr>
<tr>
<td>(4) Other Funded Liabilities, Federal (Note 13)</td>
<td></td>
</tr>
<tr>
<td>j. Total Funded Liabilities</td>
<td>$1,862,629</td>
</tr>
<tr>
<td>5. Unfunded Liabilities:</td>
<td></td>
</tr>
<tr>
<td>a. Accrued Leave</td>
<td></td>
</tr>
<tr>
<td>b. Lease Liabilities (Note 11)</td>
<td></td>
</tr>
<tr>
<td>c. Pensions and Other Actuarial Liabilities (Note 14)</td>
<td></td>
</tr>
<tr>
<td>d. Other Unfunded Liabilities (Note 15)</td>
<td></td>
</tr>
<tr>
<td>e. Total Unfunded Liabilities</td>
<td></td>
</tr>
<tr>
<td>6. TOTAL LIABILITIES</td>
<td>$1,862,629</td>
</tr>
</tbody>
</table>

### Net Position

<table>
<thead>
<tr>
<th>Position</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td>7. Fund Balances: (Note 16)</td>
<td>$103,697,951</td>
</tr>
<tr>
<td>a. Revolving Fund Balances</td>
<td></td>
</tr>
<tr>
<td>b. Trust Fund Balances</td>
<td></td>
</tr>
<tr>
<td>c. Appropriated Fund Balances</td>
<td></td>
</tr>
<tr>
<td>d. Total Fund Balances</td>
<td>$103,697,951</td>
</tr>
<tr>
<td>8. Less Future Funding Requirements (Note 17)</td>
<td></td>
</tr>
<tr>
<td>9. Net Position (Note 16)</td>
<td>$103,697,951</td>
</tr>
<tr>
<td>10. Total Liabilities and Net Position</td>
<td>$105,560,580</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these statements.
### Department/Agency: Department of Defense
### Reporting Entity: Homeowners Assistance Fund
### Statement of Operations (and Changes in Net Position) for Period Ended September 30, 1992

#### REVENUES AND FINANCING SOURCES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Appropriations Expensed</td>
<td>$2,013,982</td>
</tr>
<tr>
<td>2. Revenues from Sales of Goods</td>
<td></td>
</tr>
<tr>
<td>a. To the Public</td>
<td></td>
</tr>
<tr>
<td>b. Intergovernment</td>
<td>$11,909,949</td>
</tr>
<tr>
<td>3. Interest and Penalties, Non-Federal</td>
<td></td>
</tr>
<tr>
<td>4. Interest, Federal</td>
<td></td>
</tr>
<tr>
<td>5. Taxes (Note 18)</td>
<td></td>
</tr>
<tr>
<td>6. Other Revenues and Financing Sources (Note 19)</td>
<td>$10,000</td>
</tr>
<tr>
<td>7. Less: Taxes and Receipts Returned to the Treasury</td>
<td></td>
</tr>
<tr>
<td>8. Total Revenues and Financing Sources</td>
<td><strong>$13,933,931</strong></td>
</tr>
</tbody>
</table>

#### EXPENSES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>9. Cost of Goods or Services Sold</td>
<td>$11,155,520</td>
</tr>
<tr>
<td>a. To the Public</td>
<td></td>
</tr>
<tr>
<td>b. Intergovernment</td>
<td></td>
</tr>
<tr>
<td>10. Program or Operation Expenses (Note 20)</td>
<td></td>
</tr>
<tr>
<td>11. Depreciation</td>
<td></td>
</tr>
<tr>
<td>12. Bad Debts and Write-offs</td>
<td></td>
</tr>
<tr>
<td>13. Interest</td>
<td></td>
</tr>
<tr>
<td>a. Federal Financing Bank/Treasury Borrowing</td>
<td>$1,248,118</td>
</tr>
<tr>
<td>b. Federal Securities</td>
<td></td>
</tr>
<tr>
<td>c. Other</td>
<td>$1,530,293</td>
</tr>
<tr>
<td>14. Other Expenses (Note 21)</td>
<td></td>
</tr>
<tr>
<td>15. Total Expenses</td>
<td><strong>$13,933,931</strong></td>
</tr>
</tbody>
</table>

#### Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Adjustments

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>16. Excess (Shortage)</td>
<td></td>
</tr>
<tr>
<td>Financing Sources Over Total Expenses</td>
<td></td>
</tr>
<tr>
<td>Before Adjustments</td>
<td></td>
</tr>
<tr>
<td>17. Plus (Minus) Adjustments:</td>
<td></td>
</tr>
<tr>
<td>a. Extraordinary Items (Note 22)</td>
<td></td>
</tr>
<tr>
<td>b. Prior Period Adjustments (Note 22)</td>
<td></td>
</tr>
<tr>
<td>18. Excess (Shortage) of Revenues and Financing Sources over Total Expenses</td>
<td></td>
</tr>
<tr>
<td>19. Plus: Unfunded Expenses</td>
<td></td>
</tr>
<tr>
<td>20. Excess (Shortage) of Revenues and Financing Sources Over Funded Expenses</td>
<td></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these statements.
Department/Agency: Department of Defense  
Reporting Entity: Homeowners Assistance Fund  
Statement of Operations (and Changes in Net Position)  
for Period Ended September 30, 1992

<table>
<thead>
<tr>
<th>EXPENSES Continued</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td>22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses</td>
<td>$81,110,799</td>
</tr>
<tr>
<td>23. Plus (Minus) Equity Transfers (Note 23)</td>
<td></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these statements.
Department/Agency: Department of Defense
Reporting Entity: Homeowners Assistance Fund
Statement of Cash Flows
for the Period Ended September 30, 1992

Cash Flows from Operating Activities:

1. Excess (Shortage) of Revenues and Financing Sources
   Over Total Expenses

Adjustments affecting Cash Flow:

2. Appropriations Expensed
   ($2,013,982)

3. Decrease (Increase) in Accounts Receivable
   1,458

4. Decrease (Increase) in Loans Receivable

5. Decrease (Increase) in Other Assets

6. Increase (Decrease) in Accounts Payable
   332,587

7. Increase (Decrease) in Debt
   (1,370,018)

8. Increase (Decrease) in Other Liabilities

9. Depreciation and Amortization

10. Other Undistributed Expenses

11. Other Adjustments
   (875,219)

12. Total Adjustments
   (3,925,174)

13. Net Cash Provided (Used) by Operating Activities
   (3,925,174)

Cash Flows from Non-Operating Activities:

14. Proceeds from Sales of Investments

15. Proceeds from Sales of Property, Plant and Equipment

16. Purchases of Investments

17. Purchases of Property, Plant and Equipment
   (7,431,134)

18. Net Cash Provided (Used) by Non-Operating Activities
   (7,431,134)

CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES

19. Appropriations (Current Warrants)
   84,000,000

20. Add:
    a. Restorations
    b. Transfers of Cash from Others

21. Deduct:
    a. Withdrawals
    b. Transfers of Cash to Others

22. Net Appropriations
    84,000,000

The accompanying notes are an integral part of these statements.
Department/Agency: Department of Defense  
Reporting Entity: Homeowners Assistance Fund  
Statement of Cash Flows  
for the Period Ended September 30, 1992

<table>
<thead>
<tr>
<th>Description</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td>23. Borrowing from the Public</td>
<td></td>
</tr>
<tr>
<td>24. Repayments on Loans</td>
<td></td>
</tr>
<tr>
<td>25. Borrowing from the Treasury and the Federal Financing Bank</td>
<td></td>
</tr>
<tr>
<td>26. Repayments on Loans from the Treasury and the Federal Financing Bank</td>
<td></td>
</tr>
<tr>
<td>27. Other Borrowings and Repayments</td>
<td></td>
</tr>
<tr>
<td>28. Net Cash Provided (Used) by Financing Activities</td>
<td>$84,000,000</td>
</tr>
<tr>
<td>29. Net Cash Provided (Used) by Operating, Non-Operating and Financing Activities</td>
<td>$72,643,692</td>
</tr>
<tr>
<td>30. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning</td>
<td>$16,650,088</td>
</tr>
<tr>
<td>31. Fund Balance with Treasury, Cash, and Foreign Currency, Ending</td>
<td>$89,293,780</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these statements.
Department/Agency: Department of Defense  
Reporting Entity: Homeowners Assistance Fund  
Statement of Budget and Actual Expenses  
for the Period Ended September 30, 1992

<table>
<thead>
<tr>
<th>Program Name(s)</th>
<th>Resources</th>
<th>Obligations</th>
<th>Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homeowners Assistance Fund</td>
<td>$107,891,909</td>
<td>$27,489,069</td>
<td>$1,463</td>
</tr>
<tr>
<td></td>
<td>Direct</td>
<td>Reimbursed</td>
<td></td>
</tr>
</tbody>
</table>

Total: $107,891,909

Budget Reconciliation

A. Total Expenses $13,933,931
B. Add:  
   (1) Capital Acquisitions 7,431,134  
   (2) Loans Disbursed 1,370,018  
   (3) Other Expended Budget Authority (523,341)
C. Less:  
   (1) Depreciation and Amortization  
   (2) Unfunded Annual Leave Expense  
   (3) Other Unfunded Expenses
D. Expended Appropriations $22,231,742
E. Less Reimbursements 11,911,407
F. Expended Appropriations, Direct $10,320,335

The accompanying notes are an integral part of these statements.
Footnotes to the

Homeowners Assistance Program

Financial Statements
Footnotes to the
Homeowners Assistance Program
Financial Statements

NOTE 1: Significant Accounting Policies:

A. Entity and Basis of Consolidation

The United States Army is the largest component of the Department of Defense in terms of personnel. The Army's principal mission is producing combat ready forces and deterring aggression.

These financial statements are based upon a consolidation of data processed by various systems at the installation, accounts office (major command) and a hybrid modular configuration at the departmental level called the Program, Budget, and Accounting System (PBAS). Budget execution reports are certified for accuracy and completeness by commanders at each level they are produced or consolidated. In each case (installation and major command), the commander or his/her delegate certifies that the budget execution reports are accurate and include all known accounting transactions.

Due to delays encountered in upgrading the accounting and subordinate commands' reporting systems employed throughout the network, the departmental system will not achieve full compliance with prescribed general ledger standards until adoption and proliferation of the migratory accounting system selected for a capitalized and consolidated environment. The general ledger account balances used in the Financial Statements were reconciled to certified report data submitted in the budget execution system to compensate for an ineffective certification requirement placed on general ledger report submission and the lack of a fully integrated general ledger system. Where required, the general ledger was adjusted to agree with data in the certified budget execution reports which through the years have proven to be reliable and accurate. The general ledger was not adjusted to incorporate the General Accounting Office's (GAO's) recommended corrections for FY 1991 due to the timing of the report release and a need to more fully analyze recommendations and determine strategy required to effect correction.

The accompanying audited financial statements account for the Homeowners Assistance Program funds for which the Army is responsible. Information on classified assets, programs, and operations has been aggregated and reported in such a manner that it is no longer classified.

B. Accounting Standards

These financial statements are presented in accordance with the accounting and reporting standards presented in Office of Management and Budget Bulletin 93-02 and supplemented by accounting policies of the Office of the Secretary of Defense (OSD) and the Department of Defense Accounting Manual (7220.9-M). DOD's guidance incorporates GAO's Title 2 requirements; any deviations from Title 2 have been separately disclosed. To the extent that accounting issues are not provided in the preceding, the Army follows guidance promulgated by GAO, the Department of the Treasury, or the Federal Accounting Standards Board (FASB) as appropriate.
C. Budgets and Budgetary Accounting

This Army account is financed primarily through annual and a revolving appropriations provided by Congress. The following Treasury accounts are used to fund, execute, and report on total financial activity for the Army.

1) General funds contain the bulk of congressional appropriations, including operations, research and development, and investment/construction accounts. Mission (operations and pay) accounts represent those monies used to pay the operating forces. These funds finance the functional and administrative support needed to operate and maintain Army installations. Research, Development, Test & Evaluation (RDTE) funds are used to operate and maintain worldwide facilities which perform ongoing test and evaluation as well as basic and applied research. Investment/construction accounts are used for specific purposes approved by and reportable to Congress. These accounts are used to acquire or construct technology, property, and infrastructures.

2) Revolving funds operate under the direction of 10 U.S.C. 2208. They are designed to provide an effective means of financing, budgeting, accounting for, and controlling inventory, as well as the costs of providing goods and services. Revolving funds support the operating and investment accounts by providing a coordinated focus, efficiencies of operations, and economies of scale.

D. Basis of Accounting

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned; expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Although accounting policy requires the installation to record the accrual based upon receipt of the receiving report, when the paying office and the ordering office is not collocated (sometimes when they are) with the funded fiscal station, the receiving report is quite often not provided to the accounting function. However, our checks and balances for payment mandate evidence of receipt prior to the disbursement being made. Thus if the funded station were clearing transactions by others in a timely manner (within 60 days) their awareness and processing of receipt information would be extremely improved and the dollar impact on accounts payable would not be significant enough to warrant adjustment at the departmental level. But, no matter how much emphasis we place on expeditious clearance, higher priorities or backlogged workload at the station level precludes the undistributed values from being cleared in a timely manner. Therefore, to offset this deficiency (our knowledge of receipt based on uncleared disbursements and a potentially overstated undelivered/understated accounts payable posture) in field level accounting operations, an adjustment to record the accrual (decrease to undelivered orders and an increase to accounts payable) is system generated monthly based upon dollar values in the Clearance System and other defined criteria. These adjustments involve significant dollars and are primarily the result of disbursements (citing Army funds) made by the Defense Finance and Accounting Service - Columbus (DFAS-CO) and the Defense Contract Administrative Services Regions (DCASRs). The latter are closing and being consolidated within DFAS-CO. Without a departmental accrual, there would be an extended time lag between contract payments made by DFAS-CO/DCASRs and Army recognition of the corresponding accruals.
Departmental accruals are also recognized for those invoices, scheduled for payment within 30 days, which are on hand at month end at DFAS-CO and the DCASRs. These adjustments are made due to the significant dollar impact of the invoices and the fact that all transactions paid by these stations citing Army funds will be TFO/TBO transactions.

Expenses are recognized for appropriations expended for property and equipment when the asset is consumed in operations (either upon disposal or through depreciation).

Certain expenses, such as civilian and military annual leave earned but not taken, are not funded when accrued in appropriated funds. They are funded in the period in which payment is required. The unfunded liability is reported in the Statement of Financial Position, and the offset is a reduction to the equity balances.

Budgetary accounting through unique general ledger accounts facilitates compliance with legal constraints and controls over the use of federal funds. The proprietary accounts do not contain controls over a transaction until it becomes an accounts payable or receivable. An undelivered order or unfilled order is a contingency recognized by footnotes only.

E. Revenues and Other Financing Sources

Congress provides financing sources for general funds through annual and multi-year appropriations. Currently, the congressional budgetary process under which the Army operates does not distinguish between capital and operating expenditures. For budgetary purposes, both are recognized as a use of resources (outlays). For financial reporting purposes under accrual accounting, operating expenses for general fund activities are recognized in the period incurred. Expenditures for capital and other long-term assets are not recognized as expenses until the assets are consumed in operations (either through disposal or by depreciation). Unexpended appropriations are recorded as equity of the U.S. government.

Annual and multi-year congressional appropriations are, when authorized, supplemented by revenues generated by sales of goods or services through a reimbursable order process. This process allows the seller to increase funds available by the cost of the supplies and/or services ordered by the customer. For financial reporting purposes under accrual accounting, revenue is recognized when earned (i.e., when the customer receives supplies or services). The cost of goods sold or services provided is recognized when expenses are incurred. Funds received prior to delivery of the goods or services are treated as unearned revenue and recorded as a liability of the Army.

Donations to the Army are recognized as a financial source upon acceptance of the donated asset. A revenue is recorded for the value of the increase to the asset account.

F. Funds with U.S. Treasury and Cash

Department of the Army acts as an agent for the Department of the Treasury for cash on hand. Cash in the accounts of Army officials is included in the Army financial statements under a pseudo appropriation since it is not related to a specific appropriation.
The Army does not, for the most part, maintain cash in commercial bank accounts. Cash receipts and disbursements are processed through U.S. Treasury accounts. The Treasury maintains Army appropriations in separate accounts for recording warrants, receipts, and disbursements. During the fiscal year, Army also has the use of various suspense accounts. These accounts are used to record collections/disbursements that have either been rejected during the edit phase of the reporting process or require additional processing (Deposits in Transit and Recertified Check transactions) before final disposition can be made. These accounts are aged and reviewed on a regular basis to ensure suspended transactions clear in a timely manner.

G. Foreign Currency (Not applicable to this appropriation.)

H. Accounts Receivable

As presented in the consolidated Statement of Financial position, Accounts Receivable includes accounts, claims and refunds receivable. Allowances for uncollectable accounts are based on an analysis of collection experience by fund type. Currently, the Army has no Accounts Receivable in this account.

I. Loans Receivable

Loans are accounted for as receivables after funds have been disbursed. Currently the Army has no outstanding loans receivable in this account.

J. Inventories (Not applicable to this appropriation.)

K. Investments in U.S. Government Securities (Not applicable to this account.)

L. Property, Plant and Equipment

Capitalization rules are applied and used for all property, plant, and equipment in accordance with revised Acting DOD Comptroller guidance ($15,000 or more for an individual item with a useful life of two years or more) rather than GAO's Title 2 criteria (i.e., $5,000 or more for an individual item with a useful life of two years or more). The DOD guidance was revised to align DOD accounting with the expense/investment funding threshold currently used by Congress. If an asset was capitalized before October 1, 1991, within any DOD appropriated or revolving fund account at the previous $5,000 threshold, and it was not fully depreciated during FY 92, it will remain on the Army's books until fully depreciated.

All fixed assets, including land held in public domain, are valued at acquisition cost. Acquisition cost includes such costs as purchase price; broker's commissions; title fees; and other related costs of obtaining the property. When acquisition cost cannot be determined, fair market value at the time of acquisition is used. Audits of FY 91 financial statements have shown that documentation to support the recorded acquisition cost of many older properties is no longer available. Obtaining appraisals for most of these properties is not cost effective, especially considering their age and number. To resolve this problem, DOD proposes using the best available information (e.g.,...
recorded property valuations) to estimate acquisition costs for Financial Statement purposes when the original acquisition records are no longer available. DOD will ask the Federal Accounting Standards Advisory Board to endorse this policy until such time as other applicable accounting standards are issued by the Board.

DoD designates inventory as the aggregate of 256 homes on hand as of September 30, 1992 for a total value of $16,266,800.

No gains or losses are recognized in the consolidated Statement of Operations as a result of changes in standard prices for general fund inventories. Such changes are reflected in the asset valuations and related invested capital as reported in the statement of financial position.

M. Prepaid and Deferred Charges

Payments in advance of the receipt of goods and services are recorded as prepaid charges (advances) at the time of prepayment. They are recognized as expenditures/expenses when the related goods and services are received.

N. Borrowings Payable to the Treasury (Not applicable to this appropriation)

O. Interest Payable to Treasury (Not applicable to this appropriation.)

P. Contingencies

The Army is a party in various administrative proceedings, legal actions, environmental suits and claims brought by or against it. Most are tort claims resulting from aircraft and vehicle accidents, medical malpractice, contract disputes, and property and environmental damages resulting from Army activities.

Legal claims are adjudicated under two federal statutes, the Federal Tort Claims Act and Title 10 U.S.C., Chapter 163 (for military claims). The Army's liability for claims made under the Federal Tort Claims Act is limited to $2,500 per claim. Settlements and awards in excess of $2,500 are paid from the Claims, Judgments and Relief Acts fund maintained by the Department of Treasury. Under 10 U.S.C., Chapter 163, the Army is liable for payments of awards and settlements up to $100,000 resulting from damages to real and personal property and personal injury or death caused by Army activities within the United States and its territories. The Army is liable for similar awards and settlements in certain foreign countries. Awards and settlements in excess of $100,000, foreign and domestic, are paid from the Claims, Judgments and Relief Acts fund.

The Army is obligated to pay for undelivered orders (goods and services which have been ordered but not yet received) as of September 30, 1992. Aggregate undelivered orders amounted to $8.2 million at fiscal year-end. Equity values in the Financial Statements are reduced by the value of unfilled orders (reimbursable orders received for which supplies or services have not been delivered to the ordering agency). For this appropriation the values were not significant.

Q. Annual, Sick, and Other Leave (Not applicable to this appropriation.)
R. Retirement Plan (Not applicable to this appropriation.)

S. Accounts Payable

Accounts payable for goods and services are recognized based upon receipt of a receiving report providing notification of delivery of goods or services. (See Basis of Accounting - Note 1 B concerning departmental adjustments to Accounts Payable). In accordance with Army policy, fiscal stations may record an obligation, accrual, and expense simultaneously when preparing obligation documents for travel, transportation, or for documents with small amounts (i.e. $1,000 or less) under the assumption that receipt will take place within 30 days of obligation. The Army owes interest to vendors if invoices aren’t paid on time.

T. Accrued Payroll and Benefits (Not applicable to this appropriation.)

Note 2: Fund Balances with Treasury, Cash and Foreign Currency:

A. Fund Balances with Treasury

<table>
<thead>
<tr>
<th>Description</th>
<th>Available</th>
<th>Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Trust Funds</td>
<td>$82,430,868</td>
<td></td>
<td>$82,430,868</td>
</tr>
<tr>
<td>(2) Revolving Funds</td>
<td>$6,862,912</td>
<td></td>
<td>$6,862,912</td>
</tr>
<tr>
<td>(3) Appropriated Funds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Other Fund Types</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$89,293,780</td>
<td></td>
<td>$89,293,780</td>
</tr>
</tbody>
</table>

B. Cash (See Note 1F) $0

C. Fund Balances and Cash $89,293,780

D. Foreign Currency (See note 1G) $0

E. Other Information:

Note 3: Other Monetary Assets: (Not applicable to this appropriation.)

Note 4: Investments: (Not applicable to this appropriation.)

Note 5: Inventories: (Not applicable to this appropriation.)

Note 6: Loans and Loan Guarantees, Non-Federal: (Not applicable to this appropriation.)

Note 7: Property Held for Sale: (See Note 5)
Note 8: Other Financial Resources - Non-Federal: (Not applicable to this appropriation.)

Note 9: Property, Plant, and Equipment, Net: (This appropriation's inventory is property held for sale.)

(1) 256 homes valued at $16,266,800.

Note 10: Other Non-Financial Resources: (Not applicable to this appropriation)

Note 11: Leases: (Not applicable to this appropriation.)

Note 12: Debt:

The Department of the Army, as an agency of the DOD and the federal government, interacts with and is dependent on the financial activities of the federal government as a whole. The Army's proportionate share of public debt for this appropriation reflects $1,210,890.

Note 13: Other Funded Liabilities: (Not applicable to this appropriation.)

Note 14: Pensions and Other Actuarial Liabilities: (Not applicable to this appropriation)

Note 15: Other Unfunded Liabilities: (Not applicable to this appropriation.)

Note 16: Fund Balances:

Revolving Funds

A. Unexpended Appropriations

B. Invested Capital

C. Cumulative Results of Operations $103,697,951

D. Donations

E. Transfers

F. Total $103,697,951

G. Other Information:
Footnotes

Note 17: Future Funding Requirements: (Not applicable to this appropriation.)

Note 18: Taxes:

The Department of the Army, as an agency of the DoD and the federal government, interacts with and is dependent on the financial activities of the federal government as a whole. Therefore, these Financial Statements do not reflect the results of all financial decisions applicable to the Army which would otherwise be recorded if the agency was a stand-alone entity.

Note 19: Other Revenues and Financing Sources:

A. Other Revenues and Financing Sources

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>$10,000</td>
</tr>
<tr>
<td>Total</td>
<td>$10,000</td>
</tr>
</tbody>
</table>

B. Other Information:

Note 20: Program or Operating Expenses:

A. Operating Expenses by Object Classification

<table>
<thead>
<tr>
<th></th>
<th>1991</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Personal Services and Benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Travel and Transportation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Rental, Communication and Utilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Printing and Reproduction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) Contractual Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(6) Supplies and Materials</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(7) Equipment not Capitalized</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(8) Grants, Subsidies and Contributions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(9) Insurance Claims and Indemnities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(10) Other (describe)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(11) Total Expenses by Object Class</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

B. Operating Expenses by Program

<table>
<thead>
<tr>
<th></th>
<th>1991</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

C. Other Information:
Note 21: Other Expenses:

A. Other Expenses: Losses on Disposition of Assets $1,530,293

B. Other Information:

Note 22: Extraordinary Items and Prior Period Adjustments: (Not applicable to this appropriation.)

A. Extraordinary Items:

B. Prior Period Adjustments:

C. Other Information:

Note 23: Non-Operating Changes:

A. Increases

(1) Transfers-In: $81,110,799
(2) Donations Received:
(3) Other Increases:
(4) Total Increases $81,110,799

B. Decreases

(1) Transfers-Out:
(2) Donations
(3) Other Decreases:
(4) Total Decreases

C. Net Non Operating Changes $81,110,799

D. Other Information:

Note 24: Other Disclosures:

Other Assets Acquired Collateral: Represents the value of collateral acquired upon mortgage default. The asset will be carried in the accounts as the amount of the mortgage underwritten by the Department of the Army plus any other unsettled, outstanding mortgages in place against the collateral. This account is restricted for use by the U.S. Corps of Engineers.
Part VI - Other Issuances Related to this Audit
Synopsis of Quick Reaction Report


Summary. The Defense Finance and Accounting Service (DFAS) does not have adequate internal controls for preparing financial statements of the Homeowners Assistance Fund (the Fund).

Finding: "Financial reporting." The general ledger was not used to accumulate the Fund's revenue and cost of day-to-day operations, as required by DoD 7220.9-M, "DoD Accounting Manual," as amended, June 1991. The DFAS used alternative sources that were not properly documented or in compliance with generally accepted accounting principles and Office of Management and Budget guidance to prepare the Fund's FY 1991 statements. As a result, several cost categories were not included in the Fund's FY 1991 statements, and account balances in the statements could not be traced directly to the accounting records or summary accounting records. The Fund's FY 1991 financial statements did not accurately present the financial condition of the Fund or the results of operations.

Recommendation 1: The DFAS should publish and distribute guidance to DFAS Centers for preparing financial statements.

Response: Concur. The Acting DoD Chief Financial Officer and the DFAS issued guidance for preparing the financial statements.

Recommendation 1a: The DFAS should provide detailed instructions for using accounting records and reports in place of estimates or general ledger accounts.

Response: Nonconcur. The DoD and the DFAS guidance require use of general ledger accounts.

Recommendation 1b: The DFAS should require all adjusting entries to be properly documented and posted to the appropriate accounts.

Response: Concur. All adjusting entries made in preparing the Fund's FY 1992 statements were properly documented.

Recommendation 1c: The DFAS should communicate with the U.S. Army Corps of Engineers (USACE) to identify unusual program requirements that may require disclosure.

Response: Concur. The DFAS will communicate with and provide assistance to the USACE for needed disclosures.

Recommendation 2: The DFAS should adjust the account balances in the FY 1991 financial statements for the Fund to include the Base Realignment and Closure Appropriation and any other accounts that will affect the FY 1992 financial statements.
Response: Concur. The Fund's FY 1992 financial statements were restated to reflect the Base Realignment and Closure Appropriation in the opening balances.
Synopsis of Advisory Memorandums

We issued three advisory memorandums to the U.S. Army Corps of Engineers (USACE) during our audit of the Defense Homeowners Assistance Fund Financial Statements for FY 1992.

Synopsis: June 18, 1992 Advisory Memorandum

Finding: "Overobligation of Funds." The Los Angeles District had obligated and disbursed $24,568 more than it had been allotted for the Homeowners Assistance Fund (the Fund). This overobligation could be in violation of the Antideficiency Act (31 U.S.C. §1517) and could have a material effect on the Fund's financial condition if controls are not established and enforced.

Recommendation: Emphasize the requirement that the districts verify that funds are available before obligations are incurred; require the Los Angeles District Office to issue a Flash Report on the apparent Antideficiency Act violation; and require USACE Headquarters accountants to reconcile status and expenditure reports monthly.

Response: The USACE will clarify the roles of the district real estate office. The Los Angeles District issued a Flash Report on June 10, 1992. Standing Operating Procedures were updated to emphasize monthly reconciliations and reporting requirements.

Finding: "Unreported Disbursements." The USACE underreported the Fund's total disbursements each month from October 1991 through April 1992 by the amount of funds disbursed from the Louisville District.

Recommendation: Coordinate with the DFAS-Indianapolis Center to restrict operating agencies and activities that can charge to the Fund.

Response: The USACE Headquarters advised the DFAS-Indianapolis Center that USACE is the only agency that can charge against Appropriation 97X4090.

Synopsis: December 3, 1992 Advisory Memorandum

Finding: "Inventory and Valuation of Homes." The USACE did not maintain inventory records or properly value the homes acquired by the Fund.

Suggestion: Maintain comprehensive property records on all homes acquired and sold; periodically reconcile district and Headquarters records with billings from the Department of Housing and Urban Development (HUD); and use net realizable value for reporting homes.

Response: Concur. Each district will be tasked to provide a monthly list of properties acquired and disposed of and the USACE Headquarters will reconcile listings with HUD and district records. The USACE will take appropriate action (to value homes) upon receipt of guidance from the DoD.
The Acting Chief Financial Officer, DoD, advised the USACE to record the homes in general ledger account 1730, "Buildings" and to continue to value them at acquisition cost.

**Finding: Accounting for Revenue.** The USACE records revenue on a cash basis, while the rest of their accounting is on an accrual basis. The DFAS-Indianapolis Center did not allow sales proceeds to be recorded until HUD sent the USACE the checks.

**Suggestion:** Require revenue to be posted as soon as notification of the sale of the homes is received from HUD or the districts.

**Response:** Concur. The USACE will record revenue when notification is received from HUD.

**Finding: Remitting Tax Payments.** The USACE districts and divisions use different procedures for remitting tax payments to the Internal Revenue Service.

**Suggestion:** Establish uniform procedures for remitting tax payments and verify that all districts and divisions have remitted taxes for FY 1992.

**Response:** Concur. On December 17, 1992, the USACE issued standard procedures for remitting tax payments to the Internal Revenue Service and required its districts and divisions to provide them the status on taxes due and paid for FY 1992.

**Finding: Using Commitment Accounting.** Districts did not commit funds for all known program costs prior to recording obligations.

**Suggestion:** Establish criteria specifying when to make commitments.

**Response:** Concur. The USACE provided guidance on commitment accounting on December 17, 1992, to its districts and divisions.

**Synopsis: March 26, 1993 Advisory Memorandum**

**Finding: Procurement Practices.** The Appraisal Branch at the Fort Worth District did not use methods prescribed by the Federal Acquisition Regulations (FAR) to obtain appraisals and title services.

**Suggestion:** Direct all procurement activities to the Purchasing Branch; award competitive contracts; exercise the liquidated damages clause when contractors fail to perform; ensure that the Purchasing Branch has sole authority to solicit and modify contacts; solicit competitive quotes for title insurance that costs more than $2,500; and award purchase orders on the basis of the company's bid price and responsiveness.
Response: Concur. All procurement activities will be directed to the District Contracting Division; competitive bids will be solicited; liquidated damages will be assessed when contractors fail to perform; only the district's Contracting Division can solicit and modify purchase orders; and quotes will be solicited for services costing more than $2,500.
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   Arlington, VA 22202-2884

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