

**ACCOUNTING AND AUDIT POLICY COMMITTEE MEETING
FINAL MINUTES
September 16, 2010**

The meeting was convened at 1:00 PM in room 7C13 of the GAO Building, 441 G St., NW, Washington, DC.

ADMINISTRATIVE MATTERS

• **Attendance**

Present: Ms. Payne (chairperson), Ms. Carey (via telephone), Mr. Kevin Close (substituting for Mr. Brewer), Ms. Gilmore, Ms. Kearney, Mr. Marchowsky, Mr. Synowiec and Mr. Gary Ward (substituting for Mr. Rebich).
FASAB/AAPC project director, Ms. Valentine and general counsel, Mr. Dymond, were present at the meeting.

Absent: Mr. Bragg, Mr. Brewer, and Mr. Rebich

• **Minutes**

The minutes of May 20, 2010 were previously approved as final, having been circulated by E-mail to members.

• **Administrative**

None

PROJECT MATTERS

Project Agenda

General PP&E

Ms. Gilmore gave an update on the current work 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. The Acquisition subgroup was working on three implementation issues: estimating historical cost, capitalization thresholds, and capital leases. The Disposal subgroup's third project on triggering events for the disposal of equipment is being presented to the Committee for the first time today. The Use subgroup is still working the contractor financing payments issue and is beginning discussions on both the deployed assets and group/composite depreciation issues. The Record retention subgroup recommendations have now been folded into the estimating historical cost guide.

▪ **Review of draft ED – “Implementation Guide on SFFAS 35, Estimating the Historical Cost of G-PP&E”**

Ms. Valentine opened the discussion by introducing the document as a second draft of the “Implementation Guide on SFFAS 35, Estimating the Historical Cost of G-PP&E” from the Acquisition subgroup and that the purpose of the guidance is to provide examples of reasonable estimation methodologies used by federal entities to value G-PP&E as allowed by SFFAS 35. She explained that the current draft had been revised based on member comments from the May AAPC meeting. She noted three primary changes had been made. The changes included (1) removing the specific agency names from the examples and using generic names (i.e., Agency A, etc.); (2) standardizing the example headings; and (3) making the examples clearer and more concise. Ms. Valentine opened up the discussion to the members for questions or comments on the draft.

Ms. Kearney asked what a “desktop” appraisal approach was, as it is used in Example 2, and why it is a preferred approach by Agency B. Ms. Valentine explained that “desktop” appraisal is when an appraiser estimates the value of a property without a physical inspection but uses property records. This approach is less costly to an agency than a physical inspection appraisal. Ms. Valentine noted that a footnote could be added to the document to clarify that point.

Mr. Synowiec also noted in Example 2 (Assumptions Used Section) that it states that, “Agency B did not provide cost, accumulated depreciation and net book value to appraisers to avoid the possibility that these values might influence the third-party appraisers output.” He noted that if cost was available why was it not used. Ms. Carey explained that during the research phase of this project it was noted that many federal entities have cost information that cannot be supported, so an estimated historical cost value that could be supported is often used.

Mr. Dymond had a question on Example 4. He noted that in paragraph 41.a. it states that, “The recorded cost of the assets should represent the ‘historical cost’, including costs associated with getting the asset to a form and location suitable for its intended use.” However it does not describe how all of those costs are accumulated to include other costs that may not be included in the asset budget amount. Ms. Carey suggested that language be added to the guide that multiple budget requests may need to be considered in order to capture all related costs.

Mr. Synowiec asked if there is an associated contract for the G-PP&E being estimated in Example 4 and shouldn’t that documentation be used along with the budget/appropriation amounts to estimate the historical cost. Ms. Valentine responded that that may be an option for entities to consider, however according to SFFAS 35, “Estimates may be based on information such as, but not limited to, budget, appropriations...” Therefore budgets and appropriations can be used to develop reasonable estimates of G-PP&E historical costs. Ms. Carey noted that in many instances entities are unable to provide support for contract amounts.

Mr. Dymond asked that when budget and appropriation amounts are used for estimating purposes does that imply that the full amount was used or is an analysis done to determine the most reasonable amount to use in the estimate. Ms. Carey agreed that that point could

be added to the example. Ms. Payne noted that the entity should first determine if those additional costs are material before a full analysis is done to accumulate those costs.

Mr. Marchowsky asked if the guide should stress that the specific budget or appropriation amounts be used for the related G-PP&E item being estimated. Ms. Payne noted that the standards do allow for discounting when budget or appropriation amounts from different periods are used.

Conclusion: Ms. Valentine asked the members to please forward to her any additional comments, questions, or edits on the draft so that they could be addressed. Staff will make the necessary edits and get a pre-ballot draft back to the Committee for comment prior to the November meeting.

▪ **Review of draft ED – “Implementation Guide on the Accounting for the Disposal of G-PP&E”**

Ms. Valentine opened the discussion by introducing the document as the third draft guide from the Disposal subgroup and that the purpose of the guidance is to clarify existing guidance in SFFAS 6 regarding the disposal, retirement, or removal of/from service of G-PP&E. Ms. Valentine opened up the discussion to the members for questions or comments on the draft.

Ms. Kearney noted that the guide lacked clarity as it related to distinguishing between what guidance pertained to temporary removal versus permanent removal. Ms. Payne expressed the same sentiments; however she did note that Table 2 was more helpful. Ms. Payne was concerned about the amount of judgment used to draw the conclusions in Table 2. Mr. Synowiec asked for more clarity in the tables to distinguish between temporary and permanent removal.

Ms. Payne asked about the scope of the proposed guidance as it relates to the illustrative actions in Table 2. She noted that an action may demonstrate a temporary removal for one entity but that action may demonstrate a permanent removal for another entity. Mr. Synowiec asked if it were possible to illustrate the tables as different scenarios as opposed to a list of broad actions. Ms. Gilmore noted that her reading of the table was that the left column was a list of actions that management had taken that demonstrated either temporary or permanent removal. Ms. Kearney asked for more clarification on the three categories, as to which are temporary and which are permanent.

Mr. Synowiec commented on paragraph A7. in the basis for conclusions. He noted that A7. stated that depreciation continues during the periods of temporary removal, however no where else in the guidance does it make that statement. That point should be made clear if that is the intent of the guide. Ms. Payne further stated that the last sentence in paragraph 13 could further clarify that point.

Mr. Synowiec and Ms. Kearney asked for more clarification on what an “out grant” was, as it is used in footnote 2.

Ms. Payne noted that Ms. Valentine provided suggested additional language to the end of paragraph 15 based on one of her comments. She asked the Members if there were any objections to the added language on group and composite depreciation. There were no objections.

Conclusion: Ms. Valentine asked the members to please forward to her any additional comments, questions, or edits on the draft so that they could be addressed. Staff will make the necessary edits and get a pre-ballot draft back to the Committee for comment prior to the November meeting.

MD&A

Ms. Kearney, MD&A task force chair, gave a brief update on the progress of the task force. She first noted that FASAB staff member Rich Fontenrose has been managing the work of the task force; however he was not available to give the update today. She stated that the task force has reviewed the MD&As of the 24 CFO agencies to look for those segments of their MD&A that could possibly be used in the best practices guide. The task force will be meeting again before the end of September to finalize the guidance. The next steps will be to possibly get a draft to the Committee for the November meeting. Ms. Payne noted that at this time she was unsure as to how the guidance would be released; either as a technical release or just as a report of the task force. That will depend on the level of guidance outlined in the document.

• **Agenda Committee Report**

Ms. Payne opened the discussion by informing the Committee that current members of the AAPC agenda committee are Luther Bragg, serving as the chair, Frank Synowiec and John Brewer. She then noted that the AAPC agenda committee received a project request from NRO on issues surrounding G-PP&E cost accounting.

In Mr. Bragg's absence, Mr. Synowiec presented the project request to the AAPC members for consideration. Mr. Synowiec informed the Committee that the NRO wants the AAPC to interpret the application of SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, as it relates to the construction of satellites and ground or launch assets. Currently, NRO excludes certain acquisition management costs from capitalization and instead treats them as period costs. However NRO's auditors have told NRO that some of those acquisition management costs should be allocated to the cost of the constructed NRO assets. He noted that the Agenda Committee met to review the merits of accepting the issue as a project of the AAPC and it recommended that the issue be added to the AAPC agenda for further review and possibly incorporated into the work of the G-PP&E task force.

Ms. Kearney asked if SFFAS 6 paragraph 25 intended to have agency administrative costs (i.e., indirect costs) allocated to the cost of purchased assets. Ms. Payne noted that the inclusion of indirect costs was intended to capture those management costs associated with long-term construction projects, but that it may also relate to purchased items. Ms. Kearney was also concerned about the level of resources expended to gain a certain level of precision in capturing the cost of G-PP&E. Ms. Payne noted the importance of stressing materiality as it relates to the allocation of costs into G-PP&E. She also sees this project as an opportunity to remind the community that professional judgment should be used when deciding which costs should be analyzed for inclusion in the cost of G-PP&E. The Committee agreed to broaden the scope of the project to address the issue of cost-benefit when assessing the inclusion of certain costs into G-PP&E.

There were no objections to accepting the project to the AAPC agenda. Ms. Gilmore stated that she would discuss with the task force the possibility of adding this issue to the current work of the G-PP&E task force.

- **New Business**

Ms. Valentine noted to the members that there are currently two vacancies on the Committee. One vacancy is one of the three CFOC seats, vacated by Mr. Fletcher upon his departure from the Department of Interior. The other vacancy is in the at-large seat. Ms. Payne stated that she is looking to fill that seat with a representative from a small federal agency. However, thus far she has been unable to find a representative that can be committed to the work of the AAPC. She asked the members if they had any concerns with waiting to find the best-suited representative for the position before it is filled. The members had no objections.

The meeting adjourned at 2:00 pm.