



September 15, 2011

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

Subject: Comments re: Exposure Draft amending SFFAS 6, 14, 29 and 32
Reference: (a) FASAB Exposure Draft and Request for Comments dtd June 27, 2011
Enclosure: (1) IRIS Comments

Dear Ms. Payne:

We have reviewed referenced exposure draft and now offer a few comments for the Board's consideration. You will find our comments in the enclosure.

We support Task Force efforts and our comments are offered in a collegial spirit, meant to benefit the federal financial reporting process. In this regard, we encourage the Board to contact the US Army Construction Engineering Research Laboratory (CERL) to confirm our stated concerns and seek appropriate resolutions.

Sincerely,

JAMES B. CLAYTON

James B. Clayton, PE, MSEE, RIS
Director
Institute for Responsible Infrastructure Stewardship
703.980.1570
clayton@team3.us

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

Name of Respondent: James B. Clayton, PE, MSEE, RIS

Organization Represented: Institute for Responsible Infrastructure Stewardship

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.

A1. Agree with eliminating condition reporting based on DM&R source data. The traditional practice of using estimated DM&R numbers to compute metrics invariably yields metrics with the same issues inherent in the DM&R source data. Furthermore, government research has shown that the traditional practice of computing "condition ratings" by dividing DM&R numbers by asset values, though perhaps useful for some purposes, does not yield a credible indicator of physical condition. The same research has also shown that an asset's physical condition is an absolute state that can be objectively and accurately measured and indexed independent of diverse opinions about scope and cost of corrective repairs. These proven techniques produce credible DM&R numbers as worthwhile by-products, but do not rely on DM&R numbers for rating condition. The new techniques combine condition assessment surveys with life cycle costing methods and are significantly less expensive to use than traditional methods of condition assessment survey.

Disagree with the word "cyclical" in Footnote #7 because it imposes an unnecessary restriction on agency flexibility and increases inspection cost by requiring management to schedule condition inspections only on a traditional "periodic (cyclical) basis" rather than permitting management a choice between expensive "periodic (cyclical)" scheduling and "lean, just-in-time, risk-based (non-cyclical)" scheduling. This excessive restriction, if unintended by the Board, could be removed simply by substituting the word "methodical" in place of "cyclical." This easy substitution would permit all agencies to freely choose between costly cyclical scheduling and less expensive, non-cyclical scheduling as appropriate.

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.**

A2(a) Neither Agree nor Disagree. We appreciate the Board's inclination to introduce a more prescriptive reporting standard in order for the government to better understand

fiscal exposure created by its aging real property. We also understand many federal agencies' tendency to agree with the Board's proposals, given the unquestioned requirement to report real property M&R backlog and the many long-standing concerns with its inherent issues.

However, most if not all the proposed changes described in the Exposure Draft simply revive prescriptive standards used by the Navy and other federal agencies for reporting BMAR during the 1970's and 1980's. Unfortunately, those now-abandoned prescriptive standards proved ineffectual; the quality of BMAR reports remained problematic; and reliance on the BMAR metric consequently declined. We therefore believe that FASAB's proposed resurrection of very similar standards, under a different name and without the benefit of intervening research, will not achieve the intended objective.

We also believe that the proposed reporting standards are flawed because they erroneously treat the estimated cost of deferred maintenance as a measure of fiscal exposure, when government research suggests that the actual measure of exposure is solely the estimated cost of deferred repairs exclusive of deferred maintenance cost. The amalgamation of deferred maintenance cost with the cost of deferred repairs into a single, BMAR-like metric only serves to obfuscate true fiscal exposure. And, because deferred maintenance is not cumulative, the mingling of deferred maintenance with accumulating deferred repairs further distorts actual fiscal exposure.

A related issue is the incorrect inference in Paragraph 8 of the draft exposure that both condition assessment surveys and life-cycle cost forecasts measure deferred maintenance and deferred repairs. In fact, condition assessment surveys measure only the cost of deferred repairs (not deferred maintenance costs, per se) and life-cycle forecasts (minus actual maintenance expenses) measure only the cost of deferred maintenance (not deferred repair costs, per se).

In this regard, we note a number of fundamental and misleading inaccuracies in the "general selection criteria for evaluating different assessment methods" listed in Appendix A, section A10, on page 22. It appears that these mistakes may have inadvertently occurred during the Board's process of consolidating a similar but longer list provided to the Board during the study period by the Institute for Responsible Infrastructure Stewardship.

For these and other reasons stated in Appendix A of this Enclosure, we believe that the practice of reporting real property DM&R does not meet the objectives of Standard Federal Financial Accounting Concepts (SFFAC 1).

All things considered, we also believe the Board would be well-advised to seek expert advice and science-based alternative methods for identifying fiscal exposure due to real property deterioration rather than attempting to polish a metric having no scientific basis and a reporting process that has defied refinement for more than 40 years. One excellent source of such expert advice and alternative methodology is the US Army Construction Engineering Research Laboratory¹.

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

¹ Michael N. Grussing, P.E., Research Civil Engineer, US Army Corps of Engineers, Engineer Research and Development Center, Construction Engineering Research Laboratory P.O. Box 9005 Champaign, IL 61826-9005, Phone: 217.398.5307, Fax: 217.373.6798.

A2(b) Neither Agree nor Disagree. Please refer to our A2(a) above.

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.

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

A3(a) Neither Agree nor Disagree. Please refer to our A2(a) above.

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

A3(b) Neither Agree nor Disagree. Please refer to our A2(a) above.

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.

A4. Neither Agree nor Disagree. Please refer to our A2(a) above.

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.

A5. Neither Agree nor Disagree. Please refer to our A2(a) above.

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.**

A6(a). Neither Agree nor Disagree. Please refer to our A2(a) above.

- 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.**

A6(b). Neither Agree nor Disagree. Please refer to our A2(a) above.

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.

A7. Neither Agree nor Disagree. Please refer to our A2(a) above.

COMPARISON OF DM&R REPORTING with SFFAC 1 GUIDANCE			
SFFAC 1 Guidance			DM&R Reporting Issue
Paragraph	Topic	Guidance	
151	Basis for Reporting	Users' information needs define financial reporting	If federal agencies don't need or use DM&R data, who does and for what purpose?
151	Cost v. Benefit	Articulating objectives and recommending accounting standards necessarily involve judgments about the costs and benefits of producing more information or of reporting it differently.	DM&R became an institutionalized proxy for physical condition without the usual scientific investigation, proof of concept, or benefit/cost analysis. In fact, there still are still no published studies substantiating the validity of using DM&R as an indicator of physical condition, let alone justifying the diversion of scarce resources from other critical priorities to support this expensive activity.
155	Use of Most Cost Effective Information Sources & Techniques	Accounting and financial reporting cannot satisfy every need for information and accountability. For many purposes, other information sources and other techniques to maintain and demonstrate accountability are either essential or more cost-effective. The objectives of federal financial reporting constraint pervades any discussion of the objectives of federal financial reporting	Whenever DM&R reporting is warranted for managerial or financial reasons, there are better, more cost-effective tools and processes available to accomplish this objective without the expense and issues associated with traditional M&R backlog data collection and reporting
158	Understandability	For reports to be understandable to different audiences, different reports may be necessary to provide information relevant to the needs of the expected report users, with suitable amounts of detail, explanation, and related narrative.	If federal agencies don't need or use DM&R data, who does and for what purpose?
159	Understandability	To be fully intelligible, financial information in general purpose reports may need to be presented in relation to the goals, service efforts, and accomplishments of the reporting entity	A growing number of federal agencies have followed DOD's lead and either dropped using the BMAR (DM&R) metric from everyday management, as well as abandoning BMAR reduction as a management goal. However, agencies that no longer track deferred maintenance for management purposes are still required to continue the costly collection and reporting of deferred M&R data simply to satisfy the SSFAS 6 reporting requirement.
160	Reliability	Financial reporting should be reliable; that is, the information presented should be verifiable and free from bias and should faithfully represent what it purports to represent.	To the extent they are based on actual condition assessments, the assessments themselves are often subjective and biased, especially those conducted by facility users rather than by independent teams of engineers not associated with the facility, installation, or major command
160	Reliability	Reliability does not imply precision or certainty, but reliability is affected by the degree of estimation in the measurement process and by uncertainties inherent in what is being measured.	DM&R does not account for all sources of mitigation – an item in the backlog may be included in a future construction, demolition, or privatization project. Therefore, requirements may be double counted.
162	Relevance	To be relevant, a logical relationship must exist between the information provided and the purpose for which it is needed	DM&R performs illogically – backlog goes up when more funds are available, because facility managers are more likely to identify deficiencies when the probability of obtaining funding increases.
162	Timeliness	If financial reports are to be useful, they must be issued soon enough to affect decisions. Timeliness alone does not make information useful, but the passage of time usually diminishes the usefulness that the information otherwise would have had.	DM&R is inaccurate --- since data are too expensive to maintain, unfunded annual maintenance and repair is often simply compounded and inflated without any reference to actual conditions. DM&R is not timely – the metrics provide only backward-looking snapshots that shed no light on what has been accomplished in the meantime or what the changing needs are in the future.
163	Consistency	Financial reports should be consistent over time; that is, once an accounting principle or reporting method is adopted, it should be used for all similar transactions and events unless there is good cause to change	DM&R is not interoperable – there are no universal standards for computing the metrics – Installations vary greatly in the performance of condition assessments and estimation methods. Therefore, comparative analysis is not possible.
164	Comparability	Financial reporting should help report users make relevant comparisons among similar federal reporting units, such as comparisons of the costs of specific functions or activities. Comparability implies that differences among financial reports should be caused by substantive differences in the underlying transactions or organizations rather than by the mere selection of different alternatives in accounting procedures or practices	DM&R is not interoperable – there are no universal standards for computing the metrics – Installations vary greatly in the performance of condition assessments and estimation methods. Therefore, comparative analysis is not possible.