

**ACCOUNTING AND AUDIT POLICY COMMITTEE MEETING
FINAL MINUTES
July 18, 2006**

The meeting was convened at 1:00 PM in room 6N30 of the GAO Building, 441 G St., NW, Washington, DC.

ADMINISTRATIVE MATTERS

• **Attendance**

Present: Ms. Comes, Ms. George, Ms. Healy, Messrs. Bragg, Dingbaum, James, Synowiec and Gary Ward (for Mr. Sturgill).

Absent: Messrs. Campbell, McFadden, and Sturgill

• **Minutes**

The minutes of March 14, 2006 were previously approved as final, having been circulated by E-mail to members.

• **Administrative**

Ms. Wendy Comes, AAPC Chairperson, introduced the three newest AAPC members. Mr. Luther Bragg, Assistant Auditor General, Financial Management and Comptroller Audits – Department of the Navy, Naval Audit Service, is the newest PCIE representative replacing Bill Maharay; Ms. Patricia Healy, Deputy CFO – US Department of Agriculture, is the newest CFOC representative replacing James Taylor; and Mr. Frank Synowiec, Assistant Director – GAO, replacing Janet Krell. Ms. Comes and the other members welcomed Luther, Pat, and Frank to the Committee.

• **Project Agenda Status**

Inter-Entity Cost

Ms. Monica Valentine, FASAB Assistant Director, on behalf of Mr. McFadden and Dorrice Roth, chairpersons of the AAPC Inter-Entity Cost task force, gave an update on the current status of the work of the task force. The task force developed a survey to ask Federal agencies questions about their views on SFFAS's definition of "broad and general" and how it should be applied to various scenarios. The questionnaire also asks agencies to identify some of their inter-entirety cost transactions. Ms. Valentine noted that, to date, she had received 13 of the 25 surveys sent out to Federal CFOs, DCFO, IGs, and AIGs. She also noted that she was in the process of reviewing and summarizing all of the responses so that the task force could continue their work towards providing implementation guidance on SFFAS 30. Ms. Valentine stated that the task force should be able to meet sometime before the September 12 AAPC meeting, at which time the summaries should be completed.

Heritage Assets and Stewardship Land

Ms. George and Mr. Synowiec, chairpersons of the AAPC HA/SL task force, gave an update on the current status of the work of the task force. Ms. George stated that substantial progress was being made with the implementation guidance. The guide has several examples on how agencies may report their heritage assets and stewardship land. Ms. Valentine also mentioned that they have been working with the chairs of the two sub-groups to integrate the paper into a user-friendly document that agencies will find helpful when applying SFFAS 29. Mr. Synowiec noted that guide is being developed as an implementation guide for the preparer, as opposed to the previous guide which was developed for both the preparer and auditor. He also mentioned that the materiality section of the guide was a challenge because materiality for HA/SL does not involve dollar amounts. Ms. Comes asked if audit issues were being identified to be referred to the FAM. He indicated that the task force was keeping this in mind.

For the sake of the newest AAPC members, Ms. Comes briefly went over the process when a new project is added to the AAPC agenda. She noted that for each of the larger projects a Committee member will chair a task force to review the issue(s) and ultimately bring back to the full Committee a recommended draft document to be deliberated. She pointed out that the Committee members are not obligated to accept the recommendations of the task force. Once there is agreement amongst the Committee the exposure draft would be sent out for public comment and the Committee would again review the comments and continue its deliberations on the draft guidance. If a majority of the Committee agrees with guidance, it will be sent to the FASAB for a 45-day review period. If no FASAB Sponsor member objects to the guidance and a majority of the Board does not object to the guidance, then at the end of the review period the guidance will be issued as final.

• **Agenda Committee Report**

Ms. Comes stated that Greg James had volunteered to become the new chair of the Agenda committee along with Stephen Dingbaum and Jim Sturgill as the other members of the committee. She noted that the Agenda committee receives issues and will review them to determine if the issue should be added to the AAPC agenda as a new project. The Agenda committee will make its recommendations to the full Committee and then the Committee will vote to accept the project or not. Ms. Comes mentioned that the Agenda committee was given two issues to consider. Mr. James noted that the committee has reviewed both issues and recommends that one issue be accepted and that one not be accepted to the AAPC agenda.

Veterans Administration Discount Issue

Mr. James noted that the first issue came to the AAPC from the Veterans Administration (VA) and it concerns the discount rate that VA uses to project their actuarial liability on the VA compensation and benefits programs. VA uses a spot rate in their calculation of the liability and the fluctuations in the spot rate cause significant swings in the actuarial liability from year to year. Mr. James stated that the Agenda committee believes that the existing standards provide

sufficient guidance to allow VA the leeway to use long-term rates that would result in a smoother change in the liability from year to year. The Agenda committee recommended to the full Committee that the AAPC not accept the VA discount issue as an AAPC agenda item.

Ms. Comes opened the discussion to the members on the Agenda committee's recommendation not to accept the VA issue. Ms. Healy agreed with the Agenda committee that there was sufficient guidance in the standards for VA to use other rates. Ms. George asked Ms. Comes about the FASAB's project on actuarial estimates. Ms. Comes noted that the FASAB will be addressing actuarial assumptions and other topics related to long-range estimates within the social insurance exposure draft. FASAB plans a companion ED that would address parallel issues for other actuarial estimates. An outline of the exposure draft on the issue was included in the May 2006 FASAB meeting materials. With six voting members in attendance, the AAPC accepted the Agenda committee's recommendation not to add the issue to the AAPC agenda [five of the six voting members agreed and one voting member abstained from the vote].

NASA Theme Assets Issue

The second issue brought to the Committee by the Agenda committee is an issue from NASA on the treatment of NASA's exploration vehicles and whether to treat those vehicles as assets or as research & development costs. Mr. James explained that NASA has two classifications of exploration vehicles, the first being those that are used in the program, such as the space shuttle, that go into space and perform research activities and return for use again. The second class of space vehicles, such as the Cassini space probe, that go into space also for research purposes but are not expected to return for use again in the program. NASA is recommending that those vehicles in the first category be classified as general PP&E and that the other vehicles be expensed as research & development costs. The Agenda committee recommended to the full Committee that the AAPC accept the NASA issue as an AAPC agenda item because there seemed to be confusion in the standards on the proper treatment of space exploration vehicles.

Ms. Comes opened the discussion to the members on the Agenda committee's recommendation to accept the NASA issue. Ms. George agreed with the committee's recommendation because this issue has been a point of confusion for NASA and their auditors for some time. Ms. George also noted that the accounting for research & development costs in the Federal government is not clear. Mr. Synowiec noted that there seemed to be some inconsistencies in the PP&E and General PP&E definitions and that additional guidance could be helpful to NASA and others. He also asked what type of guidance NASA was looking for. Ms. Comes reminded the Committee that the AAPC could only provide implementation guidance. Mr. Ward noted that there seemed to be a "disconnect" between the various definitions surrounding PP&E and that he sees a need for guidance to clarify those gaps in the definitions. Ms. Comes also reminded the Committee that the current vote is only to determine if the issue should be placed on the AAPC agenda and not a vote on the specific issues or possible resolutions.

With six voting members in attendance, the AAPC accepted the Agenda committee's recommendation to add the issue to the AAPC agenda [all of the six voting members agreed]. Ms. Comes asked for a volunteer from the Committee to chair a small task force to research the

issue and return to the AAPC with recommended guidance. Ms. Healy agreed to chair that task force to address the NASA issue.

- **New Business**

None.

- **Next Meeting**

September 12, 2006

Adjournment: The meeting was adjourned at 2:00 PM.