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BY THE COMPTROLLER GENERAL

# Report To The Congress

OF THE UNITED STATES

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## Reviews Of The Audits Of The Neighborhood Reinvestment Corporation's Financial Statements For The Years Ended September 30, 1983 And 1982

GAO reviewed the independent certified public accountants' audits of the Neighborhood Reinvestment Corporation's financial statements for the years ended September 30, 1983 and 1982. GAO found nothing to indicate the opinion of the independent certified public accountants is inappropriate or cannot be relied on.

In the opinion of the Corporation's independent certified public accountants, the financial statements present fairly the Corporation's financial position for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis.



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GAO/AFMD-85-12  
MAY 3, 1985

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON D.C. 20548

B-207894

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

This report presents the results of our reviews of Touche Ross & Co.'s audits of the balance sheets of the Neighborhood Reinvestment Corporation as of September 30, 1983 and 1982, and the related statements of revenue, expenses and changes in fund balance, and changes in financial position for the years then ended. Our reviews were made under provisions of the Neighborhood Reinvestment Corporation Act (42 U.S.C. 8106(c)), which directs us to audit the Corporation's financial transactions at least once every three years.

Our reviews were conducted in accordance with generally accepted government auditing standards. To avoid unnecessary duplication and expense and make the most efficient use of our available resources, we relied on the work and reports of the Corporation's independent certified public accountants rather than conduct financial audits ourselves. To review the reasonableness of the auditors' work and determine the extent to which we could rely on it, we

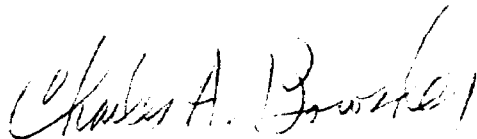
- interviewed the Corporation's officials to obtain information about the Corporation's operations, including the maintenance of its financial records and the preparation of its financial statements;
- interviewed the auditors to identify the audit approach used and the methods used to control the quality of audit work;
- obtained information about the qualifications and independence of the auditors;
- reviewed the Corporation's financial statements and the auditors' reports for compliance with the reporting requirements of generally accepted accounting principles and generally accepted government auditing standards; and
- reviewed the auditors' workpapers to determine:
  - o the nature, timing, and extent of audit work performed;
  - o whether the audit quality control methods identified by the auditor were actually used;

- whether there was a proper study and evaluation of the Corporation's internal controls; and
- whether the auditors tested transactions for compliance with applicable laws and regulations.

We found that the audits were conducted in accordance with generally accepted government auditing standards.

In the opinion of Touche Ross & Co., the Corporation's financial statements present fairly its financial position as of September 30, 1983 and 1982, and the results of its operations, and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. During our reviews, we found nothing to indicate Touche Ross & Co.'s opinion on the Corporation's 1983 and 1982 financial statements is inappropriate or that it cannot be relied on. The auditors' work did not disclose any material internal control weaknesses or noncompliance with laws and regulations. The opinion, statement on internal controls, statement on compliance with laws and regulations, and the financial statements are in appendix I.

We are sending copies of this report to the Director of the Office of Management and Budget; the Chairmen of the Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Banking, Finance and Urban Affairs; the Chairmen of the Senate and House Committees on the Judiciary; the Secretary of the Treasury; and the Corporation's Board of Directors.



Comptroller General  
of the United States

*Touche Ross & Co.*

December 9, 1983

Board of Directors  
Neighborhood Reinvestment  
Corporation  
Washington, D.C.

We have examined the balance sheets of Neighborhood Reinvestment Corporation as of September 30, 1983 and 1982, and the related statements of revenue, expenses, and changes in fund balance and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Neighborhood Reinvestment Corporation as of September 30, 1983 and 1982, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

*Touche Ross + Co.*

Certified Public Accountants

*Touche Ross & Co.*

July 5, 1984

The Board of Directors  
Neighborhood Reinvestment Corporation  
Washington, D. C.

We have examined the financial statements of Neighborhood Reinvestment Corporation for the year ended September 30, 1983, and have issued our report thereon dated December 9, 1983. As part of our examination, we made a study and evaluation of the system of internal accounting control of the Corporation to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U. S. General Accounting Office "Standards for Audit of Governmental Organizations, Programs, Activities and Functions." For the purposes of this report, we have classified the significant accounting controls in the following categories:

1. Purchases and disbursements,
2. Cash receipts,
3. Payroll, and
4. General Ledger

Our study included all of the control categories listed above except that we did not evaluate the internal accounting controls in these categories because we concluded that the audit could be performed more efficiently by expanding substantive audit tests and placing no reliance on the internal control system. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the entity's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting controls taken as a whole or on any of the categories of controls identified above.

The management of the Corporation is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

*Touche Ross & Co.*

Board of Directors  
Neighborhood Reinvestment Corporation  
July 5, 1984  
Page Two

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of Neighborhood Reinvestment Corporation taken as a whole or on any of the controls identified in the first paragraph. However, our study and evaluation disclosed no conditions that we believe to be a material weakness.

This report is intended solely for the use of management of Neighborhood Reinvestment Corporation, the U. S. General Accounting Office and other associated Federal organizations and should not be used for any other purpose.

*Touche Ross & Co.*

Certified Public Accountants

*Touche Ross & Co.*

July 5, 1984

The Board of Directors  
Neighborhood Reinvestment Corporation  
Washington, D. C.

We have examined the financial statements of Neighborhood Reinvestment Corporation as of and for the year ended September 30, 1983, and have issued our report thereon dated December 9, 1983. Our examination was made in accordance with generally accepted auditing standards and the provisions of "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" promulgated by the Comptroller General, which pertain to financial and compliance audits and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our examination, we have reviewed Sections 601 through 608 of the Housing and Community Development Amendments of 1978 (PL95-557) to determine the material compliance requirements which may have a financial impact.

In our opinion, for the tested operations and records, the Corporation complied with the material compliance requirements of PL95-557 referred to above. Further, based upon our examination and the procedures referred to above, for those operations and records not tested, nothing came to our attention to indicate that the Corporation had not complied with the compliance requirements referred to above.

*Touche Ross & Co.*

Certified Public Accountants



*Touche Ross & Co*NEIGHBORHOOD REINVESTMENT CORPORATIONBALANCE SHEETS

	<u>September 30,</u>	
	<u>1983</u>	<u>1982</u>
<u>ASSETS</u>		
CASH	\$ 38,487	\$ 41,544
SHORT-TERM INVESTMENTS (at cost, which approximates market)	5,377,556	5,323,711
RECEIVABLES:		
Federal Home Loan Bank System	107,296	277,694
Local governments	238,149	204,317
Accrued interest receivable	142,176	18,218
TRAVEL ADVANCES	48,248	52,352
PREPAID EXPENSES AND OTHER	186,237	120,542
OFFICE FURNITURE AND EQUIPMENT, less accumulated depreciation of \$377,393 and \$175,978	<u>818,832</u>	<u>944,138</u>
	<u>\$6,956,981</u>	<u>\$6,982,516</u>
<u>LIABILITIES AND FUND BALANCE</u>		
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$1,041,731	\$1,163,515
CHECKS DRAWN IN EXCESS OF BANK BALANCE	661,307	-
INSTALLMENT PURCHASE PAYABLE (Note C)	251,281	335,042
GRANT COMMITMENTS (Note D)	3,359,011	3,744,326
UNEXPENDED LOCAL FUNDS	542,527	555,001
FUND BALANCE	<u>1,101,124</u>	<u>1,184,632</u>
	<u>\$6,956,981</u>	<u>\$6,982,516</u>

See notes to financial statements.

NEIGHBORHOOD REINVESTMENT CORPORATION  
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES  
IN FUND BALANCE

	<u>Year ended September 30,</u>	
	<u>1983</u>	<u>1982</u>
REVENUE:		
Congressional appropriation	\$15,512,000	\$13,872,000
Federal Home Loan Bank System	380,596	1,519,875
Local governments	350,536	670,924
Federal Reserve Board	400,000	-
Comptroller of the Currency	200,000	-
Federal Deposit Insurance Corporation	200,000	-
Interest and other	943,048	1,302,466
	<u>17,986,180</u>	<u>17,365,265</u>
TOTAL REVENUE		
EXPENSES:		
Grants and grant commitments:		
From Congressional appropriation and other sources	4,526,450	4,085,660
From local government sources	10,324	61,256
Salaries and employee benefits	7,841,812	7,630,049
Travel	2,104,127	2,394,391
Professional services	466,497	592,700
Conferences and workshops	359,636	451,493
Rent	1,035,083	817,435
Telephone, postage and delivery	604,731	628,967
Printing, films and supplies	444,515	410,796
Other general and administrative	463,275	584,316
Depreciation	213,238	144,554
Loss on disposal of fixed assets	-	64,173
	<u>18,069,688</u>	<u>17,865,790</u>
TOTAL EXPENSES		
EXCESS OF EXPENSES OVER REVENUE	(83,508)	(500,525)
FUND BALANCE, Beginning of year	<u>1,184,632</u>	<u>1,685,157</u>
FUND BALANCE, End of year	<u>\$ 1,101,124</u>	<u>\$ 1,184,632</u>

See notes to financial statements.

*Touche Ross & Co*

**NEIGHBORHOOD REINVESTMENT CORPORATION**  
**STATEMENTS OF CHANGES IN FINANCIAL POSITION**

	<u>Year ended September 30,</u>	
	<u>1983</u>	<u>1982</u>
<b>USES OF FUNDS:</b>		
Excess of expenses over revenue	\$ 83,508	\$ 500,525
Items not requiring outlay of funds:		
Depreciation and amortization	<u>(213,238)</u>	<u>(144,554)</u>
Funds used in (provided by) operations	(129,730)	355,971
Decrease in grant commitments	385,315	-
Increase in accrued interest receivable	123,958	-
Decrease in accounts payable and accrued expenses	121,784	-
Increase in office furniture and equipment - net	87,932	338,315
Decrease in installment purchase payable	83,761	83,760
Increase in prepaid expenses and other	65,695	8,908
Increase in short-term investments	53,845	-
Increase in local government receivables	33,832	-
Decrease in unexpended local funds	12,474	297,918
Decrease in checks drawn in excess of bank balance	-	686,475
Increase in Federal Home Loan Bank System receivable	-	136,779
Increase in cash	-	41,544
	<u>\$ 838,866</u>	<u>\$1,949,670</u>
<b>SOURCES OF FUNDS:</b>		
Increase in checks drawn in excess of bank balance	\$661,307	\$ -
Decrease in Federal Home Loan Bank System receivable	170,398	-
Decrease in travel advances	4,104	7,543
Decrease in cash	3,057	-
Decrease in short-term investments	-	1,047,076
Decrease in accrued interest receivable	-	352,078
Decrease in local government receivables	-	292,818
Increase in accounts payable and accrued expenses	-	220,221
Increase in grant commitments	-	29,934
	<u>\$ 838,866</u>	<u>\$1,949,670</u>

See notes to financial statements.

*Touche Ross & Co*NEIGHBORHOOD REINVESTMENT CORPORATIONNOTES TO FINANCIAL STATEMENTSYEARS ENDED SEPTEMBER 30, 1983 AND 1982A. ORGANIZATION

Neighborhood Reinvestment Corporation was established by Congress on October 31, 1978, by the Neighborhood Reinvestment Corporation Act. The purpose of the Corporation is to continue the joint efforts of the Federal financial supervisory agencies and the Department of Housing and Urban Development (HUD) in promoting reinvestment in older neighborhoods by local financial institutions in cooperation with the community, residents, and local government. This effort was previously conducted by the Urban Reinvestment Task Force, which the Corporation supersedes.

As stipulated in the Act, the Corporation is under the direction of a board of directors comprised of the Chairman of the Federal Home Loan Bank Board, the Secretary of Housing and Urban Development, a member of the Board of Governors of the Federal Reserve System, the Chairman of the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and the Chairman of the National Credit Union Administration.

B. SIGNIFICANT ACCOUNTING POLICIES

The Corporation's funding is provided through Congressional appropriation. In addition, administrative support is received from the Federal Home Loan Bank System (FHLBS) through its Office of Neighborhood Reinvestment (ONR), and monetary support is provided from local government agencies (for project development) and, in 1983, from other board member agencies. The Congressional appropriations in 1983 and 1982 have been recognized as revenue when granted. The administrative expenses of ONR are reimbursed by the FHLBS, and these amounts are shown in the accompanying financial statements as both revenue and expenses. Support from local government agencies is recorded as revenue when costs are incurred; funds received but unexpended are reflected as a liability. Support from other board member agencies is recorded as revenue when granted.

Cash in excess of amounts required to fund current operations is invested in short-term investments.

Office furniture and equipment is recorded at cost. Depreciation is computed using the straight-line method on the estimated useful lives of the assets, which are five to eight years.

NEIGHBORHOOD REINVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 1983 AND 1982  
 (continued)

C. INSTALLMENT PURCHASE PAYABLE

In 1981, the Corporation entered into an agreement with the Federal Home Loan Mortgage Corporation to purchase approximately \$586,300 of office furniture and equipment. Payment of the total purchase price is to be made over a seven-year period in equal annual payments of approximately \$83,700 due each March 31. During 1982, the Corporation moved to new offices and sold this furniture and equipment to the Federal Home Loan Bank Board for cash. The transaction resulted in a loss, which is reflected in the accompanying financial statements in 1982. The cash proceeds were used to buy furniture and equipment for the new offices, and the Corporation still has the original obligation to the Mortgage Corporation. A portion of the new office furniture has been assigned as collateral in an amount equal to the remaining installment payable to the Mortgage Corporation.

D. GRANT COMMITMENTS

The Corporation provides grant funds to neighborhood housing services programs, neighborhood preservation projects, and other similar programs in partial support of program costs and to create revolving loan funds. At the point in time that the funds are committed, in substance a grant is recognized; therefore, committed but unexpended grant funds are recorded as a liability in the accompanying financial statements. As of September 30, 1983 and 1982, grant funds were committed and outstanding in the following program areas:

	<u>1983</u>	<u>1982</u>
Neighborhood Housing Services	\$ 790,334	\$1,465,815
Neighborhood Preservation Projects	277,892	475,828
Neighborhood Housing Services Expansion	552,785	486,583
Neighborhood Program Development	890,500	1,044,500
Neighborhood Housing Services of America	550,000	123,000
Neighborhood Housing Services Reimbursable Grants	45,130	120,000
Intern Grants	16,870	28,600
Apartment Improvement Program	235,500	-
	<u>\$3,359,011</u>	<u>\$3,744,326</u>

*Touche Ross & Co*

NEIGHBORHOOD REINVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 1983 AND 1982

(continued)

E. PENSION PLAN

Effective October 1, 1980, the Corporation established a defined contribution pension plan, which covers substantially all of its employees. Although the plan is noncontributory, employees may make a voluntary contribution of up to 6% of their annual salaries. The Corporation's contribution is determined based on employees' salary levels as well as the partial matching of each employee's voluntary contribution. The Corporation's policy is to fund pension cost currently. Total pension expense was \$551,728 and \$561,378 for 1983 and 1982, respectively.

F. LEASE COMMITMENTS

The Corporation leases office space in Washington, D.C., and in a number of other cities throughout the United States. The following is a schedule, by year, of future minimum rental payments on noncancellable operating leases, having initial or remaining terms of more than one year as of September 30, 1983:

1984	\$ 950,075
1985	882,530
1986	805,858
1987	559,413
Total	<u>\$3,197,876</u>

Rent expense under operating leases for the years ended September 30, 1983 and 1982 was \$1,035,083 and \$817,435, respectively.

*Touche Ross & Co*ADDITIONAL INFORMATION

Our examination was made for the purpose of forming an opinion on the financial statements taken as a whole. The combining information is presented for purposes of additional analysis, by funding source, of the statements of revenue, expenses, and changes in fund balance rather than to present the results of operations of the individual funding sources. The combining information has been subjected to the auditing procedures applied in the examination of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Touche Ross + Co.*

Certified Public Accountants

NEIGHBORHOOD REINVESTMENT CORPORATION  
COMBINING STATEMENT OF REVENUE, EXPENSES, AND  
CHANGES IN FUND BALANCES

YEAR ENDED SEPTEMBER 30, 1983

	<u>Office of Neighborhood Reinvestment</u>	<u>Congressional Appropriation</u>	<u>Project Development</u>	<u>Other Sources</u>	<u>Total</u>
REVENUE:					
Congressional appropriation	\$ -	\$15,512,000	\$ -	\$ -	\$15,512,000
Federal Home Loan Bank System	380,596	-	-	-	380,596
Local governments	-	-	350,536	-	350,536
Federal Reserve Board	-	-	-	400,000	400,000
Comptroller of the Currency	-	-	-	200,000	200,000
Federal Deposit Insurance Corporation	-	-	-	200,000	200,000
Interest and other	-	-	29,190	913,858	943,048
<b>TOTAL REVENUE</b>	<u>380,596</u>	<u>15,512,000</u>	<u>379,726</u>	<u>1,713,858</u>	<u>17,986,180</u>
EXPENSES:					
Grants and grant commitments					
From Congressional appropriation	-	3,222,450	-	1,304,000	4,526,450
and other sources	-	-	10,324	-	10,324
From local government sources	-	-	382,461	308,732	7,841,812
Salaries and employee benefits	231,790	6,918,829	170,430	42,144	2,104,127
Travel	44,005	1,847,548	84,128	-	466,497
Professional services	-	382,369	96,158	-	359,636
Conferences and workshops	-	263,478	25,587	222,260	1,035,083
Rent	34,000	753,236	38,525	153,890	604,731
Telephone, postage and delivery	2,884	409,432	36,399	-	444,515
Printing, films and supplies	-	408,116	83,440	3,714	463,275
Other general and administrative	7,563	368,558	-	28,444	213,238
Depreciation	98,735	86,059	-	-	-
Project development expense	-	576,916	(576,916)	-	-
<b>TOTAL EXPENSES</b>	<u>418,977</u>	<u>15,236,991</u>	<u>350,536</u>	<u>2,063,184</u>	<u>18,069,688</u>
REVENUES OVER (UNDER) EXPENSES	(38,381)	275,009	29,190	(349,326)	(83,508)
FUND BALANCES, Beginning of year	<u>248,042</u>	<u>532,627</u>	<u>71,835</u>	<u>332,128</u>	<u>1,184,632</u>
FUND BALANCES, End of year	<u>\$209,661</u>	<u>\$ 807,636</u>	<u>\$ 101,025</u>	<u>\$ (17,198)</u>	<u>\$ 1,101,124</u>





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