



U.S. Department of Housing and Urban Development

Request for Accounting and Auditing Policy Committee (AAPC) Guidance Regarding CPD First in First out (FIFO) Accounting

CPD FIFO Accounting – Purpose

To obtain a reasonable solution that resolves historical grant presentation issues, as historical records are not available to re-align obligations and disbursements within financial statements.

CPD FIFO Accounting – Issue in Brief

- Office of Community Planning and Development (CPD) historical formula block grant programs used a First in First out (FIFO) disbursement method to liquidate obligations.
- The balances related to these historical grants are material to the Department's financial statements and part of the OIG's basis for disclaimed opinions since Fiscal Year (FY) 2014.
- Historical records do not exist to allow retroactive application or estimation of any misaligned values in the financial statements.
- CPD formula block grant system was modified to align the obligation and disbursement transactions for grants issued beginning in FY 2015 and forward on a grant specific basis.

CPD FIFO Accounting – Background

- Use of the FIFO method for disbursing grant funds began as early as 1974 when the Community Development Block Grant program was established.
- Other programs followed the same disbursement method when they came into existence during the 1987-1990 timeframe.
- Our CPD formula block grant system was reconfigured to align the obligation and disbursement transactions for grants issued beginning in FY 2015 and forward on a grant specific basis.
- Affected programs using the FIFO disbursement method include:
 - 1) Community Development Block Grant;
 - 2) HOME Investment Partnerships;
 - 3) Housing Opportunity for Persons with AIDS; and
 - 4) Emergency Solutions Grants

CPD FIFO Accounting – Background

The table below shows aggregate funding levels and grant counts along with estimated unliquidated obligations balances as of September 30, 2016 for the four mentioned formula grants.

| Budget Fiscal Year | Enacted Funding Levels (in millions) | Grant Count | Estimated Unliquidated Obligation Amount (in millions) | Percent of Total Unliquidated Obligation |
|---------------------------|---|--------------------|---|---|
| 2010 | \$6,209 | 2,365 | \$53.8 | 1.46% |
| 2011 | \$5,413 | 2,366 | \$123.2 | 3.36% |
| 2012 | \$4,531 | 2,379 | \$274.2 | 7.48% |
| 2013 | \$4,521 | 2,385 | \$706.8 | 19.27% |
| 2014 | \$4,575 | 2,393 | \$2,510.2 | 68.43% |
| Totals | \$31,226 | 11,888 | \$3,668.2 | 100.0% |

CPD FIFO Accounting – Accounting Guidance

- Statement of Federal Financial Accounting Concepts 5, Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements, establishes two basic recognition criteria that an item must meet to be recognized in the financial statement:
 - the item meets the definition of an element of the financial statement
 - the item is measurable.
- “Measurable” means that a monetary amount can be determined with reasonable certainty or is reasonably estimable.

CPD FIFO Accounting – Conclusion

- Because the historical records are non-existent, HUD is unable to perform retroactive application or estimate any misaligned values in the financial statement with any reasonable certainty. This means HUD cannot meet the measurable criterion.
- HUD financial statements will continue to bear the FIFO impact for another three to five years.
- More than sixty-seven percent of HUD estimated unliquidated obligations are from the FY 2014 appropriation; given the programs' 3-year funding availability, the remaining obligated balance won't be fully liquidated or cancelled until September 30, 2021.

CPD FIFO Accounting – Recommended Approach

HUD proposes including language describing its FIFO and grant-specific disbursement methods for applicable fiscal years as a note disclosure in HUD financial statements.

HUD is seeking concurrence that the footnote disclosure would be sufficient to resolve the disclaimer.

CPD FIFO Accounting

Questions