

**ACCOUNTING AND AUDIT POLICY COMMITTEE MEETING
MINUTES
November 17, 2016**

The meeting convened at 1:05 p.m. in room 7C13 of the GAO Building, 441 G St., NW, Washington, DC.

ADMINISTRATIVE MATTERS

• **Attendance**

Present AAPC members: Ms. Payne (chairperson), Mr. Baker, Mr. Donzell, Mr. Gordon, Mr. Hyde, Ms. Kearney, Mr. Lewis, Mr. Miller, and Mr. Zane

Mr. Easton was represented by Ms. Jenkins.

Absent: Ms. Anderson

Present FASAB/AAPC staff: Ms. Wu (project manager) and Ms. Batchelor (FASAB assistant director)

Present representatives from the Department of Housing and Urban Development (HUD): Ms. Kubacki and Ms. Timberlake

• **Minutes**

Members approved all previous meeting minutes prior to the meeting.

• **Administrative**

Ms. Wu confirmed that the next AAPC meeting will be held on February 9, 2017.

PROJECT MATTERS

➤ **Request for Approval of the Draft Technical Release, *Conforming Amendments to Technical Releases for SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment***

Ms. Batchelor presented a Technical Release (TR) containing conforming amendments to existing TRs based on Statement of Federal Financial Accounting Standards (SFFAS) 50, *Establishing Opening Balances for General Property, Plant, and Equipment* and its rescission of SFFAS 35. The TR would clarify that all standards-level implementation guidance for general property, plant, and equipment (with the exception of certain provisions applicable to internal use software) now resides in SFFAS 6, as amended.

The Committee received a draft of the TR for review and comment prior to the meeting. As explained in the draft, SFFAS 50 amended SFFAS 6, *Accounting for Property, Plant, and*

Equipment, and SFFAS 10, *Accounting for Internal Use Software*, and rescinded SFFAS 35, *Estimating the Historical Cost of General Property, Plant, and Equipment: Amending SFFAS 6 and 23*. The TR would provide amendments to previously issued TRs to acknowledge the rescission of SFFAS 35.

Ms. Batchelor explained that she received minor changes from members and brought marked copies for the Committee members' review and approval.

Staff requested any final questions or changes. Ms. Jenkins expressed concern that the revised Technical Release 13, *Implementation Guide for Estimating the Historical Cost of General Property, Plant, and Equipment*, would not be included in its entirety with the exposure draft. She noted that there may be concerns with the examples as they relate with SFFAS 50 implementation.

Ms. Batchelor explained that the amendments pertain strictly to updating the TRs for conforming changes so that they are in agreement with SFFAS 50. Staff did not update the examples in any other manner. Ms. Batchelor expounded that additional guidance for SFFAS 50 would be provided in a forthcoming TR and that the basis for conclusions addressed this. The Committee discussed including a complete, marked version of TR 13. Ms. Batchelor did not advise this approach because including the TR may give the impression that the Committee had revised it in its entirety. The Committee agreed it should not be included.

Staff suggested adding explanatory language to the executive summary to address Ms. Jenkins' concern and members agreed.

The Committee approved the ballot exposure draft *Conforming Amendments to Technical Releases for SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment*, for release.

➤ **HUD Request for AAPC Guidance Regarding Community Planning and Development (CPD) First in First out (FIFO) Accounting**

Ms. Kubacki and Ms. Timberlake presented to the Committee HUD's CPD FIFO accounting issue. HUD's CPD historical formula for block grant programs used a FIFO disbursement method to liquidate obligations. This disbursement method began as early as 1974, when HUD established the Community Development Block Grant program. Programs established from 1987 through 1990 followed the same disbursement method. This method misaligns the values of the grants for the budget fiscal year prior to fiscal year (FY) 2015. Because there are no historical records, 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 financial reporting measurable criterion, which requires that a monetary amount be determined with reasonable certainty or is reasonably estimable.

The balances related to these misaligned-value historical grants are material to the Department's financial statements, thus they became part of the basis for disclaimed opinions since FY2014 from the Office of Inspector General (IG). Although the CPD formula block grant system was modified to align the obligation and disbursement transactions for

grants issued beginning in FY2015 and forward on a grant specific basis, more than 67% of HUD's estimated unliquidated obligations are from the FY2014 appropriation and before. Given the program's three-year funding availability, the remaining obligated balance will not be fully liquidated or canceled until September 30, 2021. To remediate the deficiency, 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.

Members agreed that more disclosure would be helpful. Yet whether or not the footnote disclosure would be sufficient will be determined by the HUD IG's finding and its basis of conclusion. The basis of the conclusion could be related to the reasonableness of the estimated unobligated balance prior to FY2015, the law and regulation compliance issue, or the potential anti-deficiency issue. Members discussed some potential suggestions, such as appealing to the Congress to change the grants prior to FY2015 as no-year funding grants and remediating other remediable deficiencies first to address the disclaimer in the financial statements. Members agreed that to provide better suggestions it would be beneficial to have HUD IG present its basis of conclusion to the Committee. Ms. Kubacki and Ms. Timberlake agreed to talk to the IG about this suggestion.

Following this session, Ms. Payne introduced two newly issued exposure drafts: *Federal Financial Reporting and Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment*. She stated that it is likely that implementation guidance would be issued through AAPC on the lease Statement after it is officially issued.

The meeting adjourned at 2:15 p.m.