ACCOUNTING AND AUDITING POLICY COMMITTEE MEETING
FINAL MINUTES
May 22, 2003

The meeting was convened at 1:35 PM in room 6N30, of the GAO Building, 441 G St., NW, Washington, D.C.

ADMINISTRATIVE MATTERS

• Attendance

Present: Ms. Comes, Ms. Geier, Ms. Krell, Messrs. Dingbaum, Lund (for Treasury), Moraglio, Pugh, Ritchie and Taylor.
Absent: Messr. Maharay

• Minutes

The minutes of September 27, 2002 were previously approved as final, having been circulated by E-mail to members.

• AAPC Membership Changes

Ms. Comes, AAPC Chair and FASAB Executive Director noted the end of Bill Pugh's (Deputy Assistant Inspector General for Audits Department of the Treasury) six-year term as a member of the AAPC. Other than Ms. Comes, Mr. Pugh is the last original member of the AAPC when it was formed in 1997. Ms. Comes thanked Mr. Pugh for his many years of dedicated service and the major contributions to the AAPC as a task force chair and chair of the Agenda Committee. Gaston Gianni, FDIC Inspector General (IG) and Chair of the President's Council on Integrity and Effeciency (PCIE) will appointment a new member IG member to replace Mr. Pugh.

Ms. Comes also noted the retirement of AAPC members, Larry Eisenhart (DCFO Department of State) and Larry Stout (Assistant Commissioner, Government-wide Accounting Financial Management Service - Department of Treasury). She stated that we have requested the appointment of a new CFOC representative from Linda Springer (OMB Controller and CFOC Executive Chair), as well as the reappointment of Jim Taylor and De Ritchie, whose first terms will expire later this year. Treasury will appoint another representative to replace Mr. Stout.

- **Project Agenda Status:**

Issue #11 Inter-entity Costs (IEC)

Jim Taylor, IEC Task Force Chair, gave an update on the project and the work of the task force. Mr. Taylor explained that the goal of the task force was to make recommendations to the AAPC in the area of inter-entity costs as it related to SFFAS 4. He explained that the task force considered adding additional inter-entity costs to the existing three currently allowed. He mentioned that the task force is made up of representatives from both the CFO and IG communities and has met several times to discuss several options. He noted that the task force began its work by reviewing a previous survey that was done by the FASAB staff in July 2000. The purpose of that survey was to identify specific inter-entity costs that are being incurred by agencies and use the information gathered from the survey to enable the study of the nature of inter-entity costs, and determine whether they meet the recognition criteria specified in SFFAS No. 4.

The task force members also reviewed a number of possible costs among themselves as it related to their own agencies. However concerns were raised about the reporting of those costs and obtaining accurate information from other parties to report. The Task Force concluded at that time that none of the possible areas considered should be an additional recognized inter-entity cost. Some of the possible areas, however, could serve as examples of inter-entity costs that could be material to a particular agency's financial statements.

Mr. Taylor also noted that the task force agreed to look at real property inter-entity costs as a possible area of consideration. In order to review the significance of real property inter-entity cost, the task force prepared a survey to the financial community that would give the task force a better idea of the prevalence of real property inter-entity cost through out the federal community. He commented that the materials being distributed included additional task force materials to supplement the meeting materials that had been sent out by FASAB staffer Monica Valentine. The previously distributed materials included a copy of the survey, a summary of the survey responses, and copies of the full agency responses.

The task force reviewed in detail the agencies' responses to the questionnaire and concluded that there did not appear to be enough of a material/significant, widespread applicability of inter-entity real property usage costs to warrant requiring Federal agencies to record inter-entity real property usage costs. The task force believes that the current OMB limitation on recording inter-entity costs is an impediment to the Federal government's (and agencies') continued progress towards full costing, as outlined in SFFAS No. 4. The task force also believes, however, that the revision or removal of the OMB limitation should not be implemented at this time due to the following:

- The task force believes that the issue of inter-entity costs can be minimized by Federal agencies' expanded compliance with full costing standards. The expanded use of interagency agreements and billings between providing agencies and receiving agencies would help to reduce unrecorded inter-entity costs in agencies' financial statements. The task force believes this approach would be an effective way to minimize the unrecorded inter-entity costs, and should be pursued before consideration of the revision or removal of the OMB limitation.

- The task force believes that various, significant government-wide requirements, including compliance with the intragovernmental business rules and improving intragovernmental transactions reconciliations, are more significant/material issues regarding Federal agencies' financial statements (based on the task force's work performed), and that the revision or removal of the OMB implementation would divert limited resources from these and other high priority matters.

Ms. Comes asked Mr. Taylor if the task force had discussed any possible time line that could be recommended for the elimination of the OMB limitation provided for in paragraph 110 of SFFAS 4. He noted that the task force had not discussed possible timing of the implementation of that elimination. Mr. Taylor reiterated that the task force observed that there was no overwhelming or significant inter-entity cost areas that required immediate recognition. There was also a question about materiality and whether the provider or the receiver would determine the materiality of a cost.

Ms. Comes asked Mr. Taylor if the task force would be amenable to FASAB amending SFFAS 4 to eliminate the OMB requirement with an effective date many years in the future. Mr. Taylor agreed that the extended effective date approach would be a good compromise since the task force was essentially recommending no change to the current standard.

Ms. Geier noted the proposed changes in OMB's super circular would eliminate the references to the requirement of the three inter-entity costs currently being recognized. However, there was some debate among the members as to whether guidance outlined in Form and Content was simply a reference to the April 1998 OMB Memorandum that requires the recognition of those inter-entity costs. Ms. Geier and Ms. Valentine agreed to look into the guidance for further clarification.

Ms. Comes asked how the task force resolved the issue of broad and general support without specific guidance on what is and is not considered broad and general support. Mr. Taylor noted that with the broad range of individuals on the task force with varying levels of experience, there was consensus on what was considered to be broad and general support.

Mr. Moraglio asked Mr. Taylor what were FASAB's expectations with AAPC's inter-entity cost project. Mr. Taylor noted that based on his knowledge of the FASAB inter-entity cost project, there were some expectations to move forward with additional inter-entity costs to be recognized. Ms. Comes further explained that there were some expectations initially that there would be additional guidance in this area. She also noted the recent FASAB Interpretation on Intra-Entity Inter-Entity Costs that removes the barriers of SFFAS 4--paragraph 110 for intra-entity full costing. She also noted that the FASAB views those provisions in SFFAS 4—paragraph 110 as a barrier to full costing. Ms. Comes proposed that the next steps for AAPC's inter-entity cost project would be for FASAB staff to take the task force's materials to the Board and recommend that the Board act on the removal of the provisions in SFFAS 4 -- paragraph 110. She then asked if any members of the AAPC were opposed to that recommendation coming from the AAPC to the FASAB on the inter-entity cost project. No AAPC members objected to that decision. Ms. Comes thanked the task force its hard work and accomplishments.

Credit Reform

Ms. Comes introduced Ms. Dana James of OMB and a representative for the AAPC Credit Reform task force. Ms. James updated the AAPC members on what was decided at the last AAPC meeting. She reminded the Committee that it was agreed to separate the accounting and auditing sections of Technical Release (TR) 3, *Preparing and Auditing Estimates for Direct and Guaranteed Loans*, and that the audit sections would be incorporated into the Federal Audit Manual (FAM). She also noted that the comments from the members have been incorporated into the document and then the document was sent to the task force for a "fatal flaw review", in which a few comments were also incorporated. Ms. James stated that more recently a few major comments had been received from GAO on the accounting section of the document and because of those comments she wanted to take the document back to the task force before bringing a final draft back to the AAPC.

Ms. James then asked the Committee how they wanted to proceed with the separation of the accounting and audit guidance in TR3. Ms. Krell noted that there was a recommendation to keep the audit guidance "as is" in TR3 with the elimination of the accounting guidance and then the revised accounting guidance would be placed in a new technical release as an amendment to TR3. In addition, once the credit reform audit guidance was incorporated into FAM, TR3 in its entirety would be rescinded. Ms. Krell stated that this recommendation would allow time for the FAM to be updated and not leave the community without any credit reform audit guidance. Ms. James asked what would be the timing involved in getting a new technical release issued and would it be as long as it would take to get the audit guidance incorporated into the FAM. Ms. Comes noted that the revised accounting guidance would become TR6 and that process would mean an electronically submitted exposure draft with the minimum comment period of 15 days. Once the comments were discussed by the AAPC membership a vote would be taken to recommend issuance of the technical release by the FASAB. Then the FASAB would be presented with a "no object vote" on the issuance of the technical release. Ms. Comes noted that if the task force was able to get back to the Committee fairly quickly it would be possible to have another AAPC meeting in time to present the issue to the FASAB at its August 2003 meeting or if necessary, the October meeting. The new technical release and the amended TR3 could possibly be release by the fall.

Ms. Comes asked that staff begin the process to schedule the next AAPC meeting and ask that the task force commit to having a final draft of the two documents and briefing the Committee on the revisions for that meeting. She also informed Ms. James that if the task force could not resolve among themselves the latest issues, that the issues be brought before the AAPC for resolution. Ms. James noted that the issues raised by GAO dealt with OMB's ability to grant waivers to certain agencies. Ms. Comes asked that GAO and the task force involve FASAB staff in the discussion process. Ms. Comes asked that the Committee be given ample time to review the documents before the meeting and that previous meeting minutes also be provided to members.

Mr. Moraglio asked about the level of detail included in the credit reform audit guidance. Ms. Krell noted that the guidance was quite detail and was an audit tool (i.e., more or less an audit program).

- **Agenda Committee Report**

No report.

- **New Business**

Mr. Pugh gave his "closing reflections" of his last six years on the AAPC. He commented that the AAPC did not get the level of interest or inquiry that he originally thought it would be or even what was contemplated by the authors of the AAPC. The idea behind the AAPC was to 1) provide implementation guidance to agencies in those more complicated areas while staying within the perimeters of the standards and 2) take some of the burden off of OMB as far as providing accounting and auditing guidance to agencies in a timely manner. He noted that he had always envisioned the AAPC to operate similar to FASB's Emerging Issues Task Force (EITF). The EITF provides entities with the "best" possible answer at a given time, with very little due process, and that a unanimous vote is not essential. He had hoped that the AAPC would attract more interest and be of more use to the community. Mr. Pugh further gave a specific example of the need for accounting and auditing guidance at Treasury during the last audit cycle and those involved went to OMB looking for quick resolution because of the impending timeframe. He believes that the AAPC could accomplish quick resolution to issues, but not under its current structure. Mr. Pugh suggested that the AAPC could possibly segregate issues based on the expertise of the members in order to expedite resolution of the issue. He also stated that the accelerated reporting timeframes coming in the next two years will serve as a test of the AAPC's effectiveness to the community.

Ms. Comes acknowledged Mr. Pugh's comments and stated that she would relay his concerns and suggestions to the FASAB as they review their *Rules of Procedure*. Ms. Comes also noted that another reason the AAPC was formed was to ensure that quality, consistent, and widely available written guidance would be given. She also noted some of the barriers to the issuance of timely guidance of the AAPC, 1) the fact that the AAPC is not authorized to give guidance outside of the parameters of the existing FASAB standards or to create new guidance and 2) the timing of the due process and the ability to get the Committee together to make decisions. Ms. Krell commented that there may be issues in the area of implementation that the AAPC could address that would be useful to the community.

- **Next Meeting**

The next meeting will be coordinated with the members by Ms. Valentine.

- **Adjournment**

The meeting was adjourned at 2:40 PM.