

**ACCOUNTING AND AUDITING POLICY COMMITTEE MEETING
FINAL MINUTES
July 29, 2003**

The meeting was convened at 10:06 AM 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. James, Maharay, McFadden, Moraglio, Ritchie, Sturgill, Taylor and Steven Zane (for Dingbaum).

Absent: Mr. Dingbaum

• **Minutes**

The minutes of May 22, 2003 were previously approved as final, having been circulated by E-mail to members.

• **AAPC Membership Changes**

Ms. Comes, AAPC Chair and FASAB Executive Director, introduced the three new members to the Committee. She introduced D. James Sturgill as the new Treasury representative to the AAPC. Mr. Sturgill is currently the Assistant Commissioner for Government-wide Accounting at Treasury's Financial Management Service. Greg James is the new CFOC representative to the Committee. Mr. James is the Department of Labor's Associate Deputy CFO. Michael T. McFadden is the new PCIE representative. Mr. McFadden is currently the Director of the Office of Accountability Audits in the Department of Labor's Office of the Inspector General. Ms. Comes also noted that James Taylor, DCFO at Commerce, and De Ritchie, DCFO at HUD, have been re-appointed for their 2nd three-year term. Ms. Comes also gave a brief overview of the AAPC's operating procedures on behalf of the new members.

• **Project Agenda Status:**

Credit Reform

Ms. Comes introduced Ms. Dana James of OMB and a representative for the AAPC Credit Reform task force. Ms. James gave the Committee a brief history of the task force's work on the

proposed amendments to Technical Release (TR) 3, *Preparing and Auditing Estimates for Direct and Guaranteed Loans* (TR3). Ms. Valentine, FASAB Assistant Director, briefed the members on the meeting materials provided to them by email, as well as those provided at the table. The documents provided were 1) the redline version of the proposed amendments to TR 3; 2) a clean version of the proposed new TR that amends TR 3; and 3) a draft of what the updated TR 3 would look like with only the audit sections remaining.

Ms. James noted to the Committee that the most significant change to TR 3 is the separation of the audit and accounting sections from the original TR3 that included both audit and accounting guidance on direct loan and loan guarantee subsidies. She further mentioned that the audit sections would remain in TR3 until it can eventually be incorporated into the GAO/PCIE Federal Audit Manual (FAM). The revised accounting section will become a new TR that will amend TR 3. Ms. James noted that this change is outlined in the Introduction of the new TR. Ms. Krell suggested that the paragraph simply state that the audit sections of the TR will remain in TR3 and not mention the eventual move to the FAM since it is uncertain as to the timing of the move to the FAM. While maintaining the first sentence of the paragraph, the Committee agreed to the change suggested by Ms. Krell.

The next major change highlighted by Ms. James was in the *Financial Statement* (F/S) presentation section. The F/S section has been reformatted into a chart and moved to Appendix IV. Another change noted by Ms. James was the change in the reestimate period from 9 months to 6 months of actual data required to be used. Mr. Moraglio asked which are more commonly done, the estimates or the reestimates. Ms. James explained that the estimates are done in the first year of the loan and will agree with the budget estimates. The reestimates are done in the subsequent years and may vary from the budget reestimates, but by the end of the loan period budget and accounting estimates are brought back into sync. Therefore the reestimates are done more often than the estimates. Ms. Comes suggested that Appendix III *Summary of Reestimate Requirements* be moved to the body of the document, because it reinforces the difference of the budget and financial statements and the materiality considerations. It was agreed by the Committee to move the Appendix III chart into the body of the document after the second paragraph in the *Reestimates* section that actually discusses the appendix.

Ms. James noted no other major changes to the document and then asked the members if they had any additional edits or comments. Ms. Krell mentioned that the first sentence in the last paragraph of the *Background* section needs to be reworded to reflect the new sequence of the document. Ms. Krell also noted that footnote 7 on internal control should be made consistent with the auditing standards on internal control. The consistency would include making the word “internal controls” singular throughout the document, revising the definition, and rewording the activities to align with the actual sequence of activities. Ms. Krell pointed out that footnotes 9 and 12 should be made consistent.

Mr. Moraglio asked about the use of the phrases “present value of the net cash flows” vs. “net cash flows”. He asked if both are discounted values. Ms. James explained that the amounts put into the credit subsidy calculator are cash flow amounts and the calculator will discount the cash flows to make them present value. Ms. James further explained that in the second paragraph of the *Reestimates* section the term “present value of the net cash flows” is referring to allowance for loan guarantees, which is the present value of those cash flows. Mr. Taylor suggested that the term “allowance” be added to the technical glossary.

Ms. Geier questioned the last sentence of paragraph 3 of the *Introduction*. The Committee agreed to drop that last sentence. The Committee further discussed the appropriate wording for that entire paragraph. Ms. Geier also asked that the second sentence in the first paragraph of the *OMB Role* section be clarified to state that OMB has delegated its authority to prepare the estimates but has retained responsibility for the estimates. She also pointed out that footnote 22 needs to be reviewed for correct wording once the strikeouts are removed.

The Committee voted to expose the new TR with the changes discussed at today’s meeting and including the revised remaining TR3. Once the exposure draft is placed on the web for a short comment period the comments will be discussed with the Committee and the document revised accordingly. The Committee will then vote to send the document to FASAB for final approval.

Mr. Sturgill asked what role the AAPC has for setting audit requirements since such requirements are now contained in the FAM. Ms. Comes replied that the AAPC remains a body of professionals to which agencies can come for guidance on audit issues.

● **Agenda Committee Report**

Mr. Maharay was named the new chair of the Agenda Committee representing the PCIE block, Jim Sturgill was named to the Agenda Committee to represent the central agency block and Greg James was named to represent the CFO block.

● **New Business**

Mr. Taylor asked Ms. Comes about the status of the inter-entity cost project with the FASAB. Ms. Comes noted that the Board has not agreed to staff’s suggestion to rescind paragraph 110 of SFFAS 4. Staff was asked to provide additional justification for the rescinding. Ms. Comes noted that there is a possibility the inter-entity cost project would be discussed at the next FASAB meeting on August 13th & 14th. She further asked the Committee to review the task force materials to determine which items in the voluminous package of documents should be included in the draft exposure draft to the Board. Ms. Valentine informed the new members that

she would send them the full IEC task force package to review.

- **Next Meeting**

The next meeting will be scheduled on an as needed basis.

- **Adjournment**

The meeting was adjourned at 11:10 AM.