

**Audit**



**Report**

OFFICE OF THE INSPECTOR GENERAL

**PRINCIPAL STATEMENTS OF THE DEFENSE  
EMERGENCY RESPONSE FUND FINANCIAL  
STATEMENTS FOR FY 1992**

Report No. 93-111

June 14, 1993

**Department of Defense**

## **Acronyms**

<b>DERF</b>	<b>Defense Emergency Response Fund</b>
<b>DFAS</b>	<b>Defense Finance and Accounting Service</b>
<b>FMFIA</b>	<b>Federal Managers' Financial Integrity Act</b>
<b>OMB</b>	<b>Office of Management and Budget</b>



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202

June 14, 1993

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

SUBJECT: Audit Report on the Principal Statements of the Defense Emergency  
Response Fund Financial Statements for FY 1992 (Report No. 93-111)

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

Although we were able to evaluate many of the internal controls and the compliance with laws and regulations, we were unable to express an opinion on the financial statements. We are disclaiming an opinion on the financial statements because of a scope limitation. Management has not provided us with management and legal representation letters. The failure of management to provide the letters constitutes a limitation of scope sufficient to compel us to disclaim an opinion.

We also noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions. Fund balances with Treasury on the working copy of the Defense Emergency Response Fund (the Fund) Financial Statements were understated by \$93.6 million, payments totaling \$2.97 million were not supported, and expenses of \$6.3 million were misclassified on the footnote section of the Principal Statements. The Fund's managers generally made the corrections to the financial statements and issued guidance to correct the conditions we found. Because there were only three transactions in the Fund during FY 1992, however, we could not evaluate the effectiveness of the internal controls to prevent a recurrence. Our tests of compliance with laws and regulations disclosed two instances of noncompliance with Office of Management and Budget Bulletin No. 93-02, "Form and Content of Agency Financial Statements," October 22, 1992. The Fund's Financial Statements lacked a cost breakdown of operations, and the Overview to the Fund's Principal Statements did not include performance measures. Except for such minor departures, the Defense Emergency Response Fund complied in all material respects with applicable laws and regulations.

Details of weaknesses are discussed in Parts II and III of the report. This report contains no recommendations that are subject to resolution in accordance with DoD Directive 7650.3; accordingly, comments are not required.

The courtesies extended to the audit staff during the audit are appreciated. If you have any questions about this audit, please contact Mr. F. Jay Lane, Program Director, at (703) 693-0430 (DSN 223-0430) or Mr. Richard A. Levine, Project Manager, at (703) 693-0461 (DSN 223-0461). The distribution of this report is listed in Part IV, Appendix C.

A handwritten signature in black ink that reads "Robert J. Lieberman". The signature is written in a cursive style with a large, prominent initial "R".

Robert J. Lieberman  
Assistant Inspector General  
for Auditing

Office of the Inspector General, Department of Defense

Report No. 93-111  
(Project No. 2FG-2010)

June 14, 1993

**AUDIT REPORT ON THE PRINCIPAL STATEMENTS OF THE  
DEFENSE EMERGENCY RESPONSE FUND  
FINANCIAL STATEMENTS FOR FY 1992**

**EXECUTIVE SUMMARY**

**Introduction.** Financial statement audits are required by the Chief Financial Officers Act of 1990. The Defense Emergency Response Fund (the Fund), mandated by Public Law 101-165, was established to finance the cost of DoD-assisted relief efforts in response to undeclared civil emergencies. The Secretary of the Army was designated the Executive Agent for the Fund, and the Assistant Secretary of the Army (Financial Management) is considered to be the Fund Manager. The Fund had an original appropriated balance of \$100.0 million and, as of September 30, 1992, had a balance of \$94.8 million. The Defense Emergency Response Fund is one of two funds in the Army Defense Revolving Fund. The other is the Homeowners Assistance Program.

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

**Independent Auditor's Opinion.** We are issuing a Disclaimer of Opinion on the financial statements. We did not receive management and legal representative letters we requested from the Fund manager, legal counsel, and the Defense Finance and Accounting Service representatives. We consider the failure of management to provide the letters significant enough to preclude us from expressing an opinion on the financial statements. We were not able to apply other auditing procedures to enable us to express an opinion; therefore, we do not express an opinion on these financial statements.

**Internal Controls.** We noted certain matters involving the internal control structure and its operation that we consider to be reportable. Fund Balances with Treasury on the Fund's working copy of the Principal Statements were understated by \$93.6 million, payments totaling \$2.97 million were not supported, and \$6.3 million reported was misclassified on the footnote section of Principal Statements. Part II contains our report on internal control weaknesses identified in our audit.

**Compliance with Laws and Regulations.** Our tests of compliance with laws and regulations disclosed two instances of noncompliance. The Fund's financial statements lacked a cost breakdown of operations and the Overview to the Fund's Principal Statements did not include performance measures. Part III discusses these minor instances of noncompliance. Appendix A of Part IV lists all laws and regulations tested.

**Usefulness of Financial Statements.** The reliability and usefulness of the Principal Financial Statements are questionable. Although we could not ascertain the overall accuracy of the statements, we did note control problems which affected the reported numbers and placed in doubt the ability of the Fund to fairly present an accurate picture of the financial position of the Fund. Accordingly, the usefulness of the statements is questionable. In any event, the audit will significantly improve the accuracy of future financial information and financial statements. Also, managers will have more accurate data to use in their decisionmaking processes.

**Management Comments.** No recommendations were made because actions taken by management during the audit should resolve the weaknesses in internal controls. Issues regarding compliance with laws and regulations have been identified to management. We provided draft reports on Parts II and III to management on May 14, 1993, and asked for comments by May 31, 1993. Management comments from the Army that agree with our internal control results were received on June 1, 1993. Those comments are reproduced in Part VI of this report.

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This report was prepared by the Financial Management Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, (703) 614-6303 (DSN 224-6303).

**Part I - Independent Auditor's Opinion  
on the Financial Statements**

### Introduction

The Defense Emergency Response Fund (DERF, the Fund) was mandated by Public Law 101-165 and was established in FY 1990 to finance the costs of relief efforts provided by DoD in response to undeclared civil emergencies. Generally, the President of the United States must "declare" civil emergencies before national resources can be used for relief efforts. Prior to a formal declaration, however, the Secretary of Defense and the Federal Emergency Management Agency can direct DoD resources to be used during the aftermath of a major disaster or any emergency where there is an imminent threat to life or property that cannot be effectively dealt with by state or local governments.

In FY 1990, Congress authorized a working capital account of \$100.0 million for the Fund. The Fund may be used to finance DoD's efforts until the responsible governmental agency or country issues a reimbursable order. Reimbursements for the cost of DoD relief support during an undeclared major disaster or emergency must be returned to the Fund. All reimbursements and any appropriations deposited to the Fund remain available until expended. On July 26, 1991, the Comptroller of the Department of Defense designated the Secretary of the Army as the DoD Executive Agent for the Fund. The Army as Executive Agent is responsible for authorizing any expenditures and directing efforts financed by the Fund. As a result, the Assistant Secretary of the Army (Financial Management) is the Fund Manager. Only three authorized expenditures have been made from the Fund.

We attempted to audit the Principal Statements and the Notes to the Principal Statements of the Defense Emergency Response Fund (DERF) as of and for the year ended September 30, 1992. The Chief Financial Officers Act requires annual audits of funds such as this. The Fund is part of the Army Defense Revolving Fund, which also consists of the Homeowners Assistance Program. The Defense Emergency Response Fund's management is responsible to produce financial statements for FY 1992. Our responsibility is to express an opinion on those statements based on our audit.

### Scope

We attempted to audit the Defense Emergency Response Fund Principal Statements as of and for the year ending September 30, 1992. The Principal Statements include the Statement of Financial Position, Statement of Operations, Statement of Cash Flows, and Statement of Budget and Actual Expenses. Also included are the Footnotes, the Overview, and Supplemental information.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in these Statements, including the Notes. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall statement presentation. We

## Independent Auditor's Opinion on the Financial Statements

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developed client profiles for the DERF and developed cycle memorandums that assessed the internal control structure for the cash, payments, and reporting. See Appendix B of Part IV for the activities visited or contacted. Also, we performed substantive testing of each financial statement account. We believe that our audit efforts provide a reasonable basis for our results. This attempt at auditing the financial statements was made during the period April 1992 through April 1993.

The scope of our effort was limited because DERF management did not provide management and legal representation letters.

### **Auditing Standards**

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

### **Accounting Principles**

Accounting principles are currently being studied by the Federal Accounting Standards Advisory Board (the Board). Generally accepted accounting principles for Federal entities are to be promulgated by the Comptroller General of the United States; the Director, OMB; and the Department of the Treasury of the United States, based on advice from the Board. In the interim, Federal agencies are to follow the applicable accounting standards contained in agency accounting policy, procedures manuals, and related guidance. The summary of significant accounting policies included in the Notes to financial statements describes the accounting methods prescribed by the DoD Accounting Manual and used to prepare the financial statements.

### **Disclaimer of Opinion**

We requested management and legal representation letters from the Fund manager and the Defense Finance and Accounting Service (DFAS) on April 8, 1993. The representation letters are part of the evidential matter necessary to afford a reasonable basis for our opinion on the financial statements. We have not received the representation letters. Specifically, the Fund manager, legal counsel, and DFAS representatives have not responded. The Acting Chief Financial Officer of the Department of Defense has informed us that he does not support the requirement for a representation letter from the DFAS. We

## **Independent Auditor's Opinion on the Financial Statements**

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consider the failure of management to provide the letters significant enough to preclude us from expressing an opinion, and we do not express an opinion, on the financial statements.

## **Additional Information**

During the course of our audit we reported several deficiencies to DERF management in memorandums dated July 21, 1992, and April 7, 1993. We identified a lack of documentation for a disbursement of \$2.97 million to the Navy. Although procedures required having supporting documentation prior to making disbursements, the procedures had not been provided to the disbursing office. Also, a lack of procedures to perform periodic reviews caused assets to be understated by \$93.6 million on the working copy of the Statement of Financial Position. We also found misclassification of information in the footnotes. DERF management initiated action to correct these problems.

## **Part II - Internal Controls**

### Introduction

We have audited the internal control structure of the Defense Emergency Response Fund (DERF, the Fund) for the year ended September 30, 1992. Fund managers are responsible for establishing and maintaining an effective internal control structure. In fulfilling this responsibility, managers are required to assess the costs and benefits of the internal control structure's procedures. The objectives of an internal control structure are to provide management with reasonable but not absolute assurance that the following are met.

- o Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets.

- o Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

- o Transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the Principal Statements, and with any other laws and regulations that the OMB, the Fund's management, or the Inspector General, Department of Defense, has identified as being significant for which compliance can be objectively measured and evaluated.

- o Data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information.

### Objectives and Scope

Our objective was to determine whether material internal control weaknesses existed. In planning and performing our audit of the Fund's Principal Statements for the year ended September 30, 1992, we evaluated the Fund's internal control structure. Our purposes were:

- o to determine the audit procedures we would use to express our opinion on the FY 1992 financial statements and

- o to determine whether the Fund's internal control structure ensured that the Principal Statements were free of material misstatements.

This included obtaining an understanding of the internal control policies and procedures, as well as assessing the level of control risk relevant to all significant cycles, classes of transactions, and account balances.

For those significant control policies that have been properly designed and placed in operation, we performed sufficient tests to provide reasonable assurance that the controls were effective and working as designed.

The Fund's financial statements did not include performance measures; as a result, we could not comment on the adequacy of the internal control structure's policies and procedures that are designed to support performance measures.

For the purpose of this report, we have classified the significant internal controls, policies, and procedures into the following categories: cash, payments, and reporting. Our consideration of internal control structure included all of the categories. Our consideration of the internal control structure would not necessarily disclose all matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

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

### **Prior Audit Coverage**

There have been no prior audits of the internal controls of the Defense Emergency Response Fund.

### **Results of Audit**

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by OMB Bulletin No. 93-06. Reportable conditions involve matters that come to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to ensure that transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets.

A material weakness is a reportable condition in which the design or operation of the internal control structure does not reduce to a relatively low level the risk that errors or irregularities could occur. Such errors would be in amounts material to the statements being audited, or material to a performance measure or aggregation of related performance measures, and might not be detected in a timely manner by employees in the normal course of performing their assigned functions.

## Internal Controls

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We noted conditions in cash, payments, and reporting that we consider reportable. We believe, however, that none of these reportable conditions described is a material weakness.

**Cash.** Internal controls were not in place to ensure that the cash balance on the Fund's working copy of its FY 1992 Statement of Financial Position was correct. The Fund balance with the U.S. Treasury (Treasury) was understated by \$93.6 million. This error occurred because the Defense Finance and Accounting Service (DFAS)-Indianapolis Center recorded a beginning fund balance of \$6.35 million, instead of the correct beginning balance of \$100.0 million. The DFAS-Indianapolis Center made the necessary adjustment on its Principal Statements, dated March 31, 1993, to show the correct asset value of \$94.8 million.

**Payments.** Internal controls were not established to require supporting documentation for payments. During our visit to the Army Finance and Accounting Office in St. Louis, Missouri, we found no documentation to support a \$2.97 million disbursement to the Navy. A memorandum from the Comptroller of the Department of Defense (DoD Comptroller), issued on August 7, 1991, established policies for management of the DERF and required having supporting documentation before payments are made. These policies required reimbursements to be documented with specific details prior to disbursement. The documents used to support disbursements, however, were the "Military Interdepartmental Purchase Request" (DD Form 448) and the "Voucher for Transfer Between Appropriations and Funds" (Standard Form 1080). Both forms included a single, aggregate dollar amount instead of a detailed description of costs. To correct this problem, the Assistant Secretary of the Army (Financial Management) forwarded the DoD Comptroller's August 1992 memorandum to the Army Finance and Accounting Office.

**Reporting.** Periodic reviews of financial reports were not performed to ensure that expenses were properly reported, footnotes were appropriately classified, and the principal statements contained all required information. This lack of review caused \$3,033,000 to be misclassified as printing and reproduction expense, and an additional \$2,264,385 to be misclassified as contractual services expense. Both misclassifications appeared on the working copy of the Principal Statements for 1992; however, the DFAS-Indianapolis Center made the necessary corrections to the March 31, 1993, financial statements after we brought the issues to their attention. In addition, another \$1,052,615 was erroneously classified in the computation of the Fund Balances with Treasury in Footnote 16C of the Principal Statements. This amount was misclassified as Cumulative Results of Operations; in our opinion, it should be classified as Unexpended Appropriations.

Except for the matters noted above, we believe there is reasonable assurance that the internal control structure meets its objectives. We sent advisory memorandums on July 21, 1992, and April 7, 1993, to the Fund managers, identifying problems in the areas of cash, payments, and reporting. The Fund's managers generally made the corrections to the financial statements and issued

guidance to correct the conditions we found. Because there were only three transactions in the Fund during FY 1992, however, we could not evaluate the effectiveness of the internal controls in preventing a recurrence.

## **Management Comments**

Comments were received on June 1, 1993, from the Army regarding payments. The Army concurred with the need for having supporting documentation before payments are made. Management comments were responsive. The complete text of management comments is in Part VI of the report.

## **Part III - Compliance with Laws and Regulations**

### Introduction

We tested for material instances of noncompliance with laws and regulations the Principal Statements of the Defense Emergency Response Fund (DERF, the Fund), as of and for the year ended September 30, 1992. Such tests are required by the Chief Financial Officers Act of 1990. The Director, Defense Finance and Accounting Service (DFAS), and the Assistant Secretary of the Army (Financial Management) are responsible for compliance with applicable laws and regulations.

### Objectives and Scope

The objective of the audit was to determine whether material instances of noncompliance with laws and regulations existed. Material instances of noncompliance are failures to follow requirements, or violations of prohibitions contained in laws or regulations, that cause us to conclude that the aggregation of the material misstatements resulting from those failures or violations is material to the Principal Statements, or that the sensitivity of the matter would cause it to be perceived as significant by others.

Compliance with laws and regulations is the responsibility of Defense Emergency Response Fund management. As part of obtaining reasonable assurance about whether the Principal Statements are free of material misstatements, we tested compliance with laws and regulations that may directly affect the financial statements, and with other laws and regulations designated by the Office of Management and Budget (OMB) and the DoD. (See Part IV, Appendix A, for a complete list of laws and regulations we tested.)

As part of our audit, we reviewed management's process for evaluating and reporting on internal controls and accounting systems as required by the Federal Managers' Financial Integrity Act (FMFIA). We also compared the most recent FMFIA reports prepared by the organizations that support the Fund with our evaluation of the Fund's policies, procedures, and systems for documenting and supporting financial, statistical, and other information presented in the Overview to the Fund's Principal Statements and supplemental financial and management information. Our objective however, was not to provide an opinion on overall compliance with such provisions.

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

## Prior Audit Coverage

There have been no prior audits of compliance with laws and regulations related to the Defense Emergency Response Fund.

## Results of Audit

Our tests of compliance with laws and regulations disclosed no material weaknesses. We noted, however, two instances of noncompliance with OMB Bulletin No. 93-02, "Form and Content of Agency Financial Statements," October 22, 1992.

The results of our tests of compliance indicated that with respect to the items tested, except for instances of noncompliance with OMB Bulletin No. 93-02, the Fund complied in all material respects with applicable laws and regulations. With respect to items not tested, nothing came to our attention that caused us to believe that the DoD Components operating the Fund had not complied, in all material respects, with applicable laws and regulations.

The Fund's financial statements do not provide a cost breakdown of operations, as required by OMB Bulletin No. 93-02, Part III. The OMB bulletin states that a reporting entity must provide complete statements that include all costs incurred by the agency in support of the revolving funds, including the applicable portions of related salaries and expense accounts.

Also, the Overview to the Fund's Principal Statements does not include performance measures. The OMB Bulletin No. 93-02, Appendix B, requires that the Overview include a narrative discussion and analysis of the reporting entity's financial condition. The OMB bulletin states that wherever possible, financial data should be related to other measures of performance on a program-by-program basis. Including performance measures will make the financial statements more useful for assessing financial and program performance. In addition, an October 1, 1992, memorandum from the DoD Comptroller required the DERF to include a performance measure.

With respect to items not tested, nothing came to our attention to cause us to believe that the DERF had not complied in all material respects with those provisions.

## **Part IV - Additional Information**

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## **Appendix A. Laws and Regulations**

Defense Emergency Response Fund Public Law (P.L.) 101-165,  
November 1989

Federal Managers' Financial Integrity Act of 1982, P.L. 97-255

Chief Financial Officers Act of 1990, P.L. 101-576

Office of Management and Budget (OMB) Bulletin 93-02, "Form and Content  
of Agency Financial Statements" October 22, 1992

DoD Manual 7220.9-M, "DoD Accounting Manual," October 1983

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## **Appendix B. Activities Visited or Contacted**

### **Office of the Secretary of Defense**

Deputy Comptroller of the Department of Defense (Management Systems),  
Washington, DC

### **Department of the Army**

Office of the Assistant Secretary of the Army (Financial Management)  
Headquarters, Army Resource Services, Washington, DC  
Army Finance and Accounting Office, St. Louis, MO

### **Defense Agencies**

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

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## **Appendix C. Report Distribution**

### **Office of the Secretary of Defense**

Assistant Secretary of Defense (Public Affairs)  
Comptroller and Chief Financial Officer of the Department of Defense  
Deputy Chief Financial Officer of the Department of Defense

### **Department of the Army**

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

### **Department of the Navy**

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

### **Department of the Air Force**

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

### **Defense Agencies**

Director, Defense Finance and Accounting Service

### **Non-DoD Federal Organizations**

Office of Management and Budget  
U.S. General Accounting Office  
National Security and International Affairs Division Technical Information Center

Chairman and Ranking Minority Members of each of the following Congressional Committees:

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Service  
House Committee on Government Operations  
House Subcommittee on Legislation and National Security, Committee on Government Operations

**Part V - Principal Statements of the  
Defense Emergency Response  
Fund Financial Statements -  
FY 1992**

# Defense Emergency Response Fund Financial Statements - FY 1992



OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON DC 20301-1100

APP 8 1993

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DOD

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

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

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

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

A handwritten signature in cursive script, appearing to read "Edwin Tucker".

Edwin Tucker  
Acting Chief Financial Officer

Attachments

*Overview to the  
Defense Emergency  
Response Fund*

Note: Financial statements reproduced here are excerpted from the Army Defense Revolving Fund statements and are the statements on which we are disclaiming an opinion.

## *Overview to the Defense Emergency Response Fund*

### A. GENERAL OVERVIEW

The Defense Emergency Response Fund (hereafter referred to as the "Fund") was established to provide obligation authority to appropriations of the DoD Components:

- \* Upon a determination by the Secretary of Defense that immediate action is necessary in response to natural or man-made disasters; and
- \* In anticipation of reimbursable orders from other Federal agencies and from State and local governments.

The Treasury index symbol of the Fund is 97X4965. The purpose of the Fund is to finance relief efforts for an incident which may ultimately qualify for a Presidential declaration of a major disaster or emergency and thus prevent an adverse impact on DoD mission accomplishment as the result of the use of mission funds to finance disaster relief efforts. The Fund was initially capitalized in 1990 at \$100 million for DoD. Reimbursements received for the cost of DoD support provided during the period of an undeclared major disaster or emergency shall be returned to the Fund. Assistance provided in response to a declared major disaster or emergency shall not be financed by the Fund. Such assistance provided for declared major disasters or emergencies shall be reimbursed as prescribed in DoD Directive 3025.1, "Use of Military Resources During Peacetime Civil Emergencies within the United States, its Territories, and Possessions."

### B. OPERATIONS OVERVIEW

During the immediate aftermath of an incident which may ultimately qualify for a Presidential declaration of a major disaster or emergency, when imminent threats to life or property are present which cannot be effectively dealt with by the State or local governments (undeclared civil emergencies), utilization of DoD resources in response to that incident may be directed by:

- \* The Secretary of Defense; or
- \* The Associate Director of the Federal Emergency Management Agency as coordinated with the Department of Defense.

The Fund shall be used to finance DoD efforts until such time as a reimbursable order is received. Requests for assistance from the Governor of a State, or the Acting Governor in his/her absence, should be submitted to the Associate Director of the Federal Emergency Management Agency.

## Defense Emergency Response Fund Financial Statements - FY 1992

### 4 Overview

As specified in DoD Directive 3025.1, in undeclared civil emergencies that warrant national-level response and/or requests from the Federal Emergency Management Agency, the Special Assistant to the Secretary of Defense and Deputy Secretary of Defense shall determine whether DoD participation is in the national interest and shall request the Secretary of the Army, serving as the DoD executive agent for disaster assistance (hereafter, Executive Agent) to assess the situation's conformance with Defense priorities and the feasibility of the requested DoD action, and identify a legal basis for assistance. The Special Assistant may then authorize the Executive Agent to direct the DoD response in accordance with the procedures of DoD Directive 3025.1.

As the designated DoD Executive Agent, the Secretary of the Army shall fulfill those responsibilities specified in DoD Directive 3025.1. The responsibilities include those to:

1. Provide military support in civil emergencies within the 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, Guam, American Samoa, the Northern Mariana Islands, and the Trust Territories of the Pacific Islands.
2. Provide policy and direction concerning plans, procedures, and requirements to all DoD Components having control over military resources that may be employed under the provisions of DoD Directive 3025.1.
3. Coordinate both the planning and provision of military support to civil authorities during civil emergencies. This will be done in conjunction with the Chairman, Joint Chiefs of Staff. The Chairman, Joint Chiefs of Staff, shall provide policy guidance to, assign responsibility to, and establish procedures for, commanders responsive to the Joint Chiefs of Staff for conduct of civil emergency relief operations anywhere in the United States (as defined in B.1.) that is an assigned area of responsibility.
4. Establish and maintain liaison with the Federal Emergency Management Agency, or other appropriate party, for the Department of Defense with respect to military support of domestic civil emergency relief operations.

#### C. FISCAL GUIDANCE

1. The Defense Finance and Accounting Service (DFAS) shall be responsible for recording the appropriation warrant (TFS Form 6200, when received, on applicable accountable records. The Office of the Deputy Comptroller (Program/Budget) is responsible for preparation of the Apportionment/Reapportionment Schedule (DD Form 1105) and the issuance of funding authorizations to the Executive Agent.

2. The Secretary of Defense shall, in response to an undeclared civil emergency and/or formal or informal request by the Federal Emergency Management Agency, or other appropriate party, and in anticipation of reimbursable orders, direct the DoD Executive Agent to authorize necessary action to respond to natural or man-made disaster occurring within a State, territory, possession, administrative, or commonwealth area of the United States.

## Defense Emergency Response Fund Financial Statements - FY 1992

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### Overview 5

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3. The absence of a formal reimbursement agreement need not delay a DoD response; however, every effort should be made to ensure that the agreement is executed as soon as possible after the DoD response effort begins. The agreement shall specify that reimbursement shall be in accordance with the provisions of paragraph C.8. The Fund shall finance DoD efforts prior to formalization of the reimbursement agreement.
4. The Executive Agent shall estimate the amount of funds required for DoD response to the emergency condition, and request an allotment of program authority from the Office of the Deputy Comptroller (Program/Budget).
5. The Office of the Deputy Comptroller (Program/Budget) shall issue a fund authorization release letter to the Executive Agent in the lesser of (a) the amount requested by the Executive Agent, or (b) the unallocated funds within the Defense Emergency Response Fund. Amounts appropriated to the Fund are direct program authority. Amounts reimbursed to the Fund are reimbursable program authority. Allotments of the fund authorization shall be provided from reimbursable program amounts, to the extent that such amounts are available, prior to utilization of direct program authority.
6. The DFAS shall record fund availability and provide accounting support to the Executive Agent. Task orders, issued by the Executive Agent or an authorized representative, to the DoD Components requested to provide assistance (performing activities) shall be obligated against the authorized fund allotment for that emergency. The DFAS shall record the issuance of the reimbursable orders to the performing activities.
7. The performing activity shall record the receipt of the reimbursable order and provide assistance in accordance with the direction received from the Executive Agent.
8. Generally, only incremental costs in providing assistance are reimbursable. Specifically, the following costs are eligible for reimbursement:
  - a. Overtime, travel, and per diem of permanent DoD civilian personnel.
  - b. Wages, travel, and per diem of temporary DoD civilian personnel assigned solely to performance of services directed by the Executive Agent.
  - c. Travel and per diem of active duty military personnel and costs of reserve components' called to active duty by a Federal official who are assigned solely to the performance of services directed by the Executive Agent.
  - d. Cost of work, services, and material procured under contract for the purposes of providing assistance directed by the Executive Agent.
  - e. Cost of materials, equipment, and supplies including transportation, repair, and maintenance) from regular stocks used in providing directed assistance.

## **Defense Emergency Response Fund Financial Statements - FY 1992**

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### **6 Overview**

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f. All costs incurred which are paid from trust, revolving, or other funds, and whose reimbursement is required by law.

g. Other costs submitted with written justification or otherwise agreed to in writing by the Executive Agent.

9. Requests for reimbursement shall be documented with specific details on personnel services, travel, and all other expenses by object class as specified in OM3 Circular A-II and by any subobject class used in the performing activity's accounting system.

10. The DFAS shall in providing accounting support to the Executive Agent, reimburse from the funds allotted for that emergency, performing activities for costs incurred, as specified in paragraph C.8., and billed to the Defense Emergency Response Fund (97X4965).

11. Collections of funded costs recovered for disaster assistance provided shall be deposited to the credit of the Defense Emergency Response Fund (97X4965) through use of DD Form 1131, "Cash Collection Voucher" or equivalent document. The DFAS, acting as the representative of the Executive Agent, will be responsible for collection follow-up.

12. DFAS shall prepare the appropriation and fund status reports for the Defense Emergency Response Fund required by chapters 93 and 94 of the DoD Accounting Manual, DoD 7220.9-M. The reports required for the Defense Emergency Response Fund are:

- \* Report on Obligations, SF 225
- \* Report on Financial Position, SF 220
- \* Report on Operations, SF 221
- \* Report on Cash Flow, SF 222
- \* Report on Reconciliation, SF 223
- \* Year-End Closing Statement, Acct Rpt(TFS)2108
- \* Report on Budget Execution, Acct Rpt(M)1176
- \* Flash Report on Obligation Status, Acct Rpt(M)1445
- \* Report on Obligations, SF-225, IRCN 1183-TD-QU
- \* Report on Reimbursements, Acct Rpt(M)725

13. The Executive Agent shall inform the Office of the Deputy Comptroller (Program Budget) of the need for an additional appropriation, if necessary, to maintain the Defense Emergency Response Fund at its authorized level.

*Defense Emergency  
Response Fund  
Financial Statements*

## Defense Emergency Response Fund Financial Statements - FY 1992

Financial Statements 9

**Department/Agency: Department of Defense**  
**Reporting Entity: Defense Emergency Response Fund**  
**Statement of Financial Position**  
**as of September 30, 1992**

ASSETS	1992
<b>1. Financial Resources:</b>	
a. Fund Balances with Treasury (Note 2)	\$94,783,205
b. Cash (Note 2)	
c. Foreign Currency (Note 2)	
d. Other Monetary Assets (Note 3)	
e. Investments, Non-Federal (Note 4)	
f. Accounts Receivable, Net - Non-Federal	
g. Inventories Held for Sale, Net (Note 5)	
h. Loans Receivable, Net - Non-Federal (Note 6)	
i. Advances and Prepayments, Non-Federal	
j. Property Held for Sale (Note 7)	
k. Other, Non-Federal (Note 8)	
l. Intragovernmental Items:	
(1) Accounts Receivable, Federal	
(2) Loans Receivable, Federal	
(3) Investments, Federal (Note 4)	
(4) Other, Federal	
m. <b>Total Financial Resources</b>	<u>\$94,783,205</u>
<b>2. Non-Financial Resources:</b>	
a. Resources Transferable to Treasury	
b. Inventories Not Held for Sale (Note 5)	
c. Property, Plant and Equipment, Net (Note 9)	
d. Other (Note 10)	
e. <b>Total Non-Financial Resources</b>	_____
<b>3. Total Assets</b>	<u>\$94,783,205</u>
 <b>LIABILITIES</b>	
<b>4. Funded Liabilities</b>	
a. Accounts Payable, Non-Federal	
b. Accrued Interest Payable	
c. Accrued Payroll and Benefits	
d. Accrued Entitlement Benefits	
e. Lease Liabilities (Note 11)	
f. Debt (Note 12)	
g. Guarantees Payable (Note 6)	
h. Other Funded Liabilities, Non-Federal (Note 13)	

The accompanying notes are an integral part of these statements.

## Defense Emergency Response Fund Financial Statements - FY 1992

### 10 Financial Statements

Department/Agency: Department of Defense  
Reporting Entity: Defense Emergency Response Fund  
Statement of Financial Position  
as of September 30, 1992

LIABILITIES Continued	1992
i. Intragovernmental Liabilities	
(1) Accounts Payable, Federal	\$80,590
(2) Debt (Note 12)	
(3) Deferred Revenue (All G)	
(4) Other Funded Liabilities, Federal (Note 13)	
j. Total Funded Liabilities	<u>\$80,590</u>
5. Unfunded Liabilities:	
a. Accrued Leave	
b. Lease Liabilities (Note 11)	
c. Pensions and Other Actuarial Liabilities (Note 14)	
d. Other Unfunded Liabilities (Note 15)	
e. Total Unfunded Liabilities	<u>                    </u>
6. TOTAL LIABILITIES	80,590
NET POSITION	
7. Fund Balances: (Note 16)	
a. Revolving Fund Balances	94,702,615
b. Trust Fund Balances	
c. Appropriated Fund Balances	
d. Total Fund Balances	<u>\$94,702,615</u>
8. Less Future Funding Requirements (Note 17)	
9. Net Position (Note 16)	<u>\$94,702,615</u>
10. Total Liabilities and Net Position	<u>\$94,783,205</u>

The accompanying notes are an integral part of these statements.

## Defense Emergency Response Fund Financial Statements - FY 1992

### Financial Statements 11

**Department/Agency: Department of Defense**  
**Reporting Entity: Defense Emergency Response Fund**  
**Statement of Operations (and Changes in Net Position)**  
**for Period Ended September 30, 1992**

REVENUES AND FINANCING SOURCES	1992
1. Appropriations Expensed	\$5,297,385
2. Revenues from Sales of Goods	
a. To the Public	
b. Intragovernmental	
3. Interest and Penalties, Non-Federal	
4. Interest, Federal	
5. Taxes (Note 18)	
6. Other Revenues and Financing Sources (Note 19)	
7. Less: Taxes and Receipts Returned to the Treasury	
8. <b>Total Revenues and Financing Sources</b>	<u>\$5,297,385</u>
<b>EXPENSES</b>	
9. Cost of Goods or Services Sold	
a. To the Public	
b. Intragovernmental	
10. Program or Operation Expenses (Note 20)	5,297,385
11. Depreciation	
12. Bad Debts and Write-offs	
13. Interest	
a. Federal Financing Bank/Treasury Borrowing	
b. Federal Securities	
c. Other	
14. Other Expenses (Note 21)	
15. <b>Total Expenses</b>	<u>\$5,297,385</u>
16. Excess (Shortage) of revenues and Financing Sources Over Total Expenses Before Adjustments	
17. Plus (Minus) Adjustments:	
a. Extraordinary Items (Note 22)	
b. Prior Period Adjustments (Note 22)	_____
18. Excess (Shortage) of Revenues and Financing Sources over Total Expenses	
19. Plus: Unfunded Expenses	_____
20. <b>Excess (Shortage) of Revenues and     Financing Sources Over Funded Expenses</b>	

The accompanying notes are an integral part of these statements.

## Defense Emergency Response Fund Financial Statements - FY 1992

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### 12 Financial Statements

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**Department/Agency: Department of Defense**  
**Reporting Entity: Defense Emergency Response Fund**  
**Statement of Operations (and Changes in Net Position)**  
**for Period Ended September 30, 1992**

<b>EXPENSES Continued</b>	<b>1992</b>
21. Net Position, Beginning Balance	\$100,000,000
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	
23. Plus (Minus) Equity Transfers (Note 23)	<u>(5,297,385)</u>
24. Net Position, Ending Balance	<u>\$94,702,615</u>

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The accompanying notes are an integral part of these statements.

## Defense Emergency Response Fund Financial Statements - FY 1992

Financial Statements 13

**Department/Agency: Department of Defense**  
**Reporting Entity: Defense Emergency Response Fund**  
**Statement of Cash Flows**  
**for the Period Ended September 30, 1992**

	1992
<b>Cash Flows from Operating Activities:</b>	
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	_____
<b>Adjustments affecting Cash Flow:</b>	
2. Appropriations Expensed	(\$5,297,385)
3. Decrease (Increase) in Accounts Receivable	
4. Decrease (Increase) in Loans Receivable	
5. Decrease (Increase) in Other Assets	
6. Increase (Decrease) in Accounts Payable	80,590
7. Increase (Decrease) in Debt	
8. Increase (Decrease) in Other Liabilities	
9. Depreciation and Amortization	
10. Other Unfunded Expenses	
11. Other Adjustments	
12. Total Adjustments	<u>(\$5,216,795)</u>
13. Net Cash Provided (Used) by Operating Activities	<u>(\$5,216,795)</u>
<b>Cash Flows from Non-Operating Activities:</b>	
14. Proceeds from Sales of Investments	
15. Proceeds from Sales of Property, Plant and Equipment	
16. Purchases of Investments	
17. Purchases of Property, Plant and Equipment	
18. Net Cash Provided (Used) by Non-Operating Activities	_____
<b>CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES</b>	
19. Appropriations (Current Warrants)	
20. Add:	
a. Restorations	
b. Transfers of Cash from Others	
21. Deduct:	
a. Withdrawals	
b. Transfers of Cash to Others	
22. Net Appropriations	

The accompanying notes are an integral part of these statements.

## Defense Emergency Response Fund Financial Statements - FY 1992

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### 14 Financial Statements

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Department/Agency: Department of Defense  
Reporting Entity: Defense Emergency Response Fund  
Statement of Cash Flows  
for the Period Ended September 30, 1992

<b>CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES</b> <i>Continued</i>	<b>1992</b>
23. Borrowing from the Public	
24. Repayments on Loans	
25. Borrowing from the Treasury and the Federal Financing Bank	
26. Repayments on Loans from the Treasury and the Federal Financing Bank	
27. Other Borrowings and Repayments	
28. Net Cash Provided (Used) by Financing Activities	
29. Net Cash Provided (Used) by Operating, Non-Operating and Financing Activities	<u>(\$5,216,795)</u>
30. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	<u>\$100,000,000</u>
31. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	<u>\$94,783,205</u>

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The accompanying notes are an integral part of these statements.

## Defense Emergency Response Fund Financial Statements - FY 1992

Financial Statements 15

Department/Agency: Department of Defense  
 Reporting Entity: Defense Emergency Response Fund  
 Statement of Budget and Actual Expenses  
 for the Period Ended September 30, 1992

Program Name (s)	BUDGET			ACTUAL
	Resources	Obligations		Expenses
		Direct	Reimbursed	
Defense Emergency Response Fund	\$100,000,000	\$5,396,465		\$5,297,385
<b>Total</b>	<u>\$100,000,000</u>	<u>\$5,396,465</u>		<u>\$5,297,385</u>

**Budget Reconciliation**

A. Total Expenses	\$5,297,385
B. Add:	
(1) Capital Acquisitions	
(2) Loans Disbursed	
(3) Other Expended Budget Authority	
C. Less:	
(1) Depreciation and Amortization	
(2) Unfunded Annual Leave Expense	
(3) Other Unfunded Expenses	
D. Expended Appropriations	\$5,297,385
E. Less Reimbursements	
F. Expended Appropriations, Direct	<u>\$5,297,385</u>

The accompanying notes are an integral part of these statements.

*Footnotes to the  
Defense Emergency  
Response Fund  
Financial Statements*

*Footnotes to the  
Defense Emergency Response Fund  
Financial Statements*

**NOTE 1: Significant Accounting Policies:**

**A. Entity and Basis of Consolidation**

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

These financial statements are based upon a consolidation of data processed by various systems at the installation, accounts office (major command) and a hybrid modular configuration at the departmental level called the Program, Budget, and Accounting System (PBAS). Budget execution reports are certified for accuracy and completeness by commanders at each level they are produced or consolidated.

Due to delays encountered in upgrading the accounting and subordinate commands' reporting systems employed throughout the network, the departmental system will not achieve full compliance with prescribed general ledger standards until adoption and proliferation of the migratory accounting system selected for a capitalized and consolidated environment. The general ledger account balances used in the Financial Statements were reconciled to certified report data submitted in the budget execution system to compensate for an inefficient certification requirement placed on general ledger report submissions and the lack of a fully integrated general ledger system. Where required, the general ledger was adjusted to agree with data in the certified budget execution reports which through the years has proven to be reliable and accurate.

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

**B. Accounting Standards**

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

### **20 Footnotes**

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#### **C. Budgets and Budgetary Accounting**

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

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

#### **D. Basis of Accounting**

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

Departmental accruals are also recognized for those invoices, scheduled for payment within 30 days, which are on hand at month end at DFAS-CO and the DCASRs. These adjustments are made due to the significant dollar impact of the invoices and the fact that all transactions paid by these stations citing Army funds will be TFO/TBO transactions.

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

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.

Inter/intra-agency transactions and balances have not been eliminated in the Principle Statements due to the lack of data elements resident in the departmental accounting system which can distinguish those values within a DOD account. The data elements will be in place for FY 93 to allow for the eliminations. Sufficient detail information is not available in the standard DoD general ledger accounts to perform the elimination. No eliminations are reflected in the Combining Statements.

### **E. Revenues and Other Financing Sources**

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

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

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

### **F. Funds with U. S. Treasury and Cash**

Department of the Army acts as an agent for the Department of the Treasury for cash on hand. Cash in the accounts of Army officials is included in Army financial statements under a pseudo appropriation since it is not related to a specific appropriation.

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

## **Defense Emergency Response Fund Financial Statements - FY 1992**

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### **22 Footnotes**

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

**H. Accounts Receivable**

As presented in the consolidated Statement of Financial position, Accounts Receivable includes accounts, claims and refunds receivable. Allowances for uncollectable accounts are based on an analysis of collection experience by fund type.

**I. Loans Receivable**

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

**J. Inventories**

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.

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

**L. Property, Plant and Equipment** (Not applicable to this appropriation.)

**M. Prepaid and Deferred Charges**

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

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

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

**P. Contingencies**

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

Legal claims are adjudicated under two federal statutes, the Federal Tort Claims Act and Title 10 U.S.C., Chapter 163 (for military claims). The Army's liability for claims made under the

## Defense Emergency Response Fund Financial Statements - FY 1992

### Footnotes 23

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 the 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.

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. 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).

**Q. Annual, Sick, and Other Leave** (Not applicable to this appropriation.)

**R. Retirement Plan** (Not applicable to this appropriation.)

**S. Accounts Payable**

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

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

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

**A. Fund Balances with Treasury**

	Available	Restricted	Total
(1) Trust Funds			
(2) Revolving Funds	\$94,783,205		\$94,783,205
(3) Appropriated Funds			
(4) Other Fund Types			
<b>Total</b>	\$94,783,205		\$94,783,205

**B. Cash** (See note 1F) \$0

**C. Fund Balances and Cash** \$94,783,205

**D. Foreign Currency** (See Note 1G) \$0

**E. Other Information:**

## **Defense Emergency Response Fund Financial Statements - FY 1992**

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### **24 Footnotes**

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

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

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

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

*Note 7: Property Held for Sale:* (Not applicable to this appropriation.)

*Note 8: Other Financial Resources - Non-Federal:* (Not applicable to this appropriation.)

*Note 9: Property, Plant, and Equipment, Net:* (Not applicable to this appropriation.)

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

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

*Note 12: Debt:*

The Department of the Army, as an agency of the DOD and the federal government, interacts with and is dependent on the financial activities of the federal government as a whole. 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 13: Other Funded Liabilities:* (Not applicable to this appropriation.)

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

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

## Defense Emergency Response Fund Financial Statements - FY 1992

Footnotes 25

**Note 16: Fund Balances:**

	Revolving Funds	Trust Funds	Appropriated Total
A. Unexpended Appropriations	\$93,650,000		
B. Invested Capital			
C. Cumulative Results of Operations	1,052,615		
D. Donations			
E. Transfers			
F. Total	\$94,702,615		

**G. Other Information:**

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

**Note 18: Taxes:**

The Department of the Army, as an agency of the DoD and the federal government, interacts with and is dependent on the financial activities of the federal government as a whole. Therefore, these Financial Statements do not reflect the results of all financial decisions applicable to the Army which would otherwise be recorded if the agency was a stand-alone entity. 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 19: Other Revenues and Financing Sources:**

**A. Other Revenues and Financing Sources**

(1)

Total

\$0

**B. Other Information:**

**Defense Emergency Response Fund Financial Statements - FY 1992**

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**26 Footnotes**

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**Note 20: Program or Operating Expenses:**

**A. Operating Expenses by Object Classification**

	<b>1992</b>
(1) Personal Services and Benefits	
(2) Travel and Transportation	
(3) Rental, Communication and Utilities	
(4) Printing and Reproduction	
(5) Contractual Services	\$3,033,000
(6) Supplies and Materials	\$2,264,385
(7) Equipment not Capitalized	
(8) Grants, Subsidies and Contributions	
(9) Insurance Claims and Indemnities	
(10) Other (describe)	
(11) Total Expenses by Object Class	<u>\$5,297,385</u>

**B. Operating Expenses by Program**

(1) Revolving Fund
<b>Total \$5,297,385</b>

**C. Other Information:**

**Note 21: Other Expenses:** (Not applicable to this appropriation.)

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

**Note 23: Non-Operating Changes:**

**A. Increases**

- (1) Transfers-In:
- (2) Donations Received:
- (3) Other Increases:
- (4) Total Increases



## **Part VI - Management Comments**

Office Of The Assistant Secretary Of The Army Comments



REPLY TO  
ATTENTION OF

DEPARTMENT OF THE ARMY  
OFFICE OF THE ASSISTANT SECRETARY  
109 ARMY PENTAGON  
WASHINGTON, DC 20310-0109  
1 June 1993

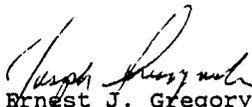


MEMORANDUM FOR THE INSPECTOR GENERAL

SUBJECT: Draft Report on Internal Controls and Compliance  
with Laws and Regulations for the Defense  
Emergency Response Fund's Financial Statements  
for FY 1992 (Project No. 2FG-2010)

Reference memorandum SAIG-PA (36-2b), 18 May 1993, SAB.

The Army concurs with the condition as reported on page 4 of subject draft report with respect to the requirement for supporting documentation before making payments. The Army will reemphasize to the Army Finance and Accounting Center in St. Louis the importance of the August 7, 1991 memorandum from the Comptroller of the Department of Defense. We will followup on compliance with the requirement to ensure that supporting documentation provides the basis for any payments and that reimbursements are documented with all required details prior to effecting disbursement no later than 30 June 1993.

  
Ernest J. Gregory  
Deputy Assistant Secretary of the Army  
(Financial Operations)

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