

GAO

Report to the Congress

November 1986

# FINANCIAL AUDIT

## Solar Energy and Energy Conservation Bank's Financial Statements for 1981 Through 1985



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Comptroller General  
of the United States

B-224610

November 25, 1986

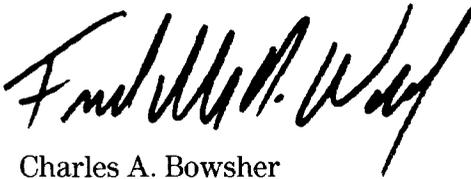
To the President of the Senate and the  
Speaker of the House of Representatives

This report presents our unqualified opinion on the financial statements of the Solar Energy and Energy Conservation Bank for the years ended September 30, 1981 through 1985, and our reports on the Bank's system of internal accounting controls and on its compliance with laws and regulations.

The Bank was created by title V of the Solar Energy and Energy Bank Conservation Act (Public Law 96-294) on June 30, 1980, and operates as a component of the U.S. Department of Housing and Urban Development. The purpose of the Bank is to encourage energy conservation and the use of solar energy, thereby reducing the nation's dependence on foreign energy supply sources. According to section 505(a) of the act, the Bank shall not exist after September 30, 1987.

The Comptroller General is required to audit the financial transactions of the Bank under section 505(b) of the act. We conducted our examination in accordance with generally accepted government auditing standards.

We are also sending this report today to the Director of the Office of Management and Budget, the Secretary of the Treasury, and the Board of Directors of the Solar Energy and Energy Conservation Bank.

*for* 

Charles A. Bowsher  
Comptroller General  
of the United States

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**Comptroller General  
of the United States**

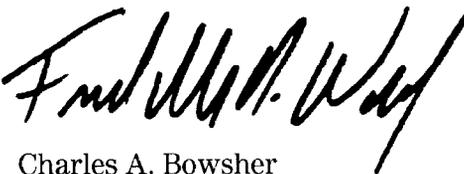
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The Board of Directors  
Solar Energy and Energy Conservation Bank

We have examined the statements of financial position of the Solar Energy and Energy Conservation Bank as of the years ended September 30, 1981, 1982, 1983, 1984, and 1985, and the related statements of operations, of changes in financial position, and of reconciliation to budget reports for each of the five years then ended. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As disclosed in note 1 to the financial statements, the Bank's enabling legislation contains a provision that the Bank shall not exist after September 30, 1987.

In our opinion, the financial statements referred to above present fairly the financial position of the Solar Energy and Energy Conservation Bank as of the years ended September 30, 1981, 1982, 1983, 1984, and 1985, and the results of its operations and the changes in its financial position for each of the years then ended, in conformity with generally accepted accounting principles for the federal government applied on a consistent basis.

*for* 

Charles A. Bowshe  
Comptroller General  
of the United States

August 8, 1986

# Report on Internal Accounting Controls

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We have examined the financial statements of the Solar Energy and Energy Conservation Bank for the years ended September 30, 1981 through 1985, and have issued our report thereon. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. This report pertains to a preliminary study of the system of internal accounting controls for the year ended September 30, 1985.

We did not complete a study and evaluation of the Bank's system of internal accounting controls for the purpose of determining the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Bank's financial statements. Based on our preliminary study, we concluded that it was more efficient to expand our substantive audit tests in examining the financial transactions for the years ended September 30, 1981 through 1985. Accordingly, we do not express an opinion on the system of internal accounting controls taken as a whole.

While we did not perform a complete study and evaluation of the Bank's internal accounting control system, we did not become aware of any condition during our expanded substantive audit tests which we believe to be a material weakness. In audits where we do study and evaluate the system of internal accounting controls, material weaknesses in the internal accounting control system would not necessarily be disclosed. Accordingly, even in such cases, we would not be able to express an opinion on the system taken as a whole.

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# Report on Compliance With Laws and Regulations

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We have examined the financial statements of the Solar Energy and Energy Conservation Bank for the years ended September 30, 1981 through 1985, and have issued our opinion thereon. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances. These tests were made at the Bank and various offices of the U.S. Department of Housing and Urban Development. This report pertains to our review of compliance with laws and regulations for the years ended September 30, 1981 through 1985.

In our opinion, the Bank complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected its financial statements. However, we did not test expenditures by program participants.

In connection with our examination, nothing came to our attention that caused us to believe that the Bank was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

# Financial Statements

## Statements of Financial Position

	As of September 30,				
	<u>1985</u>	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>
	----- (thousands) -----				
<u>ASSETS</u>					
Funds with U.S. Treasury - restricted for letters of credit	<u>\$46,442</u>	<u>\$58,400</u>	<u>\$41,590</u>	<u>\$21,817</u>	<u>\$ 0</u>
<u>EQUITY OF THE U.S. GOVERNMENT</u>					
Unexpended appropriations					
Unobligated balances, not lapsing	\$ 1,462	\$ 5,764	\$ 5,653	\$21,817	\$ 0
Obligated balances, unexpended	44,980	52,636	35,937	0	0
	<u>\$46,442</u>	<u>\$58,400</u>	<u>\$41,590</u>	<u>\$21,817</u>	<u>\$ 0</u>

The accompanying notes are an integral part of these statements.

Statements of Operations

	For the years ended September 30,				
	<u>1985</u>	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>
	----- (thousands) -----				
<u>FINANCING SOURCES</u>					
Appropriations used to finance expenses (note 3)	<u>\$26,946</u>	<u>\$ 7,939</u>	<u>\$ 227</u>	<u>\$ 33</u>	<u>\$ 250</u>
<u>EXPENSES</u>					
Participant Grants:					
Program	24,747	7,189	0	0	0
Administration	1,717	341	0	0	0
Promotion	154	119	0	0	0
	<u>26,618</u>	<u>7,649</u>	<u>227</u>	<u>33</u>	<u>250</u>
Solar Bank:					
Administration (note 4)	<u>328</u>	<u>290</u>	<u>227</u>	<u>33</u>	<u>250</u>
Total expenses	<u>26,946</u>	<u>7,939</u>	<u>227</u>	<u>33</u>	<u>250</u>
Excess of financing sources over expenses	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of these statements.

Statements of Changes in Financial Position

	For the years ended September 30,				
	<u>1985</u>	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>
	----- (thousands) -----				
<u>SOURCES OF FUNDS</u>					
Increase in:					
Unobligated balances	\$ 0	\$ 111	\$ 0	\$21,817	\$ 0
Obligated balances	<u>0</u>	<u>16,699</u>	<u>\$ 35,937</u>	<u>0</u>	<u>0</u>
	<u>0</u>	<u>16,810</u>	<u>35,937</u>	<u>21,817</u>	<u>0</u>
<u>USES OF FUNDS</u>					
Decrease in:					
Unobligated balances	4,302	0	16,164	0	0
Obligated balances	<u>7,656</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>11,958</u>	<u>16,810</u>	<u>16,164</u>	<u>21,817</u>	<u>0</u>
Increase (decrease) in cash	<u>\$(11,958)</u>	<u>\$16,810</u>	<u>\$ 19,773</u>	<u>\$21,817</u>	<u>\$ 0</u>
Funds with U.S. Treasury, beginning of year	\$ 58,400	\$41,590	\$ 21,817	\$ 0	\$ 0
Funds with U.S. Treasury, end of year	<u>46,442</u>	<u>58,400</u>	<u>41,590</u>	<u>21,817</u>	<u>0</u>
Increase (decrease) in cash	<u>\$(11,958)</u>	<u>\$16,810</u>	<u>\$ 19,773</u>	<u>\$21,817</u>	<u>\$ 0</u>
The accompanying notes are an integral part of these statements.					

Statements of Reconciliation to Budget Report

	For the years ended September 30,				
	<u>1985</u>	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>
	----- (thousands) -----				
Appropriations used to finance expenses	\$26,946	\$ 7,939	\$ 227	\$ 33	\$ 250
Outlays	<u>\$26,946</u>	<u>\$ 7,939</u>	<u>\$ 227</u>	<u>\$ 33</u>	<u>\$ 250</u>
Obligations incurred, net	\$19,290	\$24,638	\$36,164	\$ 33	\$ 250
Obligated funds balance, beginning of year	52,636	35,937	0	0	0
Less: obligated funds balance, end of year	<u>(44,980)</u>	<u>(52,636)</u>	<u>(35,937)</u>	<u>0</u>	<u>0</u>
Outlays	<u>\$26,946</u>	<u>\$ 7,939</u>	<u>\$ 227</u>	<u>\$ 33</u>	<u>\$ 250</u>

The accompanying notes are an integral part of the statements.

## Notes to Financial Statements

1. Organization

The Solar Energy and Energy Conservation Bank was created by title V of the Solar Energy and Energy Conservation Bank Act, Public Law 96-294, on June 30, 1980, as amended. The Bank was created to encourage energy conservation and solar energy use in order to reduce the nation's dependence on foreign energy sources. The Bank began operations when it was reactivated in 1982, after the Congress rescinded its 1981 funding.

The Bank is a component of the U.S. Department of Housing and Urban Development (HUD). A Board of Directors, chaired by the Secretary of HUD, provides overall policy direction to the Bank's management. The act directs that the management of the Bank rest with the President of the Bank. The President of the Bank was nominated by the President of the United States in June 1982, and was confirmed by the Senate on August 1, 1986. During the period of confirmation, the President was in "President-Designate" status.

The financial assistance provided by the Bank for energy conservation improvements or solar energy systems is in the form of (1) reduction of loan principal, (2) prepayment of interest on loans, or (3) grants for energy-conserving improvements in residential buildings. To obtain financial assistance, participants execute cooperative agreements with the Bank. Participants are responsible for the program in their jurisdictions, which include the 48 states, the District of Columbia, the five territories, and an Indian Assistance Program. Program expenditures to participants are based upon an established formula of population characteristics and program performance. Disbursement to participants are made through letters of credit which are authorized funds available through wire transfer from the U.S. Treasury.

The enabling legislation contains a provision that the Bank shall not exist after September 30, 1987. Because of this requirement, the Bank has begun to phase down its operations and did not receive appropriations for the year ended September 30, 1986.

2. Summary of Significant Accounting Policies

HUD's Office of Finance and Accounting performs the Bank's financial accounting. The Bank receives monthly and year-end reports of administrative expenses, program obligations, and participant expenditures. Financial statements are prepared from these reports and conform with generally accepted accounting principles for the federal government.

### 3. Appropriations

Funds appropriated by the Congress to the Bank are available for obligation for 2 years. The Congress appropriated a total of \$82.1 million from 1981 through 1985. The Bank returned \$263 thousand to the U.S. Treasury in 1985, consisting of \$251 thousand from the State of Alaska, which terminated its cooperative agreement, and \$12 thousand of unused 1985 funds reserved for administrative expenses. As of September 30, 1985, the remaining balance of \$81.8 million was available for obligation and expenditure by the Bank and its participants, of which \$35.4 million has been spent, \$45.0 million is obligated, and \$1.4 million remains unobligated.

In 1985, the Bank recaptured \$5.4 million in unspent funds where appropriations had lapsed. In accordance with the orders of the United States District Court, Southern District of New York, in a decision dated March 20, 1985, (Dabney, et al v. Reagan, 82 CIV 2231), the Bank redistributed the funds to participants.

### 4. Employee Benefits Plans

All of the Bank's employees are covered by the Civil Service Retirement System, which is currently two-tiered. For employees hired prior to January 1, 1984, the Bank withholds approximately 7 percent of their gross earnings. Their contribution is then matched by the Bank and the sum transferred to the Civil Service Retirement Fund from which this employee group will receive retirement benefits. For employees hired on or after January 1, 1984, the bank withholds, in addition to social security withholdings, approximately 1.3 percent of their gross earnings, but matches such withholdings with a 7 percent contribution, as above. This second employee group will receive retirement benefits from the Civil Service Retirement system along with the Social Security System to which they currently contribute. For the years ended September 30, 1981 to 1985 the Bank contributed \$11, \$12, \$12, \$15 and \$18 thousand, respectively, to the Civil Service Retirement System.

Although the Bank funds a portion of pension benefits under the Civil Service Retirement System relating to its employees and makes the necessary payroll withholdings from them, it does not disclose the assets of the Civil Service Retirement System nor does it disclose actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. Reporting of such amounts is the responsibility of the U.S. Office of Personnel Management. Data regarding the Civil Service Retirement System's actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability are not allocated to individual departments and agencies.

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