

**ACCOUNTING AND AUDIT POLICY COMMITTEE MEETING
FINAL MINUTES
May 21, 2009**

The meeting was convened at 10:00 AM in room 7C13 of the GAO Building, 441 G St., NW, Washington, DC.

ADMINISTRATIVE MATTERS

• **Attendance**

Present: Ms. Payne (chairperson), Mr. Bragg, Ms. Chadwick, Mr. Kevin Close (for Mr. Brewer), Mr. Fletcher, Ms. Gilmore, Ms. Kearney, Mr. Synowiec and Mr. Gary Ward (for Mr. Sturgill). FASAB/AAPC project director, Ms. Valentine and general counsel, Mr. Dymond, were present at the meeting.

Absent: Ms. Carey, Messrs. Brewer and Sturgill.

• **Minutes**

The minutes of January 28, 2008 were previously approved as final, having been circulated by E-mail to members.

• **Administrative**

Ms. Payne opened the meeting by recognizing the new OMB member, Regina Kearney and the two member substitutes.

Ms. Valentine updated the Committee on the AAPC vacancy due to the retirement of Mr. George Rippey in January as well as the re-appointment of Mr. Bragg to a second 3-year term on the AAPC. Both of those appointments are expected to be in place within the next week.

PROJECT MATTERS

• **Project Agenda Status**

General PP&E

Ms Gilmore gave a brief update of the general PP&E (G-PP&E) task force. She noted that the task force was very active in its work and was progressing towards providing implementation guidance on several G-PP&E issues. She noted that two of the subgroup leaders would be presenting to the Committee today. She commended all members of the task force on their dedication, as well as the spirited discussions that are resulting in useful guidance for the federal community. Ms. Gilmore noted that Ms. Carey's acquisition subgroup was very close to completing its work on the estimating historical cost implementation guidance. Lastly she mentioned that once the record retention subgroup has completed its task, its members would integrate into other subgroups.

Mr. Fletcher thanked Ms. Gilmore for keeping the task force moving during his absence and noted that good progress was being made and resulting in clarity in policy.

- **“Record Retention Timeframes for General PP&E Assets”**

Ms. Valentine introduced John Lynskey, NSF, as the leader for the record retention subgroup of the AAPC G-PP&E task force. Mr. Lynskey thanked Ms. Gilmore and Ms. Valentine for their assistance in getting through the early stages of the subgroup. Mr. Lynskey also thanked all the members of the subgroup, including Mr. Dymond. Mr. Lynskey began by giving the Committee a brief overview of the work of the subgroup. He noted that the subgroup first researched the current guidance on record retention (i.e., IRS, NARA, International community, AICPA, etc.) and those summaries can be found in an appendix to the paper. Their research showed that there are inconsistencies in record retention policies throughout the community. The goal of the subgroup was to develop guidance to assist management with consistent record retention policies for G-PP&E assets. It was not the intent of the subgroup to provide audit guidance, but to provide value-added guidance that will help management as they are required to support balances presented on their financial statements. The subgroup used the five management assertions outlined in Statement of Auditing Standards (SAS) No. 31. Those assertions are (1) the existence or occurrence of assets or liabilities of the entity at a given date or recording of transactions over a given period of time; (2) the completeness of transactions and accounts; (3) the rights to assets and obligations incident to liabilities are properly represented; (4) the valuation and allocation of asset, liability, equity, revenue, and expense components are appropriately included; and (5) the financial statements present and disclose particular components properly.

Since the National Archives and Records Administration (NARA) is considered the authority on record retention policies for the federal government, the subgroup reviewed the retention timelines outlined in NARA general records schedules for applicability to G-PP&E. The NARA guidance states that real property permanent records should be maintained for 10 years after the disposal of the property and routine procurement records should be kept for 6 years and 3 months. In addition NARA does allow agencies to develop their own specific guidelines – those guidelines are subject to approval by NARA.

The subgroup’s approach in its proposed guide, “Record Retention Timeframes for General PP&E Assets”, was not to change the NARA guidelines but to better define the guidelines. The subgroup began by dividing records documentation into two categories – permanent and transactional. Permanent records include titles, deeds, appraisals, architectural designs, etc. Transactional records include invoices, contracts, payment checks, etc. Next, the subgroup agreed to keep the NARA permanent real property guidelines as is. The permanent records of all other non-real property should be kept for the later of 6 years & 3 months or disposal. Finally, all transactional records should also be kept for the later of 6 years & 3 months or disposal, unless the records should be specifically kept for some reason to support financial statement balances.

Mr. Lynskey noted that the guide includes the existing NARA guidance and highlights the proposed changes. The questions the subgroup and the task force had for the Committee are who should request the proposed changes to NARA and should the guidance be incorporated into the accounting standards. The subgroup suggested FASAB or AAPC request NARA to update their General Records Schedule 3 and once NARA approves, then incorporate the guidance into the estimating historical cost implementation guide being developed by the acquisition task force.

Ms. Payne asked the members for their comments on the draft guide. Ms. Kearney first commended the group on all of its great research efforts. She then asked Mr. Lynskey if he knew why there was a difference between NARA's real property retention policies of 10 years and the 6 years & 3 months for all other property. Mr. Lynskey stated that no real answer was given to the group by NARA. Mr. Synowiec asked what was the significance of the 3 months added to the 6 year policy. Mr. Dymond noted that some of the NARA timeframes reflect statutes of limitation timeframes for government claims and the 3 months gives a small cushion after the statute of limitation timeframe ends. Ms. Kearney asked Mr. Lynskey if electronic records applied to the guidance. Mr. Lynskey noted that in the NARA guidelines hard copies and electronic copies have the same retention period. The subgroup proposed guidance makes a stronger case for using electronic records because of the ease of storage vs. storing hard copies. Mr. Fletcher asked what was NARA's timeframe for amending NARA guidance. Mr. Lynskey noted that the subgroup did not specifically discuss timeframes for amending their guidance with NARA.

Ms. Payne asked what due diligence approach does the Committee want to take before recommending any changes to NARA. Ms. Payne noted that a vehicle is needed to solicit broad input from the community on the proposed amendments before any recommendation can go forward to NARA. She also emphasized the need to discuss the question – does the guidance have a place in the accounting literature. Ms. Payne stated that FASAB staff will manage the process of soliciting the comments and compiling those responses for the July AAPC meeting. Mr. Lynskey asked if the question will be framed as a request to amend the NARA guidance as opposed to a question of whether the record retention guidance should be included in the accounting literature. Ms. Kearney asked if NARA had a vetting process that it goes through before any changes are made to their guidance. Mr. Lynskey noted that all proposed changes are published in the Federal Register prior to being made final.

Mr. Synowiec asked about the appropriateness of this type of guidance being included in the accounting literature. He noted that he thought it was more audit documentation guidance than accounting guidance. Ms. Payne posed that question to the full Committee – what do you think about the FASAB/AAPC's involvement in this area that has more of an operational nature than accounting principle nature. For example, the FASAB does not guide Treasury's Standard General Ledger (SGL) group in preparing its guidance, on occasion the Board will develop illustrations in the standards, but FASAB does not dictate the SGL guidance. However since the task force saw a great need for this type of guidance we are addressing the issue. Mr. Fletcher stated his support for a FASAB letter recommending the changes to the NARA guidance. He noted that the guidance is within the bounds of the AAPC work, although on the edge of those bounds. Ms. Chadwick noted that since the recommendations will provide some synchronization with the FAR guidance and the accounting guidance she would feel more comfortable with the proposal. Mr. Lynskey emphasized that the objective of the guidance is to provide some consistency throughout the federal community. Mr. Bragg also noted his support for sending a recommendation to NARA. He noted that the current guidance is not clear and the ambiguities created by the current guidance are often used as a tool to not retain records for appropriate period of time.

Ms. Payne asked the Committee if there were any objections to sending a recommendation to NARA on the proposed changes to their guidance. No objections were noted.

Mr. Synowiec asked if OMB had any role in having record retention guidance consistently applied across the federal government. Ms. Payne noted that her one concern with incorporating this guidance into the accounting literature was that FASAB is a principle-based standard setting body and does not cross into the area of management judgment and this guidance does cross that line. She noted that she and FASAB staff will work to determine how best to approach NARA to recommend the changes. She also stated that she would have reservations including the guidance into the authoritative section of any FASAB literature, however as an attachment or appendix it may be acceptable. Ms. Kearney noted that she will check on the applicability of OMB's role in this area. She also suggested possibly referencing the NARA guidance in the accounting standards as opposed to incorporating the guidance into the FASAB literature.

Ms. Payne noted that the next steps will be to informally solicit comments on the proposed changes and in July have a compilation of those comments for the Committee to review. In addition, FASAB staff and Ms. Payne would develop a plan on how to move forward on the recommendation to NARA.

▪ **“Implementation Guidance on Cleanup Costs Associated with General Property, Plant, & Equipment” (Revised Draft)**

Ms. Valentine introduced Alaleh Amiri, DoD, as the leader for the disposal subgroup of the AAPC G-PP&E task force. Ms. Amiri thanked Ms. Gilmore and Ms. Valentine for their support. Ms. Amiri gave an overview of the subgroup and the draft guidance. She first noted that the subgroup included not only accountants, but also included program managers and functional experts from several federal agencies (i.e., DoD, Interior, Energy, NASA, and EPA). She noted that the subgroup presented a draft of the guide to the Committee back in January 2009 and that the current draft includes the suggested edit posed by the Committee. The scope of the implementation guidance is to address cleanup costs associated with equipment as it applies to SFFAS 1, 5, 6 and TR 2. The program managers gave the subgroup the perspective of how the standards come into play on a day-to-day basis. The guide focuses on clean-up of hazardous waste associated with equipment and when the cleanup should be recognized as an environmental liability and when it should be expensed as a routine operation.

Ms. Amiri noted that the guide was separated into two sections – one addressing when SFFAS 1 should be applied and the other when SFFAS 6 should be applied. In addition the guide includes two examples – one example is associated with equipment cleanup when a liability should be recognized and one is associated with equipment cleanup when the costs should be expensed as routine operations.

Ms. Payne noted that the examples were helpful. She then asked the members if they had any comments on the clarity of the guidance. Ms. Kearney asked if paragraphs 16 -20 represented criteria to be applied to the recognition of a liability. If so, it should be clearly identified as criteria. She also made the comparison to the guidance in the asbestos paper which was noted clearly as criteria. Ms. Amiri noted that the equipment cleanup guide is less detailed guidance on how to apply SFFAS 1 & 6. The asbestos guide is more a detailed application of TB-2006-1. Ms. Valentine added that the equipment guide is implementation guidance for equipment cleanup as it applies to broad standards (SFFAS 1 & 6). The asbestos guide is implementation guidance on how to apply a technical bulletin that has already provided some detail guidance on SFFAS 6 as it relates to asbestos. Ms. Amiri noted that the SFFAS 5 references in Example 2 should be SFFAS 1.

Ms. Kearney noted that in the flowchart, specifically decision 6, does not tie back to any narrative in the document. She asked if that decision could be tied back to some language from TR 2. Ms. Kearney asked if in Example 1 – Table 1, was the scrap metal waste stream considered to be routine operation cleanup or was the cleanup being deferred – it was not clear in the example. Ms. Kearney also had a question on Example 2 – Table 3 – she asked how the asbestos containing material (ACM) cleanup in this guide differs from the guidance outlined in the asbestos guide. Ms. Amiri noted that it would be best not to mix the asbestos guidance from that paper into the equipment paper, so it was agreed to change the waste stream from ACM to PCB.

Ms. Payne asked the Committee if they were comfortable with the clarity of the technical guidance. No objections were noted. She then asked the Committee if they were comfortable with the technical guidance embodied in the paper overall. She then noted that if the flowchart in anyway changes the guidance in TR 2 we may have to consider amending TR 2. Mr. Synowiec asked if the cleanup of land applied to this guide. Ms. Amiri noted that it only addresses equipment cleanup and that TR 2 would apply to land. Mr. Synowiec noted that since that was the case he suggested that the title of the document be changed from “Implementation Guidance on Cleanup Costs Associated with General Property, Plant, & Equipment” to “Implementation Guidance on Cleanup Costs Associated with Equipment”. He also suggested adding a key to the flowchart to identify the six decision points.

Ms. Payne noted that the next steps will be to send a pre-ballot exposure draft of the guidance to the members before the July meeting and then have a ballot exposure draft available at the July meeting. She also asked the members to please forward any editorial comments on the draft to Ms. Valentine by Friday 5/29/09.

▪ **“Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment”**

Ms. Payne noted that the non-audit members of the G-PP&E Disposal subgroup made a request to the FASAB for a two year deferral of the effective date of TB 2006-1. The current effective date is for periods beginning after September 30, 2009 – the deferral would amend the effective date to periods beginning after September 30, 2011. She noted that if a majority of the Board does not object to the TB amendment it will be released as an exposure draft for a comment period and a final amendment should be in place before the end of the fiscal year.

Ms. Amiri proceeded with an overview of the proposed asbestos implementation guidance developed by the disposal subgroup. She noted that the guide is specific to facilities (real property) and installed (non-movable) equipment. The guide is intended to provide implementation guidance for TB 2006-1. There is confusion in the community on how to determine if asbestos exists and how to estimate a liability for cleanup that may occur many years from the time the property was put in service and how will it eventually be disposed of. There are also questions about the cost/benefit of performing a survey to estimate the cost of non-friable asbestos disposal. The subgroup would like to bring some standardization to the process and develop a framework for entities to use as they implement TB 2006-1.

The subgroup’s research revealed that very few third-party studies and standardized cost models for asbestos exist. The research also showed that estimated cost for similar asset

types vary widely. A question raised on several occasions by the members was what to do when no records or surveys are available to estimate the cost of future cleanup. TR 2 provides guidance when an entity is not able to determine a reasonable estimate.

The guide lists some factors to consider when identifying and eliminating properties not expected to contain asbestos. The guide also lists several estimation methodologies for determining the cleanup cost. Examples are also included in the guide to outline steps that can be taken when trying to identify asbestos cleanup costs.

Ms. Kearney asked if the subgroup consider using a specific year to eliminate those properties built after the ban on the use of asbestos. Ms. Amiri noted that there was once an asbestos ban imposed in 1986, but the ban was later lifted for certain construction materials. Ms. Kearney asked if the list of estimation methodologies noted in paragraph 18 a. – d. was intended to be in hierarchical order. Ms. Amiri noted that it was not in a hierarchical order – however the subgroup was aware that surveys are the most reliable source of estimating the cost, but may not always be the most cost-effective methodology in every situation. Ms. Kearney noted that in paragraph 27 – the first sentence does not seem to follow the assumptions posed in the previous paragraphs of the examples as far as satisfying the probability requirement. Ms. Amiri stated that she would review the assumptions again to ensure they are consistent with the conclusions. Ms. Valentine noted that the examples would be moved to Appendix B as illustrations.

Ms. Payne asked the Committee if they had any technical concerns with the guidance. No objections were noted. Ms. Payne asked that any comments or edits on the asbestos paper be forwarded to Ms. Valentine within the next two weeks. Lastly, she noted that the draft guide would be brought back to the Committee as a pre-ballot in July.

- **Agenda Committee Report**

Ms. Chadwick, Chair of the AAPC Agenda Committee, noted that the agenda committee received a request from the Office of the Director of National Intelligence (ODNI), via FASAB staff, to review the position paper on the business practices of the National Security Agency (NSA) with regard to internally development software for mission-related purposes. NSA asked the Committee to confirm that NSA has correctly interpreted Standard 10, Accounting for Internal Use Software.

The NSA position is:

NSA believes mission-related development costs should be expensed when incurred due to the persuasive uncertainties that exist around the utility of NSA's mission-related developed systems and when projects enter or leave the development phase. As a result, NSA cannot determine on a consistent and reliable basis the capitalized software development costs of mission related software. Based on these two factors, NSA will expense mission-related software development costs when incurred.

NSA will capitalize in accordance with the criteria set forth in SFFAS No. 10 COTS purchases; non-mission-related software development costs; and mission-related software project costs that are integral to fixed-asset development projects, provided that the capitalized costs exceed NSA's materiality thresholds. Capitalized costs will be amortized over the useful life of the software or the fixed asset.

Ms. Chadwick noted that the agenda committee concluded that the request being made by NSA was not within the scope of the AAPC because NSA's request appeared to be for a waiver from the existing standards and the AAPC's role is to provide answers, solutions, or implementation guidance all within the bounds of the existing standards. The agenda committee believes that the NSA request extends beyond the scope of the AAPC for a clarification of the standard to a broader deliberation of the issue (i.e., whether the NSA would need to obtain a waiver from the existing standard and/or other modifications of the standard were needed to accommodate NSA's particular business practice for mission-related software). It was also the opinion of the agenda committee that the standards are clear on the application of capitalization vs. expensing of IUS and provide sufficient direction to NSA to interpret the standard. In conclusion, the agenda committee did not recommend that the AAPC accept this issue as a project on its agenda – this was a unanimous decision of the agenda committee members.

Mr. Synowiec agreed with the recommendation of the agenda committee. He also stated that NSA's position actually lays out very well their reasons that mission-related systems should not be capitalized because it does not have a useful life greater than 2 years. He also noted that NSA does not need the AAPC to draw that conclusion for them; they will need to apply the criteria in each instance to determine if it meets the capitalization criteria. Auditors of NSA will draw their own independent conclusion on NSA's position.

Ms. Payne noted that FASAB staff met internally on the issue, included in the meeting was Rich Fontenrose, who was the FASAB staffer who led the SFFAS 10 project. The FASAB staff came to the same conclusions. If NSA cannot demonstrate a greater than 2-year useful life for its software costs then they are permitted to expense those costs. NSA is correctly interpreting the standard. It appeared to us that NSA was looking for a codification that all IUS within its "mission-related system" bucket would always and forever be exempt from capitalization. This would be a "fact and circumstances" ruling that FASAB staff will not normally engage in because it would lead to a fieldwork review of the specific facts and circumstances. We also do not believe that the standards should lead to conclusions that would lock an entity into a specific outcome without the opportunity to apply the standards to each situation.

Ms. Payne also noted that the Committee does not want NSA to view the AAPC as unsympathetic to its concerns – it is just impractical for the Committee to codify a specific situation when the existing standards can be applied and would give the same answer. She then asked the AAPC members if they accepted the recommendation of the agenda committee not to accept the project. No objections were noted.

- **New Business**

None

The meeting adjourned at 2:40 pm.