



OFFICE OF THE UNDER SECRETARY OF DEFENSE

1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

SEP 15 2011

Ms. Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814
Mail Stop 6K17V
Washington, DC 20548

Dear Ms. Payne:

The Department of Defense (DoD) appreciates the opportunity to comment on the Federal Accounting Standards Advisory Board exposure draft, "Deferred Maintenance and Repairs: Statement of Federal Financial Accounting Standards." The DoD agrees with the proposed changes and provides the enclosed rationale. Notably, DoD requests that the format presented in Illustration 1 become the official format for reporting Deferred Maintenance and Repairs in Required Supplemental Information.

My contact is Ms. Maryla E. Engelking. She can be reached at 703-602-0155 or maryla.engelking@osd.mil.

Sincerely,

A handwritten signature in dark ink, appearing to read "Mark E. Easton", is written over a horizontal line.

Mark E. Easton
Deputy Chief Financial Officer

Enclosure:
As stated

Word Version of Request for Comments**Deferred Maintenance and Repairs - Exposure Draft****Comments Requested by September 16, 2011**

Name of Respondent: Mark E. Easton**Organization Represented: Department of Defense**

Q1. The Board proposes to eliminate the requirement to report condition information. Refer to paragraphs 13, 14, and 17 of the proposed standards and paragraph A8 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree with the Board's proposal to no longer require condition reporting? Please provide the rationale for your answer.

Agree. In the current reporting environment, condition assessments and related criteria are largely inconsistent among and within reporting agencies. Condition assessments also have a subjective aspect to them and rely in part on the assessor's judgment on the condition level. However, condition assessments should continue within the agencies and used as a management tool in determining maintenance priorities and Deferred Maintenance and Repairs (DM&R), but not reported within the financial statements.

Q2. The proposed standards would require that DM&R estimates for beginning and ending balances be presented with an explanation of significant changes in estimates. Refer to paragraph 14.f. and g. of the proposed standard and paragraph A20 in Appendix A - Basis for Conclusions for a discussion and related explanation.

- a. Do you agree or disagree that DM&R estimates for beginning and ending balances should be presented? Please provide the rationale for your answer.**

Agree. Beginning and ending balances of DM&R are relevant. Disclosing these balances will allow for the assessments of changing requirements and available resources to cover such requirements. It should aid in the preparation of budgetary requirements.

- b. Do you agree or disagree with the requirement to explain significant DM&R changes? Please provide the rationale for your answer.**

Agree. Disclosing significant (material) DM&R policy changes is relevant to readers of financial statements. However, these balances should only be segregated into General Property Plant & Equipment (G-PP&E), Heritage Assets, and Stewardship Land. A requirement to delineate DM&R into active/inactive or funded/unfunded segments would probably be cost prohibitive for most agencies.

Documenting significant DM&R changes highlights and helps justify the need for sustainment, restoration, and modernization funding that reporting agencies need in order to bring their facilities up to a fully serviceable condition, enabling the agencies fully to support their current mission or function.

However, the necessity to provide variance explanations for changes in reported amounts may be cost prohibitive for some types of PP&E. This will be especially true for deployed PP&E. A cost analysis should be performed to assess the cost of changes in systems (both automated and manual) required to obtain the data necessary to provide meaningful variance explanations prior to making this a requirement for all PP&E.

Q3. The proposed standards state that entities should apply reported methods and reporting formats consistently unless management determines that changes are necessary and if changes to methods or formats are necessary, such changes should be explained. Refer to paragraph 11 of the proposed standards and paragraphs A10 and A11 in Appendix A - Basis for Conclusions for a discussion and related explanation.

- a. **Do you agree or disagree that entities should apply reported methods and reporting formats consistently? Please provide the rationale for your answer.**

Agree. Reporting agencies should apply reported methods and reporting formats consistently. Changes to these methods and formats should be fully disclosed and include justification for making the change. If reported methods and reporting formats are inconsistent from year to year, then it is not possible to make an accurate comparison and analysis from year to year. Given the diverse missions, systems, and processes of the Department of Defense, there may be a significant number of methods utilized. Flexibility in determining the methods of maintenance and repair, especially in contingency operations, can affect mission success. Therefore, a cost analysis needs to be performed to determine the level of detail that needs to be included in this disclosure.

- b. **Do you agree or disagree with requiring an explanation if entities change methods or formats? Please provide the rationale for your answer.**

Agree. This disclosure aligns with generally accepted accounting principles requiring the explanation of changes in methodology for depreciation, tax, etc. Also, when two periods are presented, it is important to identify procedural changes that impact comparability. Nevertheless, entities should be allowed to adopt new and different methods from those reported on in previous years to keep pace with emerging developments in asset management. The explanation for the change in method should derive from criteria established by the Board to allow for consistency and comparability among reporting entities. However, reporting formats should not be changed from year to year. The Board should obtain concurrence from entities on a standard reporting format and require entities to use this standard format.

Q4. The proposed standards would require entities to provide narrative information describing M&R policies and other non-financial information including any significant changes to policies and other factors from the prior year. Refer to paragraphs 13 and 14, items a. through f. of the proposed standards and paragraphs A11 and A17, respectively in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree with each of the above referenced requirements? Please provide the rationale for your answer.

Agree. Reporting agencies should include narrative information describing DM&R policies and other non-financial information including any significant changes to policies and other factors from the prior year. Given the diverse missions, systems, and processes of the Department of Defense, there may be a significant number of methods utilized and changes in methodology may occur. Flexibility in determining the methods of maintenance and repair, especially in contingency operations, can affect mission success. Therefore, a cost analysis needs to be performed to determine the level of detail that needs to be included in this disclosure.

Q5. The proposed standards state that communication with and consideration of input from professionals in diverse disciplines is necessary to effectively compile and report DM&R. Refer to paragraph 11 of the proposed standards and paragraphs A15 and A16 in Appendix A - Basis for Conclusions for a detailed discussion and related explanation. .

Do you agree or disagree that communication with and consideration of input from professionals in diverse disciplines is necessary to effectively compile and report DM&R? Please provide the rationale for your answer.

Agree. Communication with and consideration of input from professionals in diverse disciplines is necessary to effectively compile and report DM&R.

Q6. The proposed standards would eliminate the option to report a range of DM&R estimates and the distinction between critical and non-critical amounts. The reported amount of DM&R may be disaggregated in a variety of ways without explicit mention in the standards. Refer to paragraph 14 of the proposed standards and to paragraphs A18 and A19 in Appendix A - Basis for Conclusions for a discussion and related explanations.

a. Do you agree or disagree with eliminating the option to report a range of DM&R estimates? Please provide the rationale for your answer.

Agree. Asset management system(s) should be able to provide specific data vice a range. Estimate ranges should be used for planning purposes, not for financial reporting.

b. Do you agree or disagree with eliminating the distinction between critical and non-critical DM&R estimates? Please provide the rationale for your answer.

Agree. Eliminating the requirement to report critical or non-critical DM&R estimates on the financial statements is helpful to the reporting agency. The requirement is subject to interpretation and the resulting data could be misleading to the reader of the financial statement. However, the Department of Defense will continue to use this distinction internally as an additional management tool to analyze whether resources are being appropriately allocated to critical repairs vice lower priority non-critical repairs.

Q7. The proposed standards would be effective beginning in fiscal year 2015 with earlier implementation permitted.

Do you agree or disagree with the proposed effective date? Please provide the rationale for your answer.

Agree. Implementing the proposed standard effective in Fiscal Year 2015 is reasonable.