

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

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

Dear Ms. Payne:

The U.S. Department of the Interior appreciates the opportunity to comment on the subject exposure draft.

Attached is Interior's response to the questions included in the exposure draft as well as general comments related to the issue.

If you have any questions or concerns please contact Parker Hill at 202-513-0850 (parker_hill@ios.doi.gov) or Craig Lasser (craig_lasser@ios.doi.gov) 202-208-5704

Sincerely,

Don Geiger, Acting Director
Office of Financial Management

Debra E. Sonderman, Director
Office of Acquisition and Property
Management

Attachment

Attachment- Responses from Department of the Interior

25JUN10

Exposure Draft: 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*.

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.

DOI Response to Q1: Agree with including the repair activity in the title, body, and reporting requirements dictated through the Standard. The past inconsistencies in financial reporting and program execution across Federal agencies will be reduced through the direct and unambiguous inclusion of repair in the reporting of Deferred Maintenance and Repair (DM&R). Disagree with including “repairs” as part of the definition of “maintenance”. The term “repairs” implies unplanned work activities such as corrective or emergency maintenance. These work types do not embody the concept of life cycle maintenance.

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.**

DOI Response to Q2a: Agree, with caveat. DOI believes the changes to the list of included activities provide clarity to the definition; however, DOI agrees with FASAB that the list of activities is not all inclusive, leaving opportunity for interpretation and potentially eliminating some valid activities such as hazardous material abatements. There is also no recognition of activities done to protect occupants’ health and/or safety. DOI therefore remains concerned that, unless clearly stated and/or directed otherwise, the audit community will still implement as an all inclusive list. Additionally, use of the phrase “other activities needed to preserve...” is ambiguous and vague. Is the intent to allow agencies to include any activity that they feel is “needed to preserve”? If an agency constructs a large building over a historic asset in order to preserve that asset, is the construction considered maintenance and repair because it was considered an “other activity needed to preserve the asset”? Lastly, it is unclear through this illustrative list whether disposal activities would be included in the maintenance and repair definition.

- 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.**

DOI Response to Q2b: Agree. The activities listed are considered maintenance or repair regardless of whether the asset has reached or exceeded its expected life.

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*

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.”

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.

DOI Response to Q3: Agree. The terms "current use" align with predominant uses tracked in federal real property systems. The "originally intended use" is many times not known or has not been the use for an extended period of time.

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.

DOI Response to Q4: DOI suggests that the DM&R reporting should be directed at all constructed assets regardless of any capitalization thresholds (i.e. all fixed assets). Many agencies manage heritage assets that were fully capitalized years ago, yet still require life cycle maintenance to insure that they are protected. Excluding these assets in DM&R reporting omits a significant amount of the financial liability. Furthermore, as these DM&R reports are often used by program offices and congressional offices for discussion of programmatic needs, any limitations to the data can potentially create conflicts with other data sources.

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.

DOI Response to Q5: DOI remains concerned with the distinction between M&R activities and capital improvements to existing assets as indicated in paragraphs A21, A22, and A23. It seems this distinction deserves some additional discussion among the task force such that a consistent approach can be adopted. Simply stating that agencies "should treat like circumstances similarly over time" does not resolve such a complex issue. Many times budgets are formulated around these separate activities. Defining them unambiguously and consistently across the Federal government will therefore add transparency and clarity in those arenas. Additionally, DOI would recommend a more appropriate example in A6 for demonstrating the context of differing maintenance practices than the x-ray machine in a hospital versus a laboratory. Perhaps an example of a warehouse for storing mission critical equipment versus a warehouse for storing paint is more appropriate in the context of real property. Lastly, DOI is concerned that the Board has not provided any additional information, either qualitative or quantitative, that would support that statement in A26 regarding cost/benefit. DOI recommends that FASAB make public a more detailed business case analysis for the benefits and the resultant costs for this requirement.