

**ACCOUNTING AND AUDIT POLICY COMMITTEE MEETING
FINAL MINUTES
February 27, 2014**

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. Alston, Mr. Donzell, Ms. Gilmore, Ms. Kearney, Mr. Marchowsky, Mr. Rymer and Mr. Zane.

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

Absent: Ms. Anderson, Ms. Chadwick, and Ms. Engelking

• **Minutes**

All previous meeting minutes have been approved.

• **Administrative**

Ms. Payne recognized the accomplishments of departing members Donjette L. Gilmore (DoD) and John Brewer (USDA) who both have served their maximum terms on the AAPC – six years. She then recognized the four new members of the AAPC -- Gordon Alston (Commerce), Kristine Chadwick (Treasury), Keith Donzell (HUD), and Maryla Engelking (DoD). The members welcomed them all.

PROJECT MATTERS

Project Agenda

Report from the Internal Use Software (IUS) Working Group

▪ **Review Progress to Date of the IUS Working Group**

Ms. Payne began the discussion by first introducing Mr. Curt Nusbaum, Ms. Jacqueline Olewack, and Mr. Jim Plew who all serve on the IUS working group. Mr. Nusbaum began with the history of the working group's formation. He stated that the Transportation Security Administration (TSA) sent a letter to FASAB requesting additional guidance on IUS. He noted that there were difficulties tracing specific IUS costs to vendor invoices and tracing software development costs to discreet IUS applications. The TSA letter was the basis for the creation of the working group and other federal entities were asked to participate.

Ms. Olewack briefed the Committee on some of the issues the working group is addressing – all associated with the difficulty in aligning the software development phases outlined in

SFFAS 10 *Accounting for Internal Use Software* with software development techniques (e.g., agile development).

- Blending of the techniques and the lack of defined transition points into the phases.
- Appropriate timing to begin amortization of the IUS asset – is it when capability is up & running or is it when final capability is delivered.
- Difficulty in assigning an appropriate useful life – it is possible that additional capabilities are being added and there may also be “bug fixes” going on as well.

Ms. Olewack also stated that the working group has separated into three sub-groups.

- **Mapping Team:** The objective of the sub-group is to review and map existing Office of Management and Budget (OMB) software and information technology requirements and terms to SFFAS 10 to identify inconsistencies and omissions. Identify terminology and align the work that is required under all of the various standards where possible.
- **Benchmarking Team:** The objective of the sub-group is to research private industry and other CFO act agencies to identify best practices in analyzing and capitalizing IUS costs. Also review how the information is used by management (relevant and useful).
- **Standards Team:** The objective of the sub-group is to research current development cycles and identifies challenges in applying SFFAS 10 as currently written. Also, identify accounting concepts applicable to accounting for software and, if appropriate, devise potential ways to affect change to the current standard that still align with the concepts.

Mr. Nusbaum noted that the working group began with a brainstorming session discussing the two extreme points of IUS recognition -- expensing all IUS costs or capitalizing all IUS costs. The group determined that neither of the two extreme recognition points would be appropriate or practical approaches. The working group has plans to use one of the technical release approaches previously used, such as question & answer, scenarios, or entity examples. He stated that SFFAS 10 is resource intensive and is hopeful that implementation guidance would be helpful.

An observer asked if the Committee could establish IUS capitalization thresholds for entities. Ms. Payne noted that FASAB as well as other standard setters have not set capitalization thresholds because of the level of judgment involved. Ms. Kearney noted that over time those thresholds may become outdated and would need to be revised – individual entities are better suited at establishing their own capitalization thresholds.

Mr. Rymer asked the IUS working group representatives if they had considered the cutoff for capitalization from the output standpoint – meaning, stop capitalizing at the point the application reaches the capability it was intended to do. Mr. Alston noted that at Commerce they have established the IUS transition points in their policies, including auditor involvement as the policies were being established. He stressed that consistency is important.

Mr. Zane asked the group how they were distinguishing between what is considered new guidance for FASAB to address and what is considered implementation for the AAPC to address – for example, the new cloud technology is not addressed in SFFAS 10. Ms. Olewack stated that they believe the new technology could be addressed with implementation guidance.

Ms. Payne noted that one advantage to working groups is that the participants are able to share ideas and best practices among themselves. Ms. Kearney added that anything to help reduce the burden of agencies is always helpful. Mr. Donzell noted that HUD has some issues related to shared services and having guidance that could streamline the accounting process would be helpful as well.

Conclusions: The Committee accepted the IUS issues as a project for the AAPC agenda contingent upon any FASAB decisions made on the project.

- **Agenda Committee Report**

Ms. Engelking will serve as the CFOC representative on the Agenda Committee, along with Ms. Kearney (OMB -- central agency representative) and Mr. Marchowsky (PBGC – CIGIE representative). Mr. Marchowsky agreed to take over as chair of the Agenda Committee. Two issues were brought before the AAPC to consider as potential new projects.

- Implementation Guidance for *SFFAS 42: Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32.*

Ms. Valentine began the discussion by briefing the Committee on the background of the issue. She informed the Committee that FASAB staff member Dominic Savini who lead the SFFAS 42 project sent out a survey to his task force asking them to identify any potential implementation issue that might arise as a result of SFFAS 42 which becomes effective in fiscal year 2015. Ms. Valentine noted that Mr. Savini received ten responses back from the survey, with seven respondents noting that they had no known implementation issues with SFFAS 42. Three respondents (EPA, Mint, & Interior) forwarded their implementation questions on SFFAS 42.

Ms. Payne advised the Committee that FASAB plans to make it a practice after a new standard is developed to send out a survey to the community asking if there are any specific implementation issues that could be addressed by the AAPC through a technical release. The survey would be sent out well in advance of the standard's effective date. Staff will also be sending out a similar survey on *SFFAS 44 Accounting for Impairment of G-PP&E Remaining in Use.*

Ms. Payne noted that staff did not identify any implementation questions that would rise to the level of a technical release. Staff will also talk with each entity that sent in questions to the survey to talk through their questions and appropriate guidance that addresses the question. She did state that the question from Interior about the change in the requirement to report the estimated beginning balance of DM&R as a range to now report it as a point estimate may require a FASAB staff letter to clarify. Therefore the Committee will not be asked to take on a project to develop implementation guidance for SFFAS 42.

Staff will share the results of the SFFAS 44 survey with the Committee prior to the next AAPC meeting.

- *Department of Defense DCFO letter to FASAB on the Three-Year Plan and Annual Report*

Ms. Payne noted that the DoD DCFO responded to the FASAB’s request for comments on its *Three-Year Plan and Annual Report*. The letter noted six topics for FASAB consideration. Even though the issues are DoD specific issues we believe the federal community as a whole can benefit from any guidance that arises from these issues. Ms. Payne also provided to the Committee a list of suggested approaches in relationship to the requested DoD projects. The suggestions will also be discussed by the FASAB at its March 6 meeting.

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February 21, 2014 Project Proposals from the Department of Defense, Deputy CFO

Requested Project:	Suggested Approach if Undertaken:
Inventory and Related Property (SFFAS 3) – extend the use of reasonable baseline estimates (application of SFFAS 35, <i>Estimating the Historical Cost of General PP&E</i>)	1) First consider whether a less costly method for addressing valuation would be appropriate and, if so, provide guidance from FASAB 2) If not, provide staff guidance clarifying that SFFAS 35 may be applied
Contract financing payments (CFP) – clarify proper treatment as advances or construction in progress	Address through the AAPC by continuing prior efforts to draft a Technical Release
Deployed assets – is it appropriate to expense, rather than capitalize, deployed assets?	Address with FASAB
Revolving fund (business-type activities) – develop guidance for these activities	Address first with FASAB staff consultation and possible staff action to clarify. Elevate to FASAB or AAPC as needed.
Research and Development – determine the proper timing of capitalization in a changing R&D world (similar to IUS issues as methods move from linear to spiral development)	Possible AAPC technical release or FASAB action. (FASAB has not developed comprehensive R&D standards. Issues relating to the timing of capitalization may be addressed through the AAPC. Other issues may require FASAB consideration.)
In-Kind Lease Payments – guidance is needed for cases such as receipt of free or reduced utility fees, new assets, or improved assets in lieu of rent	These issues will be addressed in the ongoing leases and public-private partnership projects.

Ms. Gilmore provided some background on the DoD issues submitted to FASAB. Mr. Rymer noted that he wanted to reclude himself from providing input into any of the DoD issues noted in the letter so that the independence DoD-OIG is not impaired in any way. The members briefly shared some of their initial thoughts on the DoD contractor financing payments issue. Mr. Rymer and Mr. Donzell noted the importance of resolving the DoD issues because of its impact on the Government-wide financial statements. When staff began the research on the CFP issue, the members wanted to know how other federal entities dealt with the same issue.

The Committee accepted the DoD CFP issue as a project for the AAPC agenda.

- **Administrative Matters**

Ms. Valentine asked the members if there were any objections or questions on the proposed revisions to the AAPC Operating Procedures other than the update from PCIE to CIGIE and the updated authoritative standing of technical releases as noted in SFFAS 34. There were no objections to the updates proposed by staff.

- **New Business**

None.

The meeting adjourned at 2:15 pm.