

June 23, 2010

Ms. Payne:

Attached are comments from the Business Transformation Agency to the proposed Definitional Changes related to Deferred Maintenance and Repairs.

If you have any questions, please feel free to let me know.

Courtney White
Financial Systems Analyst
Business Transformation Agency
Transformation Priorities and Requirements

Department of Defense - Business Transformation Agency
Response to FASAB EXPOSURE DRAFT
Definitional Changes related to Deferred Maintenance and Repairs

Q1. The Board proposes adding “repairs” to the title and body of the revised definition in order to clarify that deferred “repairs” as well as deferred “maintenance” need to be reported.

Do you agree or disagree that the maintenance definition (title and body) should be changed to explicitly include “repairs” (refer to paragraphs A8 – A27 for a detailed discussion and related explanations)? Please provide the rationale for your answer.

Agree. The definition change to include “repairs” should be added. The change offers a more standard definition to a wide variety of property, plant and equipment or fixed assets used throughout the federal government. Appendix A, Basis for Conclusions, offers excellent comments supporting the change. Although health and safety considerations addressed in discussion of asset’s useful life (paragraph A.27), health and safety considerations also apply to the definition of “acceptable condition”.

Q2. The second sentence of the existing standard provides (1) an illustrative list of activities which are not meant to be all inclusive and (2) the terms “acceptable services” and “expected life.” First, the Board proposes that the list of activities contained in the second sentence of the existing definition be updated to better reflect current federal and industry practices as well as encompass maintenance and repair (M&R) activities related to equipment and other personal property in addition to buildings, building components, or service systems. Second, the Board believes that the terms “acceptable services” and “expected life” should be eliminated from the definition. The second sentence would read as follows:

“Activities include preventive maintenance, replacement of parts, systems, or components, and other activities needed to preserve or maintain the asset.”¹

- a. **Do you agree or disagree with each change to the list of activities (refer to paragraph A16 through A17 for a list of changes and related explanations)? Please provide the rationale for your answer to each change.**

¹ Note: The current SFFAS 6 language states in part that maintenance is “...needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life.”

Disagree. The use of “systems” and “components” in the definition is too general and should be clarified. Paragraph A17 discusses “building service systems” such as electrical, plumbing, HVAC, fire protection, and elevators. Discussion also included Information Technology (IT) systems. OMB Circular A-130, Management of Federal Information Resources, defines the term “information system” as meaning a discrete set of information resources organized for the collection, processing, maintenance, transmission, and dissemination of information, in accordance with defined procedures, whether automated or manual. Some examples would provide some clarification and improve the list.

- b. Do you agree or disagree with the elimination of the phrase “so that it continues to provide acceptable services and achieves its expected life” (refer to paragraphs A18, A19, and A27 for detailed discussions and related explanations)? Please provide the rationale for your answer to each reference/phrase.

Agree with comment. The proposed definition includes “acceptable condition” which is sufficient.

Q3. The Board proposes changing the last sentence of the definition to exclude the reference to needs “originally intended” to be met by the asset. Instead, “*activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use*” is proposed (underscoring added for emphasis).

As such, the proposed revised last sentence would read as follows:

“Maintenance and repairs exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.”

Do you agree or disagree with the aforementioned change (refer to paragraph A20 for a detailed discussion and related explanation)? Please provide the rationale for your answer.

Agree with comment. Statement should be structured to indicate inclusively the activities directed solely for the purpose of preserving the asset; this would be in line with aforementioned changes stated inclusively and would maintain clarity of intent.

Q4. The Board is not proposing a change at this time but rather, is seeking input on the impact that agency capitalization thresholds might have in the reporting of deferred maintenance and repairs. Because PP&E is subject to various capitalization thresholds and actual maintenance requirements are not, some believe it is more appropriate to report deferred maintenance and repairs (DM&R) in the broader context of fixed assets rather than only for capitalized PP&E.

Do you believe Deferred Maintenance and Repair (DM&R) reporting should be limited to DM&R related to capitalized PP&E or directed broadly to fixed assets? Please provide the rationale for your answer. Refer to paragraph A21(c) and A24 for a detailed discussion and related explanation.

Agree with DM being limited to Capitalized PP&E. We believe that DM&R should retain its association to capitalized PP&E; there is a need to retain accountability for PP&E. There is a need to retain accountability for PP&E. All agencies should be tracking and maintaining all of their associated DM, but for financial reporting the main focus is on capitalized amounts.

Q5. The Board encourages respondents to not only provide input concerning any and all aspects of the proposed changes thus far discussed, but also other changes, points, issues and/or considerations which may not have been specifically addressed in this exposure draft. In addition, the basis for conclusions explains the Board's goals for this project (see comments beginning at par.A8) and also discusses other issues raised by task force members (as an example, see paragraphs A11 through A13).

Please provide any comments or suggestions you have regarding the goals for this project, other issues identified in the basis for conclusions, or areas which have not been addressed.

The Deferred Maintenance measurement standards in SFFAS-14, Amendments to Deferred Maintenance Reporting, Appendix B, are critical to meaningful financial reporting. In regards to paragraph 83, the Required Supplemental Information (RSI) should also require a description of the change in the measurement method. Also, this RSI must be documented and available for possible review by the command and/or the audit community. BTA would like to be part of the "continued consultation with stakeholders" mentioned on page 5.

In regards to paragraph A27, primarily the last sentence, although linking Deferred Maintenance and Repair to an "expected life" is not appropriate for depreciation of fixed assets and associated accounting treatment. Since DM&R is not an accounting transaction, thus does not update the U.S. Standard General Ledger, the RSI is the primary and only means for financial disclosure.

Definitional Changes Related to Deferred Maintenance and Repairs: Amending Statement of Federal Accounting Standards 6, Accounting for Property, Plant and Equipment

Comment Number	Page/Paragraph/ Question #	BTA Comment	Recommended Text
1	Q1. Do you agree or disagree that the maintenance definition (title and body) should be changed to explicitly include “repairs” (refer to paragraphs A8-A21 for a detailed discussion and related explanations)? Please provide the rationale for your answer.	Agree. The definition change to include “repairs” should be added. The change offers a more standard definition to a wide variety of property, plant and equipment or fixed assets used throughout the federal government. Appendix A, Basis for Conclusions, offers excellent comments supporting the change. Although health and safety considerations addressed in discussion of asset’s useful life (paragraph A.27), health and safety considerations also apply to the definition of “acceptable condition”.	“Repair” should be added in quotations in context of to “to preserve or maintain the asset.
2	Q2.a. Do you agree or disagree with each change to the list of activities (refer to paragraph A16 through A17 for a list of changes and related explanations)? Please provide the rationale for	Disagree. The use of “systems” and “components” in the definition is too general and should be clarified. Paragraph A17 discusses “building service systems” such as electrical, plumbing, HVAC, fire protection, and elevators. Discussion also included Information Technology (IT) systems. OMB Circular A-130, Management of Federal Information Resources, defines the term “information system” as meaning a discrete set of information resources organized for the collection, processing, maintenance, transmission, and dissemination of information, in accordance with defined procedures, whether automated or manual. Some examples would provide some clarification and	To provide clarification, recommend sentence state: Activities include preventive maintenance, replacement of parts, maintenance of information systems and building service systems and components such a electrical, fire protection and elevators, and other activities needed to preserve or maintain the asset.

Definitional Changes Related to Deferred Maintenance and Repairs: Amending Statement of Federal Accounting Standards 6, Accounting for Property, Plant and Equipment

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	<p>your answer to each change.</p> <p>Q2.b. Do you agree or disagree with the elimination of the phrase “so that it continues to provide acceptable services and achieves its expected life” (refer to paragraphs A18, A19, and A27 for detailed discussions and related explanations? Please provide the rationale for your answer to each reference/phrase.</p>	<p>improve the list.</p> <p>Agree with comment. The proposed definition includes “acceptable condition” which is sufficient.</p>	<p>Should include qualification clause that indicates that the objective of maintenance and repair is to preserve the asset.</p>

Definitional Changes Related to Deferred Maintenance and Repairs: Amending Statement of Federal Accounting Standards 6, Accounting for Property, Plant and Equipment

Comment Number	Page/Paragraph/ Question #	BTA Comment	Recommended Text
3	Q3. Do you agree or disagree with the aforementioned change (refer to paragraph A20 for a detailed discussion and related explanation)? Please provide the rationale for your answer.	Agree with comment. Statement should be structured to indicate inclusively the activities directed solely for the purpose of preserving the asset; this would be in line with aforementioned changes stated inclusively and would maintain clarity of intent	
4	Q4. Do you believe Deferred Maintenance and Repair (DM&R) reporting should be limited to DM&R related to capitalized PP&E or directed broadly to fixed assets? Please provide the	Agree that is should maintain its association to Capitalized PP&E. On one hand, we believe that DM&R should retain its association to capitalized PP&E; there is a need to retain accountability for PP&E. All agencies should be tracking and maintaining all of their associated DM, but for financial reporting the main focus is on capitalized amounts.	

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	rationale for your answer. Refer to paragraph A21 (c) and A24 for a detailed discussion and related explanation.		
5	Q5. Please provide any comments or suggestions you have regarding the goals for this project, other issues identified in the basis for conclusions, or areas which have not been addressed.	<p>The Deferred Maintenance measurement standards in SFFAS-14, Amendments to Deferred Maintenance Reporting, Appendix B, are critical to meaningful financial reporting. In regards to paragraph 83, the Required Supplemental Information (RSI) should also require a description of the change in the measurement method. Also, this RSI must be documented and available for possible review by the command and/or the audit community. BTA would like to be part of the “continued consultation with stakeholders” mentioned on page 5.</p> <p>In regards to paragraph A27, primarily the last sentence, although linking Deferred Maintenance and Repair to an “expected life” is not appropriate for depreciation of fixed assets and associated accounting treatment. Since DM&R is not an</p>	

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