

>>> "Tucker, Gerald A" <Gerald.A.Tucker@hud.gov> 6/24/2010 3:28 PM >>>
Thank you for the opportunity to comment on the above Exposure Draft.

Attached are the Department of Housing and Urban Development's comments and responses to the questions in the above Exposure Draft.

Please direct any questions concerning our response to me at the number listed below.

Thanks!

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

**Statement of Federal Financial Accounting Standards
Exposure Draft**

Federal Accounting Standards Advisory Board
04-May-2010

Response from the Department of Housing and Urban Development

FASAB Questions for Respondents

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

Responses Provided by: *The Department of Housing and Urban Development*

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.

HUD agrees that the maintenance definition should include repairs. According to the Appendix A, Basis for Conclusions paragraph 14, the technical community at some agencies does not consider repairs a subset of maintenance and each is treated separately for operational purposes. However, the Board notes that maintenance and repairs (M&R) are not treated separately for financial reporting purposes. Confirming the earlier CFO Council initiated review, the task force noted that there is much confusion regarding the proper treatment of repairs. Due to this confusion, some agencies may not be reporting deferred repairs. As a result, the Board believes that to eliminate confusion and improve financial reporting the term “deferred maintenance” should be revised to “deferred maintenance and repairs.” While it is the Board’s intention that for financial reporting purposes M&R not be treated separately, the Board acknowledges the view that maintenance generally retains an asset’s functionality whereas repair generally restores an asset’s functionality.

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.

HUD agrees with the changes to the list of activities. The Appendix A, Basis for Conclusions, notes the following changes and rationale to which HUD agrees:

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.”

- a) Deleting the term “normal repairs” since, in technical terms, there are no “normal” repairs. Such a reference causes confusion and ambiguity inasmuch as it (1) could lead to the exclusion of repair activities (e.g. repairs brought about by injury or damage) that would ordinarily fall under deferred maintenance reporting and (2) implies that there are abnormal or extraordinary repairs.
- b) Adding the term “systems” - first, because complete system replacements can be part of a routine M&R program, they should not be excluded from the definition of M&R. For example, it is not uncommon for real property to be viewed in terms of building service
- c) Systems such as electrical, plumbing, HVAC, fire protection, and elevators. Second, like other assets, Information Technology (IT) systems also are subject to routine maintenance and repair (e.g. version releases commonly referred to as “maintenance fixes”) and consequently, should be included in the list of M&R activities. The IT example would typically fall under a Maintenance Agreement with a vendor and could represent a significant investment among assets classified as personal property or equipment.
- d) Deleting “structural” as it implies real property and because the FASAB definition covers all major asset classes to include equipment and other personal property, this change helps to ensure appropriate application.
- e) Adding “maintain” in addition to “preserve” - not all assets are “preserved”; asset preservation such as one would find with a museum collection is different from asset maintenance. Asset preservation has a distinct meaning in the technical community as it implies a level of maintenance (e.g. museum collections) usually reserved for historical monuments/structures and synonymous with conservation techniques.

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.

HUD agrees with eliminating “so that it continues to provide acceptable services”. The phrase is redundant in that without the phrase the sentence regarding repairs and examples remains the same. The revised sentence follows: Activities include preventive maintenance, replacement of parts, systems, or components, and other activities needed to preserve or maintain the asset.

HUD also agrees linking deferred maintenance and repairs (DM&R) to an “expected” life” estimate is not appropriate (Appendix A, paragraph 27). First, federal assets are usually maintained and managed well beyond any initial estimate of useful or expected life in order to secure a maximum return or service benefit from the asset. Second, from an operational perspective, M&R activities may not solely be performed for the purpose of extending an “asset’s useful life” since health and safety considerations may be paramount. Furthermore, in practice useful life or expected life may change over time due to operating conditions, actual maintenance practices, or technical changes. As an asset’s expected life changes, the useful life assigned in the accounting records should be appropriately updated. However, this presents practical problems if M&R is tied to meeting an expected life – for example, which expected life is to be used and what happens when the expected life is exceeded.

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.

HUD agrees to the change from original intent to current use. Appendix A paragraph 20 explains the rationale:

The task force discussed concerns regarding the phrase “originally intended use.” Some members indicated that an asset’s originally intended use in many cases cannot be ascertained. Also, original intentions are usually not a significant or germane asset maintenance consideration since assets must be deployed to meet current agency requirements. The Board believes that excluding “*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 better aligned with actual asset maintenance practices used in federal service. As such, the 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.

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 property, plant and equipment (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.

HUD believes the agency should use its judgment in determining whether DM&R PP&E should be limited to capitalized PP&E or directed broadly to fixed assets. For example some agencies may not consider DM&R on non-capitalized assets as critical to agency programs. We agree that DM&R should be reported or directed to fixed assets if the information is useful quantitatively or qualitatively to its users of financial information and the benefit of the information exceeds the cost in preparing the information.

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.

HUD agrees to FASAB defining terms to clarify Statements of Federal Financial Accounting Standards. FASAB should not articulate management policies. Standards should be general guidance to be coupled with managerial judgment considering such factors as agency mission and asset use.