

Please find attached our comments on the Exposure Draft of the proposed Statement of Federal Financial Accounting Standards entitled, *Definitional Changes Related to Deferred Maintenance and Repairs: Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant, and Equipment*. If you have any questions or comments for us, please do not hesitate to contact me.

Thanks!

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NASA OIG Comments on FASAB Exposure Draft:
Definitional Changes Related to Deferred Maintenance and Repairs:
Amending SFFAS 6, Accounting for Property, Plant, and Equipment

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.

We agree with the change and with the rationale discussed in the cited paragraphs. Maintenance should generally retain the functionality of the asset and repair should generally restore the functionality of the asset. Both of these are important to keep assets functioning as intended and needed.

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.**

First, we have an editorial comment. The punctuation appears to be off; the wording suggests three components in the series, the second being “replacement of parts, systems, or components.” If this is what is meant,

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.”

the correct punctuation would be semicolons (instead of commas) after “maintenance” and after “components.”

Second, we believe that adding the replacement of systems to the list of activities may be confusing to Federal financial reporting and financial statement audit personnel. A system, like your examples of an HVAC system or an elevator system in paragraph A17.b, could be a separately identified capitalized PP&E item for an agency. As such, if an agency determines that system must be replaced, the agency would most likely capitalize that replacement as long as it met the agency’s capitalization thresholds. Replacement of a system or component would be acceptable to include if the systems or components would not be separately capitalized. Paragraph A23 discusses the nuances of what is considered “the asset” and discusses that agencies should not include new asset, capital improvement and/or enhancement needs in deferred maintenance and repairs reporting. Because that paragraph exists, we suggest the statement that lists the excluded activities from the maintenance and repairs classification be expanded (see *italics*, not bolded): “Maintenance and repairs exclude activities directed towards *replacement of an old capitalized asset with a new one and expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.*” We also believe that the term “repairs” should be included in the list of activities (see *italics*, not bolded): “Activities include preventive maintenance; replacement *and repairs* of parts, systems, or components; and other activities needed to preserve or maintain the asset.”

Paragraph A17.b., states that IT systems are subject to routine maintenance and repair and should be included in the list of activities. As IT systems and internal use software already can be considered property, plant, and equipment, it appears redundant to include the explanation in the Exposure Draft. In addition, the example of a Maintenance Agreement with a vendor seems to be an overly simplistic example. Many IT personnel at Federal agencies spend a majority of their time maintaining the systems they are responsible for and there are many costs (e.g., salary and benefits) that could go into calculating the cost of maintenance on an IT system. The Standards as written may leave the decision to the agencies to determine the cost-benefit of performing an analysis of IT maintenance and to determine the materiality of such maintenance for reporting purposes, but we do not believe the Board should include the example as a basis to include “systems” in the list of maintenance and repair activities.

- 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.

The phrase listed in the exposure draft, “. . . needed to preserve or maintain the asset” is fine. The term “acceptable services” is very subjective and could have a wide variation in interpretation. “Achieves its expected life” may be useful; however, it seems to be covered in the proposed verbiage. In many cases, through adequate maintenance and repairs, the expected life of an asset may not only be achieved, but it may be surpassed.

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.

We agree with the change to the wording in this area. The phrase “. . . as originally intended” is too restrictive. Many agencies have programs and operations that change throughout the course of time, and the original intention may have no bearing on the current use of the asset.

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.

We believe the term “fixed assets” should be replaced with either “property, plant, and equipment” (PP&E) or with “capital assets.” SFFAS No. 6 defines PP&E in paragraphs 17, 18, and 19. OMB Circular A-11 defines capital assets as land (including park lands), structures, equipment (including motor and aircraft fleets), and intellectual property (including software), which are used by the Federal Government and that have an estimated useful life of two years or more. OMB Circular A-11 goes on to state that capital assets may or may not be capitalized. There is no definition provided for fixed assets in any SFFAS or in OMB Circular A-11. Both terms (PP&E and capital assets) are not limited to only capitalized items. Therefore, either of these terms would encompass a larger universe than just capitalized PP&E.

To the question of whether DM&R reporting should be limited to capitalized PP&E or all PP&E, we believe it should not be limited to only capitalized PP&E. Agencies have a responsibility to track and control PP&E items below established capitalization thresholds. Additionally, stewardship property, including heritage assets, would be ignored if the Standard is written to only include capitalized PP&E.

As a practical matter, agencies may determine deferred maintenance on PP&E items whose acquisition cost is below capitalization thresholds is not material to their financial statements. However, the Board can leave that decision to the agencies.

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 goals of the project undertaken by the Board are ambitious in light of the wide variety of assets and functions of the government agencies. There are a lot of factors to consider and flexibility needed in accounting and reporting of deferred maintenance and repairs. The Board cited an example in the Exposure Draft of the use of an x-ray machine in an emergency room vs. using an x-ray machine in an art conservancy project. (page 17 of the Exposure Draft - paragraph A6) to illustrate where some degree of flexibility may be

needed based on asset use rather than a prescriptive method for all agencies.