

**ACCOUNTING AND AUDIT POLICY COMMITTEE MEETING  
FINAL MINUTES  
May 20, 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), Mr. Bragg, Mr. Brewer, Ms. Gilmore, Ms. Kearney, Mr. Rebich, and Mr. Synowiec.

FASAB/AAPC project director, Ms. Valentine and general counsel, Mr. Dymond, were present at the meeting.

Absent: Ms. Carey, Mr. Marchowsky, and Mr. Fletcher.

• **Minutes**

The minutes of March 18, 2010 were previously approved as final, having been circulated by E-mail to members.

• **Administrative**

None

**PROJECT MATTERS**

**Project Agenda**

*MD&A*

Ms. Kearney, MD&A task force chair, gave a brief update on the progress of the task force. She stated that the task force had just met that morning and has now met twice. Ms. Kearney noted that members of the task force were given the task of reviewing the MD&As of the 24 CFO Act agencies to look for those segments of the MD&A that could possibly be used in the best practices guide that is being developed. The group also reviewed a few corporate and government corporation's MD&As looking for best practices. Ms. Kearney pointed out that the majority of the positive aspects noted by the task force members were in the area of "presentation-type" information (i.e., use of graphs, white space, etc.) and not as much from a content standpoint. However, the group will be continuing its review to look at other areas such as forward-looking information and program results relating to cost, etc. The task force plans to meet again in late June. The next steps will be to start to develop a structure for the guide and looking at developing case studies to be incorporated into the document.

## *Grant Accrual Project*

Ms. Payne noted that there had been a good response rate for the exposure draft (ED), “Accrual Estimates for Grant Programs.”

Ms. Parlow said that the staff issue paper identified and developed major questions for the AAPC members. The first question was whether the AAPC members agree with the staff recommendation that the final guidance should omit the paragraph on display (paragraph 26 in the ED) regarding netting grant-related advances and accounts payable. She said that although only a minority of respondents did not concur with the guidance, there were several comments that stated that the language in that paragraph was confusing, even in terms of the scope and the provisions of the guidance. She said that in order to address those concerns, staff would need to develop new guidance and re-expose it for public comment. She said that in addition, this element of the guidance was not one that the task force members had identified as being important.

Ms. Kearney said that she was under the impression that the task force members believed that the netting issue was important, not only to appropriately focus attention on the Statement of Net Cost but also to provide some relief in terms of the development of the accruals.

Ms. Parlow said that the concept of netting was only suggested by one participant, and subsequent discussions indicated that it was not likely to yield any savings because agencies would still need to disclose advances and accounts payable. She said that the only claims for savings were instances where the proposal was misunderstood – for example, that the proposal would have allowed netting without disclosure of the disaggregated amounts of grant-related advances and accounts payable even if both advances and accounts payable were material. She said that agencies believed that guidance was needed regarding how to develop reasonable estimates in a cost-effective manner.

Mr. Brewer noted that a majority of respondents concurred with the proposal on netting and only six opposed it. He asked if the AAPC deletes the paragraph, would those respondents be upset. Ms. Parlow replied that among the significant minority of respondents who did not concur, some expressed serious concerns about the confusing language. She said that staff agrees that the language was confusing and believes that it is necessary to address those concerns because the language in the ED might create more difficulties than it would solve. She also said that of the agencies that concurred, several made comments like, “We do not have significant grant activity but we have no objections to this,” or “We concur because it makes netting optional and we do not net.”

Mr. Synowiec asked if the guidance could be changed without re-exposing the ED. Ms. Parlow said that changing the guidance to address situations where estimates were prepared on a grantee-by-grantee basis rather than an aggregate basis would constitute new guidance, which staff believes would require re-exposure of the ED. She said that the AAPC would have the option of addressing the issue of netting as a separate project in the future.

Ms. Kearney asked why the ED referred to an “aggregate” estimate. Ms. Parlow replied that it was an attempt to describe what is currently being done at an actual federal agency where there is a two-step process: first, the total is estimated, and then a second procedure is done to estimate the breakout of advances and payables. She mentioned that this agency had not asked to have this guidance included in the ED. Ms. Kearney asked if substituting the word “summary” for “aggregate” might remedy the problem. Ms. Parlow said that this would not

remedy the problem because it would still be unclear what “summary” referred to (programs, sub-programs, grantees with advances, etc.) and also why restrict netting to only those situations. She said that such a situation would not be different in principle from situations where agencies estimate grantee-by-grantee and then add them up – why should those agencies appear to be prohibited from netting? Such an implied prohibition was not the intent of ED and could cause problems for some agencies.

Mr. Synowiec said that the draft Basis for Conclusions section of the TR did not include a discussion of this issue. Ms. Payne said that staff could draft some language for inclusion in the Basis for Conclusions but that such language might carry a risk of unintended consequences if misunderstood.

Mr. Brewer asked why revised language would need to be re-exposed. Ms. Payne said that although this would be a matter of judgment, re-writing the guidance to make it sufficiently clear would very likely rise to the level of requiring re-exposure. She said that in her view it should always be permissible to net in a grant environment, but wondered how much time the AAPC wishes to devote to this issue and asked for comments.

Mr. Brewer asked if the Basis of Conclusions could mention this issue. Ms. Parlow suggested that perhaps the draft language could be circulated to the respondents.

Mr. Synowiec asked about the responses that asked for an effective date later than FY 2010. Ms. Parlow said that the TR is not intended to set new guidance and that some of the language – in particular, the guidance on internal controls – was revised to be less prescriptive than the language in the ED. Mr. Synowiec suggested that staff could add something in the Basis for Conclusions about the effective date, in addition to the issue of netting. Mr. Dymond said that the Basis for Conclusions could explain that the guidance on netting was deleted because the language was too confusing. Ms. Parlow agreed.

[Note: Staff subsequently recommended to defer the effective date to FY 2011 with early implementation encouraged.]

Mr. Brewer said that he would rather that the AAPC does not remain silent on netting long-term basis. He said that it would not reduce costs due to the requirement to disclose. Ms. Payne said that the objective of the TR is to rebalance cost versus benefit, and if the TR doesn't adequately address those concerns in the FY 2010 cycle, the AAPC could address the issue of netting in the future. A majority of the members agreed.

Ms. Parlow introduced the next question, of a recommendation to move the guidance on materiality close to the beginning of the document. She said that other FASAB issuances to have the materiality section towards the front of the document. There were no objections.

Ms. Parlow introduced the next question, of a recommendation to make the guidance on internal controls less prescriptive. She said that the language in the ED was modeled after the guidance on internal controls in TR 6, but that staff has no objection to revising the language to make it less prescriptive and to make it obvious that it was not intended to be a checklist of required items. Mr. Brewer asked why such a change would not require re-exposure. Ms. Parlow said that making the language less prescriptive was, in effect, removing requirements rather than adding them, and that deleting requirements in general does not require re-exposure. Another example would be that the Board might change a proposed standard to postpone an effective

date without re-exposing a proposal, but would re-expose if the change made the effective date earlier. There were no objections to making the language less prescriptive.

Mr. Dymond noted that although the guidance mentions OMB Circular A-123, it should note that the circular does not apply to the legislative or judicial branches of the federal government. Ms. Parlow asked if a footnote would adequately address this issue. Mr. Dymond agreed.

Mr. Dymond also noted that the statement about subsequently validating the estimate does not make it sufficiently clear that the validation process refers to the financial statement estimate.

Ms. Parlow said that staff could edit the language to make that clear.

Ms. Parlow noted that the final question was whether staff had adequately addressed the numerous editorial comments from respondents. She said that a list of such comments along with whether edits were made was included as Attachment 1 of the briefing materials dated May 13, 2010.

Ms. Parlow explained that there were two general reasons why edits were not made in response to comments: (a) if staff believes that the edits would not make the guidance clearer, or (b) where the comment was to add material that would likely require re-exposure. An example of the latter were comments that asked for more steps to be added to the flow-chart diagrams. She said that the diagrams were intended to be a basic starting point, and that it would be a problem to add steps that might be great at one agency, but totally inappropriate at another.

Ms. Payne said that the GWSCPA made a comment<sup>1</sup> that the phrase, “restate prior period financial statements” should be “consider restating prior period financial statements” and said that Statement of Federal Financial Accounting Standards (SFFAS) 21, *Reporting Corrections of Errors and Changes in Accounting Principles*, was intended to prevent restating in situations that were not very material. Ms. Parlow said that she had looked at the phrase in context of the diagram, and said that the language was modeled after the conditions described in SFFAS 21, such as that the difference was material and that it was caused by misuse of information that was available at the time. She agreed to review the language in the flowchart to see if it could emphasize the SFFAS 21 conditions.

Mr. Synowiec mentioned the use of the word “can only” in paragraph 37<sup>2</sup> of the ED, and noted that some respondents had interpreted that to mean what was permissible rather than (as the ED intended) what was possible. Staff agreed to work on different language that would avoid the word “can.” At the Chairperson’s request, he proposed some additional edits that were forwarded to staff after the meeting.

There were no other recommendations from the AAPC members.

Ms. Payne noted that the timeline for the proposed TR is somewhat tight in terms of getting it issued in time for the FY 2010 reporting cycle. Ms. Parlow asked if it would be acceptable to the AAPC members to forward a revised preballot draft via e-mail rather than waiting for the July 2010 AAPC meeting. There were no objections.

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<sup>1</sup> The GWSCPA comment referred to is on page 27 of Appendix 1 of the briefing memorandum dated May 13, 2010.

<sup>2</sup> Paragraph 37 of the ED said: “When developing grant accrual estimates, agencies can only consider data that is available at the time.”

**Conclusion:**

Staff will make the edits recommended by the AAPC and send a revised preballot draft to the AAPC members via e-mail, with a goal of finalizing a ballot draft and completion of balloting by the AAPC prior to the June 2010 FASAB meeting.

**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 two technical releases are expected to be released next week and a third project on triggering events for the disposal of equipment is well on its way. 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 the first draft document 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 implementation guidance is not meant to be all-inclusive nor is it meant to give step-by-step instructions on how to calculate a specific estimation methodology. Ms. Valentine opened up the discussion to the members for questions or comments on the draft.

Ms. Payne commented on the level of detail in the examples and how they seemed to focus in on developing estimates to the individual asset item level. She suggested that the examples may be better with less detail and developing estimates at the group or composite asset level. She noted that less detailed examples would encourage users of the guide to not focus in on developing such detailed estimates. Ms. Valentine agreed to add some language before the examples to explain that the level of detail used in the examples may not be necessary for each entity applying the guidance to use in the same manner. She also agreed to try to cut out some of the detail included in the examples.

Mr. Synowiec commented on the format and content of the first example. He stated that it was easy to follow and it was clear what was being accomplished at each step of the example. He suggested formatting the other examples in a similar manner.

Mr. Synowiec asked why in Example #4 three different calculations were used to develop the average cost of the aircraft. Ms. Valentine explained that each calculation uses different variables, depending on what and how much information is available at the time of the estimate.

Mr. Dymond asked if the calculations in Example #4 are excluding all direct and indirect support costs (i.e., salaries of oversight employees) that are not specifically included in the

budget line item amounts. If not it should be made clear in the language how full cost is being defined.

Ms. Payne suggested that a general statement be made in the guide to state that the consumer price index can always be used when calculating discounted values; however other specific indices may be used when appropriate, as was used in Example #1.

Mr. Dymond asked if each of the examples had already “passed” audit scrutiny at each of the agencies providing the examples. He felt that there may be some problems with the guidance if the implementation of the actual methodologies has not passed audit review. Ms. Valentine noted that she was only aware of two that had, but would check on the others. Mr. Bragg agreed that this information would be very helpful to know if these example methodologies were used during a successful audit.

Ms. Payne asked if the Committee had any concerns about using the specific agency names in the examples. No member objected to the use of the agency’s name as long as the agency had no issue with its use.

**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. The goal would be to make the necessary edits and get a draft back to the Committee for discussion at the July meeting.

- **Agenda Committee Report**

None.

- **New Business**

Ms. Payne reminded the Committee that the July meeting date was changed from July 15 to **July 22**.

The meeting adjourned at 2:35 pm.