United States General Accounting Office

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Report to the Congress

June 1993

FINANCIAL AUDIT

Examination of the Army's Financial Statements for Fiscal Years 1992 and 1991

149444

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GAO

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

Comptroller General
of the United States

B-251321

June 30, 1993

To the President of the Senate and the
Speaker of the House of Representatives

This report presents the results of our efforts to audit the Principal Financial Statements of the Department of the Army for fiscal years 1992 and 1991. As part of this effort, we evaluated the Army's internal controls and its compliance with laws and regulations related to the financial statements. Pursuant to the Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576), the Army was required to prepare agencywide financial statements for fiscal years 1992 and 1991 and have them audited. As authorized by the act, we attempted to perform an audit of these statements.

We were unable to express an opinion on the reliability of the financial statements for fiscal years 1992 and 1991. In addition, our evaluation and tests of internal controls found that such controls generally were ineffective. Our work also disclosed material noncompliance with laws and regulations governing the Army's retention of financial records.

Many of the problems noted in this report were also discussed in our August 1992 report on Army's fiscal year 1991 financial statements. The Army has undertaken a substantial effort to address the issues raised in that report. However, while we have noted some improvements during 1992, these improvements have not been as rapid as we anticipated a year ago. Army's efforts have been hampered by various factors, including vacancies in key leadership positions. Stronger and more sustained Army and Department of Defense leadership will be required before substantial improvements will occur.

We are sending copies of this report to the Secretary of Defense; the Acting Secretary of the Army; the Director of the Office of Management and Budget; and the Chairmen and Ranking Minority Members of the

House and Senate Armed Services Committees, the Senate Committee on Governmental Affairs, the House Committee on Government Operations, the House and Senate Committees on Appropriations; and other interested parties.

Charles A. Bowsher
Comptroller General
of the United States

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Abbreviations

ADP	automated data processing
AMC	Army Materiel Command
CBSX	Continuing Balance System-Expanded
CFO	Chief Financial Officer
DBOF	Defense Business Operations Fund
DFAS	Defense Finance and Accounting Service
DOD	Department of Defense
FMFIA	Federal Managers' Financial Integrity Act
OMB	Office of Management and Budget

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June 30, 1993

To the Acting Secretary of the Army

In accordance with the Chief Financial Officers Act of 1990, the Army prepared the accompanying Principal Financial Statements for the fiscal years ended September 30, 1992 and 1991. As authorized by the act, we elected to perform audits of these comprehensive statements, including the evaluation of related internal controls and compliance with laws and regulations. The Army is 1 of 10 pilot agencies required to prepare such statements. This represents only the second time the Army has prepared comprehensive financial statements for audit by independent auditors.

We were unable to express an opinion on the reliability of the financial statements for fiscal years 1992 and 1991 primarily for the following reasons. First, the Army's many accounting system inadequacies and its failure to adhere to Department of Defense (DOD) and Army financial policies prevented us from assessing the reliability of these statements. Second, the scope of our work was limited because certain accounting offices did not retain financial records necessary to conduct our audit. Third, DOD prevented the Army from reflecting billions of dollars of assets and liabilities in its financial statements. In addition, other factors affecting the statements' reliability include material uncertainties regarding the reasonableness of amounts reported for most of the Army's assets and liabilities and the failure to report information by program or functional activity in the Statement of Budget and Actual Expenses.

In our opinion, internal controls on September 30, 1992, were not effective in (1) protecting the Army's $293 billion in reported assets, (2) assuring material compliance with laws and regulations governing budget authority, and (3) assuring there were no material misstatements in the financial statements. However, we were unable to evaluate and test critical internal controls due to the Army's failure to retain certain financial records, which represents a material noncompliance with laws and regulations.

Data contained in the Army's Overview and Supplemental Financial and Management Information is derived from the same sources as the financial statements and, accordingly, is likely to be unreliable. With regard to information presented in the overview, the Army has taken steps to develop performance measures to help it assess its ability to fulfill its mission. However, because that effort was not completed in fiscal year 1992, no performance measures were included in the overview.

Many of the problems we are reporting in this second audit were also cited in our report on the Army's fiscal year 1991 financial statements and are summarized here in the section on significant matters.[1] We recognize that many of these problems require long-range solutions as well as shorter-term remedial efforts. However, enforcement of existing policies and procedures should bring about substantial improvements. Ultimately, success depends upon cooperative efforts by the leadership of the Army, supporting DOD components such as the Defense Finance and Accounting Service (DFAS), and top DOD management. Until these problems are corrected, the Army will have neither effective financial control over the assets entrusted to it, nor reliable financial information to economically and efficiently control its operations.

Workforce downsizing and restructuring initiatives at DOD, as well as vacancies in key leadership positions, have also hindered the Army's progress in meeting the CFO Act objective of accurate and timely financial reporting. As a result, although improvements were made in 1992, progress has not been as great as we anticipated a year ago.

Significant Matters

The problems summarized below are covered in more detail in a series of separate reports which we have provided to the Army and DOD for comment. These reports address the Army's accounting and reporting for military equipment, military payroll, and real property, as well as its overall financial management.

Conditions Found in 1991 Continue

Our report on Army's fiscal year 1991 financial statements identified a number of conditions which prevented us from expressing an opinion on the statement of financial position. In our audit for fiscal year 1992, we compared our fiscal year 1991 findings with current conditions. We found that the following conditions still existed:

- equipment was not accurately reported,
- real property accounts were not accurately reported,
- not all liabilities were reported,
- controls over contractor-held property were not in place, and
- unsupported adjustments were made to the financial statements.

Three other conditions we identified in 1991 require additional discussion.

[1] Financial Audit: Examination of the Army's Financial Statements for Fiscal Year 1991 (GAO/AFMD-92-83, August 7, 1992).

- Cash on hand, which had not been reported in the financial statements in 1991, was reported for fiscal year 1992.
- Accounting and operational data for inventories reported by Army's stock and industrial revolving funds and stored at Army depots was unreliable and incomplete in 1991. These inventories were transferred effective October 1, 1991, to the Defense Business Operations Fund (DBOF). For 1992, these inventories and related matters are reported in separate financial statements for DBOF. Note 1.C to the financial statements describes this transaction.
- The Army holds approximately $11 billion of ammunition at installations which was not transferred to DBOF. DOD has continued to require that this not be reflected in the Army's financial statements.

Army Lacks Accurate, Reliable Accounting System

Neither DFAS nor the Army can ensure that they properly record, process, and summarize only valid transactions for the Army, and provide accurate financial information needed by Army managers. The DFAS center in Indianapolis maintains a centralized general ledger system to consolidate over 32,000 general ledgers submitted by Army accounting offices. However, rather than using the general ledger to account for major assets, the Army relies on information derived from operational systems, such as the Army-wide system for military equipment. For example, Army recorded almost $93 billion of adjustments to bring general ledger balances into agreement with amounts recorded by Army-wide operational systems. In addition, after a $196 billion correction for computer system errors, the Army recorded $7 billion of adjustments, for which no supporting documentation was available, to make general ledger balances agree with the departmental budget execution system because DFAS considered it to be more accurate. Of this amount, $2 billion of adjustments were made to bring Army's Fund Balance With Treasury account, representing appropriated funds available for disbursement, into agreement with amounts reported by Treasury. Major contributing factors to these differences include the fact that these data sources are not integrated and do not share common data; in addition, there can be no assurance that either data source is accurate because discrepancies between them are not investigated.

Based on our audit work, we proposed about $52 billion of adjustments to improve the accuracy and presentation of the Army's financial statements for fiscal year 1992. However, the Army's statements only reflect $28 billion of these adjustments. The statements do not reflect all of our adjustments because DOD told DFAS to reverse adjustments it had made on behalf of the Army to record $24 billion of liabilities. Also at DOD's instruction, DFAS made an additional adjustment with which we do not concur. This adjustment removed $11.4 billion of ammunition from the Statement of Financial Position. Nevertheless, even if our proposed adjustments had been recorded, sufficient uncertainties regarding other amounts would still exist, making it unlikely that the financial statements are reliable.

Budget Execution Reports Are Unreliable and Outdated

Through its field accounting and departmental budget execution systems, the Army monitors obligations and disbursements against various fund limitations to assure compliance with the Antideficiency Act. These fund limitations include appropriations, apportionments by the Office of Management and Budget, and certain administrative subdivisions of funds. DOD and Army regulations identify administrative subdivisions that constitute binding fund limitations. The Army would violate the Antideficiency Act if it overexpended these limits. Thus, the Army's budget execution systems should accurately record disbursements against all applicable limits to ensure that the Army is complying with the act. However, we found that the Army's budget execution information is unreliable.

As of September 30, 1992, Army had reported $4.9 billion of "undistributed disbursements." These are disbursements that have been made by disbursing offices but not recorded by Army accounting offices. These undistributed disbursements had not been recorded against any Army administrative subdivision of funds. In an effort to gain some budgetary control over Army's undistributed disbursements, each disbursement is initially charged against an overall Army appropriation before an Army accounting office finally charges the disbursement to an administrative subdivision of funds. However, even this appropriation-level control is unreliable. When disbursements were finally accounted for during fiscal year 1992, 17 percent of these initial charges were reversed and charged to different appropriations. Accordingly, the Army accounting offices' budget reports throughout the year were misstated.

In addition, we noted that practices actually followed in recording disbursements at some locations were not consistent with the control objective of ensuring disbursements are properly matched. For example, at one Army major command, we found that controls did not ensure that contract progress payments were correctly recorded. In a sample of 39 transactions, we found 15 items that were matched incorrectly to obligations. Different obligations can relate to different appropriations or administrative subdivisions of funds. Unless progress payments are correctly allocated to obligations, they cannot be properly allocated to the applicable fund limitations.

As a result of these errors and control weaknesses, the Army does not have the reliable information needed to assess whether its disbursements are within the limits prescribed by the Antideficiency Act.

Material Noncompliance With Record Retention Requirements

Army officials advised us that Army Materiel Command (AMC) accounting offices did not retain financial records necessary to document the posting of individual payment transactions to budgetary accounts (obligations and expenditures) and general ledger accounts. Army records show that AMC disbursed over $29 billion of Army funds during fiscal year 1992. At one of AMC's five major accounting offices, we verified that they failed to retain the specific detailed transaction records. Thus, we could not verify that all transactions were posted or whether they were posted accurately.

Agencies are generally required to prepare and maintain complete records of their transactions (44 U.S.C. 3101-3102). Agencies must also retain records for the time periods specified in either the General Records Schedules issued by the Archivist or specific agency disposition schedules approved by the Archivist (44 U.S.C. 3302-3303a, 3314). These requirements apply to records produced by automated systems even if they exist only in a machine-readable form. The General Records Schedules and the Army's disposition standards require all Army accounting offices to retain certain financial and accounting records for at least 3 years. In our view, AMC's failure to retain these records represents material noncompliance with laws and regulations governing the Army's retention of financial records.

Controls Over Cash and Check Processing Are Weak

In our audit work on cash and controls over processing checks and cash receipts, we found the following deficiencies:

- Army had not reconciled over $218 million of transactions recorded in suspense and budget clearing accounts. These suspense accounts, which are supposed to be cleared within 90 days, consist of such items as (1) deposits recorded by Army and not received by Treasury and (2) amounts for checks written to replace lost checks when both the original and replacement are cashed. However, until the Army can research suspense account items, it cannot try to collect or obtain reimbursement of these items.

- The six Army locations we visited did not perform all the required quarterly verifications of cash on hand. Total cash on hand reported by Army was $98 million as of September 30, 1992. Adherence to Army policy regarding cash counts would improve accountability over cash.
- At September 30, 1992, Army disbursing officers and other DOD components who maintain blank checks for the Army's use had not provided Treasury the transaction tapes supporting over $1.6 billion of disbursements, most of which were made more than 90 days previously. Of this amount, $1 billion was attributable to DOD components other than the Army. Because the tapes were not sent to Treasury, it honored checks that it was unable to match with Army's disbursements. As of April 1993, the Army indicated that the amount of such unreported checks was down to $247 million and was attributable to DOD components other than the Army. Failure to report check usage promptly and accurately makes it more difficult to detect fraud and check alteration.

According to DFAS officials, limited time and resources contributed to these deficiencies. DFAS officials also indicated that difficulties in coordinating with non-Army organizations hampered efforts to promptly research suspense account items as well as Treasury's ability to match the Army's checks with reported disbursements. Nevertheless, because cash and checks are especially susceptible to loss and theft, these conditions are unacceptable.

Armywide System for $53 Billion of Military Equipment Is Unreliable

The Continuing Balance System-Expanded (CBSX) is the Army's system for monitoring the type, quantity, and location of military equipment. The Army's reported $128 billion of military equipment includes $53 billion of tactical equipment accounted for and reported by CBSX. Our audit disclosed that the Army's November 1992 comparison between CBSX and unit records identified over 58,000 differences for individual items with an aggregate value of about $5.2 billion. Unit records are the data source for CBSX; therefore, CBSX and unit records should be in agreement. However, even if CBSX agreed with unit records, the Army would still not have accurate information on the type, quantity, and location of its equipment because unit records were also inaccurate.

Our audit also disclosed that CBSX had invalid equipment quantities shown to be in transit between units. Such invalid in-transit quantities result in overstatements of equipment values. Our analysis of the December 1992

CBSX in-transit file showed that transactions affecting over 92,000 items with a reported value of $1.7 billion were over 6 months old, with some dating back to 1990. Army personnel told us that such old in-transit items would, in all likelihood, be invalid.

In addition, DOD regulations require that military equipment be valued at the actual costs incurred to acquire it and put it into operation. Instead, the Army attempted to account for its equipment at a standard price intended to reflect the most recent acquisition cost, which may provide more meaningful management information. However, our test of 45 equipment items valued at $1.6 billion revealed inaccuracies in standard prices used for 39 items. The Army adjusted these 39 equipment balances by $118.9 million to improve the accuracy of reported balances. Further, for the September 30, 1992, equipment balances, the Army attempted to reduce the value of unserviceable and scrap equipment items to reflect their condition based on crude estimates which may not reflect their actual condition. The Army is currently considering an enhanced approach to better reflect the condition of military equipment in the accounting records.

Real Property Accounting System Contains Inaccurate Data

The Army's Facilities System, used at each installation and at headquarters to record and report real property, could not provide complete and accurate information on the quantity, type, and value of Army structures and facilities. In addition to supporting the financial statements, this information is needed to (1) develop real property maintenance budgets and (2) provide readily available information for use in the base realignment and closure process. We found, however, that the financial statement balances were unsupported, budget requests for real property maintenance were unreliable, and additional verification was required for real property status information used in the Army's base realignment and closure evaluation process.

While the Army has efforts underway to improve Facility System information, these initiatives are proceeding slowly. Many of the problems with cost information in the Facilities System cited in our fiscal year 1991 audit remained uncorrected at the end of fiscal year 1992.

Army Faces Significant Unfunded Contingent Liabilities

As discussed in note 1 to the Principal Statements, the Army estimated losses from contingencies to be between $24 billion and $32 billion. These amounts represent the range of estimated costs to the Army for environmental cleanup, chemical weapon demilitarization, radioactive waste disposal, and workforce downsizing. We did not audit this information because the Army completed its analysis and supporting documentation after our field work was completed. However, because DOD instructed DFAS to reverse entries made to the Army's statements to record $24 billion of these liabilities, we believe the Army has a significant liability which has not been recorded in its Statement of Financial Position.

Military Payroll System Is Vulnerable to Abuse and Error

The payroll system for the Army's military personnel allowed unauthorized persons to be paid, and it inaccurately reported and remitted payroll withholdings. Specifically, over 2,200 individuals who should not have been paid received payments for September 1992. DFAS estimates that total unauthorized payments to these individuals exceeded $6 million. We also noted that DFAS has not been able to accurately report and remit payroll deductions to the appropriate entities, including almost $14 million for federal income, Social Security, and Medicare taxes withheld for fiscal year 1992. In addition, the Army Military Personnel appropriation was erroneously charged and not properly reimbursed for costs chargeable to Reserve and National Guard personnel appropriations.

Operating Expenses Are Misstated

Contrary to regulations, Army accounting practices do not distinguish between capital expenditures and operating expenses. For fiscal year 1992, the Army generally recorded all disbursements as expenses and after year-end, DFAS transferred the amount of estimated capital expenditures to asset accounts. The Army reported $10.9 billion of capital expenditures in its Statement of Cash Flows. However, we estimated at least an additional $6.7 billion of capital expenditures that should also have been adjusted out of operating expenses. In addition, the Army made no accrual for operating expenses incurred but not paid as of September 30, 1992. Without accurate expense data, the Army's efforts to develop meaningful cost-based performance measures will be hampered.

Cash Flows Are Unauditable

DFAS and the Army made progress toward producing an auditable Statement of Cash Flows using its budget execution system. Previously, DFAS and the Army developed this statement based primarily upon unreliable data from its Statement of Financial Position. Although the Army used its budget execution system for its 1992 Statement of Cash Flows, control weaknesses over adjustments to the budget execution system, combined with the Army's failure to retain certain financial records, precluded us from expressing an opinion on the fiscal year 1992 Statement of Cash Flows. In addition, because of the significant change in the format of this statement, DOD indicated that it could not prepare the Statement of Cash Flows on a comparative basis for fiscal year 1992, as required by the Office of Management and Budget (OMB).[2] However, the statement should be presented comparatively in future years.

With respect to the adjustments mentioned, DFAS made $5.7 billion of adjustments and corrections to improve the fiscal year 1992 data in the budget execution system; however, controls over these and other adjustments made throughout the year do not ensure that only authorized adjustments are recorded. For example, officials were unable to provide adequate records or documentation to support some of the adjustments.

Statement of Budget and Actual Expenses Omits Program Data

OMB requires that operating expenses be reported by budget object classification or program. Instead, the Army followed DOD's instructions to report operating expenses by type of fund. Reporting by fund type does not provide a level of detail consistent with amounts reported in the Army's budget to the Congress and does not provide useful information because it cannot be related to budget data. Evaluation of budget execution is limited by this reporting practice.

Controls Over Data Processing Operations Are Deficient

The Army relies extensively on automated data processing (ADP) systems to manage its operations. Our audit work revealed material weaknesses in controls over (1) access to ADP systems and data, (2) emergency changes to programs, and (3) Army's ability to continue ADP operations in the event of a disaster. As a result, the Army might be unable to continue to process data in the event of a forced shutdown of one of its major ADP centers. The Army also cannot prevent the intentional or unintentional alteration of data and is subject to unauthorized payments or improper use of its resources. Immediate action to deal with the major weaknesses in this area is essential to mitigate these risks.

FMFIA Objectives Are Not Being Achieved

The Army is required to report annually to the Secretary of Defense as part of DOD's evaluation of controls under the Federal Managers' Financial Integrity Act of 1982 (FMFIA) (31 U.S.C. 3512). In its FMFIA report for fiscal year 1992, the Army stated that, except for 16 material weaknesses, its

[2]OMB Bulletin No. 93-02, Form and Content of Agency Financial Statements.

internal control structure provided reasonable assurance that control objectives were achieved. In view of the magnitude of material weaknesses reported and the additional material weaknesses we identified, we disagree with the Army's 1992 report to the Secretary of Defense. We believe that as a result of these weaknesses, the Army should have stated that FMFIA objectives are not being achieved. We took similar exception to the Army's 1991 FMFIA report.

Objectives, Scope, and Methodology

Management is responsible for

- preparing annual financial statements in conformity with applicable accounting principles,
- establishing and maintaining internal controls and systems to provide reasonable assurance that the broad control objectives of FMFIA are met, and
- complying with applicable laws and regulations.

We are responsible for auditing the financial statements and evaluating related internal controls and compliance with laws and regulations. To fulfill these responsibilities, we attempted to

- examine, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assess the accounting principles used and significant estimates made by management;
- consider compliance with the process required by FMFIA for evaluating and reporting on internal control and accounting systems;
- evaluate the overall presentation of the financial statements;
- evaluate and test relevant internal controls which encompassed the following areas:
  - cash disbursements,
  - budget execution,
  - real property,
  - payroll,
  - military equipment, and
  - FMFIA; and
- test compliance with selected laws and regulations.

As previously discussed, our audit was impeded by Army's noncompliance with record retention requirements. This material noncompliance, along with the other internal control weaknesses noted previously, made it impossible to (1) test transactions to verify their integrity and (2) test and evaluate certain internal controls.

Certain Army programs and assets are classified for national security reasons. The scope of our work did not include these classified assets. While classified assets are not included in the Statement of Financial Position, the transactions of classified programs are reflected as expenses. These expense transactions of classified programs were subject to audit procedures; however, such procedures were subject to the same limitations as other transactions discussed above. In addition, while we have previously reviewed classified programs at the request of the Congress, we performed no auditing procedures related to classified programs and assets during this audit.

Except for the limitations on the scope of our work on the principal financial statements, internal controls, and compliance with laws and regulations described above, our work was done in accordance with generally accepted government auditing standards and OMB Bulletin 93-06, Audit Requirements for Federal Financial Statements.

Charles A. Bowsher
Comptroller General
of the United States

May 31, 1993

Principal Statements

PRINCIPAL STATEMENTS

The Army's FY 92 Principal Financial Statements are presented in the format prescribed by the Office of Management and Budget (OMB) and the Department of Defense. The statements present the overall financial position and operating results of the Army for the fiscal year ended September 30, 1992. The following statements are included as Army's Principal Statements.

- Statement of Financial Position
- Statement of Operations (and Changes in Net Position)
- Statement of Cash Flows (Direct Method)
- Statement of Budget and Actual Expenses

The statements include Army and Corps of Engineers (Civil Works) financial results rounded to thousands. The accompanying footnotes have been cross-referenced to their appropriate account and should be considered an integral part of the principal statements. The following limitations apply to the statements.

- The financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements for pilot organizations under the Chief Financial Officers Act of 1990.

- While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by the OMB, the statements are different from the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

- The statements should be read with the realization that they are for a sovereign entity, that unfunded liabilities reported in the financial statements cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

Statement of Financial Position

Department/Agency: Department of the Army
Reporting Entity: Principal Statements
Statement of Financial Position
as of September 30, 1992
(Thousands)

ASSETS	1992	1991
1. Financial Resources:		
a. Fund Balances with Treasury (Note 2)	$41,643,703	$47,999,676
b. Cash	98,323	
c. Foreign Currency (Note 2)	7,846	
d. Other Monetary Assets (Note 1.F)	82,001	
e. Investments, Non-Federal		
f. Accounts Receivable, Net - Non-Federal	1,150,229	1,031,832
g. Inventories Held for Sale, Net		
h. Loans Receivable, Net - Non-Federal		550
i. Advances and Prepayments, Non-Federal	802,755	966,032
j. Property Held for Sale		
k. Other, Non-Federal		
l. Intragovernmental Items:		
(1) Accounts Receivable, Federal	1,109,258	1,080,680
(2) Loans Receivable, Federal		
(3) Investments, Federal (Note 3)	186,032	224,858
(4) Other, Federal	170,693	(75,231)
m. **Total Financial Resources**	$45,250,840	$51,228,397
2. Non-Financial Resources:		
a. Resources Transferable to Treasury	138,200	
b. Inventories Not Held for Sale (Note 4)	3,524,140	17,445,668
c. Property, Plant and Equipment, Net (Note 5)	221,848,701	246,496,057
d. Other (Note 6)	22,087,917	30,636,272
e. **Total Non-Financial Resources**	$247,598,958	$294,577,997
3. **Total Assets**	$292,849,798	$345,806,394
LIABILITIES		
4. **Funded Liabilities**		
a. Accounts Payable, Non-Federal	7,672,996	5,092,375
b. Accrued Interest Payable		
c. Accrued Payroll and Benefits (Note 1.S.)	3,174,479	2,510,862
d. Accrued Entitlement Benefits		
e. Lease Liabilities (Note 7)		
f. Debt (Note 8)		663
g. Guarantees Payable		
h. Other Funded Liabilities, Non-Federal (Note 9)	794,776	898,007

The accompanying notes are an integral part of these statements.

Department/Agency: Department of the Army
Reporting Entity: Principal Statements
Statement of Financial Position
as of September 30, 1992
(Thousands)

LIABILITIES Continued	**1992**	**1991**
i. Intragovernmental Liabilities		
(1) Accounts Payable, Federal	$1,718,751	$5,566,822
(2) Debt (Note 8)		
(3) Deferred Revenue (Note 1.N.)	1,263,946	1,500,690
(4) Other Funded Liabilities, Federal (Note 9)	31,934	69,975
j. **Total Funded Liabilities**	$14,656,882	$15,639,394
5. **Unfunded Liabilities:**		
a. Accrued Leave (Note 1.P.)	2,464,698	1,617,840
b. Lease Liabilities (Note 7)	22,724	22,992
c. Pensions and Other Actuarial Liabilities (Note 10)		
d. Other Unfunded Liabilities (Note 11)	672,929	76,046
e. **Total Unfunded Liabilities**	$3,160,351	$1,716,878
6. **TOTAL LIABILITIES**	$17,817,233	$17,356,272
NET POSITION		
7. **Fund Balances:** (Note 12)		
a. Revolving Fund Balances	2,084,019	20,359,230
b. Trust Fund Balances	1,811,872	1,857,116
c. Appropriated Fund Balances	273,761,977	307,874,608
d. **Total Fund Balances**	$277,657,868	$330,090,954
8. **Less Future Funding Requirements** (Note 13)	(2,625,303)	(1,640,832)
9. **Net Position**	$275,032,565	$328,450,122
10. **Total Liabilities and Net Position**	$292,849,798	$345,806,394

The accompanying notes are an integral part of these statements.

Statement of Operations (and Changes in Net Position)

Department/Agency: Department of the Army
Reporting Entity: Principal Statements
Statement of Operations (and Changes in Net Position)
for Period Ended September 30, 1992
(Thousands)

REVENUES AND FINANCING SOURCES	1992	1991
1. Appropriations Expensed	$77,341,988	$79,890,820
2. Revenues from Sales of Goods		
a. To the Public	662,294	472,405
b. Intragovernmental	7,302,793	10,960,530
3. Interest and Penalties, Non-Federal		
4. Interest, Federal	13,804	21,243
5. Taxes (Note 14)		
6. Other Revenues and Financing Sources (Note 15)	1,795,804	7,068,332
7. Less: Taxes and Receipts Returned to the Treasury	(216,380)	(97,673)
8. **Total Revenues and Financing Sources**	$86,900,303	$98,315,657
EXPENSES		
9. Cost of Goods or Services Sold		
a. To the Public	256,071	349,189
b. Intragovernmental	4,424,216	8,101,738
10. Program or Operation Expenses (Note 16)	79,750,317	87,547,001
11. Depreciation	260,225	23,058
12. Bad Debts and Write-offs	53,608	42,129
13. Interest		
a. Federal Financing Bank/Treasury Borrowing		
b. Federal Securities		
c. Other	1,375	2,374
14. Other Expenses (Note 17)	1,046,199	122,828
15. **Total Expenses**	$85,792,011	$96,188,317
16. Excess (Shortage) of revenues and Financing Sources Over Total Expenses Before Adjustments	$1,108,292	$2,127,340
17. Plus (Minus) Adjustments:		
a. Extraordinary Items (Note 18)		
b. Prior Period Adjustments (Note 18)	117,432	
18. Excess (Shortage) of Revenues and Financing Sources over Total Expenses	$1,225,724	$2,127,340
19. Plus: Unfunded Expenses	777,346	
20. **Excess (Shortage) of Revenues and Financing Sources Over Funded Expenses**	$2,003,070	$2,127,340

The accompanying notes are an integral part of these statements.

Department/Agency: Department of the Army
Reporting Entity: Principal Statements
Statement of Operations (and Changes in Net Position)
for Period Ended September 30, 1992
(Thousands)

EXPENSES Continued	1992	1991
21. Net Position, Beginning Balance	$328,450,122	$288,328,969
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	1,225,724	2,127,340
23. Plus (Minus) Equity Transfers (Note 19)	(54,643,281)	37,993,813
24. **Net Position, Ending Balance**	$275,032,565	$328,450,122

The accompanying notes are an integral part of these statements.

Statement of Cash Flows

Department/Agency: Department of the Army
Reporting Entity: Principal Statements
Statement of Cash Flows (Direct) (Note 20)
for the Period Ended September 30, 1992
(Thousands)

CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	**1992**
<u>Cash Provided:</u>	
1. Tax Collections	
2. Sales of Goods and Services	$14,386,268
3. Interest and Penalties	13,666
4. Benefit Programs	
5. Insurance and Guarantee Programs	
6. Other Operating Cash Provided	(52,878)
7. **Total Cash Provided**	$14,347,056
<u>Cash Used:</u>	
8. Goods and Services	14,386,268
9. Personnel Services and Benefits	40,159,149
10. Travel and Transportation	3,862,235
11. Rent, Communications and Utilities	2,591,371
12. Printing and Reproduction	111,581
13. Other Contractual Services	13,920,802
14. Supplies and Materials	10,302,953
15. Insurance Claims and Indemnities	79,715
16. Grants, Subsidies and Indemnities	1,229,244
17. Other Operating Cash Used	(26,446)
18. **Total Cash Used**	($86,616,872)
19. **Net Cash Provided (Used) by Operating Activities**	($72,269,816)
CASH PROVIDED (USED) BY INVESTING ACTIVITIES:	
20. Sale of Property, Plant and Equipment	
21. Purchase of Property, Plant and Equipment	(10,892,268)
22. Sale of Securities	1,633
23. Purchase of Securities	37,194
24. Collection of Long-Term Loans Receivable	
25. Creation of Long-Term Loans Receivable	
26. Other Investing Cash Provided (Used)	
27. **Net Cash Provided (Used) by Investing Activities**	($10,853,441)

The accompanying notes are an integral part of these statements.

Department/Agency: Department of the Army
Reporting Entity: Principal Statements
Statement of Cash Flows (Direct) (Note 20)
for the Period Ended September 30, 1992
(Thousands)

CASH PROVIDED (USED) BY FINANCING ACTIVITIES	1992
28. Appropriations (Current Warrants)	$71,089,373
29. Add:	
a. Restorations	
b. Transfers of Cash From Others	7,914,361
30. Deduct:	
a. Withdrawals	239,896
b. Transfers of Cash To Others	1,890,385
31. Net Appropriations	$76,873,453
32. Borrowing from the Public	
33. Repayments on Loans to the Public	
34. Borrowing from the Treasury and the Federal Financing Bank	
35. Repayments on Loans from the Treasury and the Federal Financing Bank	
36. Other Borrowings and Repayments	
37. Net Cash Provided (Used) by Financing Activities	$76,873,453
38. Net Cash Provided (Used) by Operating, Non- Operating and Financing Activities	($6,249,804)
39. **Fund Balances with Treasury, Cash, and Foreign Currency, Beginning**	$47,999,676
40. **Fund Balances with Treasury, Cash, and Foreign Currency, Ending**	$41,749,872

The accompanying notes are an integral part of these statements.

Statement of Budget and Actual Expenses

Department/Agency: Department of the Army
Reporting Entity: Principal Statements
Statement of Budget and Actual Expenses
for the Period Ended September 30, 1992
(Thousands)

Program Name (s)	BUDGET Resources	BUDGET Obligations Direct	BUDGET Obligations Reimbursed	ACTUAL Expenses
CAWCF	$4,112,819		$2,902,505	$4,527,714
Revolving COE	2,431,236	$2,395,184		2,464,177
Trust Military	1,637	380		400
Trust Civil	798,928	724,770		510,729
General Military	93,496,798	77,841,278	8,766,817	83,235,936
General Civil	5,253,560	3,535,016	687,036	1,589,643
Special Military	64,116	21,761		13,963
Special Civil	24,028	11,778		11,798
Deposit Military				
Deposit Civil				
Elimination				(6,562,349)
Totals	$106,183,122	$84,530,167	$12,356,358	$85,792,011

Budget Reconciliation

A. Total Expenses	$85,792,011
B. Add:	
(1) Capital Acquisitions	(3,035,212)
(2) Loans Disbursed	663
(3) Other Expended Budget Authority	15,449,237
C. Less:	
(1) Depreciation and Amortization	260,225
(2) Unfunded Annual Leave Expense	350,350
(3) Other Unfunded Expenses	213,933
D. Expended Appropriations	$97,382,191
E. Less Reimbursements	14,388,365
F. Expended Appropriations, Direct	$82,993,826

The accompanying notes are an integral part of these statements.

Footnotes to the Principal Statements

FOOTNOTES TO THE PRINCIPAL STATEMENTS

NOTE 1: Significant Accounting Policies:

A. Entity and Basis of Consolidation

The United States Army is the largest component in terms of personnel of the Department of Defense. 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 installations, 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. The accompanying financial statements account for Department of Army (21) and Civil Works (96) funds. Information on classified assets, programs, and operations has been aggregated and reported in such a manner that it is no longer classified.

Due to delays encountered in upgrading the accounting and 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 the lack of a fully integrated certifiable 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 91 due to the timing of the report release and a need to more fully analyze recommendations and determine strategy required to affect correction.

Based on FY 91 audit results, internal controls and procedures were revised to improve audit trails for departmental level adjustments to budget execution data and the general ledger. The changes provide auditors and other reviewers a means to identify departmental level adjustments by type or purpose. There are five principal types of adjustments to budget execution data which may or may not affect the financial statements. Many of these adjustments are routinely made during monthly accounting cycles. The five types of budget execution adjustments are:

1) Departmental input of data where accountability lies at the departmental level and corrections due to editing of such data; this would include changes directed by higher headquarters to satisfy reporting requirements.

2) Changes to correct illogical, incompatible, or abnormal conditions found during the validation of hard copy field reports to the data contained in the departmental system.

3) Manual input to align values in the departmental system to hard copy certified reports.

4) Corrections of errors in field and departmental level data; these include corrections to data that fail edit checks.

5) Transactions due to special, one-time occurrences.

As a result of FY 91 audit recommendations, a number of systems changes were initiated in FY 92 to allow automated identification of transaction types. These automated changes could not be implemented before the close of FY 92 processing due to higher priorities. However, manual internal control processes were strengthened and improved to provide the needed audit trails and ensure a proper separation of duties (e.g., between those requesting, approving, or inputting changes). The operating procedures and supporting documentation for Army departmental level adjustments are readily available for audit. The net budget execution adjustments are shown below.

	Transactions	(Billions)
Departmental Input	2,960	$32.28
Correct Abnormal Balances	1,668	4.76
Manual input to align values in the departmental system to hard copy certified reports	592	(1.13)
Error Correction Transactions	2,829	2.07
Transactions due to special, one-time occurrences	581	(.10)
Total	8,630	$37.88

This year end, most installations and major commands were not able to change their automated systems' programs to recognize the multi-year designations provided by the Supplemental Appropriation Act. Although their systems computed ending balances, the transactions did not contain the level of detail required to produce the financial statements. Consequently, the values were recomputed and replaced at the departmental level for the budget execution system.

As a part of the year end process and financial statement reconciliations, a series of transactions were entered into the departmental general ledger. These transactions were (1) original input, (2) adjustments based on analysis of field reported data, and (3) adjustments based on audit recommendations. Original input was made based upon information only available at the departmental level, or changes directed by higher headquarters. Adjustments were made to bring the data into agreement with certified hard-copy reports and other analyses performed. Some adjustments to bring the general ledger into agreement with certified reports are also a part of the budget execution adjustments shown above. The number of transactions affecting the departmental general ledger accounts was 1,130. The table on the following page shows the net adjustments processed into the general ledger.

Adjustments made to bring data into agreement with certified hard-copy reports:

	(Billions)
Fund Balance with Treasury[1]	($2.011)
Accounts Receivable	.011
Advances and Prepayments	.539
Accounts Payable	8.483
Unearned Revenues	(.021)
Total	$7.001

Original Departmental Input/Higher Headquarters Changes:

Cash	$.024
Inventory	(10.828)
Fixed Assets	(6.940)
Other Assets	(12.319)
Accrued Liabilities	(.161)
Total	($30.224)

Offsetting proprietary general ledger entries to the above accounts were:

Liability for Deposit Funds and Suspense Accounts	$.685
Equity	23.210
Revenue and Expense	(.672)
Total	$23.223

Adjustments based on analysis performed of general ledger input and corrections processed based on audit recommendations.

General Ledger Analysis:

Accounts Receivable	$.004
Equipment	(25.767)
Other Assets	33.458
Equity	(14.411)
Program Operating Expenses	6.716
Total	$0.0

Audit Recommendations Processed:

Equipment	$14.689
Other Assets	(53.152)
Equity	38.463
Total	$0.0

[1] The adjustments to Fund Balance with Treasury do not include a $102 billion systems interface error. The error occurred when corresponding offsets to general ledger cash and equity accounts were not created for funding in fiscal years 1989 through 1992 in the Military Personnel, Army account. In addition, adjustments were excluded for a systems problem which occurred at one Army station requiring a $94 billion adjustment to the general ledger for Army's Operation and Maintenance, Army, Research, Development, Test and Evaluation and Operations and Maintenance, Family Housing Accounts. These accounts were adjusted to the certified reports and are appropriately stated in the principal statements. Corrective action is in process to prevent future errors in system logic from occurring.

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 fully covered by 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

The Army is financed primarily through annual and multi-year appropriations provided by Congress. The following Treasury accounts are used to fund, execute, and report on total financial activity for the Army and include Secretary of the Army for the Civil Works program of the funds provided to the Corps of Engineers (COE).

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 and maintain 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 world-wide 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 used to support both peacetime and wartime operations. Revolving funds support the operating and investment accounts by providing a coordinated focus, efficiencies of operations, and economies of scale. The Army operates two revolving funds (conventional ammunition working capital fund and COE Civil Works fund). Revenue recognition varies by fund. For COE revolving fund activities, revenue accrues at the point the service is completed or on a cost incurred basis. The ammunition fund recognizes revenues at the point of delivery. As the single manager of conventional ammunition, the Army is responsible for procurement, production, storage, distribution, maintenance, and demilitarization of conventional ammunition for all services (on a reimbursable basis). In FY 92, the ammunition fund recorded an operating profit of $232.9 million.

The COE revolving fund is available for the acquisition and maintenance of plant and equipment and for the temporary financing of services finally chargeable to appropriations for civil works functions. It also may be used by the COE to furnish facilities and services to the Army for military functions and for others. The fund is reimbursed for the cost of equipment, facilities, and services furnished at a rate that includes overhead, depreciation, plant and equipment, and accrued leave.

Prior to FY 92 the Army also operated the stock and industrial revolving funds which were transferred to DOD as part of the Defense Business Operations Fund (DBOF). The amounts transferred from the Army Stock Fund include assets of $16.9 billion and liabilities of $1.3 billion. The Army Industrial Fund transferred assets and liabilities totaling $2.9 billion and $342 million respectively. The DBOF reported $14.9 billion in inventories as of September 30, 1992 which were managed by Army activities. DBOF inventories included an adjustment reducing the balance by $69.8 million due to changes in unit prices. Additionally, DBOF components had $8.8 billion in intragovernmental sales during FY 92.

3) Trust funds are used to record the receipt and outlay of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of a trust agreement or statute. Trust accounts include monies received through gifts and bequests (as well as interest earned on the investments of some of these gifts) and assets held for particular purposes. Effective October 1, 1991, commissary sales functions were consolidated under DoD and transferred to the new Defense Commissary Agency. As a result, FY 91 was the last year surcharge revenues from the commissary sales accrued to the Army Commissary Trust Fund.

A new trust fund (Foreign National Severance Pay Account) was established this year and funded by liquidating obligations already recorded by the services' operating accounts. In the future such liquidations and transfers to the trust fund will occur quarterly.

Civil Works trust funds include Inland Waterways Trust Fund (IWWTF), the Harbor Maintenance Trust Fund (HMTF) and Rivers and Harbors, Contributed Funds. Revenue for IWWTF is derived from taxes imposed on fuel in vessels engaged in commercial waterway transportation. It is used for one half of the construction and rehabilitation costs of specified inland waterway projects. HMTF revenue is derived from a 0.125 ADVALOREM fee imposed on commercial cargo loaded and unloaded at specified U.S. ports open to public navigation and from collection of charges and tolls imposed by the Saint Lawrence Seaway Development Corporation.

Funds for Rivers and Harbors, Contributed Funds are derived from contributions by non-federal interests for expenditures on river and harbor improvements. These include cash contributions pursuant to the terms of agreements with non-federal interests for study, design, construction and maintenance of authorized federal projects as well as other non-federal contributions. Rivers and Harbors, Contributed Funds is not an invested trust fund.

4) Special funds are comprised of receipt and expenditure accounts that can only be used in accordance with specific provisions of law. The Army manages several such funds: Wildlife Conservation Fund; Restoration, Rocky Mountain Arsenal; and the DOD Forest

Products Reserve Account. The Corps of Engineers (Civil Works) manages several special funds including Payments to States-Flood Control Act of 1954; Special Recreation Use Fees; Hydraulic Mining in California-Debris Fund; and Maintenance and Operation of Dams and Other Improvements of Navigable Waters.

5) Deposit funds generally are used to hold assets that are awaiting legal determination or for which the Army acts as agent or custodian. These accounts may also be used for unidentified remittances. The Army expressly requires all check collections to pass under the immediate control of one of these deposit funds upon receipt, regardless of source, if the ultimate recipient is unknown. The Army maintains 24 deposit accounts and COE (Civil Works) maintains ten deposit accounts.

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 Center (DFAS-CO) and the Defense Contract Administrative Services Regions (DCASRs). The latter are closing and being consolidated within DFAS-CO. There is no automated interface between the disbursing at DFAS-CO and accounting systems maintained by the Army Material Command although one is in development which will allow the passing of accrual and disbursing data in a more time sensitive manner. 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.

All identifiable inter/intra-agency transactions and balances have been eliminated in the Principal Statements through the use of data elements resident in the departmental accounting system. Sufficient detail information was not available in the standard DOD general ledger accounts to perform the eliminations.

The following table shows the amount (in millions) of eliminated intra-agency balances by account and fund type.

Fund Type (Millions)	Accts Rec/ Accts Pay	Rev/ Exp	Advances	Disb/ Coll
General	$876.1	$1,647.2	$42.7	$1,647.2
Revolving	22.4	4,896.4	1,655.7	4,896.4
Trust				
Civil	4.6	18.7		18.7
Cemeterial				
Total	$903.1	$6,562.3	$1,698.4	$6,562.3

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.

The Corps of Engineers has an estimated $2.0 billion of continuing contracts for which no orders have been placed. This represents future contract authority.

In FY 92 the Army sold assets to foreign governments under the provisions of the Arms Export Control Act of 1976. The Act authorizes DOD to sell defense articles and services to foreign countries, generally at no profit or loss to the U. S. Government. Customers are required to make payments in advance to a Treasury trust fund. The trust fund is used to reimburse DOD for the cost of administering and executing sales. In FY 92 the Army processed $3.949 Billion in gross obligations citing DOD funds or reimbursing Army funds under the Foreign Military Sales Program.

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 financial statements as "Other Monetary Assets". The Corps of Engineers (Civil) Funds with Treasury balances have been adjusted to agree with Treasury's balances in accordance with Treasury's policy.

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. Cash held in disbursing officer accounts is primarily used to cash checks, make travel advances and imprest purchases and exchange foreign currencies. In addition to appropriation level data reported to Treasury, check issue reporting is required to allow

Treasury to "balance" their books. As of September 30, 1992 there was 95,000 Treasury checks totalling $1.6 billion that had been issued by finance offices and paid by financial institutions; however, the checks had not been reported by the finance offices to Treasury. Since all finance offices have been converted to the DoD centralized check issue reporting system, the balance of unreported checks has declined to 3,939 checks for a total of $94 million as of May 31, 1993. The Army anticipates continued improvement in this area through FY 1993.

Public Law 101-510 (31 U.S.C. 1551-1557) established general requirements for adjusting and closing current and expired account balances for appropriations. The Law (i) cancelled merged/surplus accounts after the agency requested restoration of the anticipated obligation authority required; (ii) established time limits on the period obligations may be paid from merged accounts; (iii) expanded the time limit on expired accounts from two to five years; (iv) established new procedures and controls for liquidating obligated balances after the appropriations closed; and (v) eliminated existing merged accounts entirely by the end of FY 93.

While the Law provides for the cancellation of merged year funds, it does not cancel any corresponding legal liability, and it imposes certain restrictions. Controls are in place to ensure that disbursements for cancelled merged year obligations do not exceed the imposed limitations. These restrictions limit disbursements for cancelled obligations to the lesser of: 1) 1% of the amount appropriated to the unexpired account to be charged; 2) the unobligated/unused amount in the unexpired account to be charged; or 3) the unexpended value of the cancelled balance in the original appropriation.

The table below illustrates the total impact of cancelled obligations and deobligated funds through FY 92.

	(Millions)	
Merged Appropriation Accounts	FY 92	FY 91
Cancellations	$47	$400
Deobligations	$192	$292

In the past, these funds would have been available to cover obligation adjustments next year. Under the current legislation unobligated funds on the books at the end of the fiscal year are cancelled. Recovery values (deobligations) reported by Army installations were decreased by the value of obligations established at departmental level. The latter were established to ensure disbursements made prior to September 30, 1992, for unliquidated obligations subject to cancellation at year end were applied to the correct fiscal year. The adjustment was made based upon departmental receipt of copies of the disbursing vouchers prior to October 21, 1992. Without this adjustment, the Army would have been forced to cancel unliquidated obligations for disbursements made prior to cancellation of funds but still in-float (not received at the funded station) on September 30, 1992. Additionally, during FY 92 Army requested the restoration of $130 million of funds to cover valid, unliquidated obligations mistakenly included in it's listing of unobligated balances subject to cancellation under the Law. The obligations were mistakenly identified for cancellation due to an error at an Army major command which occurred while officials were identifying the applicable fiscal year for merged appropriation obligations. The authority to restore these balances has not been received.

The Army anticipates that approximately $350 million of future unexpired funds will be required to cover valid obligations from closed accounts. This potential problem may be exacerbated by the legislation passed for FY 93. The legislation requires a cancellation of merged year funds equal to the value of any upward obligations in those accounts where Army cannot prove it cancelled all invalid contracts identified in the original audit of outstanding merged year contracts. This penalty is levied in addition to the requirement to process a recovery prior to any upward obligation. The new legal action also allows current year funds for expired but not yet cancelled accounts.

The Army maintains strict controls over fund distribution through the fund control module of the Program Budget and Accounting System. Fund control is maintained at the performing activity level. Reporting and report certification processes follow the same path as fund distribution, in reverse, with each successive level maintaining control and reviewing operating results. Statutory and administrative limitations on fund use are printed on system generated fund distribution documents. Internal controls are established within the installation accounting system to prevent Anti- Deficiency Act violations from occurring. During FY 92 the Assistant Secretary of the Army (Financial Management) determined 5 violations occurred for a total amount of $309.3 million. These violations have been reported to the Defense Finance and Accounting Service - Headquarters for review by legal counsel.

G. Foreign Currency

Army disbursing officers maintain small on hand balances of foreign currencies when acting as an agent for the Department of the Treasury in the overseas commands. These foreign currency balances are reported at the U.S. Dollar equivalent in a pseudo appropriation which is included in the Army financial statements using the exchange rate in effect on the last day of the reporting period. Foreign currency checking accounts are maintained at a zero balance. Sufficient funds are purchased for the account to cover the checks written daily. There are no restrictions on the use or conversions of these currencies.

H. Accounts Receivable

Accounts receivable in the consolidated Statement of Financial Position includes $141.6 million in military refunds receivable. Although the Schedule 220.9 includes values for refund receivables resulting from debts owed the United States from separated military personnel, the FMS Form 2108 does not reflect receivables which are not directly related to appropriation reimbursement processing. Allowances for uncollectible accounts are based on an analysis of collection experience by fund type.

I. Loans Receivable

Loans are accounted for as receivables after the funds are disbursed. Currently the Army has no outstanding loans receivable against an appropriated fund. The loan value reported on the Schedule 220.9 applies to a loan outstanding since 1973, and the related appropriated funds have been cancelled. Current and future collections will be made to a Treasury Miscellaneous Receipts account against which only current year actions are reported.

J. Inventories

DOD designates inventory as the aggregate of tangible personal property items categorized as either consumable or depot level repairable items. Inventory items are either 1) held for sale to DOD users (or to other authorized customers, including U.S. allies) in the ordinary course of Defense operations, 2) in the process of repair or production for resale, or 3) to be currently consumed directly or indirectly in the production of goods or services for sale. Inventories are carried at standard prices (established by Army or Defense Logistics Agency) throughout the year, as required by DOD accounting directives. Generally, prices on inventory held for resale are based on the cost of the most recently acquired items plus appropriate surcharges. The inventory items reported in the Financial Statements have been revalued through a departmental adjustment to remove the surcharges. The Corps of Engineers (Civil Works) does not maintain separate accounts for inventories. Generally, COE purchases supplies as needed and does not maintain levels of items material enough to be considered inventory. Consequently, the items are expensed, not capitalized, when purchased.

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.

The U. S. Army Quartermaster Center and School, in conjunction with the Army Materiel Systems Analysis Activity, recently completed several studies and analyses on the repair parts supply system. Results indicate potential for substantial savings in installation level inventory investment without impairing readiness standards. Eliminating or reducing Mandatory Parts Lists and Command Discretionary Lines could result in substantial savings and mobility improvements in each division and corps. Provisioning lines can be repositioned to a higher supply source until demand is sufficient to authorize forward stockage. Stockage retention criteria can be changed to eliminate items not essential for combat. Also retention criteria can be increased from three to six demands without hurting readiness. All these initiatives will be considered for implementation in FY 93.

The Army did not report inventory for appropriated (non-revolving) funds until 1991. Army policy required expensing all operating inventories for consumer appropriations at the time of purchase. For FY 92, Army is reporting on hand procurement and RDTE funded items, obtained to support procurement funded DOD systems, as Other Assets. Before FY

91 the Army reported this hardware as Military Equipment subject to depreciation. Since these items are not currently in use, depreciation should not be applied. Reclassifying this equipment as Other Assets on the Balance Sheet allows the Army to recognize these (otherwise depreciable) assets without accumulating depreciation until the items are put in use.

Secondary inventory items (spare parts) were previously sold from the procurement accounts. In October 1991, these items were transferred to the Defense Business Operations Fund account at no charge, because this account replaced the Army Stock Fund as the revolving fund activity responsible for providing logistics support. Until March 1992, the Defense Business Operations Fund issued these items free of charge to Army installations. After that time, a value was assigned to the items and both issuances and refunds were made in accordance with the assigned value. Creditable returns are treated as a decrease to funds utilized in the current year, because the asset values are maintained in the current years in the operating funds. Creditable returns were higher than expected in FY 92. This was due to a moratorium on returns for credit in FY 91 being imposed until the impact of the end of Desert Storm on the Army Stock Fund could be determined. The returns were made in FY 91, although the operating accounts did not receive the credits until FY 92.

In previous years, prepayments to contractors or progress payments for inventory items were recorded as an increase to inventory. Beginning in FY 91, all progress payments were recorded under Prepaid Assets, in accordance with revised DOD policy.

Military procurement/RDTE (investment accounts) assets are not recorded as inventory, but are recorded as "Equipment and Other Assets." Included in these values are:

Work-in-Process GFM	$ 281.7 million
Construction-in-Process GFM	$ 2,644.9 million
Equipment with Contractors	$ 5,231.0 million

Effective October 1, 1991, assets, liabilities and equity of the Army Stock Fund, Army Industrial Fund and the commissary trust fund were transferred to the Defense Business Operations Fund. See Overview for added information.

K. Investments in U.S. Government Securities

Investments in U.S. Government securities are reported at cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment. Army's intent is to hold investments to maturity, unless they are needed to finance claims. No provision is made for unrealized gains or losses on these securities because most are held to maturity.

L. Property, Plant and Equipment

Capitalization rules are applied and used for all property, plant, and equipment in accordance with revised DOD Comptroller guidance (i.e., $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 a DOD appropriated or revolving fund activity 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.

The Army capitalizes the costs of additions, improvements, leasehold improvements, rehabilitations, alterations, betterments, and replacements that extend the service life of an asset. The costs of engineering changes and other modifications to existing weapon systems and equipment are not capitalized unless the changes enhance the item's performance or extend the life of the item.

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.

Military equipment (including weapons systems) is currently valued at standard cost which represents "latest acquisition" cost. Generally accepted accounting principles and the DOD Accounting Manual require that it be valued at actual historical cost. A weighted average concept, using the service's budgetary records to identify and capture costs, is being developed (and may be used) to revalue more recently acquired major equipment items and weapons systems in the FY 92 Financial Statements. The rationale for selecting more recent acquisitions is that reasonably accurate records of costs should be available, and these would account for most of the dollars invested in that equipment. Audit analyses of data reported in the general ledger identified a duplication of whole-sale level ammunition and missiles recorded. The duplicate entries were corrected in the FY 92 Statement of Financial Position. The FY 91 Property, Plant and Equipment and Other Non-Financial Resource accounts were also overstated by approximately $25 billion. The amount reported also includes an additional $3.9 billion reported for FY 91 equipment due to changes in standard prices.

The Army Financial Statements include depreciation for the Corps of Engineers Civil Works; the depreciation is computed on a straight line basis in conformance with DOD policy and GAO's Title 2.

Property ownership is recognized in the carrier (appropriated fund) account. DOD accounts (excluding the new Defense Business Operations Fund) are prohibited from owning real property. Consequently, when Army depots were consolidated under the Defense Logistics Agency, Army retained ownership of the property.

Previously, the Army treated ADP software development and acquisition costs as operating expenses. Under current OSD guidelines, Army stations are now required to develop cumulative capitalization values for software with a cost in excess of $15,000 and a minimum remaining life of 2 years. Cumulative capitalization values in the Financial Statements include current year software maintenance costs when they extend the life of the software. Based on OSD guidance, the Army (excluding Corps of Engineers Civil Works which expenses software costs) incorporated the cost of these assets into its departmental ledgers along with a corresponding adjustment to invested capital. As Army functions are capitalized within DOD, these assets will transfer with the function. In FY 92, the medical command function was brought under DOD control; its assets were transferred from Army to DOD operating accounts.

The Army maintains accountability for equipment issued to operating forces in central logistics systems which are subsidiary to the General Ledger. Valuation of this equipment is consistent throughout the system. No gains or losses are recognized in the Statement of Operations for revaluation changes and/or the loss of equipment. However, the assets and related investment accounts do reflect both pricing and value changes based on a monthly update to the General Ledger.

As of September 30, 1991, the Army was committed to numerous operating leases and rental agreements. Generally, these leases and agreements were for the rental of equipment, space, right of ways, and operating facilities. The Army owns substantially all facilities and real property used in its domestic operations; its overseas assets are capitalized in a manner similar to domestic assets. Most of the Army's leases are operating rather than capital leases. Ownership of the property will not transfer to the Army.

When the Army builds on property or improves land which does not belong to the U.S. Government, the value of the asset is recorded as a leasehold improvement. Several Army locations have entered into lease agreements with either state or foreign governments. The land is either provided free or for a nominal charge (e.g., $1/ year). The agreements are normally for extended periods of time (50 years).

Construction-in-progress is updated as costs are incurred. An installation capitalizes the value of buildings when they transfer to its control. The value is based on construction cost plus engineering, design, and inspection costs. Gains or losses from transfer of assets or liabilities between agencies are not recognized, except when assets are transferred to the Base Realignment and Closure Account. This account is not allowed to accumulate gains or losses on disposal. Any gain or loss must be transferred back to the original/losing command. Base closures from the 1988 Base Realignment Commission (BRAC) could result in approximately $400 to $900 million in real property being removed from the Army's accounting records between FYs 93 and 95. We have specified a projected range because we cannot identify, at this level, the specific impact of partial base closures. Another projected $850 million could be removed as a result of the 1991 BRAC decisions.

The U.S. Army, Europe drawdown plan could affect military equipment accounts in the future. Under the drawdown plan, rather than return equipment to the states for disposal, equipment which meets the qualifications for transfer under the Conventional Armed Forces in Europe Treaty will be free issued to U.S. allies. Several North Atlantic Treaty Organization allies have accepted excess treaty-limited equipment valued at $229.5 million. Other equipment (tanks) currently located in Italy (current value $203.5 million) must be destroyed under the treaty. Defense Logistics Agency is currently negotiating a contract for the destruction of the tanks.

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. Deferred Revenues

Payments received by Army from entities in advance of the delivery of goods or performing a service are recorded as deferred revenues.

O. 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. These costs may represent future liabilities for Army activities. The disclosures are being made in the footnotes in accordance with DOD policy.

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, Judgements 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, Judgements and Relief Acts fund. Amounts reported as contingencies in the footnotes are estimates and may include contingencies reported by Department of Justice since we cannot predict with complete accuracy which agency will be impacted at settlement.

The Army is currently involved in five litigation actions each involving a requested judgement of more than $100 million. The table below discloses the nature of the suit and the possible associated loss.

	(Thousands)
Inverse Condemnation Suite, FL	$100,000
Inverse Condemnation Claim, CA	$110,000
Fiduciary Duties to Manage Trust Funds, OK	$110,000
Violations of the Defense Authorization Act, CA	$100,000
Contract Performance for Foreign Military Sales Contract, FL	$280,000

The Department of Army was a party to 626 contract appeals before the Armed Services Board of Contract Appeals (ASBCA) and the Engineer Board of Contract Appeals. Total value of these appeals was $559.9 million. The total number of Army contract claims successfully defended in FY 92 was 55; these claims represent $9.2 million. The total dollar amount of Army initiated contract claims in FY 92 is $87.4 million. The total dollar value of contract litigation against the Army not involving claims before the ASBCA and the General Services Board of Contract Appeals is $992.6 million. Such claims are funded primarily from Department appropriations rather than the Claims, Judgements and Relief Acts fund.

The total number of medical malpractice claims filed against the Army in FY 92 pursuant to the Military Claims Act is 110 ($260.1 million). The total number of medical malpractice claims filed against the Army in FY 92 pursuant to the Federal Tort Claims Act is 462 ($4,705 million). The total number of nonmedical malpractice tort claims filed is 8,697 ($6,227.5 million). The total number of tort claims paid is 7,155 ($36.5 million).

The accounts receivable value excludes estimated third party claims for carrier recovery, medical care, and property damage. The following chart was provided by the U. S. Army Claims Service.

Report of Claims Assessed and Collected [1]
($ Millions)

Estimated Carrier Recovery Assessed	(Oct 91--Sep 92)	$ 23.3
Estimated Carrier Recovery Collected	(Oct 91--Sep 92)	$ 16.4
Estimated Medical Care Assessed	(Oct 91--Sep 92)	$ 20.1
Estimated Medical Care Collected	(Oct 91--Sep 92)	$ 12.9
Estimated Property Damage Assessed	(Oct 91--Sep 92)	$ 1.7
Estimated Property Damage Collected	(Oct 91--Sep 92)	$ 1.6

[1] Amounts include collections of previously assessed claims. The reported figures are estimates and subject to future adjustment which would impact future appropriations.

The preliminary cost of the Army's Environmental Restoration Actions is approximately $14.3 billion. This long term contingent liability estimate is considered low, since new cleanup projects are being identified and technologies are still being developed. An additional $7.1 billion is considered possible based on managers experience with costs growing and the continued identification of new requirements. Total costs are unknown at this time because the Federal Facilities Compliance Act just became law and violations of solid and hazardous waste requirements are still being discovered.

Additional long term contingent liabilities include the Chemical Demilitarization Program. The Chemical Demilitarization Program, which has a probable cost estimate of $7.4 billion, is based on the 1986 Defense Authorization Act (PL 99-145, as amended by subsequent acts). This Act directed the DOD to destroy its complete military chemical stockpile by July 31, 1999. PL 102-484 extended the disposal deadline to December 31, 2004. The Army, as Executive Agent within DOD, provides policy, direction, and oversight for both the Chemical Stockpile Disposal Program and the Non-Stockpile Chemical Materiel Program. Although closely managed, the program will likely experience added cost growth as it evolves from the planning and developmental phases into full-scale operations. The program completion date is currently scheduled for April 2003.

Contingent liabilities are created as a result of the reductions in the military and civilian workforce. Expenses for Severance pay of U.S. employees, unemployment compensation and continuing health benefits are estimated to be $2.2 billion through FY 94. An additional $47 million is considered possible through the same period.

Low level radioactive waste has been and continues to be generated by Army activities worldwide. Improper handling and disposal of the radioactive waste in the past has resulted in a number of sites being listed as having the potential of being contaminated with radioactivity. There are currently 98 sites on 36 installations confirmed to have radioactive contamination. An additional 157 sites are suspected, but not confirmed, of having some degree of radiological contamination. The costs to assess and cleanup these sites is difficult for Army managers to determine based on their limited experience with costs for radioactive cleanup. The initial probable estimates for the cleanup are $294 million with possible costs of $471 million.

Contingent liabilities in the environmental program are likely to grow for the next several years. The compliance pillar will likely experience additional growth in the near term as the Army copes with ever changing and increasingly stringent legal requirements, as well as Army restructuring initiatives which lead to base realignments and closures. The compliance portion of the program can also expect increased costs arising from regulatory agencies' new ability under the Federal Facilities Compliance Act to fine federal agencies for non-compliance with the nation's hazardous waste law. The restoration pillar of the program can expect cost growth as it evolves from the planning and study phase to the actual cleanup of contaminated sites. This growth could be exacerbated by the need to accelerate the cleanup of closing bases so they may be returned to local communities. The conservation pillar will experience pressures from regulatory agencies and interest groups concerned with preserving the natural environment and the cultural resources contained on Army lands. Also, Congress is becoming more proactive in passing legislation and directing programs to protect the nation's natural and cultural resources. The Army can expect more constraints on training due to the need to protect endangered species, wetlands, cultural resource sites, and the need to curb soil erosion.

A significant amount of the Army's overseas operations is conducted in the currency of the host nation. However, the obligation amounts representing this activity are in U.S. Dollars, and the exchange rate of the U.S. Dollar can affect the cost of liquidating these obligations. The impact of this process is displayed as a contingent liability against the following appropriations: Operations and Maintenance, Army; Military Construction; Family Housing Operations and Maintenance; and Family Housing Construction. The current estimate of this liability as of September 30, 1992, is $406.9 million. The Army recognizes the cost of these transactions during the period in which they occur. Expenses or revenues are recognized as the variance between the current exchange rate at the date of payment and a budget rate established at the beginning of the fiscal year.

A $319.1 million contingent liability exists for Department of Labor Workers' Compensation payments for current and former Army employees. The liability covers the periods July 1, 1990 through June 30, 1992. Payment will be made from the FY 93 and FY 94 appropriations, as applicable.

The Corps of Engineers (Civil) has an estimated $463 million in contingent liabilities. These liabilities as yet have not been recorded in the general ledgers. All information pertaining to these contingencies are obtained from Counsel, program managers, etc..

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 $31.5 billion at fiscal year-end. Undelivered orders are not recorded in the Civil Works Revolving Fund but are provided as a footnote by COE accounting offices. 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) ($10.4 billion).

The Army has $1,541 million in outstanding commitments which it may be obligated to pay. The commitments represent future contracts for goods or services initiated against an unexpired account during FY 92 where the formal obligation document was not finalized at year end.

P. Annual, Sick, and Other Leave

Civilian annual leave and military leave are accrued as earned. The military pay system computes the balance for military leave at the end of the fiscal year based on current pay rates for the leave that is earned but not taken. Within the JSS military pay system, the computation assumes the personnel will take the leave, rather than receive payment for it. Therefore the pay rate used incorporates entitlements (e.g., basic allowance for quarters) that personnel receiving a lump sum value for their leave on separation would not receive.

Due to a programming error in the military pay system, certain personnel had leave balances in excess of 60 days erroneously removed by the system. These personnel were assigned to a combat zone and entitled to carry over leave balances in excess of 60 days. Although the leave will be restored, this will not occur until November, when it is anticipated the program error will be corrected and all September leave used will be recorded. As a result, the accrued annual leave figure at the end of September is understated for the value of the leave removed from the system. The program will be rerun at the end of November, and if there is a significant difference between the two reports, the balance will be adjusted upward.

The balance for civilian annual leave represents the value of the unused accrued leave hours reported as of September 30, 1992, as computed by installation civilian pay systems. A majority of the leave liability reflected in the unfunded liability lines was incurred in prior years and carried forward to the current statements. This balance is understated because some installations failed to include accrued leave values in their general ledger submissions during year end reporting.

Sick and other types of leave are expensed as taken. No current liability exists in the Army for sick leave. However, a future liability exists in the pension funds managed by the Office of Personnel Management (OPM) for those employees under the Civil Service Retirement System (CSRS). Unused sick leave is credited toward years of service when computing pension benefits.

Q. Retirement Plan

Many of the Army's civilian employees participate in the CSRS, to which the Army makes matching contributions equal to 7 per cent of pay. Army does not report CSRS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. OPM is responsible for reporting such amounts.

On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, can elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to employees where Army automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay. The Army also contributes the employer's matching share for Social Security for most employees hired after December 31, 1983.

For military members, Army contributes 46.2% of base pay for Active Component members and 13.3% of base pay for Reserve/National Guard members to the Military Pay Retirement Fund. This trust fund is maintained within DOD. Army also contributes the employer's matching share for Social Security.

For Foreign Nationals, in accordance with the Status of Forces Agreements, the overseas commands were required to obligate mission funds to pay separation/severance pay to employees when they left the employment of the U.S. Government. These unliquidated obligations were maintained in the funds where they were originally obligated until FY 92 when they were liquidated to fund a new DOD trust account. The liquidation value was determined based upon a data call in March 1991 and will require adjustment through the quarterly liquidations in the future.

R. Accounts Payable

Accounts payable for goods and services are recognized based upon receipt of a receiving report providing notification of acceptance 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 of goods or services will take place within 30 days of obligation. Centrally managed allotments use the cash basis for accounting to the extent that obligations are adjusted based upon disbursement/collection activity during the fiscal year. Obligations are established monthly based on a combination of the disbursement values reported by installations compared to the budgeted value developed from trend analysis/projections prepared by Army budget officers. Centrally managed allotments are used when it is not cost effective or is cost prohibitive to issue funds to all possible disbursing offices, and there is an inability to project usage of the funds at that level. Some examples are permanent change of station travel for military personnel and long term training funds.

The Army owes interest to vendors if invoices are not paid on time. For fiscal year 1992, the Army paid only $1.6 million in interest and penalties on 2.7 million vouchers totalling $15.2 billion subject to the Prompt Payment Act.

Accounts payable are understated for the value of the negative unliquidated obligations recorded in the accounting records. A negative unliquidated obligation results when the disbursement exceeds the contract value. Of the $342.7 million reported for the quarter ending September 30, 1992, $7.6 million are actual overpayments to contractors and $4 million are in litigation resulting from bankruptcy or termination of contracts.

S. Accrued Payroll and Benefits

All military and civilian payroll earned but not paid as of September 30, 1992 is accrued in the Financial Statements as non-Federal. The account does not include MRS, CSRS, or FERS unfunded liabilities applicable to Army employees (See Note 10). During FY 92, the

Army finished implementing the Joint Services Software System for Active Component (JSS-AC) Military Pay. There is a learning curve involved in using the system and some payments made by the installations were recorded against an incorrect entitlement. Although many corrections have been made at the departmental level, all corrections have not been accomplished to date. JSS-AC requires all transactions processed by the field offices to initially cite the Military Personnel Appropriation (2010); distribution to the correct account is made upon disbursement by the pay system. Accruals for military pay reflect $1.627 billion for undisbursed military pay and benefits for the month of September 1992.

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

A. Fund Balances with Treasury (Military)		(Thousands)	
	Available	Restricted	Total
(1) Trust Funds	$424		$424
(2) Revolving Funds	466,712		466,712
(3) Appropriated Funds	39,688,313		39,688,313
(4) Other Fund Types			
Total	$40,155,449		$40,155,449
B. Cash			97,482
C. Fund Balances and Cash			$40,252,931
D. Foreign Currency			$7,846

A. Fund Balances with Treasury (Civil)		(Thousands)	
	Available	Restricted	Total
(1) Trust Funds	$114,188		$114,188
(2) Revolving Funds	390,398		390,398
(3) Appropriated Funds	942,517		942,517
(4) Other Fund Types		41,151	41,151
Total	$1,447,103	$41,151	$1,488,254
B. Cash	841		841
C. Fund Balances and Cash	$1,447,944	$41,151	$1,489,095
D. Foreign Currency			$0

E. Other Information: The individual accounts have more detailed information. Restricted accounts include deposit funds which are not available for agency use and undisbursed balances in budget clearing accounts.

Note 3. Investments:

	(Thousands)			
	Face Amount	Market Value	Unamortized Premium (Discount)	Invest-ments Net
A. Non-marketable Federal Securities				
Military				$863
Civil	$181,927	$185,169	$3,242	185,169
Total	$181,927	$185,169	$3,242	$186,032

B. Other Information: The Civil Works investments represent the invested portion of the Inland Waterways Trust Fund (IWWTF). This portion of the IWWTF is managed and accounted for by the Department of the Treasury.

Note 4. Inventories:

	(Thousands)			
Military	Inventory Amount	Allowance for Losses	Inventory Net	Valuation Method
A. Inv Not Held for Sale				
(a) Material and Goods for Own Use	$2,594,332		$2,594,332	Std. Price
(b) Other	929,808		929,808	Std. Price
Total	$3,524,140		$3,524,140	

B. Other Information: See footnote 1J. for additional details on the valuation method.

Note 5. Property, Plant, and Equipment, Net:

	(Thousands)				
Military	Depreci-ation Method	Service Life	Acquis-ition Values	Accumu-lated Depr.	Net Book Value
Classes of Fixed Assets					
A. Land			$643,525		$643,525
B. Structure, Facilities, and Leasehold Improvements			30,759,592		30,759,592
C. Military Equipment			128,408,226		128,408,226
D. ADP Software			28,927		28,927
E. Equipment					
F. Assets Under Capital Lease			10,835		10,835
G. Other					
H. Natural Resources			58,327		58,327
I. Construction in Progress			15,433,225		15,433,225
Total			$175,342,657		$175,342,657

Civil	Depreciation Method	Service Life	(Thousands) Acquisition Values	Accumulated Depr.	Net Book Value
Classes of Fixed Assets					
A. Land	N/A	N/A	$2,751,554		$2,751,554
B. Structure, Facilities, and Leasehold Improvements	SL	>20	29,255,703	$2,510,869	26,744,834
C. Military Equipment	N/A	N/A			
D. ADP Software	SL	1-5	83,276		83,276
E. Equipment	SL	1-20	1,170,540	456,907	713,633
F. Assets Under Capital Lease	N/A	N/A	22,724		22,724
G. Other (Materials and Supplies)	N/A	N/A	17,758		17,758
H. Natural Resources	N/A	N/A			
I. Construction in Progress	N/A	N/A	16,172,265		16,172,265
Total			$49,473,820	$2,967,776	$46,506,044

J. Other Information:

Depreciation is not currently being categorized in the accounting records as to amounts for equipment versus that of structures, facilities, etc.. All depreciation is being shown against structures, facilities and leasehold improvements except Revolving Fund. Currently, our general ledgers do not separate the figures for land, software & equipment from Structures, Facilities & Leasehold Improvements (except in Revolving Fund). Footnote information submitted by the Districts is used to calculate Structures, Facilities & Leasehold Improvements.

Note 6. Other Non-Financial Resources:

The Other Non-Financial Resources account includes missile and ammunition assets originally classified as inventory. The assets were reclassified as Other Non-Financial Resources based on the Comptroller of the Department of Defense guidance.

Other Non-Financial Resources
FY 92
(Thousands)

Military	
Missile Procurement (Military)	$8,128,397
Procurement of Ammunition (Military)	13,411,492
Other (Military)	497,837
Deferred & Undistributed items (Civil)	50,191
Total Principal Statement	$22,087,917

Note 7. Leases:

A. ENTITY AS LESSEE: (Civil)

Capital Leases:

Summary of Assets Under Capital Lease:	(Thousands)
Land and Buildings	$24,000
Accumulated Amortization	$1,276

Description of Lease Arrangements:

The asset capital lease described is for the New Orleans District administrative building. The lease term is 25 years. The Corps is obligated to occupy the premises during the 25 year period. If evacuation occurs during this period, default fees will be assessed. The lease also has options to purchase the building as follows:

Purchase Options:	(Thousands)
At the end of 10 full years	$20,516
At the end of 15 full years	$14,884
At the end of 20 full years	$8,000
At the end of 25 full years	$0

The Corps expects to exercise its options to purchase the building in FY 95 if funds are available. The principal portion of the monthly lease payments are being capitalized under current Plant Replacement Improvement Program authority allocated annually.

Fiscal year	(Thousands)
FY 93	$308
FY 94	354
FY 95	407
FY 96	467
FY 97	537
After 5 years	20,651
Total Future Lease Payments	$22,724
Less: Imputed Interest	0
Executory Costs (e.g., taxes)	0
Total Capital Lease Liability (Unfunded)	$22,724

Note 8. Debt:

The Department of the Army, as an agency of 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. The Army's proportionate share of public debt and related expenses of the federal government are not included in the Financial Statements. Debt incurred by the federal government and the related interest are not apportioned to federal agencies. Consequently, the Army's Financial Statements do not reflect any portion of the public debt or interest thereon, nor do the Statements reflect the source of public financing (e.g. debt issuance, tax revenues).

Note 9. Other Funded Liabilities:

Army's "Other Funded Liability, Non-Federal" account includes unearned revenues (advances) in the amount of $70.7 million dollars and Treasury cash advances to disbursing officers in the amount of $189.5 million. The "Other Funded Liability, Federal" account is comprised of deposit fund liabilities in the amount of $132.8 million. The U.S. Army Corps of Engineers is self insured. Revolving Fund Plant & Equipment casualty losses and damages are financed from the "Insurance Reserve" account as they occur. The Deposit Fund accounts and Budget Clearing accounts in most cases have been adjusted to agree with Treasury's balances. The discrepancies will be researched as soon as possible to bring the accounts into balance.

Other Funded Liabilities (Thousands)

	Non-Federal	Federal	Total
Military			
Unearned Revenues	$70,688		$70,688
Cash Advances	189,557		189,557
Deposit Fund		$132,760	132,760
Civil			
Insurance Reserve		49,550	49,550
Deposit Fund	48,645	86	48,731
Budget Clearing Accounts	146,772	(150,462)	(3,690)
Deferred Revenue	339,114		339,114
Total	$794,776	$31,934	$826,710

Note 10. Pensions and Other Actuarial Liabilities:

The Army's civilian employees participate in the Civil Service Retirement System (CSRS) or Federal Employees' Retirement System (FERS); military personnel are covered by the Military Retirement System (MRS). Personnel covered by FERS and MRS are also covered by Social Security; all personnel are subject to mandatory Medicare contributions. These Financial Statements do not reflect MRS, CSRS, or FERS assets, accumulated plan benefits, or unfunded liabilities applicable to Army employees. OPM is responsible for reporting such amounts for CSRS and FERS; DOD is responsible for reporting such amounts for MRS. In FY 92, the Army contributed the following amounts to retirement plans and Social Security.

CSRS	$260.5	million
FERS	245.8	million
MRS	6,061.3	million
Social Security	269.5	million
Total	$6,837.1	million

Contributions of $64 million were made to the FERS Thrift Savings Plan during FY 92.

Note 11. Other Unfunded Liabilities:

A. Army's "Other Unfunded Liability" account includes accrued civilian payroll in the amount of $160.3 million dollars. A liability for property furnished by others in the amount of $512.2 million is also included. The property furnished by others represents structures and facilities which are located overseas and have been obtained through various international treaties and agreements negotiated by Department of State. Army controls these assets and is expected to return them to their source in reasonably close to original condition.

B. Other Unfunded Liabilities:	(Thousands)
Accrued Civilian Payroll	$160,345
Liability for Property Furnished by Others	512,185
Other	399
Total	$672,929

Note 12. Fund Balances:

Military	Revolving Funds	(Thousands) Trust Funds	Appropriated Funds
A. Unexpended Appropriations			$31,301,077
B. Invested Capital			197,042,495
C. Cumulative Results of Operations	$1,196,151	$1,261	
D. Total	$1,196,151	$1,261	$228,343,572

Civil	Revolving Funds	(Thousands) Trust Funds	Appropriated Funds
A. Unexpended Appropriations			
1. Unobligated Avail.	$36,052	$56,295	$1,043,759
2. Undelivered Orders	181,028	33,588	951,171
B. Invested Capital	670,788		42,076,958
C. Cumulative Results of Operations		1,720,728	1,346,517
D. Total	$887,868	$1,810,611	$45,418,405

E. Other Information:

The balances displayed in the reports for the trust funds reflect Treasury's balances. Funds are only provided by Treasury as required for outlay purposes. The general ledgers reflect obligational authority which is granted for most of the trust funds. All trust funds except 96X8862 (Rivers & Harbors Contributed Funds) are invested funds. Sufficient funds are on deposit in the trust funds to cover obligations.

Note 13. Future Funding Requirements:

	(Thousands) 1992
A. Non-Actuarial Liabilities	
Annual Leave	$2,464,698
Accrued Civilian Payroll	160,345
Other	260
B. Total	$2,625,303

Note 14. 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 standalone entity. The Army's proportionate share of public debt and related expenses of the federal government are not included in the Financial Statements. Debt incurred by the federal government and the related interest are not apportioned to federal agencies. Consequently, the Army's Financial Statements do not reflect any portion of the public debt or interest thereon, nor do the Statements reflect the source of public financing (e.g. debt issuance, tax revenues).

Note 15. Other Revenues and Financing Sources:

A. Other Revenues and Financing Sources:	**(Thousands)** **1992**
(1) Inventory Gains (Military)	$1,168,084
(2) Other Gains (Military)	430,082
(3) Misc. Receipts (Military)	133,471
(4) Trust Fund Revenues (Civil)	(52,878)
(5) Miscellaneous Receipts (Civil)	82,911
(6) Non-Operating Income (Civil)	33,984
(7) Donated Revenue (Gift Fund)	150
Total	$1,795,804

B. Other Information:

Military gains were primarily realized in Army's Conventional Ammunition Working Capital Fund. These gains resulted from differences between purchases at standard price and cost, standard price changes and the receipt of material returned without the issuance of a credit. The Civil Trust fund revenue is provided and accounted for by Department of the Treasury. Miscellaneous receipts which are unavailable for agency use and are returned to Treasury consist of license, fees, fines, penalties and general fund receipts. Non-operating income is realized from sales from the Civil Revolving Fund.

Note 16. Program or Operating Expenses:

Military

	(Thousands) 1992	1991
A. Operating Expenses by Object Classification:		
(1) Personal Services and Benefits	$36,836,129	$41,425,269
(2) Travel and Transportation	2,351,316	3,989,279
(3) Rental, Communication and Utilities	1,612,858	1,699,378
(4) Printing and Reproduction	48,067	59,362
(5) Contractual Services	17,699,587	24,843,293
(6) Supplies and Materials	13,760,987	8,785,282
(7) Equipment not Capitalized	730,958	236,370
(8) Grants, Subsidies and Contributions	28,396	18,408
(9) Insurance Claims and Indemnities	486	1,785
(10) Other	2,382,927	6,488,575
(11) Total Expenses by Object Class	$75,451,711	$87,547,001

B. Operating Expenses by Program	
(1) Revolving Fund	$325,596
(2) General Fund	75,125,806
(3) Trust Fund	309
Total	$75,451,711

Civil

	(Thousands) 1992	1991
A. Operating Expenses by Object Classification:		
(1) Personal Services and Benefits	$690,882	Not Available
(2) Travel and Transportation	40,173	
(3) Rental, Communication and Utilities	72,521	
(4) Printing and Reproduction	47,781	
(5) Contractual Services	3,209,527	
(6) Supplies and Materials	126,695	
(7) Equipment not Capitalized	105,506	
(8) Grants, Subsidies, Contributions	5,521	
(9) Total Expenses by Object Class	$4,298,606	

B. Operating Expenses by Program (General Funds Civil)	(Thousands)
(1) Flood Control - Mississippi River and Tributaries	$149,592
(2) General Investigations - Studies/collection of basic information pertaining to rivers/harbors, flood control, shore protection & related projects.	126,135
(3) Construction, General - Advance Engineering & Design in relation to Navigation, Beach erosion, flood control, rehabilitation & Dam Safety, aquatic plant control, etc.	155,900
(4) Operations and Maintenance - for expenses necessary	656,289

	(Thousands)
for the preservation & care of existing rivers and harbors, flood control & related work.	
(5) General Expenses - for expenses necessary for general administration & related functions in the Office of the Chief of Engineers & Division Engineers & other specified activities.	$142,516
(6) Flood Control & Coastal Emergencies - for expenses necessary for emergency flood control, hurricane & shore protection activities.	24,508
(7) Regulatory Program - for expenses necessary for administration of laws pertaining to the regulation of navigable waters including bridges and wetlands.	85,698
(8) Consolidated Working Fund.	12,564
(9) Acquisition & Construction of Radio Facilities for the International Communication Agency.	22,011
(10) Rivers & Harbors Contributed Funds, Improvements of Rivers/Harbors.	45,156
(11) Harbor Maintenance Trust Fund - Harbor operation and maintenance.	462,229
(12) Revolving Fund.	2,399,821
(13) Other	16,187
Total	$4,298,606

C. Other Information:

Civil Object class information was derived from estimates. No reports by object class are currently available from COEMIS. The estimates are based on object class estimates for obligations taken from the Budget.

Note 17. Other Expenses:

A. Other Expenses:

	(Thousands) 1992	1991
Losses on Disposition of Assets	$19,328	$735
Inventory Losses or Adjustments	1,026,693	2,154,658
Other Losses	178	(32,126)
Prior Period Adjustment		490,336
Total	$1,046,199	$2,613,603

Note 18. Extraordinary Items and Prior Period Adjustments:

A. Extraordinary Items:

B. Prior Period Adjustments:

	(Thousands)
Military	$158,051
Contract Authority (Civil)	(3,800)
Revolving Fund General Ledgers (Civil)	(36,748)
Other	(71)
Total	$117,432

C. Other Information:

Prior period adjustments for military were primarily required because of out-of-service debts not reported in FY 91. Contract authority was erroneously carried as an asset in the FY 91 financial statements. As a result, the Net Position ending balance for FY 91 was overstated by the amount above. The Civil district reporting office did not reflect the transfer of completed Construction In Progress to the serviced agency in their general ledgers for FY 91. As a result, the Net Position ending balance for FY 91 was overstated by $78 thousand. Civil Revolving Fund general ledgers were adjusted by $36,748,025 to balance the Statement of Operations.

Note 19. Non-Operating Changes:

	(Thousands) 1992
A. Stock Fund/Industrial Fund Transfer	($18,242,746)
B. Procurement Inventory	(25,207,141)
C. Other Military	(11,802,414)
D. Civil	609,020
E. Total	($54,643,281)

F. Other Information:

Transactions that directly affect Army's net position during the fiscal year that were not a part of revenues and financing sources, expenses, extraordinary items and prior period adjustments are included in this account. Examples of transactions include transfers-in/transfers-out from Treasury and other Federal entities, non-cash donations, corrections of errors and other non-operating increases and decreases. The transfer of Stock and Industrial funds to the Defense Business Operations Fund was a significant event which reduced Army's net position during FY 92. The correction of duplicate procurement inventory reported as Military Equipment and Other Assets during FY 91 was also a material transaction which affected Army's net position. Other military changes include corrections of data reported in the general ledger based on internal analyses performed and recommended audit adjustments processed. Inconsistencies in appropriations reported in FY 91 and FY 92 (i.e. Military Assistance Program) also affected this account. In several civil accounts, revenues and expenses as well as purchases of Property Plant and Equipment were adjusted to bring the general ledgers into balance.

Note 20. Other Disclosures:

A. Statement of Cash Flows (Direct Method)

The statement's military results were prepared using data from the departmental budget execution system, because the general ledger is not designed to provide the level of detail data required to produce the statement. Financing sources include appropriations and transfers. Funds received in the amount of $5.3 billion from the Defense Cooperation Account for Desert Storm were classified as a transfer in the statement. The assumptions below were required to prepare the statement for both military and civil results.

- **Operating Cash Provided**
  - Sales of Goods and services are equal to the amount of reimbursements collected for the fiscal year.
- **Operating Cash Used**
  - Amounts are distributed based on disbursements reported by object class.
  - Cost of Goods Sold is assumed to equal sales.
  - Object Class disbursements not defined on the statement are classified as Other Operating Cash Used.
- **Investing Activities**
  - Purchase of Property Plant and Equipment is based on disbursements which may or may not relate to capitalized assets ($15,000 criteria).
  - Sale and Purchase of Securities agree with the 1176 supporting schedule for the Army Gift Fund.

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