

C.2 LOANS RECEIVABLE

Loans Receivable consists of receivables due from the private sector as a result of loans made by the Department as part of the Military Housing Privatization Initiative (MHPI). Reporting entities must be able to assert the audit readiness of all business processes and sub-processes including loan disbursements, collection of principal and interest payments and adjustments for estimated defaults, prepayments, fees, penalties and recoveries.

Standards and Guidance

Additional sources of guidance pertaining to financial management, accounting and record retention policies for Loans Receivable are contained in the following table.

Financial Management and Accounting Guidance	Record Retention Policies
<ul style="list-style-type: none"> SFFAS No. 2, 18, 19 (and amendments) Technical Release (TR): 6 DoD FMR: Volume 12, Chapter 4 DCFO Memorandum: <i>Accurate and Reliable DoD Component-level Financial Management Trial Balances</i> 	<ul style="list-style-type: none"> National Archives and Records Administration (NARA) General Records Schedule (GRS) 1.1 DoD FMR: Volume 1, Chapter 9

Balance By Reporting Entity

The following reporting entities comprise the Loans Receivable line item.

Reporting Entities	FY 2015 Balance	% of Total
DoD Non-material Reporting Entities		
Military Housing Privatization Initiative	\$ 1,526,361,453	100.0%
Total	\$ 1,526,361,453	100.0%

Source: FY 2015 Reporting Entity DDRS-AFS Balance Sheets

Line Item Audit Readiness Considerations

The following table presents financial reporting risks, FROs and KSDs specific to Loans Receivable. In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the FROs relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting Loans Receivable, and assess the availability of KSDs that support the controls and amounts recorded.

Financial Reporting Risks	Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
Loans Receivable			
LR.1 Recorded Loans Receivable may not exist at a given date, do not pertain to the reporting entity, or may be improperly classified and summarized (E) (Wave 4, ROMM #14, #19, #20, #21, and #22)	Recorded Loans Receivable exist at a given date, represent transactions and events that actually occurred or may occur due to contractual performance, are appropriately classified, and pertain to the reporting entity (Wave 4, FRO #57)	Loan contracts, guarantee agreements, modifications, project status reports, loan servicing histories, and any historical documents that support underlying assumptions (Wave 4, KSD #70)	Select a sample of cohorts, and then select a sample of loans from each cohort for detail testing and determine whether direct loans, loan guarantee liabilities, subsidy cost allowances, re-estimates, and related expenses are recorded in the proper period at the correct amounts.

Financial Reporting Risks	Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
Loans Receivable			
		<p>Documentation supporting accruals or disbursements related to the loans</p> <p>Documentation supporting foreclosures and any related expenses</p>	<p>Select a sample of loan modifications and determine whether the cost of the modification is recorded in the proper period at the correct amount.</p> <p>Select a sample of foreclosures and determine whether the foreclosed property is recorded as an asset in the proper period for the correct amount.</p>
LR.2	<p>All Loans Receivable may not be summarized and recorded in the financial statements accurately (C) (Wave 4, ROMM #37, #42, #43 and #44)</p>	<p>All valid Loans Receivable are summarized and recorded in the financial statements accurately (Wave 4, FRO #58 and #77)</p>	<p>Loans Receivable general ledger account reconciliation and associated supporting documentation</p> <p>Loan contracts, guarantee agreements, modifications, loan servicing histories, and any historical documents that support underlying assumptions (Wave 4, KSD #70)</p> <p>Documentation supporting accruals or disbursements related to the loans</p> <p>Documentation supporting foreclosures and any related expenses</p> <p>See Suggested Test Procedures for LR.1</p>
LR.3	<p>Loans Receivable may be calculated incorrectly (V) (Wave 4, ROMM #59, #64, #65, and #66)</p>	<p>The reporting entity has calculated and recorded the Loans Receivable in accordance with Statements of Federal Financial Accounting Standards (SFFAS) No. 2, <i>Accounting for Direct Loans and Loan Guarantees</i>, SFFAS No. 18, <i>Amendments to Accounting Standards for Direct Loans and Loan Guarantees</i>, and SFFAS No. 19, <i>Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees</i> (Wave 4, FRO #58)</p>	<p>Loan contracts, guarantee agreements, modifications, project status reports, loan servicing histories, and any historical documents that support underlying assumptions (Wave 4, KSD #70)</p> <p>Loans Receivable general ledger account reconciliation and associated supporting documentation</p> <p>Documentation supporting accruals or disbursements related to the loans</p> <p>Documentation supporting foreclosures and any related expenses</p> <p>Select a sample of cohorts, and then select a sample of loans from each cohort for detail testing and determine whether:</p> <ul style="list-style-type: none"> • program assumptions are applied for each cohort • cash flow assumptions are supported by reliable data (including information on defaults, prepayments, and recoveries) of the reporting entity • reasonable and systematic methods are used to project key cash flow assumptions • interest rates agree to the rates approved by OMB • outputs for the reporting entity from OMB Credit Subsidy Calculator 2 are valid and accurate

Financial Reporting Risks	Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
Loans Receivable			
			<ul style="list-style-type: none"> • direct loans, loan guarantee liabilities, subsidy cost allowances, re-estimates, and related expenses are recorded in the proper period at the correct amounts <p>See also Suggested Test Procedures for LR.1</p>
LR.4	The reporting entity may not have rights to recorded Loans Receivable due to liens, pledges, or other restrictions (R) (Wave 4, ROMM #71)	The reporting entity has rights to the recorded Loans Receivable (Wave 4, FRO #59)	Loan contracts, guarantee agreements, modifications, project status reports, loan servicing histories, and any historical documents that support underlying assumptions (Wave 4, KSD #70)
LR.5	IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM)	All material systems achieve the relevant FISCAM IT general- and application-level general control objectives.	See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities

Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the **Loans Receivable** footnote disclosures included in **Note 8** of the FY 2014 DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for loan related footnote disclosures that reporting entities must consider in carrying out audit readiness activities. The Financial Reporting assessable unit in the FIAR Guidance provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line items.