

C.3 DEBT

Debt consists of interest and principal payments due to the U.S. Treasury for funds borrowed by the Department for the Military Housing Privatization Initiative (MHPI) and the Washington Aqueduct Capital Improvements Project. Reporting entities must be able to assert the audit readiness of all business processes and sub-processes related to borrowing including principal payments, interest payments, adjustments and prepayments.

Intragovernmental vs. Non-Federal

Reporting entities are required to reconcile Intragovernmental transactions and balances with their federal trading partners throughout the course of the fiscal year. The suggested test procedures for DT.1 – DT.2 and DT.4 – DT.6 can be leveraged to test both Intragovernmental and Non-Federal Debt. The suggested test procedures provided in DT.3 are for Intragovernmental Debt only. Specific considerations that apply to the presentation and disclosure assertion for Intragovernmental transactions, including Debt related transactions, are covered in the Financial Reporting assessable unit.

Standards and Guidance

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

Financial Management and Accounting Guidance	Record Retention Policies
<ul style="list-style-type: none"> SFFAS No. 5 (and amendments) DoD FMR: Volume 4, Chapter 11; Volume 6B, 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 Debt line item.

Reporting Entities	FY 2015 Balance	% of Total
OMB Designated Audit		
USACE – Civil Works Program	\$ 1,259,886	0.1%
Subtotal - OMB Design. Audit	\$ 1,259,886	0.1%
DoD Non-material Reporting Entities		
Military Housing Privatization Initiative	\$ 1,507,285,374	99.9%
Total	\$ 1,508,545,260	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 Debt. 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 Debt, 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
Debt			
DT.1	Recorded Debt does not pertain to the reporting entity, is not representative of obligations owed by the reporting entity, or may be improperly classified and summarized (E) (Wave 4, ROMM #14, #19, #20, #21 and #22)	Recorded Debt exists at a given date, represents 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)
DT.2	All Debt may not be summarized and recorded in the financial statements accurately (C) (Wave 4, ROMM #37, #42, #43 and #44)	All valid Debt is summarized and recorded in the financial statements accurately (Wave 4, FRO #58 and #77)	Debt confirmations and debt agreements Confirm the amounts of Debt obligations for the reporting entity with Treasury. Review Debt agreements and validate that corresponding liabilities have been completely recorded in the general ledger.
DT.3	Debt may not be properly classified as either Intragovernmental or Non-Federal (E, C)	Recorded assets and liabilities are properly classified as either Intragovernmental or Non-Federal (Wave 4, FRO #78)	Debt confirmations, repayment schedules, account reconciliations Select a sample of Debt transactions from the general ledger and obtain supporting documentation to validate that the Debt is properly classified as either Intragovernmental or Non-Federal.
DT.4	Debt may be calculated incorrectly (V) (Wave 4, ROMM #59, #64, #65, and #66)	The reporting entity has calculated and recorded the Debt 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)	Loan contracts, guarantee agreements, modifications, project status reports, loan servicing histories, and any historical documents that support underlying assumptions (Wave 4, KSD #70) Documentation supporting calculation of subsidy cost allowances, subsidy expense, and loan guarantee liabilities including desk procedures, default rates, discount factors, and loan histories, including support for any changes in assumptions, actuarial studies (Wave 4, KSD #71) Worksheets documenting computation of subsidy estimates and loan guarantee liabilities (Wave 4, KSD #72) Debt confirmations and debt agreements, repayment schedules, account reconciliations
			Review available Debt agreements to verify accurate recording. See also Suggested Test Procedures for DT.2

Financial Reporting Risks	Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
Debt			
DT.5	The obligation for Debt may not apply to the reporting entity (R) (Wave 4, ROMM #72)	Recorded Debt is the reporting entity's obligation at a given date (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) Debt confirmations and debt agreements
DT.6	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 **Debt** footnote disclosures included in **Note 13** of the FY 2014 DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for Debt 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.