



**November 29, 2018**

Memorandum

To: Members of the Board

From: Melissa L. Batchelor, Assistant Director

*Wendy M. Payne*  
Through: Wendy M. Payne, Executive Director

Subj: Request for Guidance Losses on Intragovernmental Receivables- Educational Session  
– Tab E<sup>1</sup>

MEMBER ACTIONS REQUESTED:

- Contact staff by December 14<sup>th</sup> with any questions you have about this educational session.

**MEETING OBJECTIVES**

The objective of this session is to hold an educational session to learn General Service Administration's (GSA) perspective on intragovernmental allowances for losses. This will provide the Board with additional information to consider in determining how to address a request for guidance from the Department of the Treasury.

**BRIEFING MATERIAL**

This memo presents background information regarding the request for guidance specific to the recognition of losses against intragovernmental receivables among federal entities. As you may recall, this request was raised by Treasury at the June 2018 Board meeting. The staff analysis is attached along with a question for the Board on page 3. You may electronically access all of the briefing material at <http://www.fasab.gov/board-activities/meeting/briefing-materials/>.

**Attachment A- Staff Analysis**

**Attachment B- Biography for Mr. Robert Smalskas, guest speaker from GSA**

**Attachment C- Request for Guidance submitted by Treasury, June 2018**

**Attachment D- Excerpt from June 2018 Board minutes**

## **BACKGROUND**

At the June 2018 Board meeting, the Department of the Treasury (Treasury) raised a concern regarding the recognition of losses against intragovernmental receivables among federal entities. This educational session is a follow-up to that request.

## **NEXT STEPS**

In February, staff will seek the Board's decision on the scope of a potential project to provide additional guidance regarding losses on intragovernmental receivables.

## **MEMBER FEEDBACK**

Please contact me as soon as possible to convey your questions or suggestions. Communication before the meeting will help make the meeting more productive. You can contact me by telephone at 202-512-5976 or by e-mail at [batchelorm@fasab.gov](mailto:batchelorm@fasab.gov) with a cc to [paynew@fasab.gov](mailto:paynew@fasab.gov).

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<sup>1</sup> The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

## **Attachment A- Staff Analysis**

### **Background & Recap of June 2018 Meeting**

As you may recall, in June 2018 Department of the Treasury (Treasury) raised a concern regarding the recognition of losses against intragovernmental receivables among federal entities. Treasury provided the example that it makes judgment claim payments on behalf of many federal agencies. Although agencies are required, in many cases by statute, to reimburse Treasury for some payments, many of these reimbursements are not made in a timely manner—raising questions about collectability. Treasury does not believe it is appropriate for an agency to record a loss allowance for intragovernmental receivables, particularly in cases where the balances are required by statute to be repaid. Although Statement of Federal Financial Accounting Standards (SFFAS) 1, *Accounting for Selected Assets and Liabilities*, indicates that losses should be recognized when it is more likely than not that the balance will not be totally collected, Treasury believes that that language in SFFAS 1 is vague because it does not distinguish between public versus intragovernmental transactions.

The Board discussed the issue, noting that there may be similar circumstances in other agencies and that Congress would have to take action to legally relieve an agency of the liability.

Staff notes other intragovernmental receivables arise from activities such as revolving fund transactions, transfers of revenue collected by one agency to another agency, and reimbursable agreements. Staff is aware that some agencies have recognized losses on intragovernmental receivables due to disputes regarding the amount. The Board members also discussed some examples that are loans (rather than receivables) and believe the general principles should be consistent.

Certain members noted the need to assess whether amounts recognized are realizable. The allowance approach is not actually a “write-off” of a receivable. Instead, it is an adjustment needed to estimate the amount that is realizable.

In addition, Board members expressed reluctance to revise current standards, noting that they did not wish to remove the element of judgment regarding collectability of receivables. The Board generally agreed that providing criteria for evaluating collectability of intra-governmental receivables would be more appropriate.

### **Educational Session- Mr. Robert Smalskas, GSA**

As noted, the purpose of this session is to gain additional perspective from another agency with significant intragovernmental receivables. Mr. Robert Smalskas, GSA, agreed to provide his perspective on this topic.

Staff has included Note 4 excerpt from GSA's 2018 Agency Financial Report for the Board's reference:

#### 4. Accounts and Notes Receivable, Net

Substantially all accounts receivable are from other Federal agencies, with only 4.6 and 6.1 percent due from non-Federal customers as of September 30, 2018, and 2017, respectively. Unbilled accounts receivable result from the delivery of goods or performance of services for which bills have not yet been rendered. Additionally, TMF transfers to other Federal Agencies are recorded as accounts receivable, as legislation requires transferred funds to be repaid to the TMF. Allowances for doubtful accounts are recorded using aging methodologies based on analysis of historical collections and write-offs. In addition to accounts receivable balances displayed below, GSA has an inconsequential balance of notes receivable, net of allowances for doubtful accounts. In accordance with FASAB SFFAS No. 1, GSA does not recognize interest receivable or allowance related to notes deemed uncollectible. As of September 30, 2018, and 2017, accumulated unrecognized interest on all notes deemed uncollectible totaled \$212 million and \$186 million, respectively. A summary of Accounts Receivable as of September 30, 2018, and 2017, is as follows (dollars in millions):

	FBF		ASF		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Accounts Receivable - Billed	\$190	\$115	\$161	\$97	\$20	\$15	\$-	\$-	\$371	\$227
Accounts Receivable - Unbilled	313	428	2,469	1,991	13	2	38	48	2,757	2,373
Allowance for Doubtful Accounts	(6)	(16)	(3)	(11)	(3)	(1)	-	-	(12)	(28)
Total Accounts Receivable, Net	\$497	\$527	\$2,627	\$2,077	\$30	\$16	\$38	\$48	\$3,116	\$2,572

#### QUESTIONS FOR THE BOARD:

1. Would the Board like to hear from any other agencies regarding this issue?
2. Is there any other research or additional information requested about this issue?

**Attachment B- Biography for Mr. Robert (Bob) Smalskas, guest speaker from  
learn General Service Administration's (GSA)**

**Robert Smalskas** is the current Division Director of Accounting and Financial Reporting for GSA. He has been with GSA for 3 years, and has been with the U.S. Government for nearly 10 years. His previous experience with the federal government has been with DoD (DLA, U.S. Air Force and the Department of Navy) primarily working on audit readiness activities. Prior to the federal government, he has worked in general accounting and financial reporting capacities for large and medium sized corporations. He has managed the real estate accounting activities of a large retailer, and provided financial support to a global facilities organization of a large automotive components corporation. He is a CPA and is working towards his CFE certification.

**Attachment C- Request for Guidance submitted by Treasury, June 2018**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

June 22, 2018

**TO:** Wendy Payne, Executive Director, Federal Accounting Standards  
Advisory Board

**FROM:** R. Scott Bell, Office of Accounting Policy and Financial Transparency 

**SUBJECT:** Proposal to the Federal Accounting Standards Advisory Board (FASAB)  
re: Accounting for Intragovernmental Receivables and Loss Allowances.

Ms. Payne,

Attached to this memorandum is Treasury's request to the Federal Accounting Standards Advisory Board (FASAB) to issue an Interpretation of SFFAS No. 1: *Accounting for Selected Assets and Liabilities*, or other related guidance as deemed appropriate, specific to the recognition of losses against intragovernmental receivables among federal entities/trading partners. Supporting documentation is also provided for additional reference.

We appreciate the Board's consideration of this issue.

**ATTACHMENTS**

1. Proposal, FASAB Interpretation of SFFAS 1, *Accounting for Selected Assets and Liabilities*.
2. September 15, 2017 OAPFT Memorandum (*Intragovernmental Receivables – No Allowance for Losses*)
3. September 25, 2015 Fiscal Service White Paper – *Intragovernmental Differences on Contract Disputes Act Payments*
4. 41 U.S. Code 2011 excerpt

## Attachment 1:

# Allowance for Loss on Accounts Receivable among Federal Entities

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<b>Topic</b>	Request to the Federal Accounting Standards Advisory Board (FASAB) to develop an interpretation of <i>SFFAS No. 1: Accounting for Selected Assets and Liabilities</i> <sup>1</sup> , or other related guidance as deemed appropriate, specific to the recognition of losses against intragovernmental receivables among federal entities/trading partners.
<b>Background / Research</b>	<p>Differences related to intragovernmental receivables have existed for several years. The impact of these differences came to light when the Bureau of Fiscal Service (Fiscal Service) received six Dispute Resolution<sup>2</sup> cases from Federal Program Agencies (FPAs) against the Department of Treasury (Treasury) because of its reporting of an “Allowance for Loss on Accounts Receivable” for amounts in which these FPAs had shown a history of not reimbursing Treasury. The Dispute Resolution cases amounted to \$3.6 Billion in intragovernmental differences as of Q4 FY17.</p> <p>The accounting treatment for losses on intragovernmental receivables among FPAs has not been consistent across the government. This inconsistency has caused unreconciled intragovernmental transactions, which in turn result in misstatements on the Financial Report of the U.S Government (FRUSG). The Government Accountability Office (GAO) has continuously cited unresolved differences in intragovernmental activity and balances between federal entities as a major impediment to the audit of the consolidated financial statements.</p> <p>FASAB addresses in general terms the recognition of losses due to uncollectable amounts. Statement of Federal Financial Accounting Standards (SFFAS) No. 1, Paragraph 44 states:</p> <p>“losses on receivables should be recognized when it is more likely than not that the receivables will not be totally collected. The phrase more likely than not means more than a 50 percent chance of loss occurrence.”</p> <p>Additionally, SFFAS No. 1, Paragraph 47 states:</p> <p>“Accounts that represent significant amounts should be individually analyzed to determine the loss allowance. Loss estimation for individual accounts should be based on (a) the debtor’s ability to pay, (b) the debtor’s payment record and willingness to pay, and (c) the probable recovery of amounts from secondary sources, including liens, garnishments, cross collections and other applicable collection tools.”</p> <p>SFFAS 1 is unclear as to the recognition and/or treatment of perceived losses with respect to intragovernmental receivables, particularly in the context of a statutory requirement for reimbursement. Such statutory requirements distinguish such losses from corresponding losses/estimates with the public. SFFAS No. 7, Paragraph 131 describes the risk of loss to the government on bad debts, and seems to contain a position on intragovernmental transactions where SFFAS No. 1 is silent:</p>

“For intragovernmental transactions, allowances for bad debts may not always be needed, because full payment can often be assumed.”<sup>3</sup>

The Dispute Resolution cases causing \$3.6 Billion in intragovernmental differences surfaced when Clifton Gunderson LLP’s audit report of Treasury (dated September 30, 2001) stated “in fiscal 1999, an allowance for uncollectable accounts was established to recognize potential losses on receivables that may not be collected under” the Judgment Fund program. SFFAS No. 1 was cited as their basis for this change. The issue created by this recommendation is that the amounts Treasury recorded as a loss were related to Contract Dispute Act (CDA) Claims. CDA claims statutorily require agencies to reimburse the Judgment Fund and subsequently should not be considered uncollectable since there is not a time frame for reimbursement to occur<sup>4</sup>.

Furthermore, recording an allowance for loss on these receivables outwardly communicates to the agencies carrying the liability that there is no expectation to repay outstanding amounts.

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**Governance/  
Legal  
Reference**

1. Statement of Federal Financial Account Standards 1: Accounting for Selected Assets and Liabilities [http://www.fasab.gov/pdffiles/codification\\_report2007.pdf](http://www.fasab.gov/pdffiles/codification_report2007.pdf)
2. Treasury Financial Manual (TFM) - I TFM 2-4700, Appendix 10, Subsection 2.3.4.
3. Statement of Federal Financial Account Standards 7: Accounting for Revenue and Other Financing Sources <http://www.fasab.gov/pdffiles/sffas-7.pdf>
4. 41 U.S. Code § 7108 - Payment of claims / 31 U.S. Code § 1304 - Judgments, awards, and compromise settlements

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**Results**

The Deputy Assistant Secretary for Accounting Policy and Data Transparency issued a Policy Memorandum, dated September 15, 2017, to all federal agencies titled *Intragovernmental Receivables – No Allowance for Losses*, effective for fiscal year 2018. This policy stated, in part:

- “FASAB is not explicitly clear on whether SFFAS 1, par 44, [45, or 47] applies to intragovernmental receivables.” (p. 2)
- “FASAB is also silent on the issue of recognition of losses when a statute or law requires that a receivable be reimbursed.” (p. 2)

The September 15 memorandum also references Financial Accounting Standards Board (FASB) literature pertaining to intragovernmental losses:

“The [FASB] establishes financial accounting and reporting standards for public and private companies and not-for-profit organizations that follow General Accepted Accounting Principles (GAAP). FASB states that consolidated statements assume that they represent the financial position and operating results of a single business enterprise. Therefore, such statements do not include gain or loss on transactions among the companies in the group.”

The Office of Management and Budget (OMB) and Fiscal Service updated reporting guidance for fiscal year 2018 in OMB Circular A-136 and I TFM 2-4700 to assist with implementing this Policy Memorandum.

Treasury is now seeking a FASAB Interpretation or other guidance as deemed appropriate to better align the accounting for intragovernmental receivables.

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**Pros/Cons of  
Obtaining a  
FASAB  
Interpretation**

Pros:

1. Provide necessary clarification for the federal agency auditors that are broadly applying Paragraph 44 to federal receivables.
  2. Provide for consistent application of the standard across intragovernmental receivables (currently some federal agencies record an allowance for loss on some receivables but not others within the same financial statement, without justification for distinguishing uniqueness).
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**Position and  
Request**

To provide consistency among all FPAs and their intragovernmental reporting, an allowance for loss should not be recognized on intragovernmental receivables. This means FPAs cannot write-off balances among their intragovernmental trading partners. The 2017 Treasury guidance, upon implementation, has reduced approximately \$3.6 Billion in intragovernmental differences. It has also aligned the accounting treatment with that of a single entity.

As stated in the Intragovernmental Differences on Contract Disputes Act Payments: “The recommended approach would increase the USSGL 131000 ‘Accounts Receivable’ balance. The change would appropriately state the payables reported by the FPAs since they can never be written off.”

SFFAS No. 1 does not specifically address receivables between federal entities, or receivables for which repayment is required by law and cannot be written off. As a means of clarification, Treasury requests that FASAB provide an interpretation of SFFAS No. 1 or other related guidance to specifically address the recognition of losses against intragovernmental receivables between federal entities.

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DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

September 15, 2017

**POLICY MEMORANDUM**

**FROM:** Christina Ho, Deputy Assistant Secretary *Christina Ho*  
Accounting Policy and Financial Transparency

**SUBJECT:** Intragovernmental Receivables – No Allowance for Losses

The purpose of this memo is to document the accounting treatment and financial reporting for intragovernmental receivables in the federal government. Federal agencies execute financial transactions related to the buying and selling of goods and services with each other. Some transactions result in one agency owing funds to another. This transaction is called an intragovernmental receivable.

This memorandum establishes as policy in the federal government that no losses for uncollectible intragovernmental receivables should be recognized by federal agencies. Consistent accounting treatment is important to foster sound accounting practices governmentwide and to prevent intragovernmental differences in the governmentwide financial statements.

**Condition**

If intragovernmental transactions (transactions occurring between or with federal agencies) do not agree in amount and reporting period, these transactions cannot be adequately accounted for and reconciled. Unreconciled intragovernmental transactions and balances create an imbalance in the governmentwide financial statements. Therefore, all intragovernmental transactions must be treated in a consistent manner.

There has been inconsistent application of the accounting for losses on intragovernmental receivables between federal agencies. For example, agencies are recognizing the full payable for Judgment Fund payments while the Treasury Department (Treasury) recognizes a loss on these receivables. This inconsistent accounting treatment between agencies for the same transaction creates an imbalance in the governmentwide financial statements. Treasury does not recognize a loss on other non-Judgment Funds amounts owed to it by federal agencies. Receivables for Treasury Judgment Fund transactions currently cause the largest number of intragovernmental differences in dispute in the federal government<sup>1</sup>.

**Impact**

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<sup>1</sup> In cases of discrepancies or disputed amounts owed between federal entities, Treasury's Bureau of the Fiscal Service (Fiscal) operates an intragovernmental dispute resolution process to ensure consistent accounting practices amongst federal agencies. This process is necessary to ensure that all intragovernmental amounts eliminate in consolidation during preparation of the governmentwide financial statements. This process is defined in the Treasury Financial Manual Chapter 4700 Appendix 10 subsection 2.3.4.

Unreconciled intragovernmental transactions hamper the federal government's ability to reliably report its assets, liabilities, costs, and other related information. They affect the federal government's ability to reliably measure the full cost and financial and nonfinancial performance of programs.

Unreconciled intragovernmental transactions impair the federal government's ability to adequately safeguard assets and properly record financial transactions and hinder the federal government from having reliable financial information to operate in an efficient and effective manner.

### **Federal Accounting Standards**

Federal agencies follow the Federal Accounting Standards Advisory Board (FASAB), which sets generally accepted accounting principles for the federal government. Statement of Federal Financial Accounting Standards (SFFAS) 1 defines accounting standards for selected assets and liabilities of the federal government and its entities.

The requirement for recognition of losses due to uncollectible amounts is addressed in SFFAS 1 ¶44, which states:

**44. Recognition of losses due to uncollectible amounts.** Losses on receivables should be recognized when it is more likely than not that the receivables will not be totally collected. The phrase more likely than not means more than a 50 percent chance of loss occurrence.

However, FASAB is not explicitly clear on whether this standard applies to intragovernmental receivables. Treasury and other federal entities comprise one legal entity (i.e., the federal government). Within a single legal entity, there is no question regarding collectability. Therefore, there is an implicit requirement for federal entity components to repay amounts owed to each other.

FASAB is also silent on the issue of recognition of losses when a statute or law requires that a receivable be reimbursed. The requirement for agencies to repay Contract Disputes Act (CDA) amounts paid out of the Judgment Fund is clear as 41 U.S. Code Section 7108 – Payment of Claims states:

(c) Reimbursement.—

Payments made pursuant to subsections (a) and (b) shall be reimbursed to the fund provided by section 1304 of title 31 by the agency whose appropriations were used for the contract out of available amounts or by obtaining additional appropriations for purposes of reimbursement.

### **Other Standard Setters**

The Financial Accounting Standards Board (FASB) establishes financial accounting and reporting standards for public and private companies and not-for-profit organizations that follow Generally Accepted Accounting Principles (GAAP). FASB states that consolidated statements are based on the assumption that they represent the financial position and operating results of a single business enterprise. Therefore, such statements do not include gain or loss on transactions among the companies in the group<sup>2</sup>. Therefore, this FASB standard is consistent with this policy for treatment of intragovernmental receivables in the federal government.

International Public Sector Accounting Standards (IPSAS) and the Governmental Accounting Standards Board are silent on the issue of losses on intragovernmental receivables. However, IPSAS

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<sup>2</sup> Accounting Research Bulletin 51: Consolidated Financial Statements

require consolidated financial statements to be prepared using uniform accounting policies for like transactions and other events in similar circumstances.<sup>3</sup> It further requires that balances, transactions, revenues and expenses between entities within the economic entity be eliminated in full.<sup>4</sup>

## **Conclusion**

In the absence of an explicit FASAB standard for accounting treatment of intragovernmental receivables, the legal requirement for agencies to repay amounts that prohibit write-offs, and the fact that intragovernmental receivables exist within the same legal entity, the policy in the federal government is that no allowance for loss will be recognized in federal agencies' accounting records or financial statements for intragovernmental receivables. The key factors in our conclusion were:

- Treasury and other federal entities comprise one legal entity. Consequently, there is no question with regards to collectability
- Consistency with FASB policy. FASB is the only accounting standard-setter to explicitly address the treatment of intra-enterprise gains and losses.
- Legal requirements to repay amounts that prohibit write-offs, including, but not limited to CDA amounts

Consistency in application is not only good accounting practice, but is necessary to avoid intragovernmental differences at the governmentwide level. Please contact the Bureau of the Fiscal Service Intragovernmental Transaction and Reconciliation Branch with any questions or for assistance in implementing this policy by emailing: [GovernmentwideIGT@fiscal.treasury.gov](mailto:GovernmentwideIGT@fiscal.treasury.gov).

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<sup>3</sup> IPSAS 6 ¶49

<sup>4</sup> IPSAS 6 ¶45

**DEPARTMENT OF THE TREASURY  
BUREAU OF THE FISCAL SERVICE  
FINANCIAL REPORTS DIVISION**

**WHITE PAPER**

**Intragovernmental Differences on Contract Disputes Act Payments**

**FINAL  
Version 1.1**



Prepared by: **Lisa R. Midcap** Digitally signed by Lisa R. Midcap  
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**REVISION HISTORY**

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1.0	09/11/2015	Baseline	
1.1	09/23/15	Final	

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## Purpose

To document a future approach for reporting Judgment Fund Contract Disputes Act receivables and reporting changes for the Department of the Treasury (Treasury). The approach would discontinue the use of USSGL 131900 “Allowance for Loss on Accounts Receivable” which is reported by Treasury on amounts in which Federal Program Agencies (FPAs) have shown a history of not reimbursing Treasury. The approach would ultimately address and resolve intragovernmental differences between Treasury and the FPAs concerning these receivables. These intragovernmental differences are part of a material weakness in the Financial Report of the United States Government, subsequently contributing to the disclaimer of opinion that Treasury and OMB are diligently working to remediate. The recommendation contained within this document supports a change in accounting estimate as described in Statement of Federal Financial Accounting Standard (SFFAS) No. 1 *Accounting for Selected Assets and Liabilities* and FASB Statement of Financial Accounting Standard No. 154.

The goals are to 1) discontinue the usage of USSGL 131900 for Contract Disputes Act (CDA) receivables from the Judgment Fund; and 2) resolve intragovernmental differences pertaining to these receivables.

## Background

The Judgment Fund was established to pay court judgments and Justice Department compromise settlements of actual or imminent lawsuits against the government in a prompt manner. No FEAR Act lawsuits and CDA lawsuits are two types of claims paid by the Judgment Fund. The No FEAR Act is intended to reduce the incidence of workplace discrimination within the federal government by making agencies and departments more accountable. The CDA cases pertain to claims relating to Federal government contracts.

FPAs are required to reimburse and report a payable pertaining to payments made by the Judgment Fund as a result of No FEAR Act and CDA cases. Per *GAO-08-295R Judgment Fund Reimbursements*, FPAs are reimbursing the Judgment Fund for almost 100% of the No FEAR Act payments; however, only about 50% of the CDA payments are being reimbursed. GAO recommended that “the Commissioner of FMS notify Congress on a periodic basis of the amounts owed the Judgment Fund by each federal department and agency for all CDA obligations” in an effort to increase transparency and aid in congressional decisional making.

The Bureau of the Fiscal Service provides an annual notification to Congress of the outstanding amounts owed to the Judgment Fund by FPAs for CDA claims. However, FPAs still lack the monies necessary to repay the Judgment Fund for CDA payments without disrupting program funding. *GAO/OGC-94-33 Appropriations Law-Vol. III, p 12-78* states that “while reimbursement is a statutory requirement, the statute does not require that it occur within any specified time.” Congress wanted the accountability to fall on the FPA, but without causing disruptions to FPA programs. Without

congressionally approved appropriations, FPAs lack the funding to reimburse the Judgment Fund for CDA claims and neither the FPAs nor Treasury are able to write these settlements off.

*Clifton Gunderson LLP's* audit from September 30, 2001 stated that “in fiscal 1999, an allowance for uncollectable accounts was established to recognize potential losses on receivables that may not be collected under” the Judgment Fund program. They cited SFFAS No.1, in which “an allowance for estimated uncollectible amounts should be recognized to reduce the gross amount of receivables to its net realizable value.” CDA claims are not considered to be uncollectable since there is not a specific time frame in which reimbursements must be paid; therefore, a loss is not likely to occur.

Intragovernmental differences exist between Treasury and FPAs for CDA receivables/payables. The differences result from Treasury reporting USSGL 131000 “Accounts Receivable” and an offsetting USSGL 131900 “Allowance for Loss on Accounts Receivable.” Due to a long history of nonreimbursement of CDA cases, the offsetting allowance is substantial in comparison to the corresponding receivable balance for select FPAs but not material to Treasury’s financial statements as a whole. An intragovernmental difference occurs if the FPA reports the total amount due to the Judgment Fund for CDA claims and Treasury reports an allowance which reduces the net amount of the receivable due from the FPA.

## **Recommended Approach**

A review of the current reporting environment, motivated by the systemic root cause of intragovernmental elimination issues at the governmentwide level, it is recommended that Treasury discontinue reporting USSGL 131900 “Allowance for Loss on Accounts Receivable” on CDA cases. SFFAS No. 1 indicates that “An allowance for estimated uncollectible amounts should be recognized to reduce the gross amount of receivables to its net realizable value” and “loss estimation for individual accounts should be based on (a) the debtor's ability to pay, (b) the debtor's payment record and willingness to pay, and (c) the probable recovery of amounts from secondary sources, including liens, garnishments, cross collections and other applicable collection tools.” Further review of the three criteria for loss estimation has been interpreted to not apply to CDA claims for the following reasons:

- a) The debtor’s ability to pay is linked to Congress’ ability to approve appropriations for payment – Congress has not written off these obligations; therefore, future appropriations could be approved for payment.
- b) The debtor’s payment record is linked to Congress’ ability to approve appropriations for payment and the willingness to pay is demonstrated through the Accounts Payable balance each FPA records in their respective financial statements.
- c) The probable recovery of amounts is also linked to Congress’ ability to approve appropriations – Congress has not written off these obligations; therefore, future appropriations could be approved for payment.

OMB Circular No. A-129 indicates “write-off is mandatory for delinquent debt older than two years unless documented and justified to OMB in consultation with Treasury.” The key is delinquent debt. Since FPAs do not have a specified time period to return payment to the Judgment Fund and they have a statutory requirement to repay, they should not be considered delinquent regardless of how long it takes to repay the debt.

OMB Circular No. A-136 presents two lines of Accounts Receivable in its illustrative balance sheet. The receivable line included within Intragovernmental does not include the word “Net” and therefore implies it should be reported at gross amount. The line item included within non-federal assets *does* include the word “net” and therefore implies the **non-federal** Accounts Receivable line is the one to be reported at its net realizable value.

The recommended approach would increase the USSGL 131000 “Accounts Receivable” balance. The change would appropriately state the payables reported by the FPAs since they can never be written off. To make this change, Treasury’s accounting entries would need to be reversed at the trading partner level. The accounting entries to reverse these balances would be to debit USSGL 131900 “Allowance for Loss on Accounts Receivable” and credit USSGL 298500 “Liability for Non-Entity Assets Not Reported on the Statement of Custodial Activity.” Table 1 below depicts the variance using data reported in July 2015. Table 1 displays changes to Treasury’s Balance Sheet if the recommended approach were to be adopted. The change in accounting estimate does not require restatement of prior period amounts, per paragraph 19 of FASB SFAS No. 154. FASAB SFFAS No. 21 *Reporting Corrections of Errors and Changes in Accounting Principle* does not address a change in accounting estimate.

**Table 1: Variance of Treasury’s Balance Sheet**

U.S. Department of the Treasury Balance Sheet				
July 2015	Reporting USSGL 131900 for Contract Disputes Act	NOT Reporting USSGL 131900 for Contract Disputes Act	Variance	
<b>Assets (Note 2)</b>				
<b>Intragovernmental</b>				
1	Fund Balance with Treasury (Note 3)	68,388,706,096.492.60	68,388,706,096.492.60	
2	Investments (Note 5)	35,155,688,268.14	35,155,688,268.14	
3	Accounts Receivable (Note 6)	954,562,586.40	2,754,383,275.40	1,799,820,689.00
4	Loans Receivable	1,483,693,548,993.91	1,483,693,548,993.91	
5	Other (Note 12)	5,740,127,975,852.47	5,740,127,975,852.47	
6	Total Intragovernmental	75,648,637,872,193.50	75,650,437,692,882.50	1,799,820,689.00
This line is calculated. Equals the sum of lines 1 through 5.				
<b>Assets With the Public</b>				
7	Cash and Other Monetary Assets (Note 4)	281,782,088,800.56	281,782,088,800.56	
8	Investments (Note 5)	108,405,025,877.29	108,405,025,877.29	
9	Accounts Receivable, Net (Note 6)	2,032,883,884.31	2,032,883,884.31	
10	Taxes Receivable, Net (Note 7)	43,341,042,882.56	43,341,042,882.56	
11	Direct Loan and Loan Guarantees, Net (Note 8)	21,326,083,826.46	21,326,083,826.46	
12	Inventory and Related Property, Net (Note 9)	329,804,598.18	329,804,598.18	
13	General Property, Plant, and Equipment, Net (Note 10)	2,835,547,345.76	2,835,547,345.76	
14	Other (Note 12)	7,325,426,295.42	7,325,426,295.42	
15	Total Assets	76,116,015,775,704.10	76,117,815,596,393.10	1,799,820,689.00
This line is calculated. Equals the sum of lines 6 through 14.				

## Effective Date

September 30, 2015 (Fiscal Year 2015)

In subsection (f)(1), the words “under consideration” are substituted for “at issue” to avoid potential confusion with the words “issue described in paragraph (2)”.

§ 7108. Payment of claims

(a) JUDGMENTS.—Any judgment against the Federal Government on a claim under this chapter shall be paid promptly in accordance with the procedures provided by section 1304 of title 31.

(b) MONETARY AWARDS.—Any monetary award to a contractor by an agency board shall be paid promptly in accordance with the procedures contained in subsection (a).

(c) REIMBURSEMENT.—Payments made pursuant to subsections (a) and (b) shall be reimbursed to the fund provided by section 1304 of title 31 by the agency whose appropriations were used for the contract out of available amounts or by obtaining additional appropriations for purposes of reimbursement.

(d) TENNESSEE VALLEY AUTHORITY.—

(1) JUDGMENTS.—Notwithstanding subsections (a) to (c), any judgment against the Tennessee Valley Authority on a claim under this chapter shall be paid promptly in accordance with section 9(b) of the Tennessee Valley Authority Act of 1933 (16 U.S.C. 831h(b)).

(2) MONETARY AWARDS.—Notwithstanding subsections (a) to (c), any monetary award to a contractor by the board of contract appeals of the Tennessee Valley Authority shall be paid in accordance with section 9(b) of the Tennessee Valley Authority Act of 1933 (16 U.S.C. 831h(b)).

(Pub. L. 111–350, §3, Jan. 4, 2011, 124 Stat. 3825.)

HISTORICAL AND REVISION NOTES

Table with 3 columns: Revised Section, Source (U.S. Code), Source (Statutes at Large). Row 1: 7108, 41:612, Pub. L. 95-563, §13, Nov. 1, 1978, 92 Stat. 2389; Pub. L. 104-106, div. D, title XLIII, §4322(b)(7), Feb. 10, 1996, 110 Stat. 677.

§ 7109. Interest

(a) PERIOD.—

(1) IN GENERAL.—Interest on an amount found due a contractor on a claim shall be paid to the contractor for the period beginning with the date the contracting officer receives the contractor’s claim, pursuant to section 7103(a) of this title, until the date of payment of the claim.

(2) DEFECTIVE CERTIFICATION.—On a claim for which the certification under section 7103(b)(1) of this title is found to be defective, any interest due under this section shall be paid for the period beginning with the date the contracting officer initially receives the contractor’s claim until the date of payment of the claim.

(b) RATE.—Interest shall accrue and be paid at a rate which the Secretary of the Treasury shall specify as applicable for each successive 6-month period. The rate shall be determined by the Secretary of the Treasury taking into consideration current private commercial rates of interest for new loans maturing in approximately 5 years.

(Pub. L. 111–350, §3, Jan. 4, 2011, 124 Stat. 3825.)

HISTORICAL AND REVISION NOTES

Table with 3 columns: Revised Section, Source (U.S. Code), Source (Statutes at Large). Rows: 7109(a)(1), 7109(a)(2), 7109(b).

In subsection (a)(2), the words “on or after the date of the enactment of this Act”, “the later of”, and “or the date of the enactment of this Act” are omitted as obsolete.

Subsection (b) is substituted for “The interest provided for in this section shall be paid at the rate established by the Secretary of the Treasury pursuant to Public Law 92–41 (85 Stat. 97) for the Renegotiation Board” to eliminate obsolete language and to codify the criteria under which the interest rate is computed. Section 2(a)(3) of the Act of July 1, 1971 (Pub. L. 92–41, 85 Stat. 97), amended section 105(b)(2) of the Renegotiation Act of 1951 (Mar. 23, 1951, ch. 15, 65 Stat. 13) by adding provisions substantially similar to those enacted here. However, the Renegotiation Act of 1951 (Mar. 23, 1951, ch. 15, 65 Stat. 7) was omitted from the Code pursuant to section 102(c)(1) of the Act (65 Stat. 8), amended several times, the last being Public Law 94–185 (89 Stat. 1061), which provided that most provisions of that Act do not apply to receipts and accruals attributable to contract performance after September 30, 1976, and in view of the termination of the Renegotiation Board and the transfer of property and records of the Board to the Administrator of the General Services Administration on March 31, 1979, pursuant to Public Law 95–431 (92 Stat. 1043). Although the Renegotiation Board is no longer in existence, Federal agencies, including the General Services Administration, are required to use interest rates that are computed under the criteria set out in this subsection. See 31:3902(a) and the website of the Bureau of the Public Debt, available at http://www.publicdebt.treas.gov/opd/opdprmt2.htm. For an example of publication of rates under the criteria enacted here, see Federal Register, volume 67, number 247, page 78566, December 24, 2002.

Subtitle IV—Miscellaneous

Chapter 81. Drug-Free Workplace ..... 8101
83. Buy American ..... 8301
85. Committee for Purchase From People Who Are Blind or Severely Disabled ..... 8501
87. Kickbacks ..... 8701

CHAPTER 81—DRUG-FREE WORKPLACE

Sec. 8101. Definitions and construction.
8102. Drug-free workplace requirements for Federal contractors.
8103. Drug-free workplace requirements for Federal grant recipients.
8104. Employee sanctions and remedies.
8105. Waiver.
8106. Regulations.

§ 8101. Definitions and construction

(a) DEFINITIONS.—In this chapter:

(1) CONTRACTOR.—The term “contractor” means the department, division, or other unit of a person responsible for the performance under the contract.

(2) CONTROLLED SUBSTANCE.—The term “controlled substance” means a controlled substance in schedules I through V of section 202

## Attachment D- Excerpt from June 2018 Board minutes, Administrative Matters

Mr. Bell presented a Department of the Treasury (Treasury) concern. Treasury makes judgment claim payments on behalf of many federal agencies. Certain agencies are required, in many cases by statute, to reimburse Treasury for some payments; however, many of these reimbursements are not made in a timely manner—raising questions about collectability.

Statement of Federal Financial Accounting Standards (SFFAS) 1, *Accounting for Selected Assets and Liabilities*, indicates that losses should be recognized when it is more likely than not that the balance will not be totally collected. However, Treasury does not believe it is appropriate for an agency to record a loss allowance for intragovernmental receivables, particularly in cases where the balances are required by statute to be repaid. Recording an allowance may imply that the debtor agency is not required to satisfy its statutory obligation to pay the amount owed (relief from such a requirement can only be provided by Congressional action), and further, could potentially augment the debtor agency's appropriations in violation of the Antideficiency Act. In addition, recording a loss allowance has contributed to a government-wide imbalance, as agencies do not reduce their recorded liabilities in a corresponding fashion for the allowances Treasury has recorded upon auditor recommendation.

Treasury interprets that language in SFFAS 1, paragraphs 44 and 47, is sufficiently vague to provide that agencies should not record allowances for intragovernmental receivables in that

- these paragraphs do not distinguish between public versus intragovernmental transactions,
- the statutory requirement for agencies to reimburse is a distinguishing feature between the two, and further,
- Congressional action would be required to relieve an agency of the reimbursement requirement.

However, because many receivable balances have remained outstanding for an extended period of time and will not be paid until Congress appropriates agency funds for repayment; and because agencies generally do not appear to be seeking such appropriations,<sup>1</sup> an auditor may interpret SFFAS 1 differently and conclude that a loss

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<sup>1</sup> In some cases, agencies have funds available in their appropriation accounts to pay judgments without seeking additional appropriations but choose not to do so. When amounts are either too large to pay from available appropriations or not consistent with the purposes for which the agency's appropriations are available, an agency needs to seek specific appropriations to pay the judgment.

allowance should be recorded. Treasury is seeking clarification from the Board to resolve this disagreement.

The Board discussed the issue, noting that there may be similar circumstances in other agencies and that Congress would have to take action to legally relieve an agency of the liability. One member provided examples including the Postal Service's debt to the Federal Financing Bank and the Office of Personnel Management and the National Flood Insurance Program's debts to Treasury. Allowances are not recognized on these amounts, but payment is sometimes guaranteed by the Secretary of the Treasury. While members noted some of the examples are loans rather than receivables, the general principles should be consistent.

Some members noted the need to assess whether amounts recognized are realizable. The allowance approach is not actually a "write-off" of a receivable. Instead, it is an adjustment needed to estimate the amount that is realizable. The legal requirement to pay exists for commercial entities as well; however, if the commercial entity legally required to pay a debt is unable to pay, then an allowance is recognized by the receiving entity to reduce the receivable to its realizable amount. Treasury maintained that the fact that the allowance amounts are not necessarily intended to ultimately result in "write-offs" precipitates the perception issue associated with recording the allowance in the first place.

Members expressed reluctance to revise current standards, noting that they did not wish to remove the element of judgment regarding collectability of receivables. Further, one member noted that avoiding incorrect perceptions or signals is not usually a reason to alter accounting standards. However, the Board generally agreed to consider providing criteria for evaluating collectability of intra-governmental receivables.

**Next steps:** Staff will draft an Interpretation for the Board's consideration at the December 2018 meeting.