

## Accounting and Auditing Policy Committee (AAPC) Meeting Minutes

May 8, 2024, 1:30 PM ET

Virtual via Zoom for Government

### Attendance

#### Members

Ms. Monica Valentine (AAPC Chair)  
Ms. Pauletta Battle (CIGIE)  
Mr. Brian Casto (Treasury)  
Mr. James Hodge (CIGIE)  
**Present:** Ms. Carol Johnson (OMB)  
Ms. Sarah Nelson (CIGIE)  
Mr. Joseph O'Neill (GAO)  
Dr. Dorothy Potter (At-large)  
Mr. Edward Gramp (for Mr. Smalskas)  
  
**Absent:** Mr. Prasad Kotiswaran (CFOC)  
Mr. Robert Smalskas (CFOC)

#### Staff

Ms. Leigha Kiger, Communications Specialist  
Ms. Sherry Lee, Senior Analyst  
Mr. Ricky Perry, Assistant Director  
Mr. Brian Robinson, Analyst  
Mr. Domenic Savini, Assistant Director  
Mr. Josh Williams, Senior Analyst  
  
Mr. Jason Kirwan, FASAB Counsel

### Welcome, Administrative Matters

The meeting began at 1:32 PM. Ms. Valentine began the meeting by welcoming members. Ms. Valentine and Committee members welcomed Mr. James Hodge to the AAPC. Mr. Hodge was appointed to the Committee (effective March 1, 2024) by the Council of Inspectors General on Integrity and Efficiency (CIGIE). He serves as deputy assistant inspector general for audits at the Federal Housing Finance Agency Office of Inspector General.

Mr. Perry called roll.

### Topic A: Omnibus Technical Release (TR) Amendments

Based on public feedback on the previously issued exposure draft, Messrs. Perry and Williams presented finalizing changes and basis for conclusions updates in attachment A.1, a pre-ballot draft of TR XX, *Omnibus Technical Release Amendments 202X: Amendments to Technical Releases 10, 16, 20, and 21*.

#### Resolution-phase edits

The Committee agreed to conventional changes for converting exposure drafts to resolution-phase draft pronouncements. The Committee also agreed to remove language in the summary section that provided contextual information to respondents about the Board's software technology project because the information pertained to a point in time and would become outdated as the Board progresses through the software technology project.

#### Basis for conclusions updates

The Committee agreed with staff's analysis of respondent comments and the resulting revisions to the basis for conclusions proposed by staff.

Members agreed to enhance paragraph A9 of the basis for conclusions, which discusses respondent feedback on asbestos-related cleanup cost liabilities for leasehold improvements. This was based on feedback provided by Mr. Gramp and Ms. Johnson. Several members expressed their concurrence with the expectations and experiences shared by respondents that, while possible, such liabilities are exceptionally rare in practice.

Mr. Williams discussed the staff-proposed language in paragraphs A10-A11 in the basis for conclusions, acknowledging that some respondents requested that the proposed TR provide additional guidance for software licenses including definitions, accounting guidance for development costs, additional clarity around maintenance and technical support costs, and accounting for term-based software licenses. The Committee reaffirmed its decision to only restore prior guidance from TR 16 on perpetual software licenses that is based on SFFAS 10 while the Board continues to deliberate software guidance updates.

#### Next steps

The Committee agreed to proceed with balloting the proposed TR. Mr. Perry explained that, pending AAPC approval, staff would distribute a review copy to the Board prior to its June 2024 meeting. He also explained that staff planned to request that the Board provide explicit approval for the TR in hopes of issuing the TR before June 30, 2024. Issuance prior to June 30, 2024, would provide staff with sufficient time to include these conforming amendments in the next version of the FASAB Handbook (2024 Handbook updates are expected to be published on or about September 30, 2024).

#### **Topic B: Public-Private Partnerships**

Mr. Savini began the session by introducing task force members attending the session, identifying the various federal agencies who had helped craft the draft proposed guidance, and noting technical assistance from the audit community. Mr. Savini then began with an overview of topic B on the proposed draft guidance for P3s. Topic B comprised (1) the proposed next steps at attachment 5; (2) a brief project background (noting recurring preparer and auditor questions concerning SFFAS 49's relationship with SFFAS 47, *Reporting Entity*, and SFFAS 54, *Leases*, and the reporting of risks); and (3) AAPC comments received from Messrs. Brian Casto and Ed Gramp (on behalf of Robert Smalskas). Mr. Savini opened the session for discussion and informed the Committee that task force representatives were present from DOC, NASA, DOD, DLA, as well as a citizen representative and external auditor. Representatives were available to address Committee questions.

Several points were raised by committee members during the discussion, some of which would require task force study and review:

- Staff's approach should include (1) assessing materiality, (2) clarifying flowchart harmonization with SFFAS 47, and (3) assisting the Board in reviewing entity disclosures considering the current SFFAS 49 disclosure requirements.

- Staff's overall approach has been approved by the Board and discussed with the AAPC at the November 2023 meeting.<sup>1</sup>
- Different definitions for P3s exist, leading one AAPC member to recommend reviewing current disclosures in light of the SFFAS 49 definition.
- The Board's approach concerning harmonizing SFFAS 49 to SFFAS 47 requires greater clarity in the draft guidance via additional Q&As.
- A proposed Technical Release cannot change (or give an undo impression that changes in *Reporting Entity* disclosures are needed) an agency's determination of SFFAS 47 disclosures. The decision tree flowchart should be clear that it is only serving to ensure completeness and mitigate repetitive information, not change disclosure practices.
- Staff generally agreed that the Q&A portion of the proposed TR could help direct users in identifying the most appropriate "home" for relevant disclosures.

As noted, representatives from four federal agencies, a citizen representative,<sup>2</sup> and external auditor participated in the discussion, and shared what they believe have been the greatest impediments to thorough P3 disclosures:<sup>3</sup>

- Misconceptions regarding materiality may be contributing to presumptions of under-reporting.
- It is difficult to say that an entity has captured all of its P3s because program personnel are dealing with private partnerships that the financial personnel are unaware of. Risk to the federal government may not be reported because of FASAB's P3 definition, application of the risk-based characteristics, or materiality. Remote risks may be best reported in RSI.
- P3 risks are not limited to financial risks, but entities also share reputational and programmatic risks.

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<sup>1</sup> At the April 2024 FASAB meeting, a majority of FASAB members agreed that a decision tree flowchart would help agencies to identify potential P3 arrangements, their applicability to other standards, and what cohesion might be required to ensure complete disclosures (but not repetitive) information.

<sup>2</sup> Due to technical audio difficulties experienced during the meeting, the citizen representative provided written comments following the meeting that can be found at: <https://fasab.gov/about-aapc/aapc-meetings/aapc-may-2024-briefing-materials/> Topic B – Public-Private Partnerships (Addendum).

<sup>3</sup> At the April 2024 FASAB meeting, the Board approved addressing remote risk and materiality through training and outreach given the complexity in assessing risk and the Board's long-standing practice concerning materiality. Members believe that training and outreach are better venues to address the complex issues contained in case studies noting that case study complexities could raise a myriad of ancillary questions best addressed via FASAB's technical inquiry process.

- Risks should be reviewed holistically and not isolated to the conclusive or suggestive characteristics.
- Usefulness of current disclosures to users should be considered, with one agency representative suggesting that the information should be RSI.
- The draft guidance will be helpful to address implementation issues even concerning leases.
- Task force members believe that the draft guidance as written will assist preparers in identifying the types of agreements that meet the SFFAS 49 criteria.
- Financial reporting should build bridges to program managers who have more of an understanding as to the agreements with private industry.
- In some cases, auditors are issuing Notices of Findings and Recommendations regarding measurement and recognition matters. One agency had to reach out to limited liability partnerships to actually obtain their private financial statements to calculate the gains and losses to disclose in the P3 arrangement.
- Removing the case studies and treating them as educational materials not only simplifies the draft guidance but avoids an inappropriate reliance on complex illustrations.
- Ascertain if any of the SFFAS 49 reporting requirements could be treated as a contingent liability.
- One agency who reports a large P3 arrangement expressed concern over contingent liabilities. SFFAS 47, 49, and 54 all deal with disclosures for risks of loss, but SFFAS 5 also covers contingent liabilities and have not been amended over time. One entity reminded the Committee that reasonably possible contingent liabilities also require disclosure, while remote risks are not required.

Staff then summarized its next steps, which the Committee generally agreed to.

#### Next steps

Staff will work with the AAPC to (1) further develop and explain the flowchart instructions (for example, adopting a waterfall approach); (2) include additional Q&As concerning what is meant by harmonization; (3) incorporate an exposure draft question for respondents concerning contingent liabilities guidance and its relationship to SFFAS 49.

#### Adjournment

The meeting was adjourned at 4:50pm.