

**ACCOUNTING AND AUDIT POLICY COMMITTEE MEETING
MINUTES
May 15, 2015**

The meeting was convened at 1:05 PM in room 5N30 of the GAO Building, 441 G St., NW, Washington, DC.

ADMINISTRATIVE MATTERS

• **Attendance**

Present: Ms. Payne (chairperson), Ms. Anderson, Mr. Easton, Ms. Kearney, Mr. Marchowsky, Mr. Miller and Mr. Zane.

FASAB/AAPC project manager, Ms. Wu, FASAB project director, Ms. Loughan and Internal Use Software (IUS) working group leaders: Ms. Jennings, Mr. Nusbaum, Mr. Ojumu, Ms. Olewack, Mr. Schumacher, Mr. Sykes and Ms. Reed were present at the meeting.

Absent: Mr. Alston, Mr. Rymer and Mr. Donzell.

• **Minutes**

All previous meeting minutes have been approved.

• **Administrative**

Ms. Payne confirmed that the next AAPC meeting will be held on July 16, 2015

PROJECT MATTERS

• **Agenda Committee Report**

➤ **Department of Defense (DoD) Implementation Guidance**

Ms. Loughan briefed the Committee on the status of DoD inventory exposure draft & General Property, Plant and Equipment (G-PP&E) draft interpretation. She began the discussion by providing the history of the DoD project. The project started with a letter from the DoD Deputy Chief Financial Officer requesting FASAB assistance on several areas: valuation of legacy inventory and operating material & supplies, deployed assets, research & development costs and as needed assistance for DoD Financial Improvement and Audit Readiness (FIAR) group. She explained that deployed assets and research and development had been closed because no further FASAB action was deemed necessary. However, areas related to internal use software in research and development would be addressed by the AAPC.

Ms. Loughan provided a summary of the approach and status of the work in the valuation of legacy inventory and operating material & supplies. It was agreed that a practical and cost effective approach should be taken to move DoD forward and to provide effective guidance. Ms. Loughan provided a summary of the exposure draft.

The DoD inventory exposure draft will be applied when presenting FASAB GAAP financial statements (f/s) for the first time or after a period when systems could not provide information to produce such f/s (available once) with the following major attributes:

- Permits alternative valuation methods in establishing opening balances for the reporting period the reporting entity makes an unreserved assertion that its f/s or this element are presented fairly in accordance with GAAP
- Deemed cost = amount used as a surrogate for initial amounts. It is the opening balance and is thereafter considered consistent with SFFAS 3 requirements. No distinction or segregation of deemed cost is required going forward
- Disclosure is required when the reporting entity as a whole makes an unreserved assertion. This allows Military Departments to transition to SFFAS 3 compliant systems to assert first. Then DoD can make a DoD wide assertion
- ED addresses valuation for opening balances; it does not address supporting documentation

The DoD inventory standard is projected for comments & public hearing on August 2015 and final SFFAS issuance on January 2016.

Ms. Loughan also discussed a Staff Draft Interpretation that resulted from a request from DoD on G-PP&E will clarify principles within SFFAS 6 and 23 with the following major attributes:

- Estimated current cost of similar assets includes all past capital improvements separately
- Estimating the cost of capital improvements is permitted but not necessary and such costs may be included in a single estimate
- May be applied to all classes of G-PP&E
- Estimates may be applied to construction work in process in accordance with SFFAS 35

Mr. Zane asked that the DoD inventory exposure draft slide states: “ED addresses valuation for opening balances; it does not address supporting documentation”, it seems that the exposure draft only addressed the accounting valuation yet not the audit evidence requirement which could be significant during the audit. Ms. Loughan stated that this is an accounting standard not an auditing standard yet no matter what kind of the deemed cost is

used by the DoD, it would be DoD's responsibility to keep sufficient documentation to support the deemed cost valuation methodology used for the opening balance.

Mr. Easton thanked the FASAB and AAPC for a good partnership with DoD in the past 6 to 9 months to make above two accelerated exposure drafts possible.

➤ **Internal Use Software (IUS) Implementation Guide Draft Outline**

Ms. Wu updated the Committee on the current IUS Working Group's status. She stated that the IUS implementation guide draft outline is a result of hard work from approximately 40 members cross 16 agencies and 4 private companies. The Implementation Guide will promote an understanding of organizational considerations that affect the application accounting standards to internal use software (IUS). The implementation guidance will relate to:

- Definition of IUS, component/module based IUS assets, software development phases, IUS recognition, measurement and disclosure related items such as capitalization threshold, capitalized cost, capitalization cut off, enhancement, impairment and related matters
- New IUS challenges brought by changes in the IUS environment since the issuance of Statement of Federal Financial Accounting Standards (SFFAS) 10
- Management's role in applying SFFAS 10

The implementation guide is proposed with the following major sections:

I. Purpose
II. Background
III. Accounting Literature References
IV. Summary of Existing Standards
V. Q&A
VI. Summary of Illustrations
VII. Effective Date
Appendix A: Basis for Conclusion
Appendix B: Illustrations
Appendix C: Abbreviations

Ms. Wu along with Mr. Nusbaum, Mr. Ojumu and Ms. Olewack presented the outline and solicited feedback from committee members for each section. The implementation guide will emphasize the matching principle in accounting since this is consistent with 2014 OMB A-11 *Capital Programming Guide* for IUS. Section IV Summary of Existing Standards, Section V Q&A and Appendix B Illustrations will be the major sections. The working group had identified areas of the existing standard or common issue that agencies needed clarification

then solicited working group agency's interpretation of the identified standard areas and the practice samples of common issues. The input was compiled with the consideration of the commercial industry practice and is being formed into a clarifying position and illustration samples with the following major considerations:

- **Section IV Summary of Existing Standards:** will expand existing guidance or introduce new concept to cover the latest software development standard clarification needs in the areas of IUS definition, multiple deployments of different modules, development phases, capitalization threshold, capitalized cost, final user acceptance (cut off for capitalization), software license/bulk software, enhancement and impairment.
- **Section V Q&A:** will discuss new IUS development items including cloud service, share service, agile development, spiral development, cyclical and iterative development and software with uncertainty. The discussion will concentrate on definition, accounting treatment and maybe real samples for those new IUS development items.
- **Illustrations:** two implementation illustration tables will be presented. The first table covers typical IUS phase trigger event for expense or capitalization, and the second table covers specific samples to address current agencies' common implementation issues.

During the discussion over the software definition illustration, Ms. Payne asked specifically what a research "pilot project" was and recommended that the working group define this term if it is used within the guidance. In addition, Ms. Payne asked the committee members what their thoughts were about including any guidance on the capitalization threshold for software since the board intentionally stays silent on the matter in the past. Most members thought that as long as the working group does not propose finite numbers, that general guidance over the threshold would be ok. One member thought that present how specific agencies determine their threshold could be included in the Appendices to the guide. Another member encouraged the working group to examine whether including such examples might cause agencies to apply the same methodology without giving consideration to the many unique factors that play a role in determining capitalization thresholds.

Ms. Wu and Ms. Payne also noted that any guidance that is drafted on software licenses will be reevaluated based on progress made in the lease accounting working group. Mr. Sykes from DoD stated that DoD may have additional challenge areas that they would like to present to the working group for consideration in the Implementation Guide.

Overall, the committee members concurred on the outline and would provide any additional feedback to Ms. Wu within a week.

- **New Business**

Ms. Payne stated that DoD timely raised the GAAP standard assistant needs as such a good working relationship has been established since then. During the recent meeting with DoD FIAR, it revealed that more issues are underway. Ms. Payne called upon the AAPC committee for further help on DoD issues in the future.

The meeting adjourned at 2:45 pm.