

**ACCOUNTING AND AUDIT POLICY COMMITTEE MEETING
FINAL MINUTES
December 13, 2012**

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. Anderson, Mr. Brewer, Ms. Gilmore, Ms. Ho, Ms. Kearney (via teleconference), Mr. Marchowsky, Mr. Rymer, and Mr. Zane.

FASAB/AAPC project director, Ms. Valentine was present at the meeting.

Absent: none

• **Minutes**

All previous meeting minutes have been approved.

• **Administrative**

Ms. Payne welcomed four new members to the AAPC – Mr. Steven Zane and Mr. Jon Rymer, representing the Inspector General (IG) community; Ms. Christina Ho, representing Treasury; and Ms. Phyllis Anderson, representing GAO.

PROJECT MATTERS

Project Agenda

General PP&E

- **Review Working Draft -- *Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment, and Allocation***

Ms. Payne noted that the issue of cost accounting for G-PP&E was first brought to the AAPC in late 2010 and that a subgroup was formed under the G-PP&E task force lead by Ms. Gilmore. The subgroup, headed by Ms. Sandy VanBooven, has been working with FASAB staffer Ms. Valentine to develop the implementation guidance. Ms. Payne also introduced two members of Ms. VanBooven's support team – Mr. Roger Hill and Mr. Lee Richardson, both from Deloitte.

Ms. VanBooven began the discussion by giving a brief history of the project. She noted that this came to the forefront when she was the Director of Finance at the National Reconnaissance Office (NRO). NRO purchases and acquires satellites for the collection

of intelligence. NRO struggled with how to apply cost accounting techniques to large PP&E assets in an operating environment, such as NRO's, which is research and development (R&D) intensive and is not the typical manufacturing organization and has different cost accounting needs. The mission of NRO is to improve spatial intelligence collection. A task force was developed of several federal entities who also struggled with PP&E cost accounting issues. The discussion focused on the need to develop a Generally Accepted Accounting Principles (GAAP) consistent thought process for management to apply when making program cost allocation decisions. She noted that the task force held several meetings to gather data and to discuss the development of the guidance. This draft technical release focuses on G-PP&E, however it specifically excludes internal use software (IUS). Although IUS is a very prevalent issue as it relates to program cost allocation, there are many distinct concepts related to IUS that the task force believed should be addressed as a separate issue.

Ms. Payne asked the members if they had any technical concerns with the draft technical release (TR) and the members had none. She then asked the members if they had any other comments on the TR such as editorial, structural or clarification type comments. Mr. Zane commented that the draft was very well written and understandable. He also noted two minor edits. Mr. Marchowsky also commented on how well written the draft was. He suggested that the boxes in the decision framework flowchart in Appendix C be worded as questions instead of statements to better facilitate a "yes" or "no" answer – staff agreed to reword the flowchart boxes. Mr. Marchowsky asked staff to review the current language in paragraphs 15 and 21 to ensure there are no contradictions between the language – staff agreed to review the language and make any necessary edits. Ms. Kearney noted that she had a few editorial comments and would forward those to staff. She also asked if the guidance implied that indirect costs should be allocated to the acquisition cost of purchased G-PP&E items. Ms. Valentine noted that SFFAS 6 paragraph 26 specifically states, "... the cost of acquiring PP&E may include: ...labor and other direct or indirect production cost (for assets produced or constructed)." Ms Valentine went on to say that SFFAS 6 only intended for production (labor, other direct, or indirect) costs to be applied to produced or constructed G-PP&E. Ms. Kearney thanked Ms. Valentine for the clarification and noted that she would point out to staff where in the paper that intent was not made clear.

Ms. Payne asked Ms. VanBooven if there were any dissenting views from subgroup members. Ms. VanBooven noted that there were no dissensions with the draft guidance from the subgroup, but that there were certainly varying business models and missions amongst the represented federal entities. She reiterated that it was clear that some entities had a need for more granularity in allocating indirect cost to G-PP&E than other entities whose G-PP&E was more R&D in nature. Both Ms. Valentine and Mr. Hill pointed out that the guidance is intended to maintain the flexibility established in both SFFAS 4 and 6. Ms. Ho asked if the task force addressed issues related to audit scrutiny and management's ability to substantiate its cost allocation decisions. Ms. VanBooven noted that management will have to undergo an analysis to tie the nature of the entity's business to their cost allocation decisions and establish policies that take materiality, cost-benefit, cost accounting practices, and application of the standards into consideration. This analysis and the policies will have to be discussed with the entity's auditors. Mr. Hill noted that the decision framework in Appendix C of the draft will help

management walk through its thought process and substantiate its cost allocation decisions.

Ms. VanBooven asked the committee, and more specifically the IG community representatives, how auditors typically apply or use (TRs) in executing their audit procedures. Mr. Zane commented that the auditors would identify the decision framework as a management tool. Mr. Marchowsky commented that he would instruct his team to consider all relevant guidance and that if a TR applied to an area of the audit he would consider it as guidance or criteria. Additionally, Mr. Marchowsky stated that if a TR addressed an issue that the audited entity should consider, he would likely recommend that management consider that TR.

Conclusions: Ms. Valentine will work with Ms. VanBooven and the subgroup to make the necessary edits to the draft as well as complete the questions for respondents and the basis for conclusions, possibly in time of the January 17th meeting.

- **Agenda Committee Report**

Ms. Payne noted that there were currently two vacancies on the three-member Agenda Committee, with Mr. Brewer being the only current member. Ms. Payne explained that the Agenda Committee reviews all issues submitted to the AAPC and evaluates them in order to make a recommendation to the AAPC as to whether the issue should be added to the agenda. The Agenda Committee is made up of one member from each of the three sectors of the AAPC – CFO (CFOC), Inspector General (CIGIE), and central agencies (OMB, Treasury, & GAO). Since Mr. Brewer represents the CFO sector, Ms. Payne asked members from the IG and central agency sectors for a volunteer for the Agenda Committee. Mr. Marchowsky, representing the IG sector, and Ms. Kearney, representing the central agency sector volunteered to serve. Mr. Brewer will serve as the chair of the Agenda Committee.

- **New Business**

Ms. Payne informed the members of an upcoming FASAB Roundtable being held January 29, 2013. The objective of the Implementation Guidance Roundtable is to engage federal accounting directors as to their implementation needs as it relates the two new standards on deferred maintenance & repairs and asset impairment. The discussion will also include an overview of the AAPC, since any new issues related to implementation will likely be vetted through the AAPC. Lastly, the Roundtable will focus on any other guidance needs and input on FASAB three-year plan. Ms. Payne also invited all members of the AAPC to attend the Roundtable. She also mentioned that FASAB will be holding a half-day forum on April 16, 2013 to discuss several topics affecting the federal financial community.

The meeting adjourned at 1:55 pm.