

C.4 LOAN GUARANTEE LIABILITY

Loan Guarantee Liabilities represent potential payments by the Department relating to the Military Housing Privatization Initiative (MHPI) to cover defaults and delinquencies, interest subsidies, or other payments; offset by payments to the Department including origination and other fees, penalties and recoveries.

There is an interdependent relationship between loans receivable and loan guarantee liabilities. Reporting entities should account for loan guarantee liabilities at the present value of estimated net cash outflows of loan guarantees. The discount rate should be the average interest rate on marketable Treasury securities of similar maturity to the cash flows of the loan guarantee for which the estimate is being made.

Disclosure should be made for the face value of guaranteed loans outstanding and the amount guaranteed. The Federal Credit Reform Act of 1990 governs all amended direct loan obligations and loan guarantee commitments made after FY 1991.

Standards and Guidance

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

Financial Management and Accounting Guidance	Record Retention Policies
- SFFAS No. 2, 18, 19 (and amendments) - Technical Release (TR): 6 - DoD FMR: Volume 12, Chapter 4 - Federal Credit Reform Act of 1990 - DCFO Memorandum: <i>Accurate and Reliable DoD Component-level Financial Management Trial Balances</i>	- 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 Loan Guarantee Liability line item.

Reporting Entities	FY 2015 Balance	% of Total
DoD Non-material Reporting Entities		
Military Housing Privatization Initiative	\$ 66,541,849	100.0%
Total	\$ 66,541,849	100.0%

Source: FY 2015 Reporting Entity DDFS-AFS Balance Sheets

Line Item Audit Readiness Considerations

The following table presents financial reporting risks, FROs and KSDs specific to Loan Guarantee Liabilities. 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 Loan Guarantee Liabilities, and assess the availability of KSDs that support the controls and amounts recorded.

Financial Reporting Risks	Financial Reporting Objectives	Key Supporting Documents	Suggested Test Procedures
Loan Guarantee Liability			
LG.1	Recorded Loan Guarantee Liabilities do not pertain to the reporting entity, are 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 Loan Guarantee Liabilities for direct loans, subsidies, and loan guarantees 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)
LG.2	All Loan Guarantee Liabilities may not be summarized and recorded in the financial statements accurately (C) (Wave 4, ROMM #37, #42, #43 and #44)	All valid Loan Guarantee Liabilities are summarized and recorded in the financial statements accurately (Wave 4, FRO #58 and #77)	Loan contracts, guarantee agreements, modifications (Wave 4, KSD #70) Debt confirmations and debt agreements
LG.3	Loan Guarantee Liabilities may be calculated incorrectly (V) (Wave 4, ROMM #59, #64, #65, and #66)	The reporting entity has calculated and recorded Loan Guarantee Liabilities 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, debt agreements, repayment schedules, account reconciliations

Financial Reporting Risks	Financial Reporting Objectives	Key Supporting Documents	Suggested Test Procedures
Loan Guarantee Liability			
LG.4	The obligation for Loan Guarantee Liabilities 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) Loan contracts, guarantee agreements, modifications (Wave 4, KSD #70) Debt confirmations and debt agreements
LG.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 **Loan Guarantee Liability** footnote disclosures included in **Note 8** of the FY 2014 DoD Agency Financial Report. Section 11.4.9.8 of OMB Circular A-136, *Financial Reporting Requirements*, provides detailed requirements for direct loans and loan guarantees that reporting entities must consider in carrying out audit readiness activities. The Financial Reporting assessable unit in the FIAR Guidance, Section 5, provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line items.