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

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Comptroller General
of the United States

B-206830

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

This report presents our unqualified opinion on the Federal Financing Bank's financial statements for the years ended September 30, 1985 and 1984, and our reports on the bank's system of internal accounting controls and on its compliance with laws and regulations. The opinion emphasizes the uncollectibility of a portion of the bank's loan and interest receivable amounts by the federal government and the existence of significant weaknesses in the bank's internal accounting control system.

The bank has reported $153.5 billion of loans receivable and $4.8 billion of interest receivable on its balance sheet. A portion of the loans receivable and accrued interest receivable are not fully collectible by the federal government. Because these amounts are guaranteed by federal agencies, collectibility by the bank is assured even when the borrowers default. However, when an agency must write off a loan, that agency obtains an appropriation to pay the bank, which subsequently must pay the Department of the Treasury for the corresponding amount borrowed. In these instances, the federal government is repaying the defaulted loans.

During fiscal year 1985, the bank's system of internal accounting controls had significant weaknesses, with the corresponding risk that errors or irregularities in amounts material to the financial statements could occur and not be detected within a reasonable time period. To compensate for control weaknesses, we used alternative audit procedures to test and verify the reasonableness of amounts reported in the fiscal year 1985 financial statements. Our report on internal accounting controls and appendix I provide details on our findings and our recommendations for improvement.

In commenting on a draft of this report, the Treasury Fiscal Assistant Secretary agreed with our general findings and the applicability of most of our recommendations. In a written response, the Assistant Secretary outlined a series

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of actions subsequently undertaken to correct the reported weaknesses. These comments were considered in preparing our final report and are included where appropriate.

The Federal Financing Bank, an instrumentality of the U.S. government within the Department of the Treasury, helps federal agencies to finance the marketable federal securities they issue or guarantee. The bank is subject to the budget and audit provisions of the Government Corporation Control Act that are applicable to the wholly owned government Corporations named in 31 U.S.C. 9101(3). We conducted our examinations pursuant to the provisions of 31 U.S.C. 9105 and in accordance with generally accepted government auditing standards.

We are sending copies of the report to the Director of the Office of Management and Budget, the Secretary of the Treasury, and the President of the Federal Financing Bank.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

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# Contents


| | | Page |
|---|---|---|
| LETTER | | 1 |
| OPINION LETTER | | 4 |
| REPORT ON INTERNAL ACCOUNTING CONTROLS | | 6 |
| Conclusions | | 8 |
| Recommendations | | 8 |
| Agency Comments and Our Evaluation | | 9 |
| REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS | | 11 |
| FINANCIAL STATEMENTS | | |
| Statement of Financial Position | | 12 |
| Statement of Income and Changes in Retained Earnings | | 13 |
| Statement of Changes in Financial Position | | 14 |
| Notes to the Financial Statements | | 15 |
| Supporting Receivable and Payable Tables | | 18 |
| APPENDIXES | | |
| I | DETERIORATION OF THE BANK'S INTERNAL ACCOUNTING CONTROLS | 22 |
| II | COMMENTS FROM THE DEPARTMENT OF THE TREASURY | 29 |
| TABLES | | |
| I.1 | Fiscal Year 1985 Month-End Balances | 25 |
| I.2 | Sample Mathematical Error in General Ledger Cash Account | 26 |

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Comptroller General
of the United States

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Board of Directors
Federal Financing Bank

We have examined the accompanying statements of financial position of the Federal Financing Bank as of September 30, 1985 and 1984, and the related statements of income and changes in retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Federal Financing Bank's system of internal accounting controls had significant weaknesses. Internal accounting controls are necessary to provide management with reasonable assurance that assets are adequately safeguarded, that transactions are properly recorded, and that financial reporting is reliable. Our preliminary review of internal accounting controls and substantive audit tests disclosed significant weaknesses in the bank's control environment, resulting in a risk that errors or irregularities in amounts material to the financial statements may occur and may not be detected within a reasonable time period. Subsequent to our audit, the bank has taken actions to correct the significant weaknesses in internal accounting controls. A detailed discussion of the bank's internal accounting control weaknesses is contained in our accompanying report on internal accounting controls. To compensate for the weakness in internal accounting controls, we used alternative audit procedures to test and verify the reasonableness of the amounts reported in the financial statements.

Since the bank does not have detailed records of the specific loans made by the agencies to borrowers and the related loan documentation, we reviewed the loan agreements between the bank and the agencies which summarized monthly or quarterly funding requirements and established the

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interest rates and terms the agencies used in making loans. The receivables reported by the bank represent the amounts due to the bank from the agencies.

The bank has reported $153.5 billion of loans receivable and $4.8 billion of interest receivable on its balance sheet. A portion of the loans receivable and accrued interest receivable reported by the bank are not fully collectible by the federal government. As discussed in note 1 to the financial statements, an allowance for loan losses has not been established because loan principal and interest are, with few exceptions, guaranteed by federal agencies. When an agency writes off a loan, the agency obtains an appropriation to pay the bank, which subsequently pays the Department of the Treasury.

In our opinion, the financial statements referred to above present fairly the financial position of the Federal Financing Bank as of September 30, 1985 and 1984, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

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## REPORT ON INTERNAL ACCOUNTING CONTROLS

We have examined the financial statements of the Federal Financing Bank for the years ended September 30, 1985 and 1984, and have issued our opinion thereon. As part of our examination, we made a preliminary study and evaluation of the system of internal accounting controls as required by generally accepted government auditing standards. This report pertains only to our study and evaluation of the system of internal accounting controls for the year ended September 30, 1985. Our report on the system of internal accounting controls for the year ended September 30, 1984, is presented in GAO/AFMD-85-50, June 11, 1985.

The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the bank's financial statements. For purposes of this report, we have classified the significant internal accounting controls into the following categories:

-- borrowing cycle,

-- expenditure cycle,

-- financial reporting cycle, and

-- lending cycle.

Because of internal accounting control weaknesses, our study and evaluation was limited to a preliminary review of all of the control categories listed above. We did not test and evaluate the controls; instead, we expanded our substantive audit tests to determine the reasonableness of reported account balances.

During fiscal year 1985, the bank's internal accounting control environment had significant weaknesses. Our preliminary review and substantive audit tests disclosed that the weaknesses in the bank's control environment resulted in a relatively high risk that errors or irregularities in amounts material to the bank's financial statements may occur and may not be detected within a reasonable time period. We found some of the bank's accounting records were incomplete and erroneous. As a result, management did not have reasonable assurance that assets were adequately safeguarded, transactions were properly recorded, and financial reporting was reliable.

The bank did not have formal, up-to-date accounting policies and procedures manuals to provide a basis for recording and reporting the various accounting transactions. The importance of current and complete manuals was first brought to management's attention during our fiscal year 1979 audit. During fiscal year 1985, the lack of accounting policies and procedures manuals became a critical problem when the accounting manager left the bank.

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Without manuals to describe accounting transactions and tasks, the remaining staff did not have the knowledge or guidance necessary to maintain the accounting records and correctly account for the bank's business activity. More specific examples of the impact of the resulting breakdown of internal accounting controls follow.

-- Neither the general ledger nor supporting subsidiary ledgers were regularly or accurately maintained during fiscal year 1985 and could not be used to prepare the annual financial statements. Accounting staff made numerous recording errors and approximately 20 percent of the entries to the general ledger during 1985 were made to correct previous entries. Also, subsidiary ledger balances did not match general ledger balances because subsidiary records were not promptly updated. Interest receivable accrual amounts produced from these incomplete subsidiary ledgers contained numerous errors and required audit adjustments to 12 of the 29 active accounts.

-- The bank's general ledger cash account was behind schedule in its periodic reconciliation with supporting documentation or with Treasury reports. When the reconciliation as of September 30, 1985, between the general ledger and Treasury report was performed in March 1986, the bank's records showed $801 million less than Treasury's balance of $802 million. The bank corrected the difference in May 1986 to show the actual cash balance, which was about $1 million.

-- Certain types of the accounting transactions were processed incorrectly during 1985. Each of the interest receivable, interest payable, and administrative expense accrual accounts was handled incorrectly and inconsistently. Therefore, the account balances did not provide correct information on the actual amounts receivable or the amounts payable. Transactions were often grouped in batches and only the net amounts recorded. Errors were difficult to detect and correct because the bank's journal-entry documents did not provide a clear audit trail to support the general ledger entries.

-- Treasury reports of bank borrowing and repayment activity were inaccurate during 1985 due to errors made by both the bank and Treasury. The external Treasury reports--the "Monthly Treasury Statement" and the "Treasury Bulletin"--understated bank borrowings by $438 million. Bank personnel did not discover the error because internal and external reports were not reviewed and reconciled in fiscal year 1985. The bank did not correct its externally reported borrowings until after May 1986.

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To compensate for the weakness in the internal accounting controls, we used alternative audit procedures to verify financial statement amounts. Therefore, the weaknesses reported above, while material, did not affect our opinion on the Bank's financial statements for the year ended September 30, 1985.

A detailed discussion of our findings is presented in appendix I.

## CONCLUSIONS

The bank fails to fully comply with internal control standards and to routinely perform certain accounting practices. The lack of accounting manuals and the inconsistent recording of transactions has prevented the bank's general ledger from providing accurate and complete data which can be relied upon for management decisions. Each year, the bank's general ledger has required extensive adjustments to produce financial statements. Throughout the year, the general ledger does not provide reliable information on the status of the bank or any individual account. As a result, the general ledger does not provide bank management with reliable financial data as a basis for its decisions.

## RECOMMENDATIONS

We recommend that the Secretary of the Treasury direct the bank's president (the Treasury Under Secretary for Finance) to

-- develop formal accounting policies and procedures manuals, including examples of typical accounting entries for loan transactions;

-- maintain the general ledger and subsidiary ledgers on a routine basis and perform periodic reconciliations of the ledgers;

-- perform periodic reconciliations of cash between the bank's general ledger and the reports from Treasury;

-- review and reconcile external reports, particularly Treasury reports on the loan accounts; and

-- record transactions properly and consistently. Specifically, the bank should

1. establish procedures to account for accruals which would provide for fair statement of account balances throughout the year. For example, one generally accepted approach is to reverse year-end accrual entries on the first day of the next fiscal year, and

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2. require that all accounting transactions be supported by clear and complete documentation or eliminate the batching of transactions that result in the recording of "net" transactions in the accounting records.

AGENCY COMMENTS AND OUR EVALUATION

In a July 30, 1987, letter commenting on a draft of this report (see appendix II), the Treasury Fiscal Assistant Secretary, who is also the Federal Financing Bank Vice President and Treasurer, agreed with our findings that the bank's system of internal accounting controls had significant weaknesses during fiscal year 1985. The Assistant Secretary acknowledged the applicability of our recommendations and outlined a series of actions undertaken to correct the reported weaknesses. The Assistant Secretary indicated that a new Loan Management and Control System is currently being developed which will include a standard general ledger component. The new automated system is expected to provide the complete documentation--including a users' manual, an accounting procedures manual, and pro forma accounting entries--necessary for the recommended daily operations manual. The Loan Management and Control system will replace the current subsidiary ledgers and provide for overnight updating of the integrated general ledger, thereby ensuring the recommended routine maintenance and reconciliation of the ledgers. This automated system is also expected to provide the recommended clear and complete audit trail for all accounting transactions. Until the new system is fully operational, the Assistant Secretary stated that all manual procedures for providing backup documentation for general ledger entries have been strengthened and sufficient staff resources have been assigned to perform monthly reconciliations of the general ledger cash account and the Treasury report of the bank's undisbursed appropriations account (TFS 6653). We agree that, when fully implemented, these procedures and the new system will address most of the major concerns raised in our report on internal accounting controls.

The Assistant Secretary stated that the reversal of accrual entries was handled correctly in fiscal year 1985. We disagree with this position since beginning accrual account balances were not reversed until the last day of the fiscal year, immediately prior to entering the new accrual amount for September 30, 1985. If the bank elects to use reversing entries, accounting personnel must understand the rationale for such entries and the necessity for making those entries immediately upon opening the books for the new fiscal year.

The Assistant Secretary also stated that federal agencies are not required to reconcile external Treasury reports. Although the bank may not be required to review and reconcile external Treasury reports, in particular the "Monthly Treasury Statement" and the "Treasury Bulletin," we believe that bank personnel should perform

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this function. The Congress, other agencies, and the public rely on these publications for information on bank loan activity, and only bank personnel are in a position to detect and correct reporting errors. Such review would require minimal staff time and result in better, more accurate public reporting.

## REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

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We have examined the financial statements of the Federal Financing Bank for the years ended September 30, 1985 and 1984 and have issued our opinion thereon. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances.

Our review of the enabling legislation of the Federal Financing Bank and that of the various agency borrowers/guarantors focused on the Federal Financing Bank's borrowing and lending authority and the authority of the agencies to borrow/guarantee such loans. This report pertains only to our review of compliance with laws and regulations for the year ended September 30, 1985. Our report on compliance with laws and regulations for the year ended September 30, 1984, is presented in GAO/AFMD-85-50, June 11, 1985.

In our opinion, the Federal Financing Bank complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected the bank's financial statements. Nothing came to our attention in connection with our examination that caused us to believe that the bank was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

FINANCIAL STATEMENTS

## Statement of Financial Position

AS OF SEPTEMBER 30, 1985 AND 1984 (Note 1)

| | 1985 | 1984 |
|---|---|---|
| | (In thousands) | |
| **ASSETS** | | |
| Funds with U.S. Treasury | $ 999 | $ 1,000 |
| Loans receivable (Note 2) | 153,515,355 | 144,836,162 |
| Accrued interest receivable (Note 3) | 4,491,632 | 4,837,118 |
| Capitalized interest receivable (Note 4) | 369,573 | 405,795 |
| | $ 158,377,559 | $ 150,080,075 |
| **LIABILITIES AND CAPITAL** | | |
| **LIABILITIES** | | |
| Borrowings from the U.S. Treasury (Note 5) | $ 153,515,355 | $ 144,836,162 |
| Accrued interest payable to the U.S. Treasury | 4,440,953 | 4,781,516 |
| Capitalized interest payable to the U.S. Treasury | 359,981 | 394,393 |
| Other liabilities | 311 | 195 |
| Total liabilities | 158,316,600 | 150,012,266 |
| **CAPITAL** | | |
| Retained earnings (Note 6) | 60,959 | 67,809 |
| Total liabilities and capital | $ 158,377,559 | $ 150,080,075 |

The accompanying notes are an integral part of these financial statements.

## Statement of Income and Changes in Retained Earnings

FOR THE YEARS ENDED SEPTEMBER 30, 1985 AND 1984

| | 1985 | 1984 |
|---|---|---|
| | (In thousands) | |
| REVENUE: | | |
| Interest on loans | $ 17,214,711 | $ 15,990,282 |
| EXPENSES: | | |
| Interest on borrowings | 17,015,905 | 15,811,553 |
| Administrative expenses | 2,099 | 1,265 |
| Total expenses | 17,018,004 | 15,812,818 |
| NET INCOME | $ 196,707 | $ 177,464 |

| | | |
|---|---|---|
| Beginning retained earnings | $ 67,809 | $ 60,757 |
| Net income | 196,707 | 177,464 |
| Less transfers to the U.S. Treasury (Note 6) | 203,557 | 170,412 |
| Ending retained earnings | $ 60,959 | $ 67,809 |

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Financial Position

FOR THE YEARS ENDED SEPTEMBER 30, 1985 AND 1984

| | 1985 | 1984 |
|---|---|---|
| | (In thousands) | |
| **Cash provided** | | |
| Net income | $ 196,707 | $ 177,464 |
| Add (deduct) items not requiring cash: | | |
| (Increase)/decrease in accrued interest receivable | 345,486 | (917,071) |
| (Increase)/decrease in capitalized interest receivable | 36,222 | 233,410 |
| Increase/(decrease) in accrued interest payable | (340.563) | 907.426 |
| Increase/(decrease) in capitalized interest payable | (34,412) | (230,818) |
| (Increase)/decrease in other liabilities | 116 | 23 |
| Cash provided from operations | 203,556 | 170,434 |
| Increase in borrowings from the U.S. Treasury | 8,679,193 | 8,754,412 |
| Total cash provided | 8,882,749 | 8,924,846 |
| **Cash applied** | | |
| Increase in loans receivable | 8,679,193 | 8,754,412 |
| Transfers to the U.S. Treasury | 203,557 | 170,412 |
| Total cash applied | 8,882,750 | 8,924,824 |
| Increase/(decrease) in cash | $ (1) | $ 22 |

The accompanying notes are an integral part of these financial statements.

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AS OF SEPTEMBER 30, 1985 AND 1984

Note 1. Summary of Significant Accounting Policies

The Federal Financing Bank, which was created by the Federal Financing Bank Act of 1973 (12 USC 2281) as an instrumentality of the U. S. government within the Department of Treasury, helps federal agencies to finance the marketable federal securities they issue or guarantee. To finance the Bank's purchase of agency debt, loan assets and guaranteed securities, the Federal Financing Bank borrows the required funds from Treasury, paying the same interest rates Treasury would pay if it borrowed the funds in the market. Thus, lower interest rates result because Treasury borrows the funds to finance the debt securities, saving administrative and underwriting costs for the participating agencies.

Basis of accounting

The financial statements are prepared on the accrual basis.

Allowance for loan losses

The Bank has not established an allowance for loan losses because loan principal and interest are guaranteed by federal agencies and are backed by the full faith and credit of the U. S. government; exceptions are: direct loans to the Tennessee Valley Authority (TVA) that are not guaranteed by the United States and are payable from TVA's net power proceeds, and the loan to Oregon Veterans Housing which the Bank made as a result of Congressional action.

Related parties

The Bank is subject to the general supervision and direction of the Secretary of the Treasury. As provided by law, the Secretary of the Treasury, or his designee, acts as Chairman of the Board of Directors. The Bank's accounting operations are conducted by Treasury's Financial Management Service (FMS). The Bank reimburses Treasury for the facilities and services of FMS, the Office of the Secretary, and the General Counsel. The Bank borrows funds from the Treasury to finance the loans it makes.

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Pension plan

Substantially all of the Bank's employees are covered by the Civil Service Retirement System, which is currently two-tiered. For employees hired prior to January 1, 1984, the Bank withholds approximately 7 percent of their gross earnings. Their contribution is then matched by the Bank and the sum is transferred to the Civil Service Retirement Fund, from which this employee group will receive retirement benefits. For employees hired on or after January 1, 1984, the Bank withholds, in addition to social security withholdings, approximately 1.3 percent of their gross earnings, but matches such withholdings with a 7 percent contribution, as above. This second group will receive retirement benefits from the Civil Service Retirement System along with the Social Security System, to which they currently contribute.

Although the Bank funds a portion of pension benefits under the Civil Service Retirement System relating to its employees and makes the necessary payroll withholdings from them, the Bank does not account for the assets of the Civil Service Retirement System nor does it have actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. These amounts are reported by the Office of Personnel Management for the Retirement System and are not allocated to the individual employers.

Reclassification

Capitalized interest and items in the statement of changes in financial position have been reclassified in the 1984 financial statements in order to conform to the presentation used in 1985.

Note 2. Loans Receivable

Loans receivable include agency loans purchased, loans to nonfederal entities, and direct loans to agencies. Agency loans purchased are either notes or pools of loans sold by federal agencies in the form of certificates representing share of ownership in the loan pool. The selling agencies guarantee the principal and interest repayments on the notes or certificates. Loans to nonfederal entities are loans made to nonfederal borrowers whose obligation to repay the principal and interest is guaranteed by a federal agency. Direct loans to agencies are debt securities issued to the Bank by agencies that are authorized by Congress to borrow to finance their activities.

Loans receivable as of September 30, 1985 and 1984 include the following:

| | 1985 [000's] | 1984 [000's] |
|---|---|---|
| Agency loans purchased net of discount/premium | $68,164,447 | $63,346,864 |
| Loans to nonfed entities | 53,574,899 | 50,957,234 |
| Direct loans to agencies | 31,776,009 | 30,532,064 |
| | $153,515,355 | $144,836,162 |

As of September 30, 1985 and 1984, there were unadvanced loan commitments of $29 and $31 billion respectively.

Note 3. Accrued Interest Receivable

The Bank charges its borrowers an interest rate that is equivalent to one-eighth of a percentage point more than the rate it pays the Treasury. The resulting income is used to cover administrative costs. See note 6 for transfers to Treasury.

Note 4. Capitalized Interest Receivable

Capitalized interest is interest that has been earned by the Bank but not received when the loan matures and is replaced by a new loan. The individual notes specify the borrowing agency's option with regard to capitalizing interest.

Note 5. Borrowing from the U.S. Treasury

To finance its loans, the Bank borrows from the Treasury. Under the Federal Financing Bank Act of 1973, the Bank may, with the approval of the Secretary of the Treasury, borrow without limit from the U. S. Treasury.

Note 6. Retained Earnings Transferred to the U.S. Treasury

In August 1981, the Board of Directors authorized the Bank's Treasurer to pay to the General Fund of the Treasury, as soon as practicable after each calendar quarter, any cash in excess of the amount required to cover administrative expenses. The amount of the excess is determined by the Bank's president or two other officers. Generally, any cash in excess of $1 million is transferred. Transfers were made to Treasury totaling $204 million during fiscal year 1985 and $170 million during fiscal year 1984.

Federal Financing Bank
Loans and Interest Receivable
Borrowings and Interest Payable to Treasury 1/
September 30, 1985
(in thousands)

| Agency or Program | Principal Amount Outstanding 1/ | Maturity Range | Interest Rate Range 2/ | Accrued Interest Receivable | Capital'd Interest Receivable | Accrued Interest Payable | Capital'd Interest Payable |
|---|---|---|---|---|---|---|---|
| **Agency Loans Purchased** | | | | | | | |
| Overseas Private Invest Corp | $ 6,136 | 1-2 years | 7.143-08.375 | $ 198 | | $ 205 | |
| Farmers Home Admin, US Dept of Agriculture (USDA/CBO) 3/ | 64,169,000 | 1-20 years | 7.420-16.516 | 3,036,430 | | 3,003,617 | |
| Rural Electrification Admin. USDA/CBO) 3/ | 3,724,307 | 21-30 years | 8.100-15.325 | 0 | | 0 | |
| Medical Facilities, Dept of Health and Human Services (HHS) | 122,822 | 16-30 years | 7.776-08.625 | 2,605 | | 2,557 | |
| Health Maintenance, HHS | 109,252 | 14-21 years | 7.681-15.334 | 2,820 | | 2,793 | |
| Small Business Admin (SBA) 4/ | 32,929 | 15 years | 7.746 | (162)4/ | | 166 | |
| Subtotal | $ 68,164,446 | | | $3,041,891 | | $3,009,338 | |
| **Loans to Nonfederal Entities** | | | | | | | |
| Defense Security Assistance Agency | $ 18,098,547 | 2-30 years | 6.043-16.608 | $ 437,624 | | $ 431,608 | |
| Gila River, Dept of Navy | 5,821 | 7 years | 9.648-13.301 | 157 | | 155 | |
| Ship Leasing, Dept of Navy | 1,313,066 | 0-3 months | 7.215-07.605 | 16,580 | | 16,306 | |
| Rural Elec Admin, USDA | 21,675,456 | 0-35 years | 6.099-15.861 | 1,776 | | 1,717 | |
| Student Loan Marketing Assoc. Dept of Education | 5,000,000 | 10-11 years | 7.066-10.773 | 45,197 | | 44,478 | |
| Great Plains Gasification Assoc, Dept of Energy (DOE) | 0 | N/A | N/A | 0 | | 0 | |
| Geothermal Energy Proj, DOE | 0 | N/A | N/A | 0 | | 0 | |
| Low Rent Public Housing, Dept of Housing and Urban Development (HUD) | 2,148,253 | 15-20 years | 10.673-16.183 | 258,757 | | 256,264 | |
| Block Grants 108, HUD | 289,373 | 3-20 years | 8.248-16.759 | 13,361 | | 13,213 | |
| New Community Devel Corp, HUD | 33,500 | 10 years | 8.000-08.750 | 447 | | 447 | |
| Guam Power Authority, Dept of Interior (DOI) | 35,125 | 19 years | 11.731 | 158 | | 155 | |
| Virgin Islands, DOI | 28,209 | 22-23 years | 7.850-12.701 | 654 | | 645 | |
| Railways 511, Dept of Transportation (DOT) | 153,615 | 1-22 years | 8.074-16.135 | 5,652 | | 5,582 | |
| Washington Metro Area Transit Authority, DOT | 177,000 | 29 years | 8.350 | 3,685 | | 3,714 | |
| General Services Admin | 408,363 | 15-19 years | 8.200-09.125 | 13,080 | $103,775 | 12,521 | $ 98,288 |
| Spacecom, National Aeronautics and Space Admin | 887,583 | 7 years | 10.843-12.740 | 116,951 | 261,341 | 115,219 | 257,306 |

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Federal Financing Bank
Loans and Interest Receivable
Borrowings and Interest Payable to Treasury 1/
September 30, 1985
(in thousands)

| Agency or Program | Principal Amount Outstanding 1/ | Maturity Range | Interest Rate Range 2/ | Accrued Interest Receivable | Capital'd Interest Receivable | Accrued Interest Payable | Capital'd Interest Payable |
|---|---|---|---|---|---|---|---|
| Small Business Investment Corporation, SBA | 1,023,911 | 0-10 years | 7.005-15.745 | $ 30,215 | | $ 29,880 | |
| State/Local Devel--503, SBA | 595,685 | 0-26 years | 10.034-15.736 | 20,741 | | 20,529 | |
| Seven States Energy Corp, TVA | 1,651,392 | 1-3 months | 7.215-07.605 | 9,699 | | 9,539 | |
| State of Oregon, Vets Housing | 60,000 | due | 7.300 | 0 | | 0 | |
| Subtotal | $ 53,574,899 | | | $ 974,734 | $365,116 | $ 961,972 | $355,594 |
| **Direct Loans to Agencies** | | | | | | | |
| Export-Import Bank of the U.S. | $ 15,409,046 | 1-10 years | 7.157-15.701 | $ 132,715 | | $ 131,366 | |
| TVA | 14,381,000 | 0-30 years | 7.705-14.905 | 321,359 | | 317,674 | |
| National Credit Union Admin. Central Liquidity Facility | 222,169 | 0-3 months | 7.285-07.645 | 1,565 | | 1,539 | |
| US Railway Assoc, DOT | 73,794 | 0-20 years | 7.185-08.615 | | $ 4,457 | | $ 4,387 |
| US Postal Service | 1,690,000 | 15-16 years | 7.800-10.475 | 19,370 | | 19,066 | |
| Subtotal | $ 31,776,009 | | | $ 475,009 | $ 4,457 | $ 469,645 | $ 4,387 |
| TOTAL | $153,515,354 | | | $4,491,634 | $369,573 | $4,440,955 | $359,981 |

1/ Loans Receivable from each agency or program equal the borrowings from the U.S. Treasury which financed the loans to the agency or program. See note 1 to the financial statements.

2/ Rates are determined by various factors including the maturity of the obligation, the interest and principal repayment schedule, purchase price, prepayment privileges, and the service charge. See note 3 to the financial statements.

3/ Certificates of Beneficial Ownership (CBOs) are registered securities which provide the owner an undivided interest in a pool of agency loans receivable.

4/ Some repayments made by the Small Business Administration, as guarantor, cannot be classified between principal and interest. Because of the immaterial amount, the Bank reduces accrued interest receivable by the entire amount.

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Federal Financing Bank
Loans and Interest Receivable
Borrowings and Interest Payable to Treasury 1/
September 30, 1984
(in thousands)

| Agency or Program | Principal Amount Outstanding 1/ | Maturity Range | Interest Rate Range 2/ | Accrued Interest Receivable | Capital'd Interest Receiv 5/ | Accrued Interest Payable | Capital'd Interest Payable 5/ |
|---|---|---|---|---|---|---|---|
| **Agency Loans Purchased** | | | | | | | |
| Overseas Private Invest Corp | $ 10,979 | 9-13 years | 5.750-08.375 | $ 303 | | $ 289 | |
| Farmers Home Admin, US Dept of Agriculture (USDA/CBO) 3/ | 59,511,000 | 5-20 years | 7.440-16.516 | 2,862,179 | | 2,831,376 | |
| Rural Electrification Admin, USDA/CBO 3/ | 3,536,707 | 29-30 years | 8.100-15.325 | 0 | | 0 | |
| Medical Facilities, Dept of Health and Human Services (HHS) | 131,959 | 23-25 years | 7.778-10.583 | 2,713 | | 2,662 | |
| Health Maintenance, HHS | 116,127 | 19-22 years | 7.681-13.995 | 3,013 | | 3,062 | |
| Small Business Admin (SBA) 4/ | 40,092 | 18 years | 7.746 | (361)4/ | | 0 | |
| Subtotal | $ 63,346,864 | | | $2,867,847 | | $2,837,389 | |
| **Loans to Nonfederal Entities** | | | | | | | |
| Defense Security Assistance Agency | $ 17,110,941 | 0-30 years | 7.146-16.608 | $ 403,984 | | $ 399,486 | |
| Gila River, Dept of Navy | 3,089 | 8-10 years | 9.959-13.301 | 82 | | 82 | |
| Rural Elec Admin, USDA | 20,587,094 | 2-35 years | 7.381-16.245 | 520,358 | | 514,401 | |
| Student Loan Marketing Assoc, Dept of Education | 5,000,000 | 11-15 years | 8.861-11.200 | 65,926 | | 65,161 | |
| Great Plains Gasification Assoc, Dept of Energy (DOE) | 1,290,000 | 0-21 years | 10.785-14.345 | 37,716 | | 34,967 | |
| Geothermal Energy Proj, DOE | 6,234 | 0-1 years | 10.940-11.213 | 118 | | 115 | |
| Low Rent Public Housing, Dept of Housing and Urban Development (HUD) | 2,178,477 | 29-36 years | 10.673-16.183 | 263,013 | $ 743 | 260,364 | $ 707 |
| Block Grants 108, HUD | 208,284 | 0-21 years | 9.878-16.894 | 7,599 | | 7,512 | |
| New Community Devel Corp, HUD | 33,500 | 18-20 years | 8.000-08.750 | 444 | | 444 | |
| Guam Power Authority, Dept of Interior (DOI) | 36,000 | 9 years | 14.255 | 1,265 | | 1,254 | |
| Virgin Islands, DOI | 28,677 | 28-30 years | 7.850-12.701 | 657 | | 649 | |
| Railways 511, Dept of Transportation (DOT) | 159,609 | 4-26 years | 8.074-16.135 | 6,078 | | 6,004 | |
| Washington Metro Area Transit Authority, DOT | 177,000 | 29 years | 8.350 | 3,685 | | 3,714 | |
| General Services Admin | 413,317 | 21-27 years | 8.200-09.162 | 13,349 | 109,342 | 12,988 | 103,259 |
| Spacecom, National Aeronautics and Space Administration | 954,604 | 8-9 years | 10.843-14.289 | 124,932 | 273,318 | 122,942 | 268,335 |
| Small Business Investment Corporation, SBA | 860,284 | 3-10 years | 7.000-15.745 | 24,848 | | 24,570 | |

Federal Financing Bank
Loans and Interest Receivable
Borrowings and Interest Payable to Treasury 1/
September 30, 1984
(in thousands)

| Agency or Program | Principal Amount Outstanding 1/ | Maturity Range | Interest Rate Range 2/ | Accrued Interest Receivable | Capital'd Interest Receiv 5/ | Accrued Interest Payable | Capital'd Interest Payable 5/ |
|---|---|---|---|---|---|---|---|
| State/Local Devel--503, SBA | $ 354,586 | 15-25 years | 10.351-15.736 | $ 11,848 | | $ 11,728 | |
| Seven States Energy Corp, TVA | 1,555,538 | 3 months | 11.245 | 14,554 | | 14,388 | |
| Subtotal | $ 50,957,234 | | | $1,500,456 | $383,403 | $1,480,789 | $372,301 |
| **Direct Loans to Agencies** | | | | | | | |
| Export-Import Bank of the U.S. | $ 15,689,848 | 9-12 years | 7.157-15.701 | $ 130,089 | | $ 128,760 | |
| TVA | 13,435,000 | 0-30 years | 7.625-14.905 | 303,633 | | 300,147 | |
| National Credit Union Admin, Central Liquidity Facility | 268,895 | 1-3 months | 10.365-11.325 | 3,718 | | 3,674 | |
| US Railway Assoc, DOT | 51,321 | 3 months | 10.435 | 1,897 | $ 22,392 | 1,867 | $ 22,092 |
| US Postal Service | 1,087,000 | 10-25 years | 7.800-08.200 | 29,478 | | 28,890 | |
| Subtotal | $ 30,532,064 | | | $ 468,815 | $ 22,392 | $ 463,338 | $ 22,092 |
| TOTAL | $144,836,162 | | | $4,637,118 | $405,795 | $4,781,516 | $394,393 |

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1/ Loans Receivable from each agency or program equal the borrowings from the U.S. Treasury which financed the loans to the agency or program. See note 1 to the financial statements.

2/ Rates are determined by various factors including the maturity of the obligation, the interest and principal repayment schedule, purchase price, prepayment privileges, and the service charge. See note 3 to the financial statements.

3/ Certificates of Beneficial Ownership (CBOs) are registered securities which provide the owner an undivided interest in a pool of agency loans receivable.

4/ Some repayments made by the Small Business Administration, as guarantor, cannot be classified between principal and interest. Because of the immaterial amount, the Bank reduces accrued interest receivable by the entire amount.

5/ Capitalized interest receivable and payable was included in Accrued interest receivable and payable in the fiscal year 1984 financial statements: capitalized interest has been separated for purposes of consistency with the fiscal year 1985 presentation.

## DETERIORATION OF THE BANK'S INTERNAL ACCOUNTING CONTROLS

### INTERNAL ACCOUNTING CONTROL WEAKNESSES

Our preliminary review of the Federal Financing Bank's internal accounting controls and our substantive audit tests disclosed significant weaknesses in the bank's control environment, resulting in a risk that errors or irregularities in amounts material to the financial statements may occur and not be detected within a reasonable time period. Internal accounting controls provide management with reasonable assurance that assets are safeguarded, that transactions are properly recorded, and that financial reporting is reliable. Details of the bank's internal accounting control weaknesses are presented below.

#### Lack of Accounting Policies and Procedures Manuals

The bank's general ledger system could not be relied upon to safeguard resources and provide reliable financial data to management. The bank did not have accounting policies and procedures manuals to provide a basis for recording and reporting its accounting transactions. This lack of documented policies and procedures was first noted in our 1979 audit and reported in a management letter dated February 28, 1980. The lack of formal manuals became a critical problem in early 1985 when the accounting manager, who provided the institutional knowledge for the proper treatment of accounting transactions, left the bank. This manager had developed the general ledger and was responsible for its maintenance and the production of required financial reports. He had also assisted in automating some of the subsidiary ledgers and was one of the few staff members familiar enough with the automated systems to maintain them. The remaining staff had neither the necessary knowledge nor the manuals to provide needed guidance on recording and reporting general ledger transactions.

#### General Ledger Not Maintained

Standard accounting practices include routine updates and maintenance of an entity's general ledger. Throughout fiscal year 1985, the bank's general ledger was not regularly updated or accurately maintained. As a result, the bank could not use the general ledger account balances to prepare its annual financial statements. The accounting staff had to reconstruct financial statement accounts using miscellaneous subsidiary accounting records such as the daily cash receipts and cash disbursement worksheets. The general ledger accounts were then adjusted to agree with the reconstructed amounts shown in the financial statements. Even after numerous adjustments had been recorded and the general ledger was closed for the year, the accounting staff found that many accounts were still in error. Adjusting entries of about $855 million were recorded to correct these general ledger account balances. The corrections were required because of the following types of problems:

-- The proper amounts due from borrowers had not been recorded in the correct interest receivable accounts. Interest due from borrowers that should have been capitalized was incorrectly recorded as accrued interest receivable. Therefore, accrued interest receivable needed to be decreased, and capitalized interest receivable increased by $366 million.

-- Correcting entries were erroneously recorded in an account for funds transferred to Treasury instead of the bank's retained earnings account. Transfers to Treasury were overstated by $22.8 million, while retained earnings were understated by that amount.

-- An interest receivable amount of $4.5 million was recorded twice, once correctly as capitalized interest and once incorrectly as accrued interest receivable.

-- Subsidiary and general ledger accounts were out of balance, which resulted in an overstatement of the interest income and interest expense accounts by approximately $350 million.

Approximately 20 percent of the entries recorded in the general ledger during fiscal year 1985 were entries made by accounting staff to correct the errors.

Subsidiary Ledgers Not Maintained

Routine updates and maintenance of subsidiary ledgers are necessary to provide prompt, accurate financial data to managers for decision-making purposes. However, bank accounting personnel did not regularly update the loan subsidiary ledgers--both manual and automated--for new disbursements and repayments. Many ledgers had no entries or notes to indicate whether any such activity had taken place. Treasury's 1981 internal audit and our fiscal year 1984 audit cited these problems with the subsidiary ledgers. When informed of our finding, the bank's top management agreed to take necessary actions. However, we reviewed 22 of the bank's subsidiary ledgers (or repayment schedules) which were material to the financial statement and found that 8 lacked proper updating entries for fiscal year 1985 activity. Subsidiary ledger balances did not match general ledger balances or borrower repayment schedules.

The subsidiary ledgers or payback schedules, some of which were not updated, were used to produce the interest receivable accrual amounts for the financial statements. These accrual sheets (listings of all principal balances outstanding, interest rates, accrual periods, and accrued amounts) contained numerous errors. Audit adjustments were required to 12 of the 27 interest receivable account balances outstanding as of September 30, 1985, including:

-- Farmers Home Administration: The bank could not reconcile the loan principal and interest. We found that the bank had not included three loans with a total principal amount of $315 million in the accrual because the disbursements had not been entered in the computer subsidiary ledger before the accrual program was run. In addition, two other loans had incorrect interest due dates. Farmers Home Administration's accrual required an adjustment of $10.9 million.

-- Tennessee Valley Authority: The bank did not update its computerized subsidiary ledger to include four loans with a total principal amount of $310 million before running its accrual program. Another loan's interest was accrued using the wrong interest rate. Tennessee Valley Authority's accrual required an adjustment of $6 million.

-- Ship Leasing: The bank only accrued interest on 9 out of the 17 loans which were outstanding at year-end. In addition, all accruals were performed using incorrect interest rates. The accrued interest account for ship leasing required an adjustment of $3.5 million.

-- Community Development Block Grants: We found 10 loans in the subsidiary ledger not included in the interest accrual and 78 loans not in the subsidiary ledger. The adjustment for interest was $3.6 million.

The net adjustment required to the balance sheet accrued interest receivable account for all 12 accounts requiring some correction was an increase of $13.2 million.

Cash Not Reconciled

Periodic reconciliation of cash accounts with internal and external records is necessary to ensure all transactions are properly and correctly recorded and reported. The lack of cash

Typical!

reconciliations had been reported to management as a result of the fiscal year 1984 audit. However, during fiscal year 1985, the bank was behind schedule in reconciling the general ledger cash account with both Treasury reports and its own supporting documentation.

Bank accountants prepare cash receipts worksheets which indicate all borrower interest and principal repayments, administrative expenses, principal and interest repayments to Treasury, and transfers of excess funds to Treasury. Cash transactions are reported to Treasury twice a month, and Treasury sends the bank a monthly report on the bank's cash balance according to Treasury records. However, we found that the balances of cash according to the three sources indicated in table I.1 disagreed and were not periodically reviewed or reconciled.

Table I.1: Fiscal Year 1985 Month-End Balances

| Month | General ledger "cash" | Cash worksheet | Treasury report |
|---|---|---|---|
| | ---------- | (millions) | ---------- |
| October | $ 12 | $12 | $ 26 |
| November | 2,540 | 23 | 8 |
| December | 171 | 9 | 644 |
| January | 32 | 25 | 576 |
| February | 42 | 31 | 764 |
| March | 18 | 3 | 734 |
| April | 16 | 23 | 737 |
| May | 22 | 39 | 525 |
| June | 33 | 40 | 855 |
| July | 28 | 34 | 722 |
| August | 40 | 51 | 828 |
| September | 1 | 1 | 802 |

In addition to being unsupported throughout the year, the general ledger cash account had mathematical errors such as the one shown in table I.2.

Typed

Table I.2: Sample Mathematical Error in General Ledger Cash Account

| | Per bank general ledger | Correct amount |
|---|---|---|
| | --------(millions)--------- | |
| Beginning balance | $ 886 | $886 |
| Cash received | 6 | 6 |
| Ending balance | $8,790 | $892 |

The difference in this account balance was almost $8 billion. Undetected errors of this nature indicate that the bank had not reviewed the general ledger cash account.

## Incorrect Accounting for Interest and Administrative Accruals

Maintaining accrual accounts is necessary so that the balances provide correct information on the status of receivables and payables. The bank accrued interest only at year-end for reporting purposes. The bank made adjusting entries at the end of fiscal year 1984 to establish the Accrued Interest Receivable accounts, the Accrued Interest Payable account, and the Accrued Administrative Expense account. However, these entries were not reversed at the beginning of the next fiscal year, nor were the receipts of interest or the payments of interest and administrative expenses during the year apportioned between the prior year-end accrual and the current-year income and expenses--either of which would be acceptable practice. As a result, some of these accounts had balances contrary to those expected of the particular type of account.

-- The Accrued Interest Receivable--Off-Budget Loans account showed no activity during the year. The balance on September 30, 1984, was $31.3 million. On September 30, 1985, this amount was reversed and an accrual was recorded for $3 billion.

-- The Accrued Interest Receivable--Federal Loans account had a balance of $437.4 million on September 30, 1984. Throughout the year, all interest received for these loans was credited to this account with a resulting negative (credit) balance of $393 million at September 30, 1985. To restore the original balance, the account was adjusted by $830 million. Another entry was made to establish the correct accrual balance of $480.9 million at September 30, 1985.

-- The Accrued Interest Receivable--Non-Federal Guaranteed Loans account began the year with a balance of $4,368.7 million. Each month, the accounting staff made a single journal entry to this account which recorded and then removed the interest payments received from the Small Business Administration. These entries canceled each other out and had a zero effect on the account balance. In contrast, interest receipts for other nonfederal loans were credited to the account, thereby reducing the balance during the year to $3,905.8 million. On September 30, 1985, the accounting staff restored the original accrual balance, reversed this amount, and entered the new ending accrual which was then adjusted to $965.5 million.

-- The Accrued Interest Payable--Treasury account had a balance of $4.8 billion at the beginning of fiscal year 1985. During the year, accounting staff deducted actual interest payments to Treasury from this accrued amount past the point where, by September 1985, the account had a negative (debit) balance of $6.5 billion. At year-end, adjusting and correcting entries were made to establish the correct accrual account balance of $4.4 billion.

At no time during the year did the accrual account balances provide any meaningful information on the actual receivable amounts earned or payable amounts owed since accruals for the general ledger were done only annually. We previously reported this improper accounting for accruals to the bank in a management letter after our fiscal year 1984 audit.

Improper Source Document Procedures

Internal accounting control standards require that transactions are to be clearly documented and that the documentation is to be readily available for examination. However, accounting personnel batched and netted several transactions together for preparing the journal voucher to subsequently record the transaction in the general ledger and subsidiary ledgers. No supporting schedule of individual gross entry amounts was attached to the journal voucher, nor was there any indication of how the netting was accomplished. These practices made errors difficult to detect, trace, and correct, and contributed to receipts and/or disbursements being recorded in the wrong borrower account or not recorded in the subsidiary ledger at all.

We also found that supervisors had corrected journal vouchers but had not provided any explanation as to the reason for the correction. The bank's supporting documents for the journal entries did not provide a clear audit trail to support the general ledger entries. We reported this problem in management letters resulting from our 1979 and 1984 audits, and Treasury internal auditors also cited the problem in their 1981 audit report.

Inaccurate Internal and External Reporting

Each month, Treasury sent the bank a report detailing the activity of its Undisbursed Appropriations account. The bank did not reconcile this report with its general ledger cash account or its supporting activity worksheets during the fiscal year. Treasury relies on the reporting agencies to reconcile and correct the information Treasury uses in its reports to the public. As of September 30, 1985, Treasury reported a "cash" balance of $802 million, while the bank's general ledger showed a $1 million balance. When a reconciliation was finally performed in March 1986, net adjustments which needed to be made to the Treasury account included:

-- a $706-million overstatement of borrowings from Treasury,

-- a $1-million overstatement of principal repayments to Treasury, and

-- a $94-million understatement of interest payments to Treasury.

These adjustments were not the result of timing differences (i.e., reported activities which were in transit at year-end) but rather of errors in the bank's twice-monthly reporting of its financial activity to Treasury throughout the year.

Treasury used the information from its own monthly reports to prepare the "Monthly Treasury Statement" and, subsequently, the "Treasury Bulletin." Uncorrected errors, therefore, carried through to these publications. By September 1985, the statement reported $438 million less in bank borrowings from Treasury than did the bank's own records. Approximately $700 million of this difference was due to the overstatement of borrowing activity and $1,146 million was due to a mathematical error in the publications which understated the balance carryover from one month to the next. Bank personnel did not discover reporting discrepancies during fiscal year 1985 because external reports were not reviewed or reconciled with the bank's records.

COMMENTS FROM THE DEPARTMENT OF THE TREASURY

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

July 30, 1987

Dear Mr. Wolf:

I appreciate the opportunity to comment on the draft report entitled "Financial Audit: Federal Financing Bank's Financial Statements for Fiscal Year 1985 and 1984." I would also like to thank your audit team for meeting with the FFB's accounting staff on short notice on May 15, 1987, to clarify and correct some facts presented in the report.

The audit report indicates that the system of internal accounting controls had significant weaknesses. We recognize the importance of effective internal controls and acknowledge that in FY 1985 the overall control system was not operating at an acceptable level. We are gratified, however, that the report gives the FY 85 financial statements an unqualified opinion, as presenting fairly the financial position of the FFB in conformity with generally accepted accounting principles.

The goal of the FFB accounting operation is to assure that assets are protected and transactions are recorded accurately and promptly. Although there were weaknesses in the internal controls, the control problems did not materially affect the financial statements and the integrity of the system was assured.

Numerous corrective actions have already been implemented. The Bank has hired new personnel who have been trained along with existing personnel. Improvements have been made to the general ledger; and by the end of FY 87, we expect to have the microcomputer-based general ledger up-to-date within 15 days after the close of the accounting month. The cash position of the Bank is being reconciled to the TFS 6653 "Undisbursed Appropriation Account Ledger" on a current basis. A new legislatively mandated credit reporting system was implemented which established sub-accounts for each program agency within the Bank's revolving fund. In addition, we are in the final stages of implementing the Loan Management and Control System which will be operational in March 1988, and Treasury's Inspector General is currently auditing the Bank's FY 86 financial statements. These actions are indicative of the importance we ascribe to improving our internal control systems.

Page 2 - Mr. Frederick D. Wolf

The weaknesses in accounting controls identified by the audit team are being corrected and the report findings will result in additional momentum to obtain the resources to upgrade the controls. I strongly believe that the corrective actions already taken have significantly improved our internal control system over where we were in FY 85.

I want to thank you again for the opportunity to review the report. Our detailed comments responding to the report's recommendations are provided in the enclosure.

Sincerely,

Gerald Murphy

Gerald Murphy
Fiscal Assistant Secretary

Frederick D. Wolf, Director
Accounting and Financial Management
Division - Room 6001
United States General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Enclosure

RESPONSE TO THE RECOMMENDATIONS
IN THE GAO DRAFT REPORT
FINANCIAL AUDIT: FEDERAL FINANCING BANK'S
FINANCIAL STATEMENTS FOR FISCAL YEAR 1985 AND 1984

RECOMMENDATION #1 - Develop formal accounting policies and procedures manuals, including examples of typical accounting entries for loan transactions.

Response - The Bank's accounting operations personnel relied on the Treasury Financial Manual (which provides procedures for Government accounting transactions), GAO Title II, and generally accepted accounting procedures for guidance. In addition, an accounting procedures manual developed in the 1970s, and updated informally thereafter, provides useful information.

However, it is clear that a revised, up-to-date daily operations manual is needed. A new Loan Management and Control System is being developed by the accounting firm Ernst and Whinney. As part of this effort, complete system documentation will be provided, including a users manual, an accounting procedures manual, and pro-forma entries. In addition, the Standard General Ledger being implemented as part of the new system will provide useful documentation for operations personnel.

RECOMMENDATION #2 - Maintain the general ledger and subsidiary ledgers on a routine basis and perform periodic reconciliations of ledgers.

Response - The failure to maintain the general ledger on a current basis and to use the ledger as a control mechanism for transactions were weaknesses in FY 85. In lieu of the general ledger, the daily transaction journals were the key internal control documents and the official records for the transactions. The journals were posted timely and, as adjustments were identified, they were corrected immediately. The accounting personnel also used the following documents/reports as integral control points: monthly internal reports; the monthly SF 224, "Statement of Transactions;" and TFS 6653, "Undisbursed Appropriation Account Ledger."

The Bank hired additional staff to assist in updating the general ledger but other priorities, implementing a Congressionally mandated credit reporting system and developing the Loan Management and Control System, prevented us from getting the general ledger to a current status until June 1987. We have now achieved our goal of having the microcomputer-based general ledger up-to-date within 15 working days after the close of the accounting month. The new Loan Management and Control System will have an integrated general ledger whereby updates will be processed in an overnight batch mode.

Several subsidary ledgers for complex programs need improvement. Many subsidiary ledgers for the large loan programs consist of annotated computer reports of expected payments and the data base does not contain all the required information. We are taking short-term actions to up-date the subsidiary and general ledgers until the Loan Management and Control System is implemented and provides a fully automated general ledger.

RECOMMENDATION #3 - Perform periodic reconciliations of cash between the Bank's general ledger and the reports from Treasury.

Response - Since Federal agencies are not responsible for reconciling external Treasury reports (i.e., Monthly Treasury Statement, Treasury Bulletin, etc.), we assume the report is referring to the monthly TFS 6653, "Undisbursed Appropriation Account Ledger," for the revolving fund. The accounting staff has always reconciled the Bank's revolving fund and internal cash records to the TFS 6653, although in FY 85 the reconciliation fell behind schedule. This backlog occurred due to higher priority initiatives, some of which have been mentioned above.

The reconciliations are now current and sufficient resources are assigned to this function to keep it on a current status.

RECOMMENDATION #4 - Record transactions properly and consistently. Specifically the Bank should:

1. Establish procedures to account for accruals which would provide for fair statement of account balances throughout the year. For example, one generally accepted approach is to reverse year-end accural entries on the first day of the next fiscal year.

2. Require that all accounting transactions be supported by clear and complete documentation or eliminate the batching of tranactions that result in the recording of "net" transactions in the accounting records.

Response - 1. Reversing entries were made for accrual transactions to obtain the opening account balances for FY 85, FY 86, and FY 87. The accounting staff attempted to follow the guidance of GAO auditors in processing these reversing entries.

2. The general ledger transactions were not documented adequately for FY 85. The audit trail for daily transactions was complete but not easily or quickly auditable. Several Bank loan programs have complex borrowing terms that are time consuming and difficult to track. The Bank's lack of a comprehensive automated system increases the difficulty of the accounting processes. Yet, the Bank's records of loan balances, disbursements, repayments, and monthly reports to Treasury were accurate.

fly

APPENDIX II

Complete documentation is now prepared and maintained for each journal voucher. In addition, the Loan Management and Control System will ultimately solve the Bank's record-keeping problems.

RECOMMENDATION #5 - Review and reconcile external reports, particularly Treasury reports on the loan accounts.

Response - As we stated in the response to Recommendation No. 3 above, the Bank is now current in reconciling its cash journal and related loan balances to the TFS 6653, "Undisbursed Appropriation Account Ledger" (which we assume is the referenced Treasury report).

Some of the differences identified by the reconciliation process require intra-governmental adjustments because program agencies make errors when reporting transactions directly to the Bank's revolving fund. When the Bank installs the final reporting changes pursuant to new legislative requirements, the Bank's accounting staff plans to implement procedures whereby the Bank will report all transactions affecting its revolving fund and not allow other agencies to independently report transactions. This will strengthen the Bank's control over its records.

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United States General Accounting Office

GAO

Report to the Congress

September 1987

# FINANCIAL AUDIT

## Federal Financing Bank's Financial Statements for Fiscal Years 1985 and 1984

GAO/AFMD-87-31