



## Federal Accounting Standards Advisory Board

**April 11, 2019**

### Memorandum

To: Members of the Board

From: Melissa L. Batchelor, Assistant Director

*Wendy M. Payne*  
Through: Wendy M. Payne, outgoing Executive Director, and *Monica R. Valentine*,  
incoming Executive Director

Subj: Request for Guidance Losses on Intragovernmental Receivables – **Tab H<sup>1</sup>**

#### MEMBER ACTIONS REQUESTED:

- Contact staff by April 22<sup>nd</sup> with any questions you have about this informational session.

### MEETING OBJECTIVES

The objective of this session is to hear from the Department of the Treasury (Treasury), Bureau of the Fiscal Service regarding their perspective and position on intragovernmental allowances for losses. This will provide the Board with additional information about the request for guidance.

### 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 and we held an educational briefing with a guest speaker from the General Services Administration at the December 2018 meeting. The staff analysis is attached and you may electronically access all of the briefing material at <http://www.fasab.gov/board-activities/meeting/briefing-materials/>.

---

<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**

**Attachment B- Treasury slides**

**Attachment C- Biographies for guest speakers from Treasury**

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

**Attachment E- Excerpt from Board minutes**

## **BACKGROUND**

In June 2018, the Treasury raised a concern regarding the recognition of losses against intragovernmental receivables among federal entities. 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.

At the December 2018 meeting, an educational session was held to provide the Board with a perspective from an agency with significant intragovernmental receivables. A representative from the General Services Administration (GSA) provided a brief overview of GSA's types of receivables and reporting. No specific decisions were made at the meeting.

Treasury is requesting the Board consider additional information on the issue.

## **NEXT STEPS**

In June, staff will present options and seek the Board's decision on whether 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) and [valentinem@fasab.gov](mailto:valentinem@fasab.gov).

## **Attachment A- Staff Analysis**

### **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 is 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 evaluating collectability of intra-governmental receivables would be more appropriate.

### **December 2018 Meeting**

At the December meeting, there was an educational session with Mr. Robert Smalskas, General Services Administration (GSA) provided an overview of their types of receivables—classic trade receivables and money owed to Treasury for the Judgment Fund. He also explained GSA’s accounting before and after the September 15, 2017,

Treasury memo. Prior to the memo, GSA would book an allowance for bad debt on federal receivables based on the collectability. However, based upon the guidance in the memo, GSA no longer books a bad debt allowance on federal receivables. There was an audit finding for GSA as it relates to this.

**Upcoming - April 2019 Meeting**

Treasury is requesting the Board consider additional information on the issue.

**ATTACHMENT B-**  
**Treasury Slides**



BUREAU OF THE

**Fiscal Service**

U.S. DEPARTMENT OF THE TREASURY

# **Intragovernmental Allowance for Losses**

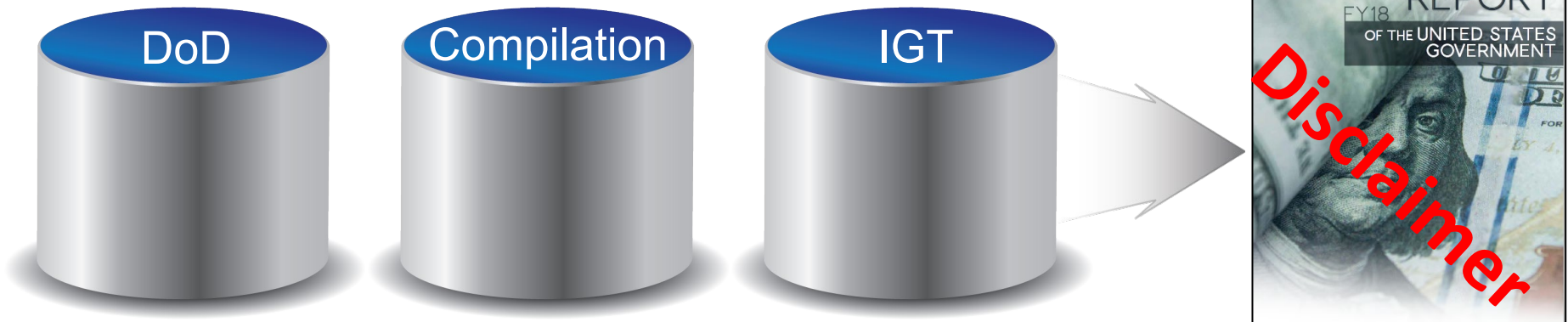
***April 2019***

# IGT Material Weakness

## History of Material Weakness for the U.S. Government

As it has for each of the past **22 fiscal years**, the U.S. Government Accountability Office (GAO) issued a disclaimer of opinion on the FY 2017 Financial Report of the U.S. Government. In its report, GAO cited the government's difficulty to ***"adequately account for and reconcile intragovernmental activity and balances between federal entities"*** as a material weakness and a major impediment to expressing an opinion.

### Three Primary Impediments



### **The Simplicity of the IGT Issue:**

“If two federal entities engaged in an intragovernmental transaction do not both record the same intragovernmental transaction in the same year and for the same amount, the intragovernmental transactions will not be in agreement, resulting in errors in the consolidated financial statements.”

- FY 2018 U.S. GOVERNMENT ACCOUNTABILITY OFFICE INDEPENDENT AUDITOR'S REPORT



# Completing the IGT Model

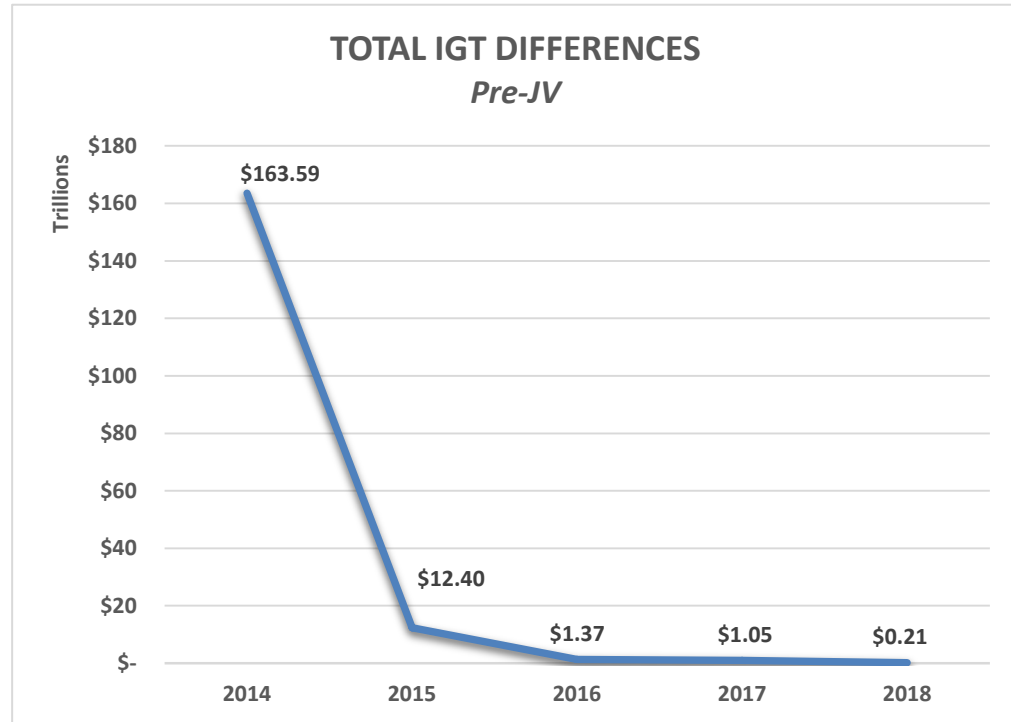
## IGT Accomplishments FY17 – Trend Analysis

Pre-JV Differences between FY17 and FY18 reduced by 80% or \$835 billion.

### TOTAL INTRAGOVERNMENTAL DIFFERENCES FY14-FY18

*Pre-JV*

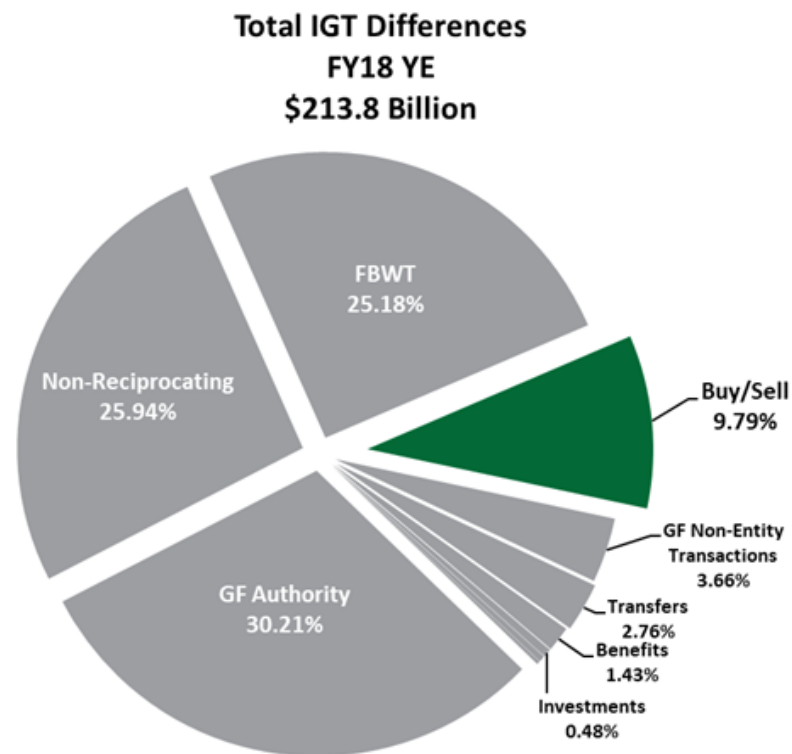
FISCAL YEAR	TOTAL IGT DIFFERENCES
2014	\$ 163,589,925,945,410.00
2015	\$ 12,399,948,566,047.10
2016	\$ 1,369,805,741,908.21
2017	\$ 1,048,461,073,065.37
2018	\$ 213,777,998,988.95



# Sub-Category Statistics

## Buy/Sell Activities

- Buy/Sell Transactions
  - **Buy/Sell** elimination differences are **\$21 billion** out of the \$214 billion
  - Top Buy/Sell elimination differences
    1. Communication/Timing Issues \$5.4 billion
    2. Judgment Fund (Intragovernmental Allowance Issue) \$3.7 billion
    3. Capitalized Assets \$1.5 billion



# What causes the elimination issue?

## Intragovernmental Difference

---

### ■ Intragovernmental Allowance for Losses Elimination Issue:

- Agency 1

- Accounts Payable \$100

\$100

- Agency 2

- Accounts Receivable \$100

- Allowance of Loss on Accounts Receivable (\$80)

\$20

# Treasury Set Policy

## Intragovernmental Receivables – No Allowance for Losses

---

- Consistent treatment of intragovernmental transactions
- Federal government is one legal entity
  - No question regarding collectability
  - Implicit requirement for federal entity components to repay amounts
  - Congress has taken action in the past to make federal entities whole
- Statute or law requires that the receivable be reimbursed
  - Requirement to repay Contract Disputes Act (CDA) amounts paid out of the Judgment Fund per 41 U.S. Code Section 7108
- 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

# Judgment Fund

---

## A permanent, indefinite appropriation available to pay:

- Judicially and administratively ordered monetary awards against the United States as allowed under 31 U.S.C. §1304
- Amounts owed under compromise agreements negotiated by the U.S. Department of Justice in settlement of claims arising under actual or imminent litigation, if a judgment on the merits would be payable from the Judgment Fund

## Reimbursable Programs – Agencies are required by law to reimburse the Judgment Fund

### 1. Contract Disputes Act (CDA) – 41 USC 7108

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.

### 2. No FEAR Act of 2002 – Public Law 107-174

Requirement - An amount equal to the amount of each payment described in subsection (a) shall be reimbursed to the fund described in section 1304 of title 31, United States Code, out of any appropriation, fund, or other account (excluding any part of such appropriation, of such fund, or of such account available

# Judgment Fund – Intragovernmental Differences

---

- Federal Program Agencies are notified within 30 days after payment is made of the obligation to reimburse the Judgment Fund.
- Federal Program Agencies lack the monies necessary to repay the Judgment Fund and must typically request the funds from Congress.
- Accounts receivable and payable balances remain on the books for long periods of time, due to the lack of funds for reimbursement. The accounting treatment of the receivables and payables leads to intragovernmental differences.
- The intragovernmental differences are part of a material weakness in the Financial Report of the United States Government.
- The recommendation is to discontinue reporting USSGL 131900 “Allowance for Loss on Accounts Receivable” for Federal Program Agencies on reimbursements to the Judgment Fund.

# Judgment Fund - Reimbursable Balances FY2018

## No FEAR Balances

Partner Code	Agency Name	Receivable Balance
017	Department of the Navy	\$93,000.00
021	Department of the Army	\$58,000.00
097	Other Defense Agencies	\$135,000.00
<b>Total Defense</b>		<b>\$286,000.00</b>

013	Department of Commerce	\$13,920,233.00
015	Department of Justice	\$25,000.00
036	Department of Veterans Affairs	\$529,000.00
045	Equal Employment Opportunity Commission	\$50,000.00
070	Department of Homeland Security	\$999,608.73
075	Department of Health and Human Services	\$60,000.00
<b>Total Other Agencies</b>		<b>\$15,583,841.73</b>
<b>Grand Total</b>		<b>\$15,869,841.73</b>

## Contract Disputes Act Balances

Partner Code	Agency Name	Receivable Balance
017	Department of the Navy	\$15,357,291.87
021	Department of the Army	\$21,015,694.47
057	Department of the Air Force	\$21,013,105.02
096	Corps of Engineers, Civil	\$499,128,228.37
097	Other Defense Agencies	\$16,980,450.27
<b>Total Defense</b>		<b>\$573,494,770.00</b>

000	Unknown	\$215,000.00
012	Department of Agriculture	\$26,300,129.27
013	Department of Commerce	\$12,312,060.73
014	Department of the Interior	\$1,221,373,036.14
019	Department of State	\$4,909.23
024	Office of Personnel Management	\$6,445,355.47*
033	Smithsonian Institution	\$94,000.00
036	Department of Veterans Affairs	\$233,380,605.09
047	General Services Administration	\$496,751,202.09
049	National Science Foundation	\$2,999,941.00
068	Environmental Protection Agency	\$22,000,000.00
069	Department of Transportation	\$12,246,575.79
075	Department of Health and Human Svcs	\$1,155,362,331.71
080	National Aeronautics and Space Admin	\$7,674.00
088	National Archives and Records Admin	\$245.00
089	Department of Energy	\$382,993,664.36
Nonfederal	Army and Air Force Exchange Svc	\$1,800,000.00
Nonfederal	US Virgin Islands	\$179,311.40
<b>Total Other Agencies</b>		<b>\$3,568,020,685.81</b>
<b>Grand Total</b>		<b>\$4,141,515,455.81</b>

\*There is an additional \$253,378,084.95 in receivables related to FEHBP claims.

# Contact Information

---



## **Jaime Saling**

Director

Fiscal Accounting

Bureau of the Fiscal Service

(304) 480-5129

[Jaime.Saling@fiscal.treasury.gov](mailto:Jaime.Saling@fiscal.treasury.gov)

## **Jill Reeves**

Director

Retail Securities Services

Bureau of the Fiscal Service

(304) 480-5204

[Jill.Reeves@fiscal.treasury.gov](mailto:Jill.Reeves@fiscal.treasury.gov)



# **Intragovernmental Allowance for Losses**

## **Office of the DCFO Accounting and Audit Considerations**

April 2019



# ACCOUNTING HIERARCHY

- FASAB Standards are considered “Level A GAAP”; Treasury and OMB policy are considered “Level D GAAP”.
- The Fiscal Service Policy Memo does not supersede the GAAP accounting hierarchy.
- Prevailing source of accounting principles for selecting the principle used in recording (or not recording) allowance for doubtful accounts is still SFFAS No. 1, para 44, notwithstanding future FASAB changes.



# ACCOUNTING INTERPRETATION

- **Accounting Interpretation** - SFFAS No. 1 allows for varying degrees of interpretation when considering the treatment/application of allowance for doubtful accounts for these unique Judgment Fund intragovernmental receivables.
  - “FASAB is not explicitly clear on whether SFFAS No. 1, par 44, [45, or 47] applies to intragovernmental receivables,” (Policy Memo p. 2) implying that there could be a delineation in the application of doubtful accounts against “public” and “intra-governmental receivables.”
    - *Further Accounting/Auditing Consideration: Could FASAB’s silence in paragraphs 44, 45, and 47 regarding a distinction between public and intragovernmental receivables be interpreted as permitting such delineation?*
  - “FASAB is also silent on the issue of recognition of losses when a statute or law requires that a receivable be reimbursed.” (Policy Memo p. 2)
    - *Further Accounting/Auditing Considerations: Could SFFAS’s No. 1’s “silence” be interpreted as (1) precluding recording allowance for intragovernmental receivables or, (2) in light of this silence, the standard’s principle should apply to all receivables (public and intra-governmental)?*
  - “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.” (Policy Memo p. 3)
    - *Further Accounting/Auditing Considerations: Does the ‘legal requirement’ to repay alone support the position that an allowance is inappropriate as there are likewise legal requirements for industry to repay receivables in accordance with binding contracts/agreement which often times is never repaid?*

# FINANCIAL REPORTING & AUDIT CONSIDERATIONS

- ODCFO would have to consider how to characterize the removal of the JF allowance from a financial reporting and audit perspective. A “change in accounting principle” would not be appropriate in this situation (see Accounting Hierarchy point above).
- Removing Treasury’s JF allowance would likely be considered an unrecorded misstatement of approximately \$4B and would be added to Treasury’s existing \$15B included on the auditor’s Summary of Unrecorded Misstatements (SUM).
- Treasury’s auditors would have to further analyze to determine whether this misstatement would impact their assessment of the existence of control deficiencies with consideration for the fact that these JF receivable balances have more than doubled over the last six years.
- Treasury’s auditor would have to assess the SUM and control deficiencies in totality to determine the impact on their overall consolidated audit opinion.



# FINANCIAL REPORTING IMPACT ASSESSMENT

*[For illustrative purposes only]*

(in millions)	2018	Removal of Allowance for Loss on Accounts Receivable	Impact - Revised 2018
<b>ASSETS</b>			
Intra-governmental Assets			
ABC	\$ ##,###,###	\$ 3,687	\$ ##,###,###
Other Intra-governmental Assets	770	3,687	4,457
Total Intra-governmental Assets	23,601,994	3,687	23,605,681
DEF	###,###		###,###
Total Assets (Note 14)	\$ 24,273,755	\$ 3,687	\$ 24,277,442
<b>LIABILITIES</b>			
Intra-governmental Liabilities			
GHI	##,###		##,###
Due To the General Fund (Note 4)	2,072,917	3,687	2,076,604
Total Intra-governmental Liabilities	7,905,604	3,687	7,909,291
JKL	#,###		#,###
Total Liabilities (Note 18)	23,777,942	3,687	23,781,629
<b>NET POSITION</b>			
Total Net Position (Note 19)	###,###		###,###
Total Liabilities and Net Position	\$ 24,273,755	\$ 3,687	\$ 24,277,442



## Kawan Taylor

Director

Financial Reporting and Policy

Office of the DCFO

(202) 622-7899

[Kawan.Taylor@treasury.gov](mailto:Kawan.Taylor@treasury.gov)



**ATTACHMENT C-**  
**Biographies for guest speakers**  
**from Treasury**

## **Attachment C- Biographies for guest speakers from Treasury**

Jaime M. Saling  
U.S. Department of the Treasury  
Bureau of the Fiscal Service

Jaime Saling has worked for the Department of the Treasury for almost twenty years. She began her career with Treasury working on the preparation of the Schedules of Federal Debt. During this time the Schedules received fourteen consecutive unqualified audit opinions from GAO. Currently, Jaime is the Director of the Financial Reporting and Advisory Division in Governmentwide Accounting. She is responsible for the preparation of the Financial Report of the U. S. Government with the goal of moving the governmentwide financial statements to a clean audit opinion. She is the business owner of multiple systems like the Governmentwide Financial Report System (GFRS), the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS), G-Invoicing, and Intragovernmental Payments and Collections (IPAC) System.

Jill D. Reeves  
U.S. Department of the Treasury  
Bureau of the Fiscal Service

Jill Reeves has worked for the Department of the Treasury for fifteen years. She began her career with Treasury as a Cash Reconciliation accountant for multiple agencies. As her career progressed, she took on many different roles in shared services, as she completed accounting statements, reporting, and auditing roles on behalf of various Federal Agencies. Her career changed directions when she began completing debt reporting as a supervisor for the Federal Borrowings Branch and later a manager in the State and Local Government Securities area. Most recently Ms. Reeves has been a director in Retail Securities Services for the last 5 years, overseeing responsibility for non-competitive auctions, payments, and the Judgment Fund Branch.

Kawan Taylor  
U.S. Department of the Treasury  
Office of the DCFO

Kawan Taylor currently serves as the Director of Financial Reporting and Policy within the Department of the Treasury, Office of the DCFO. His principal role involves setting forth Department-wide financial accounting, reporting policy and guidance, and coordinating, planning and managing the execution of financial closing cycles, and producing and disseminating Department-wide consolidated quarterly and annual financial reports to OMB, Congress, and to public constituents. He is the coordinator of the consolidated Department-wide annual financial audit, and serves as the principal audit liaison to the Department's external financial statement auditor, KPMG LLP, as well as to Treasury's Inspector General and the U.S. Government Accountability Office. He started his career as an auditor for EY, and then transitioned into public service where he has over 15 years of federal financial management experience. Mr. Taylor holds a BA in Accounting from Hampton University and is a licensed CPA.




**ATTACHMENT D-**  
**Treasury Request**



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

---

#### Topic

Request to the Federal Accounting Standards Advisory Board (FASAB) to develop an interpretation of *SFFAS No. 1: Accounting for Selected Assets and Liabilities*<sup>1</sup>, or other related guidance as deemed appropriate, specific to the recognition of losses against intragovernmental receivables among federal entities/trading partners.

---

#### Background / Research

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.

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.

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:

“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.”

Additionally, SFFAS No. 1, Paragraph 47 states:

“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.”

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:

“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 Judgement 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.

---

**Governance/  
Legal  
Reference**

1. Statement of Federal Financial Account Standards 1: Accounting for Selected Assets and Liabilities [http://www.fasab.gov/pdf/codification\\_report2007.pdf](http://www.fasab.gov/pdf/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/pdf/sffas-7.pdf>
4. 41 U.S. Code § 7108 - Payment of claims / 31 U.S. Code § 1304 - Judgments, awards, and compromise settlements

---

**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.

---

**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).
- 

**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.

---



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**

<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

---

<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).

---

<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  
DN: c=US, o=U.S. Government, ou=Department of the  
Treasury, ou=Bureau of the Public Debt, ou=People,  
serialNumber=685764, cn=Lisa R. Midcap  
Date: 2015.09.25 11:29:34 -04'00' Date: 9/25/15  
Printed Name and Title: Lisa Midcap, Accountant

Reviewed by: **Kirstie M. Pottmeyer** Digitally signed by Kirstie M. Pottmeyer  
DN: c=US, o=U.S. Government, ou=Department of the Treasury,  
ou=Bureau of the Fiscal Service, ou=People, serialNumber=510074,  
cn=Kirstie M. Pottmeyer  
Date: 2015.09.25 11:38:15 -04'00' Date: 9/25/15  
Printed Name and Title: Kirstie Pottmeyer, Branch Manager

Approved by: **Jaime M. Saling** Digitally signed by Jaime M. Saling  
DN: c=US, o=U.S. Government, ou=Department of the  
Treasury, ou=Financial Management Service, ou=People,  
serialNumber=404166, cn=Jaime M. Saling  
Date: 2015.09.25 11:44:30 -04'00' Date: 9/25/15  
Printed Name and Title: Jaime Saling, Director

## REVISION HISTORY

Version	Date	Change Description	Distribution
1.0	09/11/2015	Baseline	
1.1	09/23/15	Final	

## TABLE OF CONTENTS

Purpose.....	3
Background.....	3
Recommended Approach.....	4
Table 1: Variance of Treasury’s Balance Sheet.....	5
Effective Date .....	5

## 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

Revised Section	Source (U.S. Code)	Source (Statutes at Large)
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

Revised Section	Source (U.S. Code)	Source (Statutes at Large)
7109(a)(1) ....	41:611 (1st sentence).	Pub. L. 95–563, § 12, Nov. 1, 1978, 92 Stat. 2389.
7109(a)(2) ....	41:611 note.	Pub. L. 102–572, title IX, § 907(a)(3), Oct. 29, 1992, 106 Stat. 4518.
7109(b) .....	41:611 (last sentence).	

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

### 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 E-**  
**Excerpt from Board Minutes**

## **Attachment E- Excerpt from Board Minutes**

### **December 2018 Minutes- Intragovernmental Allowances for Losses**

Ms. Melissa Batchelor, assistant director, introduced the education session on intragovernmental allowances for losses. The materials for the session were provided in [tab E](#) of the briefing materials. In June 2018, Treasury raised a concern regarding the recognition of losses against intragovernmental receivables among federal entities. 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.

The educational session provided the Board with a perspective from an agency with significant intragovernmental receivables. Mr. Robert Smalskas from the General Services Administration (GSA) provided an overview of GSA's receivables. He explained that GSA has classic trade receivables and also money owed to Treasury for the Judgment Fund. He views the Judgment Fund somewhat differently and believes it to be unique because Congress has not provided the funding.

Mr. Smalskas explained that prior to the September 15, 2017 memo that was issued by Treasury, GSA would book an allowance for bad debt on federal receivables based on the collectability. However, based upon the guidance in the memo, GSA no longer books a bad debt allowance on federal receivables. Mr. Smalskas explained that in complying with the Treasury memo, he believed that certain judgments were removed.

Mr. Smalskas noted that he understood Treasury's position as it relates to the Judgment Fund and solvency between federal agencies. However, he explained there are certain differences in the trade receivables related to billing practices that make the issues somewhat different than those with the Judgment Fund. He gave examples where there may be disputes, negotiations may occur, and settlement may be made for a certain amount. Disputes can also occur regarding the quality of work, whether a service was received, and the effective date of changes. Mr. Smalskas also noted that it was an audit finding because the auditors believed reversing the allowances was not in accordance with GAAP. However, it was not deemed to be material.

Mr. Smalskas also explained that disputes are both a proprietary and a budgetary issue because most of GSA activities flow into the revolving funds, which is supposed to be full cost recovery. Therefore, it becomes potentially an issue of appropriation augmentation.

### **Question 1 – Would the Board like to hear from any other agencies regarding this issue?**

Treasury planned to send representatives for an educational session at the February 2019 meeting.



## **Question 2 – Is there any other research or additional information requested about this issue?**

The Board requested that staff determine if there were any material items or concerns in the intragovernmental loan category that should be considered. The Board also suggested that staff consider if this issue could be addressed in closing packages. In other words, if this is resulting in a reconciliation issue in individual statements, then it can be reversed when it goes to the government-wide.

### **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 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.

---

<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.