

**ACCOUNTING AND AUDIT POLICY COMMITTEE MEETING
FINAL MINUTES
January 21, 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, Ms. Carey, Ms. Gilmore (via telephone), Ms. Kearney, Mr. Marchowsky, Mr. Synowiec, and Mr. Gary Ward (representing Treasury). FASAB/AAPC project director, Ms. Valentine and general counsel, Mr. Dymond, were present at the meeting.

Absent: Mr. Brewer and Mr. Fletcher.

• **Minutes**

The minutes of November 19, 2009 were previously approved as final, having been circulated by E-mail to members.

• **Administrative**

Ms. Payne updated the members on the status of the AAPC's membership. She noted that Ms. Kristine Chadwick, who held the at-large seat on the Committee and served as the agenda committee's chair, decided back in December not to accept her second term on the AAPC. Ms. Payne noted that the FASAB Steering Committee hopes to fill that vacancy with another small federal agency representative.

PROJECT MATTERS

Project Agenda Status

General PP&E

Ms. Valentine 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 "estimating historical cost" guidance was very close to being reviewed by the full task force, now that a couple of issues were addressed and the NASA example was finalized. The disposal subgroup's two exposure drafts (ED) technical releases will be discussed today and a third project on triggering events for the disposal of equipment has begun. 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 will be presenting to the Committee on its final recommendations later in the meeting.

- **“Record Retention Timeframes for General PP&E Assets”**

Ms. Valentine reminded the Committee that the draft record retention guide was last discussed at the November meeting and the edits from that discussion were incorporated into the draft, however one member had a comment on the intended record retention period for transactional type records. Mr. John Lynskey, (NSF) G-PP&E Record Retention subgroup leader, explained that the guidance (retain until 6 years and 3 months after final payment of the asset) for transactional type records (i.e., routine procurement files) is the same as what already exists in the National Archives and Records Administration (NARA) regulations. The record retention subgroup added a caveat to the guidance that states that the agency may determine that it is necessary to retain certain records longer (i.e., those assets with a high dollar value or are significant to the entity). He further explained that the subgroup was looking for a reasonable retention period for the transactional records, somewhere in between immediately after purchase and forever. Mr. Synowiec agreed that all transactional records (immaterial ones) do not need to be retained until disposal, however the guide should further emphasize that certain assets (i.e., high dollar value, material items for financial statements, etc.) should retain the documentation until the asset is disposed of. Mr. Lynskey agreed and would revise the guidance.

Mr. Synowiec suggested that the guidance talk about converting the hardcopy records into electronic records. Mr. Lynskey explained that the guidance refers to both hard copies and electronic records. Ms. Carey noted that electronic records would be subjected to the same level of review as a hard copy and that the electronic should not be over emphasized. Mr. Bragg noted that guidance should allow either hard or soft copies. Mr. Synowiec asked if the final/cumulative documentation that supported the acquisition or construction cost of real property would be considered a long-term or transactional type record. Ms. Kearney noted that that point should be clarified in the guidance. Mr. Bragg agreed with Ms. Kearney and suggested that the guidance clarify what type of documents are included in the “long-term records” category. Mr. Lynskey agreed with the recommendations of the members and would revise the examples of long term records.

Ms. Payne asked if the subgroup had thought about how some of the background information in the guidance could be preserved to provide the context for the two pages of edited guidance that would presented to NARA for inclusion in NARA’s general records schedule. Ms. Valentine noted that the task force at one time suggested that the background information be included in the appendix to the historical cost implementation guidance. It was recommended that it be included in that paper if appropriate. Ms. Payne also suggested that the proposed NARA guidance include some language about allowing management to use its judgment to determine if the records should be kept longer and tie that judgment to audit requirements, capitalization thresholds and materiality.

Conclusion: The member recommendations will be incorporated into the document and those edits will be discussed again at the March AAPC meeting.

- **Exposure Drafts: “Implementation Guidance on Cleanup Costs Associated with Equipment” and “Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment”**

Ms. Valentine informed the Committee that nine comment letters had been received on the Equipment ED and ten letters on the Asbestos Cleanup ED. The comment letters were summarized and included staff's recommendations on each of the responses. Ms. Valentine introduced Ms. Alaleh Jenkins, (DoD) G-PP&E Disposal subgroup leader. Ms. Jenkins and other members of the subgroup worked with Ms. Valentine to review and analyze all of the comment letters for both EDs. Ms. Jenkins noted that the subgroup was proposing several edits to the two draft technical releases based on the comment letters; however most of the edits are merely adding references to the standards to better clarify the implementation guidance. She went through several of the proposed edits, explaining the subgroup's rationale for the proposed revisions to the document.

Ms. Jenkins noted a comment on the Asbestos ED that related to the requirement in TB 2006 -1 for the recognition of a cleanup cost liability for both friable and non-friable asbestos. Ms. Jenkins noted that it was more difficult for agencies to estimate the cost for the non-friable asbestos and suggested that that requirement be reconsidered by the FASAB. Ms. Payne commented that although it may be more difficult to estimate the non-friable, it is very likely that the non-friable will one day become friable asbestos, so it is important to recognize those future cleanup costs. She also suggested to Ms. Jenkins to write up the subgroup's concerns and they will be considered by the Board.

Conclusion: Ms. Payne informed the Committee members that they would be given an opportunity to review and comment on the proposed edits before they are incorporated into the revised technical release. Once all of the proposed edits are made a redline version and clean version of the two draft technical releases will be sent to the members for review and comment. The next steps will be to prepare a pre-ballot draft for the Committee to review by the March meeting.

- **Agenda Committee Report**

- Grants Accrual

- 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 FASAB staff on issues surrounding grant accruals. Ms. Payne introduced FASAB staff member Eileen Parlow as the project director that has led the FASAB project on grant accruals.

- Mr. Bragg presented the project request to the AAPC members for consideration; he noted that substantial work had been done by staff and the task force on the issues. The task force recommended that the FASAB provide guidance on cost-effective methods of performing reasonable estimates of grant accruals. Ideally, the guidance would address (a) developing estimates and (b) validating estimates with a goal of reporting reasonable estimates that are developed and validated in a cost-effective manner.

- Mr. Synowiec reminded the Committee that a grant accrual question had been presented to the AAPC back in 2007 and the project request was turned down. Ms. Payne noted that the 2007 request was specifically asking the Committee to approve a grant accrual methodology and that was a very different question from what is being asked in the current request. Mr. Synowiec noted that the current request was broader in nature and could be useful to federal entities that

have to develop grant accruals. He also suggested that that task force look into the state and local government similarities in developing grant accruals.

Mr. Bragg asked what was the significance of developing the guidance as a technical release from the AAPC versus FASAB staff implementation guidance. Ms. Payne responded by giving a brief overview of the GAAP hierarchy. She noted that technical releases were higher on the hierarchy than staff implementation guidance and that the due process would be slightly different between the two. She also pointed out that proposing the guidance as a technical release would allow it to get more widespread coverage throughout the community. The proposal also includes some additional guidance on materiality that would benefit from a review of a larger segment of the community.

Mr. Bragg noted that the agenda committee members discussed the request at length and recommended that the Committee accept the project on the agenda of the AAPC. There were no objections to accepting the project. Ms. Parlow noted that she would explore Mr. Synowiec's request to research the parallels of developing grant accruals in the state and local government environment. Ms. Parlow noted that the next steps for the project would be to develop exposure draft questions that would focus in on each of the major points of the paper as well as making any other edits that are necessary. Staff expects to get a pre-ballot to the members to review sometime within the next few weeks and then have a ballot draft about two weeks before the March AAPC meeting.

In-Q-Tel Entity

The agenda committee presented another project request to the AAPC from the Intelligence Community's Accounting Standards Working Group for consideration. The request was sent to the AAPC on behalf of the Central Intelligence Agency (CIA) regarding the appropriate accounting and reporting treatment of In-Q-Tel. In-Q-Tel is a not-for-profit organization that pursues research and development opportunities into innovative technology solutions. The request included two distinctly different interpretations from the CIA's Chief Financial Officer (CFO) and its Inspector General (IG) on the relationship between In-Q-Tel and the CIA, including the level of control and potential future economic benefit to the CIA. The CFO's position is that the characteristics of the relationship between In-Q-Tel and CIA do not meet the requirements for including In-Q-Tel as part of the CIA's reporting entity in accordance with SFFAC 2 Entity and Display. The CIA IG's position is that In-Q-Tel's net assets should be recorded as an investment on the CIA's financial statements.

Mr. Bragg noted that the agenda committee concluded that the existing standards were not ambiguous on this issue, however a clear resolution was not found in the existing FASAB standards. He also noted that since the FASAB currently has an ongoing project addressing several federal entity questions, the committee recommended that the In-Q-Tel request be addressed in the overall FASAB entity project. Mr. Bragg pointed out that there were some questions about just how widespread issues similar to this entity question were throughout the federal community. Ms. Kearney noted that she agreed with having the FASAB entity project answer the question points raised by the CIA's CFO, but asked where the IG's point would be addressed. She suggested that once the entity question is answered, the investment question may need to be reconsidered by the AAPC. Ms. Payne emphasized that the Committee would need more information from the CIA to even consider the IG's investment point. Ms. Payne also noted that three FASAB staff members independently reviewed the In-Q-Tel project request and came to the same conclusions as the agenda committee. She has also requested from the CIA IG a similar analysis on the SFFAC 2 criteria done by the CIA's OCFO.

There were no objections from the full Committee on the agenda committee's recommendation that the issue be referred to the FASAB Entity project.

- **New Business**

None.

The meeting adjourned at 3:20 pm.