

>>> "Wall, John F" <[John.Wall@hq.doe.gov](mailto:John.Wall@hq.doe.gov)> 6/28/2010 9:38 AM >>>  
Good Morning,

Attached are the Department of Energy's comments on the exposure draft for Deferred Maintenance and Repairs.

Thanks,

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Office of Financial Policy  
Office of the Chief Financial Officer

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

**All comments requested by June 25, 2010.**

The Department of Energy appreciates the opportunity to comment on the Exposure Draft, *Definitional Changes Related to Deferred Maintenance and Repairs: Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant, and Equipment* and would appreciate inclusion and consideration of Departmental comments. These comments include the Office of Financial Policy and the Office of Management.

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 Department of Energy agrees with the addition of repairs to the title and body of the revised definition for clarification. While we agree with the revision, maintenance and repair should not be separated for reporting purposes. A change of this nature could cause agencies to spend significant financial resources. The Department of Energy plans and executes its maintenance and repair funding through the same resources and views maintenance and repair as complimentary functions seeking the same greater objective.

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.”<sup>1</sup>*

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<sup>1</sup> 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. **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.**

Agree. The Department of Energy agrees with the change because the addition gives more clarity. Use of the term “normal repairs” does not clarify the definition or give a manager additional guidance. Unlike the terms “parts” and “components,” “systems” acknowledges that maintenance and repair expenditures may address interdependent groupings of dissimilar parts or components. Adding the term “maintain” neither clarifies the term “maintenance and repair” nor limits the intent of the clause but does provide some additional flexibility.

- 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.**

Disagree with eliminating “acceptable services;” agree with eliminating “expected life.”

The term “acceptable condition” does not encompass “acceptable services” as paragraph A18 implies. The terms have distinct meanings. The term “acceptable services” seems more measurable and indicative of adequate functionality and support of mission than “acceptable condition

Incorporating this concept, the definition would read:

Maintenance and repairs are activities ~~directed toward keeping fixed assets in an~~ **needed so fixed assets continue to provide** acceptable ~~condition~~ **services**. Activities include preventive maintenance, replacement of parts, systems, or components, and other activities needed to preserve or maintain the asset. 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.

However the phrases that include the terms “acceptable condition” and “acceptable services” state the goal of, but do not clarify the nature of, “maintenance and repairs.” The Board should consider relocating discussion of the concept of acceptability into the body of SFFAS 6 and out of the definition for maintenance and repairs.

The term “expected life” also indicates the goal of maintenance and repairs. For many federal assets, a significant gap exists between the expected or design life and the service or required life. Maintenance and repair must continue to sustain assets commensurate with mission needs. While ideally this term should appear in a policy statement concerning maintenance and repair, it does not currently reflect the reality under which most agencies with significant property holdings operate, and the Board should strike the term.

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. The current language of “originally intended” neglects the distinct possibility that an asset undergoes a betterment that alters usage, capability or capacity. The revision acknowledges that maintenance and repairs address the needs of the current configuration.

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. Since capitalization thresholds vary between agencies, The Board should request DM&R on all fixed assets to allow for a more complete statement of maintenance backlog and a better indication of the level of risk to the Government’s varied missions. No obvious relationship exists between the criticality of an asset, its first cost, its book value, or its replacement value. In FY 2009, 93% of Department of Energy real property deferred maintenance belonged to capitalized assets

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 sentence “Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition” does not fully define the term. The second and third sentences seek to complete the definition with compliant and non-compliant examples. Instead of this approach, the Board should define maintenance and repair as “activities that prevent or correct deficiencies; failures not inadequacies.” This definition would in no way limit asset managers. Professional judgment would still decide if and when an asset undergoes maintenance. The Board should state the purpose of maintenance in the body of SFFAS 6.

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SSFAS 6 should additionally acknowledge that when repairing or replacing asset components, providing a replica component is not always feasible due to either obsolescence or code considerations. Current code may no longer permit installation of a replica component or a replica component may hinder attainment of code-mandated performance targets. Incorporation of this concept should appear in the proposed definition’s second sentence and read as follows:

Activities include preventive maintenance, replacement of parts, systems, or components, and other activities needed to preserve or maintain the asset **or meet code requirements**.