



Smithsonian Institution

Office of Facilities Engineering and Operations

May 28, 2010

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

RE: Definitional Changes Related to Deferred Maintenance and Repairs: Exposure
Draft, May 4, 2010

Dear Ms. Payne:

Enclosed is our response to the referenced Exposure Draft from the Smithsonian Institution's Office of Facilities Engineering and Operations. This response is written from the facilities Operations, Maintenance and Repair viewpoint and is our assessment of the impact that the proposed changes in the definitions will have on the day-to-day management of our facilities and properties. It is not intended as an assessment of the true "accounting" aspects of the document.

As you may be aware, the Smithsonian generally follows the guidelines established under FASB, rather than FASAB. However, in the area of operations, maintenance, repair and revitalization our principal source of funding is from congressional appropriations. Therefore, we strive to meet the standards established by your organization, as well as all other federal directives and mandates.

We feel that the revised definition in this Exposure Draft best reflects the OM&R interests of our facilities programs. We have been actively involved in the Deferred Maintenance & Asset Impairment Task Force and will continue to support the efforts of this group and the Board. Thanks for the opportunity to comment.

Sincerely,

A handwritten signature in blue ink that reads "Bruce Kendall".

Bruce Kendall, P.E.
Director

Enclosure

Cc: Andrew J. Zino, CPA
Comptroller

Smithsonian Institution Building Room 320
1000 Jefferson Drive SW
Washington DC 20560-0017
202.633.1873 Telephone
202.786.2330 Fax

SMITHSONIAN INSTITUTION
OFFICE OF FACILITIES ENGINEERING AND OPERATIONS (OFEO)
RESPONSE TO FASAB EXPOSURE DRAFT
DEFINITIONAL CHANGES RELATED TO DEFERRED MAINTENANCE AND REPAIRS

Clarification

The response is provided from a facilities engineering and operations perspective with some recognition that it may not reflect a true “accounting” view point. It is provided in light of how we understand and utilize the definitions of maintenance and repair, and thus deferred maintenance and repair (DM&R), and how they best fit the day-to-day management of our facilities, which number well over 700 facilities and close to 10 million square feet of owned property. These facilities range in variety from museums, historic structures, and research facilities, to a zoo and general purpose properties.

Question 1: Adding “Repairs” to the Title and Body of the Definition.

We concur with including “repairs” in the definition. We see a definite distinction between routine maintenance and repairs. The original title referred to only maintenance, but repairs were implied as being included. Both are distinct and are important in keeping an asset functioning as intended, or as stated, in an “acceptable condition.” Both should be included in any discussion regarding DM&R as needed repairs are an important component of the true value/condition of an asset.

Question 2: Changing the Second Sentence to Read:

“Activities include preventive maintenance, replacement of parts, systems, or components, and other activities needed to preserve or maintain the asset.”

A17 a. Agree. Whether or not repairs are normal is irrelevant. If a system/component is not functioning, and it is vital to the mission, or does not meet minimal life/safety standards, it needs to be repaired.

A17 b. Agree. This allows a system/component to be “repaired by replacement.”

A17 c. Agree. Also, structure is often considered as a building system similar to electrical, HVAC, plumbing (see discussion in 17b). By referring to “systems,” this would include the structure for real property.

A17 d. Agree. In addition the argument presented in this paragraph, the term “preserved” at times implies a minimal level of maintenance needed for inactive facilities just to prevent deterioration.

A18 – Agree with eliminating the term “acceptable services.” The term “services” implies some action to achieve a result, whereas “acceptable condition” is the result to be achieved by applying the “service” (i.e., maintenance and repairs). The question now becomes how to determine what is an “acceptable condition?” (Phase 2)

A27 – Agree that linking maintenance and repair (M&R) to attainment of an expected life is inappropriate. Expected life is an accounting term primarily used to depreciate the value of an asset over a period of time. In the O&M arena, assets (principally real property) are expected to be maintained and are usually kept active as long as they can continue to properly function, remain safe and are important to the mission. As noted in this paragraph, most federal assets are maintained and operated well beyond the original estimate of expected life, and they are kept active as long as they can function properly in a safe environment that reflects the useful life of an asset. Expected life may be more applicable to non-fixed, non-real property assets such as equipment.

Question 3: Changing “Originally Intended” to “Current Use.”

We agree with this change. The end product is to get a deferred maintenance & repair (DM&R) value that reflects the amount of M&R that was not performed and was delayed to a future period. This value quantifies the condition of the PPE and represents the amount of funding that would need to be invested to bring an asset, or group of assets, up to an acceptable condition necessary to meet the current mission. The purpose is to maintain and restore assets to a condition for which they are currently being utilized, not what was their original intent. To upgrade an asset to perform differently than originally intended is outside the M&R definition, and these costs should not be treated as part of the DM&R value.

Question 4: Impact that Capitalization Thresholds have in the Reporting of DM&R.

As noted, the sorting out of assets as to whether they are “capitalized” or to be expensed is very grey at this time. Thresholds are often established based upon funding source and approval authority, regardless if the activity is a repair, upgrade, expansion, or change in function. Other factors, such as whether design is required often weigh into the classification decision. Thresholds often establish approval levels, but then become decision criteria regarding whether the work is to be capitalized. Repairs may fall under the true definition of “maintenance and repairs” as established by this revised standard, but because of the degree of complexity of scope, they can be very expensive. Also, in many cases, the total cost of the repair may include costs that are required but add no value to the asset. For example, the cost to repair the roof on the Renwick Museum would be greatly inflated due to its location (next to the White House) scaffolding, and restrictions due to Museum operations. If the threshold for capitalization is exceeded because of these factors, what portion of the project do you include in the new capitalized cost of the facility? It is important that thresholds established for funding approval authority are not confused with value added to an asset and capitalization.

It is our opinion from a facilities operations and management standpoint that the DM&R should relate only to fixed assets. If an asset requires M&R funds to maintain, it should be accounted for accordingly

regardless whether it is capitalized or not. Typically, non-capitalized PP&E are not included in the Real Property Profile and the DM&R needs to be consistent with this reporting structure.

Question 5: Other Issues, Changes and Considerations.

The reporting of DM&R (previously DM) is important to allow federal agencies to track the overall condition of their facilities and systems and to provide meaningful information in establishing budgets, allocate resources, and to trend and benchmark improvements (or continued deterioration). Within each agency, the procedures for determining DM&R need to be consistent from year to year and to also meet federal standards and guidelines. To establish consistency throughout the federal community is a noteworthy goal, but may be difficult to attain given the wide diversity in mission, size, facility inventory and organizational structure. However, standardizing definitions is an excellent start so that all players in the federal arena who receive the bulk of their operations, maintenance, repair and modernization funding from congressional appropriations are working from the same set of rules. Where it gets difficult is transferring from the requirement to account for and report asset expenditures to meet GAAP requirements into the operations and maintenance arena where decisions are made regarding performance of facilities and systems, and in keeping our facilities functional to fulfill the mission. It is not clear where definitions of terms like "acceptable condition" rest and what role FASAB should take in prescribing accounting standards to determine what is an acceptable condition for an individual federal agency, facility or system. We concur that the Board should not be overly prescriptive in this area. What has been important is the Board's understanding of the purpose and differential between maintenance, repairs and improvements, and how this is used in the day to day management of PP&E.