

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

Name of Respondent: Michael N. Grussing, P.E.

Organization Represented: Construction Engineering Research Laboratory (CERL), U.S. Army Corps of Engineers

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.

The reviewer agrees that the reporting of traditional condition ratings derived from DM&R (such as FCI) is redundant and adds no value to financial reporting. The reviewer also agrees that traditional condition ratings derived from DM&R can be misleading because: 1) DM&R does not fully describe the physical condition of an asset, only the perceived financial liabilities to bring up to standards of a theoretically acceptable performing asset, and 2) condition ratings derived from DM&R can vary widely based on subjective opinions of corrective scope and cost, while true physical condition of an asset is an absolute value determined by standard procedures independent of DM&R estimates.

In lieu of traditional, DM&R-based condition reporting, the reviewer advocates measurement and reporting of asset condition based on objective engineering criteria and standardized observations about age, deterioration, and distress mechanisms. Paragraph 9 describes Condition Assessment Surveys as a method for determining DM&R. The reviewer generally agrees with this definition, provided the determination of condition and the estimate of deficiencies are conducted in a specific sequence as two fundamentally separate procedures. In other words, in a proven, practical sense, the actual condition rating of an asset should be established first, regardless of the perceived cost, scope or importance of M&R or deficiency corrections. This is essentially what is described in paragraph 9 as defined in Condition Assessment Surveys, provided the focus is on determining current condition versus reporting deficiencies and estimated costs. Only after condition has been measured and compared to the appropriate standards, should DM&R be estimated. This provides a more consistent, economic and transparent process. The reviewer agrees with footnote 5, that only "management shall determine what level of condition is acceptable, "i.e., what eventually becomes a deficiency and an estimated cost.

The reviewer would also like to point out a slight, but important wording discrepancy with footnote 7, which says “It is permissible to schedule condition assessment surveys on a cyclical basis.” While condition inspections may be scheduled on a rigid, calendar based cycle for some types of assets, other types of asset inspections may be better scheduled based on age, expected condition, or risk of a certain type of failure. In other words, the inspection frequency may be increased or decreased at certain points in the life-cycle when the expected risk of failure is more or less predominant, typically towards the beginning and end of life. For such assets, a requirement for a fixed cyclical schedule would be unduly constraining. Because of this, the reviewer respectfully suggests the word “cyclical” in footnote 7 be replaced with “methodical risk” to reflect the importance of risk and the need for management flexibility in risk-based inspection scheduling.

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.**

Agreed, if DM&R estimates are required to be reported annually, it is not difficult to determine changes in DM&R from one year to the next.

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

Agreed, significant changes in DM&R estimates should be analyzed and investigated to determine the underlying cause of such changes.

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.**

Agreed, consistency is important to ensure accurate comparisons across large PP&E portfolios. Consistency in DM&R data starts with

consistent and objective Condition Assessments surveys, as discussed in answer 1, above.

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

Agree. Changes to methods should be kept to a minimum, but if necessary, the agency should explain why a particular method didn't work, and what improvements are to be gained from the new approach.

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.

The reviewer agrees with the requirements to report policy requirements, and any changes to policy. The reviewer prefers a more systematic, standardized, and tabular approach to policy reporting versus narrative write-ups. Narratives are usually difficult to parse, more static, and not easily updatable in a batch fashion. Tabular reporting of M&R policies, including requirements for condition standards are much easier to analyze, update, and interpret, making the policies more transparent. These policies could be assigned based on asset types, asset importance, or any combination of classification.

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.

The design, construction and operation of a facility asset comprise many diverse construction disciplines, and these disciplines play an important role in evaluating the current condition and performance of an asset as well. In addition, input from building occupants, facility managers, and upper-level policy makers is needed to establish standards for maintenance and repair. While the inputs for determining DM&R can come from a diverse set of

professionals and stakeholders, these inputs must be standardized and applied consistently to accurately and objectively compare assets across a large portfolio. This requires systematic evaluation of asset PP&E rather than an ad hoc deficiency reporting approach that has plagued DM&R backlog estimates in the past.

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. If agencies have consistent assessment methods, the level of precision in the DM&R estimate can be better understood and applied across the PP&E portfolio.

- 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.**

The reviewer believes that a classification of what assets are critical is important, and that a single definition of a critical asset should be established. From that point, it would not be difficult to summarize DM&R by critical versus non-critical assets, and this differentiation would have some value for best support an agency's mission.

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.

The reviewer agrees with the proposed effective needs to provide ample time for the agencies to comply, provided agencies have the option of implementing standards earlier if they choose.