United States General Accounting Office

GAO

Report to the Chairman, Committee on Appropriations, U.S. Senate

January 1998

DEFERRED MAINTENANCE REPORTING

Challenges to Implementation

GAO/AIMD-98-42

GAO

United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-278767

January 30, 1998

The Honorable Ted Stevens
Chairman
Committee on Appropriations
United States Senate

Dear Mr. Chairman:

Maintenance of government-owned assets has been a long-standing concern. For example, a 1993 report of the U.S. Advisory Commission on Intergovernmental Relations noted that maintenance often does not receive adequate attention, especially in times of tight budgets, and that deferred maintenance can result in poor quality facilities, reduced public safety, higher subsequent repair costs and poor service to the public. While federal agencies historically have not been required to periodically report on deferred maintenance, agencies have provided maintenance estimates for budgetary and ad hoc reporting purposes. The validity of these past estimates has been questioned. We previously reported to you on reporting requirements and maintenance issues identified by GAO and agency inspectors general (IGS).[1]

Recent laws have imposed requirements to provide policymakers and agency program managers with more reliable financial information to formulate budgets, manage government programs and help make difficult policy choices. The Chief Financial Officers (CFO) Act of 1990 and its subsequent expansion through the Government Management Reform Act of 1994 established a solid framework for improving financial management and accountability for federal resources and will result in the preparation and audit of financial statements for the government's 24 major departments and agencies, which are responsible for over 99 percent of the government's outlays. These laws also have made the implementation of new federal accounting standards a priority.

The Statement of Federal Financial Accounting Standards (SFFAS) No. 6, Accounting for Property, Plant and Equipment (PP&E), recently recommended by the Federal Accounting Standards Advisory Board

[1]Deferred Maintenance: Reporting Requirements and Identified Issues, GAO/AIMD-97-103R, May 23, 1997.

(FASAB)[2] and approved by GAO, the Office of Management and Budget (OMB) and the Department of Treasury, specifically addresses the need for better information on maintenance by requiring the disclosure[3] of deferred maintenance in agency financial statements beginning for fiscal years after September 30, 1997.[4] FASAB addressed the issue of deferred maintenance in part because of concerns raised by many groups about the deteriorating condition of government-owned PP&E. Further, the Board believes that deferred maintenance represents a cost and that adequate information on these costs is important to users of financial statements.

However, while providing useful new information for decision-making, the standard raises some implementation and definitional challenges—such as determining the acceptable condition of assets and the estimation methods to be used. Your office expressed your continued interest in ensuring the effective and timely implementation of the deferred maintenance requirements of SFFAS No. 6 and requested us to explore the implementation plans and capabilities of federal agencies with respect to the new requirements. Specifically, this report responds to your request that we (1) look at the plans and progress of 11 agencies[5] toward implementing the new deferred maintenance requirements of SFFAS No. 6 and (2) obtain the official position of agency CFOs and IGs with respect to its implementation.

To achieve these objectives, we asked agency CFOs and their staffs a series of questions about estimating maintenance needs and implementing the deferred maintenance requirements of SFFAS No. 6. In addition, because of

[2]In October 1990, the nine member Federal Accounting Standards Advisory Board was established by the Secretary of the Treasury, the Director of the Office of Management and Budget (OMB) and the Comptroller General of the United States to consider and recommend accounting standards to address the financial and budgetary information needs of the Congress, executive agencies and other users of federal financial information. Once FASAB recommends accounting standards, the Secretary of the Treasury, the Director of OMB and the Comptroller General decide whether to adopt the recommended standards. If they are adopted, the standards are published as Statements of Federal Financial Accounting Standards by OMB and GAO.

[3]A disclosure is an explanation or exhibit attached to a financial statement containing a fact, opinion, or detail required or helpful in the interpretation of the statement.

[4]The deferred maintenance requirement of SFFAS No. 6 applies to all property, plant and equipment.

[5]In our previous work, we identified 11 agencies responsible for almost 99 percent of the government's reported PP&E as of September 30, 1996. These agencies include: Department of Defense (DOD), Tennessee Valley Authority (TVA), National Aeronautics and Space Administration (NASA), Department of Transportation (DOT), Department of Energy (DOE), United States Postal Service (USPS), Department of the Interior (DOI), General Services Administration (GSA), Department of Veterans Affairs (VA), Department of Agriculture (USDA) and Department of State (State). Of these 11 agencies, nine are specifically required to implement the deferred maintenance requirements for fiscal year 1998. TVA and USPS follow private sector practices in their financial statement reporting. However, TVA and USPS are included in the governmentwide financial statements and will be subject to reporting deferred maintenance under SFFAS No. 6 if their amounts prove material to the governmentwide statements.

their experience with the agency's financial reporting, we asked agency IGs a series of questions about the agency's progress toward implementing the deferred maintenance requirements of SFFAS No. 6. Our work focused on department-level implementation efforts rather than the work of individual bureaus within an agency. Agency responses were confirmed with each agency's CFO and IG to ensure that they accurately reflected the agency's official position.[6] Where available, we reviewed agency financial statements and relevant policy documentation.

Results in Brief

Agency officials at the nine agencies specifically required to implement the standard for fiscal year 1998 told us that they intend to comply with the deferred maintenance requirements of SFFAS No. 6. If effectively implemented, the new federal accounting requirements will improve information on the maintenance of federal assets. Accurate reporting of deferred maintenance is an important step toward more informed decision-making. By improving the validity of information on maintenance, the disclosure of deferred maintenance has the potential to improve both the allocation of federal resources and, ultimately, the condition of federal assets.

The federal requirement to disclose deferred maintenance amounts presents agencies with a new challenge for which they must adequately prepare. Some initial steps have been taken, but significant work remains to be done for all agencies to effectively implement the deferred maintenance requirements promptly. Four of the cognizant IGs expressed confidence that their respective agencies would implement the deferred maintenance requirements promptly and five expressed reservations or were reluctant to assess agency progress. Although most agencies do not have experience generating agencywide estimates of deferred maintenance because historically they have not been required to do so, all agencies reported that they have estimated maintenance for ad hoc and budgetary purposes. Two agencies—DOI and NASA—indicated that they had agencywide estimates of deferred maintenance and four other agencies—USDA, State, DOT, and DOD—reported that they had previously made at least partial estimates of deferred maintenance. None of the deferred maintenance estimates, including the agencywide estimates, have been subjected to independent audit.

[6]In several cases, the agency did not have a CFO or IG in place at the time of our review. In these cases, we received responses and confirmation from the deputy or acting CFO or IG. In the case of DOD, we received responses and confirmation from the Acting Under Secretary of Defense (Comptroller).

A critical step in generating a deferred maintenance estimate is a complete and reliable inventory of PP&E on which to assess maintenance needs. However, the results of the fiscal year 1996 financial audits show that four agencies—USDA, DOD, DOI, and DOT—are hampered in their efforts to report deferred maintenance because they have been unable to fully report PP&E reliably. While the lack of an accurate accounting of PP&E will impede efforts to implement the deferred maintenance requirements, implementation can proceed while agencies work on improving their PP&E reporting.

DOD holds about 80 percent of the federal government's PP&E, and it faces significant issues to implement the deferred maintenance requirements. In particular, a study being conducted for DOD is expected to determine methods of measuring and recording deferred maintenance data for mission assets and to provide recommendations on implementation. However, the study is not expected to be completed until March 1998. This completion date does not allow sufficient time for the agency to establish the policies and guidance necessary to ensure consistent and timely disclosure of deferred maintenance amounts in its fiscal year 1998 financial statement. In addition, audits of DOD financial statements have received disclaimers of opinion due in part to DOD's inability to adequately account for its PP&E.

Even for agencies where the independent audits indicated no report modifications that pertained to PP&E, the deferred maintenance requirements present a significant challenge. The flexibility in SFFAS No. 6 increases the need for agencies to develop departmental policies and guidance that are compatible with agency mission and organizational structure. Such departmental guidance would help ensure consistent reporting across agency units and facilitate the preparation of agencywide financial statements. GAO has issued a series of reports to assist DOD in implementing deferred maintenance reporting that would be useful to other agencies as well.[7]

In determining the extent of additional departmental guidance to provide units, agencies must balance the desirability of consistent reporting with the need for flexibility due to the diversity of missions and assets. In addition, adequate data collection and tracking systems will be necessary

[7]For example, see Financial Management: Issues to Be Considered by DOD in Developing Guidance for Disclosing Deferred Maintenance on Aircraft (GAO/AIMD-98-25, December 30, 1997), Financial Management: DOD Needs to Expedite Plans to Implement Deferred Maintenance Accounting Standard (GAO/AIMD-97-159R, September 30, 1997), and Deferred Maintenance: Reporting Requirements and Identified Issues (GAO/AIMD-97-103R, May 23, 1997).

to gather and verify information on deferred maintenance amounts. Overcoming these challenges to help ensure reliable and meaningful reporting at the departmental level is critical to the effective implementation of the deferred maintenance requirements of SFFAS No. 6.

Background

PP&E consists of tangible assets, including land, that: (1) have an estimated useful life of 2 or more years, (2) are not intended for sale in the ordinary course of operations, and (3) have been acquired to be used or available for use by the entity. The amount of PP&E reported by agencies can aid in identifying agencies that may have deferred maintenance. These amounts only include PP&E owned by the federal government—not assets financed by the federal government but owned by other entities such as state and local governments. Table 1 presents the amount of PP&E reported for fiscal year 1996 by the 11 agencies that account for almost 99 percent of total reported PP&E. DOD is the largest single holder of PP&E in the federal government, controlling about 80 percent of the reported total, while the next largest holders—TVA, NASA and DOT—hold about 3 percent each.

Table 1: Reported Property, Plant, and Equipment by Federal Agency, Fiscal Year 1996

Dollars in billions

Agency	Total PP&E	Percent of total PP&E
Department of Defense	$773	80.5
Tennessee Valley Authority	30	3.2
National Aeronautics and Space Administration	26	2.7
Department of Transportation	24	2.5
Department of Energy	22	2.3
U.S. Postal Service	18	1.9
Department of the Interior	17	1.7
General Services Administration	12	1.3
Department of Veterans Affairs	11	1.2
Department of Agriculture	9	.9
Department of State	5	.5
All other agencies	14	1.4
Total[a]	**$960**	**100.0**

[a]Figures do not add precisely due to rounding.

Source: Data from audited financial statements for 11 agencies. For all other agencies, data reported to the Department of the Treasury. This information was not independently verified by GAO.

The new accounting requirements for deferred maintenance contained in SFFAS No. 6 have the potential to improve information on maintenance needs. SFFAS No. 6 requires that a line item for "deferred maintenance amounts" be presented on the statement of net cost. The statement of net cost is one of several financial statements. It is designed to report the gross and net costs of providing goods, services and benefits. Although no dollar amounts for deferred maintenance are to be reported on the statement of net cost itself and thus are not included in the net costs of activities, the explanatory notes to the financial statements must include dollar estimates of deferred maintenance. When agencies begin to disclose deferred maintenance in their fiscal year 1998 financial statements in compliance with the standard, the annual audits of agency financial statements will help ensure that whatever is reported is subject to independent scrutiny. As the objective of the financial statement audit is to obtain reasonable assurance about the financial statements as a whole, individually reported deferred maintenance amounts will receive varying levels of audit coverage depending on their materiality to the financial statements. Because of the nature of these estimates, the auditor's assessment will depend in part, on management's judgement of the asset condition, maintenance needs, and the methodology chosen to estimate deferred maintenance.

Deferred maintenance is defined in SFFAS No. 6 as "maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed for a future period." Maintenance—described as the act of keeping fixed assets in acceptable condition—includes preventive maintenance and normal repairs, including the replacement of parts and structural components and other activities needed to preserve the asset so that it continues to provide acceptable service and achieve its expected life. Modifications or upgrades that are intended to expand the capacity of an asset are specifically excluded from the definition.

SFFAS No. 6 recognizes that determining maintenance needs is a management function and accordingly allows management flexibility and judgment within broadly defined requirements. For example, the standard acknowledges that determining the asset condition—condition rating—is a management function because what constitutes acceptable condition may differ both across entities and for different items of PP&E held by the same entity. Under the standard, it is management's responsibility to (1) determine the level of service and condition of the asset that are acceptable, (2) disclose deferred maintenance by major classes of assets, and (3) establish methods to estimate and report any material amounts of deferred maintenance.[8] In addition, the standard has an optional disclosure for stratification between critical and noncritical amounts of maintenance. Management must decide whether to distinguish between critical and noncritical deferred maintenance amounts and, if it chooses to do so, what constitutes critical.

Of the 11 agencies included in our review, nine agencies are required specifically to implement the standard for fiscal year 1998. TVA and USPS follow private sector practices in their financial statement reporting. However, TVA and USPS are included in the governmentwide financial statements and will be subject to reporting deferred maintenance under SFFAS No. 6 if their amounts prove material[9] to the governmentwide statements. Treasury officials are addressing whether there are any significant issues regarding how to include entities in the consolidated statements that are not required to follow federal accounting standards, such as TVA and USPS.

Objectives, Scope, and Methodology

The objectives of our work were to (1) look at the plans and progress of the 11 agencies to implement the deferred maintenance requirements of SFFAS No. 6 and (2) obtain the official position of agency CFOs and IGs with respect to its implementation. To achieve these objectives we first reviewed SFFAS No. 6, including the significant considerations made by the board in developing the standard.

We then developed an interview guide covering (1) previous agency experience with maintenance reporting, (2) agency management plans for and commitment to implementing deferred maintenance reporting in compliance with SFFAS No. 6, and (3) the status of agency policies and procedures for implementing such reporting. Interviews using this guide were held with 11 agency CFOs and their related staff. In addition, because of their experience with agency financial reporting, we developed an interview guide which was used to obtain agency IGs' views about their agency's readiness and progress towards implementing the deferred

[8]The standard provides that amounts disclosed for deferred maintenance may be measured using either condition assessment surveys or life-cycle cost forecasts. Condition assessment surveys are periodic inspections of PP&E to determine both its current condition and estimated costs to correct any deficiencies. Life-cycle costing is an acquisition or procurement technique which considers operating, maintenance, and other costs in addition to the acquisition cost of assets. Since it results in a forecast of maintenance expense, these forecasts may serve as a basis against which to compare actual maintenance expense and estimate deferred maintenance.

[9]An item is considered material if its inclusion or omission would influence or change the judgment of a reasonable person.

maintenance requirements and about any previous relevant audit reports. Interviews were conducted only with the IG's at the nine agencies specifically required to implement the deferred maintenance requirements of SFFAS No. 6. Agency responses were confirmed with each agency's CFO and IG to ensure that they accurately reflected the agency's official position.[10] Our work focused on departmental level implementation efforts rather than the work of individual bureaus within an agency. We also reviewed agency financial statements, relevant policy documentation, and prior GAO and IG reports on deferred maintenance. We requested written comments on a draft of this report from agency officials. Several agencies provided comments of a technical nature which were incorporated into this report. The Deputy CFO for DOT and the Under Secretary of Defense provided us with formal written comments, which are reprinted in appendixes XII and XIII, respectively.

We conducted our work from September through November 1997 in accordance with generally accepted auditing standards. Throughout the rest of the report, unless otherwise noted, agencies refers to the nine agencies specifically required to implement the deferred maintenance requirements of SFFAS No. 6 for fiscal year 1998.

Agencies Have Limited Experience in Developing Comprehensive Estimates

Historically, deferred maintenance reporting was not required, thus agencies have limited experience in developing agencywide estimates of deferred maintenance or maintenance backlogs. Although all agencies said that they have estimated maintenance needs for ad hoc and budgetary purposes, only two agencies—DOI and NASA[11]—indicated that they have made agencywide deferred maintenance estimates. These estimates have not been audited to ensure their reliability or conformance with the new requirements included in SFFAS No. 6.

Four other agencies—USDA, State, DOT, and DOD—have previously made at least partial estimates of deferred maintenance for other than financial statement reporting purposes. USDA noted that its deferred maintenance estimate included activities to expand and upgrade PP&E items—which are not considered deferred maintenance under SFFAS No. 6. State's estimate of

[10]In several cases, the agency did not have a CFO or IG in place at the time of our review. In these cases, we received responses and confirmation from the deputy or acting CFO or IG. In the case of DOD, we received responses and confirmation from the Acting Under Secretary of Defense (Comptroller).

[11]The NASA estimate of deferred maintenance addresses only facilities maintenance. The CFO reported (See appendix II) that NASA expected the new deferred maintenance reporting requirements to occur primarily in the facilities maintenance area.

deferred maintenance is based upon an inventory of known facility maintenance requirements. However the CFO for State cautioned that not all of these known requirements may be deferred maintenance as defined by SFFAS No. 6. DOT noted that its estimates of deferred maintenance included the Maritime Administration and the Federal Aviation Administration, but did not include the Coast Guard. Similarly, DOD cited Air Force estimates for deferred maintenance for depot and real property but had no agencywide estimate. Three agencies—DOE, GSA, and VA—did not have deferred maintenance estimates. Although DOE was able to provide policies requiring field offices/sites to manage their maintenance backlogs, the Acting CFO told us the department has no requirement for reporting to headquarters.

None of the deferred maintenance estimates, including the agencywide estimates, had been subject to an independent audit. GAO and IG reports have questioned the validity of agency estimates of deferred maintenance and maintenance backlogs. For example, GAO reports on the DOI's National Park Service confirmed deteriorating conditions at the National Parks but questioned whether the Park Service had adequate financial and program data or controls to know the nature or extent of resource problems or the effectiveness of measures taken to address the problems.[12] Similarly, a 1993 Department of State IG report found that while the department had progressed in identifying its maintenance and repair deficiencies, information on the maintenance backlog had not been summarized, quantified or monitored.

Further, the size and scope of DOD PP&E creates special problems in its reporting of deferred maintenance, many of which have been previously reported by GAO. As noted in our May 1997 report,[13] DOD's changes in its definition of backlogs have led to large decreases in its "unfunded requirements" for maintenance. We also noted that the military services have expressed concern about the adequacy of funding to maintain and repair all of their facilities and have reported growing maintenance and repair backlogs. However, the services also have many excess buildings which could be demolished to avoid millions of dollars of recurring

[12]See National Parks: Difficult Choices Need To Be Made About the Future of the Parks (GAO/RCED-95-238, August 30, 1995) and National Park Service: Better Management and Broader Restructuring Efforts Are Needed (GAO/T-RCED-95-101, February 9, 1995).

[13]Deferred Maintenance: Reporting Requirements and Identified Issues (GAO/AIMD-97-103R, May 23, 1997).

maintenance costs. Also, we recently reported[14] that, while military service installation officials cited increases in backlogs of deferred maintenance and repair projects in recent years, reliable composite information was not available due to differences in how services develop and maintain these data. Further, recent efforts by the Office of the Secretary of Defense to develop a comprehensive system for performing facilities condition assessment have not been successful and systems maintained by the individual services vary in terms of their capabilities to identify funding requirements.

Most recently, we reported on DOD's plans to implement the deferred maintenance requirements for national defense assets, noting that DOD needs to expedite plans to implement this new disclosure.[15] In particular, we recommended that DOD (1) ensure that DOD-wide policy is in place as soon as possible so that DOD can comply with the effective date of the deferred maintenance requirements, (2) establish milestones for key actions in the policy development process to ensure issuance of the policy no later than March 1998, and (3) modify the ongoing study of existing DOD methods for determining deferred maintenance to complete the study by the end of March.

Status of Agency Implementation Efforts

Although some initial steps have been taken, significant work remains to be done for all agencies to effectively implement the deferred maintenance requirements for fiscal year 1998 reporting. CFOs at the nine agencies specifically required to implement the standard for fiscal year 1998 expressed the intention to implement the deferred maintenance requirements on time. Each had designated an individual or individuals to lead this effort.

None of the nine agencies had fully addressed other implementation issues. The standard specifies that management needs to (1) determine the level of service and condition of the asset that are acceptable, (2) disclose deferred maintenance by major classes of assets, and (3) establish what method—condition assessment or life-cycle—to use to estimate and report any material amounts of deferred maintenance. Thus, the development of departmental guidance to ensure consistent reporting within an agency may be particularly important given that the standard allows flexibility

[14]Defense Infrastructure: Demolition Of Unneeded Buildings Can Help Avoid Operating Costs (GAO/NSIAD-97-125, May 13, 1997).

[15]Financial Management: DOD Needs to Expedite Plans to Implement Deferred Maintenance Accounting Standard (GAO/AIMD-97-159R, September 30, 1997).

within broadly defined requirements. Seven agencies had not drafted departmental guidance[16] addressing these issues as a means of ensuring consistency in reporting and facilitating the preparation of agencywide financial statements. Further, neither of the two agencies (VA and USDA) that had developed departmental guidance specifically addressing the deferred maintenance requirements provided detailed guidance on deferred maintenance beyond that included in the standard. While all agencies could articulate their approach to implementing the deferred maintenance requirements of SFFAS No. 6, only one, GSA, had a written plan outlining preparation steps and recommended completion dates for activities important to the deferred maintenance disclosure requirements.[17]

IG views on whether agencies would be ready to implement the deferred maintenance requirements were divided. Four of the nine IGs expressed confidence that their agency would implement SFFAS No. 6 promptly. IGs from two agencies—DOD, with 80 percent of reported PP&E, and DOT—stated that their agencies would not be prepared to implement the deferred maintenance requirements and the remaining three IGs were unwilling to assess agency readiness. The DOD IG indicated that DOD's time frame for implementation would not allow sufficient time for preparation of the fiscal year 1998 financial statements. The IG for DOT stated that the agency has not established a formal system to centrally identify or track deferred maintenance estimates and the operating administrations of DOT do not have an accurate accountability of all assets. Table 2 provides an overview of each agency IG's assessment of whether the agency will be prepared to implement the deferred maintenance requirements on time.

Table 2: IG Assessments of Agency Readiness to Implement the Deferred Maintenance Requirements

IG Assessments of Agency Readiness	Agencies
Agency should be prepared to implement the deferred maintenance requirements	VA, USDA,[a] State, NASA
Agency will not be prepared to implement the deferred maintenance requirements	DOT, DOD
No opinion provided	GSA, DOI, DOE

[a]USDA IG stated that this is contingent on the agency completing its PP&E inventory.

[16]In this report, departmental guidance refers to draft or final implementation policies or manuals that provide instructions to agency officials on how to implement the requirements in SFFAS No. 6.

[17]Although GSA refers to this plan as guidance, we did not consider this departmental guidance because it does not provide instructions to agency officials on how to implement the requirements in SFFAS No. 6.

Agencies Are Taking Different Approaches in Their Preliminary Efforts to Implement the Deferred Maintenance Requirements

At the time of our review, agencies were still in the preliminary stages of preparing to implement the deferred maintenance requirements and were taking different approaches. Given these different approaches and the flexibility provided in the standard, no single indicator provides a complete picture of agency progress towards implementing the deferred maintenance requirements. For example, an agency that has issued written but general departmental guidance could not be assumed to have made a greater level of progress than an agency that has not issued departmental guidance, but has previous experience in estimating deferred maintenance or has established working groups identifying key implementation issues.

Approaches used by agencies in preparing to implement the deferred maintenance requirements fall into three general categories—revision of existing policies and procedures, issuance of minimal departmental guidance, and study of implementation issues prior to the issuance of departmental guidance. The agencies using these general approaches are discussed below. Additional detail on each agency is included in appendixes I to XI.

Two Agencies Plan to Revise Existing Policies and Procedures

Two agencies—DOE and NASA—plan to revise established policies on estimating and reporting deferred maintenance or maintenance backlogs. Both indicated that these policies would provide the foundation for implementing the deferred maintenance requirements under SFFAS No. 6.

DOE has existing policies that require field offices to estimate and document deferred maintenance amounts, but has no requirement for reporting this information to headquarters. According to DOE's Acting CFO, her office has reviewed DOE's existing policies and determined that for the most part the department was complying with the requirements of SFFAS No. 6. For areas not in full compliance with the standard, the department anticipates issuing new or clarifying guidance. The Acting CFO stated that her office is working to develop a cost-effective approach for accumulating data from DOE field offices and reporting this information to the department's headquarters. DOE's Deputy IG stated that although it was too early to make a definitive judgment about the readiness and capability of the department to implement the deferred maintenance requirements, based on the department's representations regarding its implementation plans, it appeared that the deferred maintenance disclosure will be auditable. Appendix IV presents additional information on DOE's implementation efforts.

NASA also anticipated that with some minor adjustments the agency's current deferred maintenance estimating and reporting process would allow the agency to meet the deferred maintenance requirements. According to NASA's CFO, the agency expects to have any policy revisions completed by June 30, 1998, and to meet the deferred maintenance requirements without difficulty. The CFO reported that NASA policy requires that Centers continuously assess facility conditions in a manner which results in an appropriate identification and quantification (in terms of dollars) of the backlog of maintenance and repair. Once deficiencies are identified, industry standard estimating guides are used to arrive at estimated repair costs. NASA's IG expressed the view that, based on audit experience, NASA will be able to support the deferred maintenance amounts. Appendix II presents additional information on NASA's implementation efforts.

Two Agencies Had Established Written Policies but Detailed Guidance Was Minimal

Two agencies—VA and USDA—have developed written policies specifically addressing the deferred maintenance requirements included in SFFAS No. 6. VA's draft policy reiterates the definitional and reporting requirements for deferred maintenance but does not provide guidance on which measurement method—life cycle or condition assessment—should be used. VA's CFO indicated that the department is leaning towards using condition assessment and that additional guidance and specific procedures would likely be established as the policy is implemented through the department. However, if no additional guidance is provided, operating units will have to determine which method to use. The CFO also noted that the general approach will be to provide guidance to units and have the units report an estimate of deferred maintenance. The CFO office plans to use a statistical account[18] in its general ledger[19] to compile this information to provide the basis for the disclosure. VA's Acting IG—citing the agency's progress in financial reporting over the last few years—stated that the department will likely be prepared to implement the deferred maintenance requirements.[20] The VA's Acting IG indicated that the ability to audit any deferred maintenance disclosure will depend on the department providing an audit trail and a good system of information. He also stated that a challenge will be whether the VA issues ground rules to facilities so that consistency will occur among the 173 Medical Centers and other VA

[18] A statistical account is a data gathering account maintained in VA's integrated accounting system used to track and report management information.

[19] The general ledger contains accounting and fiscal information used for the preparation of financial reports.

[20] At the time of our interviews, the VA had an Acting IG who responded to GAO's questions. As of November 7, 1997, a new IG was confirmed for this agency.

units. Appendix VII presents additional information on VA's implementation efforts.

USDA's policy calling for the implementation of the deferred maintenance requirements is outlined in the USDA Financial and Accounting Standards Manual. The policy covers the accounting standards for PP&E and deferred maintenance. According to the Acting CFO and IG, the guidance provided in this policy conforms to SFFAS No. 6. The policy provides additional guidance on asset classification beyond that included in SFFAS No. 6 but does not provide significant additional guidance with respect to estimating deferred maintenance. USDA provides its operating administrations with most of the flexibility provided to management by SFFAS No. 6—and this is reflected in the deferred maintenance section of its policy. The Acting CFO noted that operating administration managers below the departmental level are in the best position to make determinations on what is most appropriate for a particular agency within USDA. Hence, each operating administration has the option of choosing whichever of the allowable methodologies under SFFAS No. 6 it deems most appropriate. One exception to the extension of the standard's flexibility downward is USDA's requirement that mission area or agency management distinguish between critical and noncritical deferred maintenance amounts and disclose the basis for that determination.

USDA's IG said that since the department has disseminated the policy for implementing the standard, the individual USDA operating administrations need to develop operating procedures for estimating and reporting deferred maintenance. Assuming that USDA operating administrations continue to emphasize financial management and the Forest Service completes its inventory of PP&E, the USDA IG expects that USDA should be able to implement the standard on time, and the disclosure should be auditable. Appendix VIII presents additional information on USDA's implementation efforts.

Most Agencies Were Studying Implementation Issues Before Determining the Extent of Departmental Guidance

At the time of our review, five of the nine agencies—DOD, GSA, State, DOI, and DOT— had not yet determined the extent of detailed departmental guidance to provide with respect to implementing the deferred maintenance requirements. Most of these agencies were conducting or were planning to conduct studies to provide additional information on key implementation issues. Findings from these studies would be used to help determine the extent and content of departmental guidance.

DOD contracted with the Logistics Management Institute (LMI), to assess existing DOD methods of determining, measuring, and recording deferred maintenance data for mission assets. The LMI study, which only will address DOD's mission or defense assets and will not cover general PP&E, is expected to be completed in March 1998. DOD then plans to review the results and provide financial and logistic policy for deferred maintenance. Recent GAO reports have stated that this timetable will not allow sufficient time to ensure consistent and timely deferred maintenance disclosures because the military services may not have the DOD-wide guidance in time to develop service-specific policies and procedures for fiscal year 1998 financial statements.[21] In addition, DOD's Acting Comptroller[22] stated that for general PP&E—other than real property—DOD has not yet determined whether amounts are material and therefore warrant reporting. DOD's IG agreed with our recommendations that completion of the LMI study be accelerated, milestones established, and that DOD-wide policy be in place as soon as possible so that DOD can comply with the effective date of the standard. The IG expressed the view that DOD would not be prepared to implement the deferred maintenance requirements. Appendix I presents additional information on DOD's implementation efforts.

GSA worked with an independent accounting firm to develop an implementation report with recommended completion dates for several of the new federal accounting standards including SFFAS No. 6. This report recommended that GSA develop and implement a methodology for estimating and compiling deferred maintenance costs by the first quarter of 1998. At the time of our review, GSA had not developed an estimate of deferred maintenance and had not yet developed departmental guidance. GSA's CFO stated that the agency had not yet determined whether condition assessment and/or life-cycle cost methodologies will be used, nor has it decided whether to distinguish between critical and noncritical assets. The IG, citing a lack of information, declined to express a view on whether GSA would be prepared to implement the deferred maintenance requirements. Appendix VI presents additional information on GSA's implementation efforts.

Similarly, State had contracted with a firm to provide recommendations on implementing the new federal accounting standards including SFFAS No. 6.

[21]See Financial Management: DOD Needs to Expedite Plans to Implement Deferred Maintenance Accounting Standard (GAO/AIMD-97-159R, September 30, 1997) and Financial Management: Issues to Be Considered by DOD in Developing Guidance for Disclosing Deferred Maintenance on Aircraft (GAO/AIMD-98-25, December 30, 1997).

[22]At the time of our interviews, DOD had an Acting Comptroller who responded to GAO's questions. As of November 19, 1997, a new comptroller was confirmed for this agency.

At the time of our review, State had not developed departmental guidance on implementing the deferred maintenance requirements. According to the CFO, the department expects to develop a policy on deferred maintenance by April 1998. The IG believes that the department will be able to implement the deferred maintenance requirements for fiscal year 1998 but cautioned that until her office reviews the amounts, it cannot attest to their reliability. Appendix IX presents additional information on State's implementation efforts.

DOI plans to rely heavily on the findings of an internal working group in developing departmental guidance on the implementation of the deferred maintenance requirements of SFFAS No. 6. Since March 1997, a multibureau team at DOI has been studying issues surrounding the implementation of the deferred maintenance requirements. The Acting CFO reported that this team is expected to provide the agency with data on current and deferred maintenance as well as guidance on standard definitions and methodologies for improving the accumulation of necessary information. The Acting CFO believes that recommendations coming out of this team will call for uniform information and condition assessments which are supportive of the new standards. DOI is also working to standardize definitions and procedures throughout the agency. The Acting CFO stated that DOI intends to include deferred maintenance disclosures in its fiscal year 1997 Annual Report in advance of the fiscal year 1998 reporting requirements. DOI's IG declined to express a view on whether the department would be prepared to implement the deferred maintenance requirements in fiscal year 1998. According to the IG, his office is planning to assess the deferred maintenance information provided in the department's fiscal year 1997 financial statements. Thus, DOI's early implementation approach should provide the agency with some indication of readiness to implement the deferred maintenance requirements for fiscal year 1998. Appendix V presents additional information on DOI's implementation efforts.

DOT is taking a decentralized approach to implementing the deferred maintenance requirements. The Deputy CFO reported that, where it is useful, DOT applies financial policies issued centrally within the Executive Branch with any necessary interpretation. DOT distributed SFFAS No. 6 to its operating administrations without additional guidance. Each operating administration will be responsible for determining how the deferred maintenance requirements will be implemented. The Deputy CFO indicated that his office will provide more detailed guidance on departmental reporting of deferred maintenance by issuing guidance for preparation of the fiscal year 1998 financial statements. The IG expressed concerns about the department's approach and indicated that, in his view, DOT would not be prepared to implement the deferred maintenance requirements. According to the IG, although the operating administrations have the basic elements in place to implement the requirements, the department has not established a formal system to centrally identify or track deferred maintenance estimates. Further, the IG pointed out that the relevant operating administrations do not have an accurate accounting of all assets. Appendix III presents additional information on DOT's implementation efforts.

Applicability of SFFAS No. 6 to TVA and USPS Is Limited

TVA and USPS follow private sector accounting standards in their financial statement reporting. However, since they are included in the consolidated financial statements of the U.S. government, TVA and USPS will be subject to reporting deferred maintenance under SFFAS No. 6 if their amounts prove material to the governmentwide financial statements. As of November 1997, neither USPS or TVA reported that it had been contacted by the Treasury with regard to the deferred maintenance reporting requirements for fiscal year 1998. A Treasury official confirmed that TVA and USPS have not been contacted regarding the fiscal year 1998 implementation of the deferred maintenance reporting requirements contained in SFFAS No. 6. Treasury officials are starting to address whether there are any significant reporting issues regarding how to include entities in the consolidated statements that are not required to follow federal accounting standards.

The TVA CFO stated that his office was unaware of the deferred maintenance requirements. Although TVA has certain estimates of deferred maintenance, the CFO noted that TVA's definition of deferred maintenance differs from that of SFFAS No. 6 and varies by category of asset. For example, he stated that for fossil fuels and hydro power, deferred maintenance is defined as repair work that is not performed on equipment if the problem has minor effects on the performance of that equipment. For building facilities, he stated that TVA defines deferred maintenance as maintenance that can be delayed indefinitely based on factors such as the change in the PP&E's function, an increase/decrease in PP&E life expectancy, and the relationship between repair, replacement, or abandonment costs. However, should TVA be required to report deferred maintenance for the consolidated U.S. government financial statements, the CFO reported that TVA would comply and would not require significant preparation time.

Appendix X presents additional information on TVA's implementation efforts.

The USPS CFO stated that the agency does not defer maintenance because of the potential effect such actions might have on employee safety and on-time mail delivery. The majority of USPS assets are buildings to house postal facilities, mail processing and computer equipment, and vehicles to move and deliver the mail. USPS standard maintenance plans are provided in its handbooks and policies and funding needs for maintenance are routinely addressed in its base budget. USPS has a schedule of useful lives for equipment, and local operating management has the authority to replace items when it is not cost effective to repair them. The USPS CFO also stated that the agency does not own any airplanes, railroad cars, or ships to move the mail; this is all done via contracts with commercial entities which also perform maintenance on this equipment. Appendix XI presents additional information on USPS implementation efforts.

Agencies Face Challenges in Implementing the Deferred Maintenance Requirements

Agencies will be facing a number of challenges as they continue their implementation efforts. These challenges stem from the relative newness of the deferred maintenance requirements, the inherently difficult definitional issues associated with determining maintenance spending, the need for adequate systems to collect and track data, and, perhaps most importantly, the need for complete and reliable inventories of assets on which to develop estimates. As noted earlier, agencies are taking a variety of approaches to these issues.

Inadequate PP&E Reporting Will Impede Implementation Efforts

Improving PP&E reporting is a critical step to implementing the deferred maintenance requirements because deferred maintenance estimates are contingent upon a complete and reliable inventory of PP&E. Three agencies—DOD, USDA, and DOT—comprising 84 percent of total government reported PP&E received disclaimers of opinion[23] in part because of difficulties reporting PP&E. A fourth agency, DOI received a qualified opinion due to the inability to support the reported PP&E amounts at one of its bureaus, the Bureau of Indian Affairs. Even agencies with unqualified opinions may need to continue efforts to improve PP&E reporting. For example, the fiscal year 1996 financial statement audit reports for both DOE and VA described internal control weaknesses that could adversely affect the departments' future ability to accurately report PP&E. Thus, for many

[23]A disclaimer is a statement in an auditor's report indicating the inability of the auditor to express an opinion on the fairness of the financial statements referred to in the report.

agencies, an appropriate step toward implementing the deferred maintenance requirements of SFFAS No. 6 is to improve their overall ability to identify and account for PP&E.

DOD has received disclaimers of opinion on its fiscal year 1996 financial statements due in part to its inability to adequately account for its PP&E. DOD's IG reported that control procedures over assets were inadequate and caused inaccurate reporting of real property, capital leases, construction in progress, inventory, and preparation of footnotes.

USDA also received a disclaimer of opinion on its fiscal year 1996 financial statements due in part to its inability to report PP&E at the Forest Service. In an effort to improve the accuracy of PP&E reporting, the Forest Service in USDA is undertaking a complete physical inventory of PP&E. At the same time, the Forest Service Acting CFO stated that the agency plans to estimate deferred maintenance needs. The USDA IG concurs that a critical step to implementing the deferred maintenance requirements of SFFAS No. 6 for USDA is to develop complete inventories of its PP&E; without this inventory, the IG states that little reliance could be placed on estimates reported for deferred maintenance. Similarly, the DOT IG stated that DOT is focusing its efforts on correcting weaknesses identified in prior financial statement audits, particularly in the area of PP&E. Because deferred maintenance is linked to PP&E, the IG acknowledged that DOT needs to identify and validate PP&E before estimating amounts of deferred maintenance.

At DOI, reporting issues are limited to the Bureau of Indian Affairs which in fiscal year 1996 could not provide adequate documentation or reliable accounting information to support $170 million in PP&E. DOI intends to include deferred maintenance disclosures in its fiscal year 1997 Consolidated Annual Report even though they are not required until fiscal year 1998. Since the IG plans to assess DOI's fiscal year 1997 deferred maintenance disclosures, DOI's early implementation approach should provide the agency with some indication of its readiness to implement the deferred maintenance requirements for fiscal year 1998.

Even for agencies where independent audits indicated no report modifications pertaining to PP&E, the deferred maintenance requirement of SFFAS No. 6 presents a significant challenge. While providing useful new information for decision-making, the deferred maintenance requirements raise a number of new implementation and definitional issues—such as determining the acceptable condition of assets and the estimation methods to be used. The necessary flexibility in the standard increases the need for some departmental policies and guidance that are designed to be compatible with agency mission and organizational structure. Such departmental guidance could help ensure consistent reporting across agency units and facilitate the preparation of agencywide financial statements. However, the development of departmental guidance is complicated by the number and diversity of missions and assets even within a single agency. In determining the extent of additional departmental guidance to provide units, agencies must balance the desirability of consistent reporting with the need for flexibility.

In addition, adequate data collection and tracking systems will be necessary to gather and verify information on deferred maintenance costs. However, as we have previously reported[24] and as was acknowledged in June 1997 by both OMB and the Chief Financial Officers Council,[25] the condition of agency financial systems remains a serious concern. Our past audit experience has indicated that numerous agencies' financial management systems do not maintain or generate original data to readily prepare financial statements. Although some recent improvements have been made, agencies are still struggling to comply with governmentwide standards and requirements. Overcoming the above challenges to help ensure reliable and meaningful reporting at the departmental level is critical to the effective implementation of the deferred maintenance requirements.

GAO Observations

If effectively implemented, the new deferred maintenance reporting required by SFFAS No. 6 will improve information for decision-making. However, the deferred maintenance requirements present agencies with a significant challenge for which they must adequately prepare. While agencies have taken some initial steps to implement the deferred maintenance requirements, significant work remains in order for all agencies to effectively implement them on time. Moreover, agencies need to continue to address their systems problems so that this and other reporting requirements can be effectively met.

[24]Financial Management: Implementation of the Federal Financial Management Improvement Act of 1996 (GAO/AIMD-98-1, October 1, 1997).

[25]Federal Financial Management Status Report & Five Year Plan, issued by OMB, June 1997, and Status Report on Federal Financial Management Systems, Investing in Improvements to Support Better Management, prepared by the Chief Financial Officers Council and OMB, June 1997.

Since agencies are most responsive to issues in which there is demonstrated interest, continued congressional and executive branch oversight would increase the chances of the standard being implemented successfully and on time. Monitoring of agency progress toward implementation, including the development of appropriate departmental guidance compatible with agency mission and organizational structure, could help ensure effective and timely implementation.

Agency Comments and Our Evaluation

Agency officials generally concurred with our conclusion that significant work remains to effectively implement the deferred maintenance reporting requirements under SFFAS No. 6. Several agencies provided comments of a technical nature which were incorporated into our report as appropriate. Two agencies, DOT and DOD, expressed reservations about certain sections of this report. The Deputy CFO for DOT indicated that a formal system for tracking deferred maintenance is not required by SFFAS No. 6. While technically correct, it is anticipated that deferred maintenance disclosures and estimates will be adequately documented by agencies. Accurate tracking of PP&E and deferred maintenance can be a valuable management tool for assessing program status and supporting resource allocation decisions on an ongoing basis. The Deputy CFO for DOT also did not believe that it was necessary to fully validate PP&E prior to estimating deferred maintenance. While we believe that the lack of an accurate accounting of PP&E will certainly impede any efforts to implement the deferred maintenance requirements, we agree that implementation of SFFAS No. 6 can—and should—proceed, even as agencies are continuing to validate their PP&E reporting.

The Under Secretary of Defense, while stating that DOD is striving to comply with the reporting requirements, questioned if the benefits to be derived from reporting deferred maintenance will be proportionate to the effort required to obtain and report this information. He noted that deferred maintenance reporting represents a "snap-shot" at a specific time and stressed that, given the diversity of DOD's PP&E systems, implementation of the requirements represents a significant challenge that will be costly in terms of both funding and personnel. He expressed concern that the report does not assess the impact on agencies of implementing and complying with the standard.

Federal financial accounting standards, including the deferred maintenance requirements, are developed by FASAB using a due process and consensus building approach that considers the financial and budgetary information needs of the Congress, executive agencies, and other users of federal financial information as well as comments from the public. DOD is a participant in these proceedings and has a member on FASAB. In its deliberations on deferred maintenance reporting, FASAB considered both the need to improve information on the condition of federal assets and the complexities of measuring and reporting this information. FASAB determined that deferred maintenance was a cost and that information on this cost was important to users. However, in recognition of measurement challenges and the limitations in the capacity of agency systems, FASAB developed the standard to provide entities flexibility in setting maintenance requirements and in establishing cost beneficial methods to estimate deferred maintenance amounts. The standard allows management flexibility to define deferred maintenance at a level meaningful for the agency. For example, acceptable asset condition is a management determination—the level of detailed information obtained is dependent on management's determination of decisionmakers' needs.

As discussed in the Statement of Federal Financial Accounting Concepts No. 1 Objectives of Federal Financial Reporting, federal financial reporting is intended to address four broad objectives —budgetary integrity, operating performance, stewardship, and systems and controls. Disclosure of deferred maintenance amounts is consistent with these objectives. The systematic financial reporting of deferred maintenance can improve information on operating performance and stewardship and thus assist in determining how well government assets are maintained. In contrast, the usefulness of DOD's current reporting of deferred maintenance through the budget process is more limited because estimates are developed on an ad-hoc basis and reporting is inconsistent among the military services and weapons systems. In addition, much of the data used are based on anticipated budgetary resources and not subjected to independent audit.

The disclosure of deferred maintenance is an important management issue. Management should have this information throughout the year to assess the status of management programs and to support resource allocations on an ongoing basis. In the case of DOD, deferred maintenance applicable to mission assets, if reliably quantified and reported, can be an important indicator of mission asset condition (a key readiness factor) as well as an indicator of the proper functioning of maintenance and supply lines. Disclosure of deferred maintenance can also aid in supporting budget and performance measurement information. Because all financial reporting, including deferred maintenance, represents a "snap-shot" at a specific period in time—the value of financial reporting lies in the data collection and reporting systems developed to create and support the financial statements. Thus, the data systems that support financial statements can provide the capability for monitoring and managing day-to-day operations.

We recognize that the deferred maintenance requirement presents DOD with a challenge in determining and disclosing reliable estimates of deferred maintenance—especially in addressing the broad range of financial management systems problems facing DOD. DOD's longstanding system problems are repeatedly cited as reasons for inadequate financial information. Development of reliable systems should enhance DOD's ability to meet financial reporting requirements, including the deferred maintenance disclosure requirement.

The flexibility provided in the standard and the diversity of agency missions and assets increases the importance of department-level guidance to ensure consistent reporting. For example, we recently highlighted the key issues to be considered in developing guidance for disclosing deferred maintenance on aircraft.[26] In particular, we noted that implementing guidance is needed so that all military services consistently apply the deferred maintenance standard. This means that DOD must address a number of issues, including (1) what constitutes acceptable condition, (2) determining whether—or how—to distinguish between critical and noncritical deferred maintenance, (3) determining when maintenance needed but not performed is considered deferred, and (4) whether deferred maintenance should be reported for assets that are not necessary for current requirements. In this and another report,[27] DOD concurred with our statements citing the need for developing guidance promptly in order to ensure timely implementation of the deferred maintenance reporting requirements.

As agreed with your office, unless you publicly announce the contents of this report earlier, we will not distribute it until 15 days from its date. Then, we will send copies to the Ranking Minority Member of the Senate Appropriations Committee. Copies will also be made available to others upon request.

[26]Financial Management: Issues to Be Considered by DOD in Developing Guidance for Disclosing Deferred Maintenance on Aircraft (GAO/AIMD-98-25, December 30, 1997).

[27]See also Financial Management: DOD Needs to Expedite Plans to Implement Deferred Maintenance Accounting Standard (GAO/AIMD-97-159R, September 30, 1997).

Please contact me at (202) 512-9573 if you or your staff have any questions concerning this report.

Sincerely yours,

Paul L. Posner
Director, Budget Issues

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Abbreviations

A/FBO	Office of Foreign Buildings Operations
ARS	Agriculture Research Service
CAS	Condition Assessment Survey
CFO	Chief Financial Officer
DOD	Department of Defense
DOE	Department of Energy
DOI	Department of the Interior
DOT	Department of Transportation
FAA	Federal Aviation Administration
FASAB	Federal Accounting Standards Advisory Board
FASM	Financial and Accounting Standards Manual
FMFIA	Federal Managers' Financial Integrity Act
GSA	General Services Administration
IG	inspector general
IPA	independent public accountant
LCAM	Life Cycle Asset Management Order
LMI	Logistics Management Institute
MARAD	Maritime Administration
NASA	National Aeronautics and Space Administration
OMB	Office of Management and Budget
PP&E	Property, Plant and Equipment
SFFAS	Statement of Federal Financial Accounting Standards
SGL	U.S. Standard General Ledger
TVA	Tennessee Valley Authority
USCG	U.S. Coast Guard
USDA	Department of Agriculture
USPS	U.S. Postal Service
VA	Department of Veterans Affairs

DOD Responses Regarding Agency Readiness to Implement Deferred Maintenance Requirements

Reported Amount of PP&E

As of September 30, 1996, DOD reported PP&E of $772.9 billion. Of this amount, $586.5 billion is military equipment, $123.0 billion is structures, facilities, and leasehold improvements, and $63.5 billion is construction in progress and other types of general PP&E. DOD holds approximately 80.5 percent of the federal government's reported PP&E. Problems with PP&E reporting contributed to a disclaimer of opinion on DOD's fiscal year 1996 financial statements. In particular, DOD's IG stated that control procedures over assets were inadequate and caused inaccurate reporting of real property, capital leases, construction in progress, inventory and preparation of footnotes.

Fiscal Year 1996 Audit Opinion

For fiscal year 1996, DOD received a disclaimer of opinion from the Office of the Inspector General based upon a scope limitation. The IG stated that although progress had been made, significant deficiencies in the accounting systems and the lack of a sound internal control structure prevented the preparation of accurate financial statements.

Management Actions

The DOD Acting Comptroller[1] stated that the agency intends to implement the new deferred maintenance requirements of SFFAS No. 6 as required for fiscal year 1998. The DOD Acting Comptroller reported that the agency has contracted with the Logistics Management Institute (LMI) to perform a study to assess existing DOD methods of determining, measuring and capturing deferred maintenance data on National Defense PP&E.[2] DOD expects the LMI study to be completed in March of 1998; until then, the Acting Comptroller was uncertain whether additional changes would be required to achieve full implementation of the standard. For other types of general PP&E not addressed by the LMI study, the DOD Acting Comptroller reported that the agency is actively reviewing existing methods for reporting and tracing maintenance and deferred maintenance within the budget process to determine if modifications must be made or new reporting requirements developed to achieve full compliance with SFFAS No. 6. However, current maintenance and deferred maintenance estimates do not reflect SFFAS No. 6 PP&E categories. The Acting Comptroller also noted that the agency has identified an individual responsible for

[1]At the time of our interviews, DOD had an Acting Comptroller who responded to GAO's questions. As of November 19, 1997, a new comptroller was confirmed for this agency.

[2]National defense PP&E are the PP&E portions of (1) weapons systems used by military departments solely for the performance of military missions and (2) vessels held in a preservation status by the Maritime Administration's National Defense Reserve Fleet.

managing DOD's effort to determine what and how reporting will be accomplished for the deferred maintenance requirements of SFFAS No. 6.

Status of Policies and Procedures

In September 1997, the Deputy CFO issued a memorandum to DOD components stating that all eight of the accounting standards would be incorporated into the DOD Financial Management Regulation. As of November 1997, the DOD Acting Comptroller reported that the agency has not determined its measurement methodology, its application to classes of different assets, or whether it will report both critical and noncritical amounts of deferred maintenance. In all cases, the Acting Comptroller reported that these decisions will be made after the completion of the deferred maintenance study being conducted by LMI. For general PP&E, the DOD Acting Comptroller stated that the agency has not determined whether the amounts of deferred maintenance, other than for real property, are material and warrant reporting. The Acting Comptroller reported that DOD currently uses the condition assessment survey method for real property.

Agency Experience With Deferred Maintenance Reporting

The DOD Acting Comptroller reported experience with deferred maintenance reporting through estimates of deferred maintenance in exhibits that support the DOD budget request. For example, deferred maintenance on weapons systems is reported through the agency's Depot Maintenance Program, while deferred maintenance of real property (buildings and facilities and housing units) is reported on budget exhibits as the backlog of maintenance and repair. The DOD Acting Comptroller stated that the agency believes that this process captures the majority of deferred maintenance but is not necessarily comprehensive of all deferred maintenance.[3] The DOD Acting Comptroller reported that the agency's deferred maintenance estimates are developed from lower echelon organizations as they build their individual budget requests and report on their level of maintenance activity. Estimates must then be consolidated at the departmental or component levels of DOD. The DOD Acting Comptroller stated that, with perhaps some modification, the agency's deferred

[3]As noted earlier, while military service installation officials cited increases in backlogs of deferred maintenance and repair projects in recent years, we found that reliable composite information was not available due to differences in how the services develop and maintain these data. See Defense Infrastructure: Demolition of Unneeded Buildings Can Help Avoid Operating Costs (GAO/NSIAD-97-125, May 13, 1997).

maintenance estimates would satisfy SFFAS No. 6 and departmental compliance requirements.[4]

Agency Assessment of Key Challenges

The DOD Acting Comptroller stated that the primary challenges for DOD are (1) addressing the magnitude and diversity of DOD PP&E, (2) implementing and applying new standards and policy across the Military Services and Defense Agencies, each of which operates differently, and (3) modifying or establishing reporting requirements through existing or new automated systems. The DOD Acting Comptroller also indicated that new barriers to implementation may be identified when LMI completes its study.

IG Assessment of Agency Readiness and Audit Issues

The IG stated that DOD will not be prepared to implement the deferred maintenance requirements. The IG cited GAO's report which recommends that the study be expedited[5] and asserted that it is virtually impossible for DOD to receive the study results from LMI, develop a policy and implementing guidance, and get all the information from the Military Services in time for preparation of the fiscal year 1998 financial statements. The IG stated that her office will only be able to audit any deferred maintenance amounts if DOD has issued a policy and implementing guidance. The IG indicated that her office would need to begin preliminary work no later than March 1998 in order to complete the audit on time. The IG stated that DOD's size and diversity present special problems on two key issues: timeliness and consistency. And, the IG believes that DOD needs to issue specific guidance promptly to the Military Services to assure consistent application across the services.

[4]GAO has noted other problems with DOD reporting for deferred maintenance. See Financial Management: Issues to Be Considered by DOD in Developing Guidance for Disclosing Deferred Maintenance on Aircraft (GAO/AIMD-98-25, December 30, 1997), Financial Management: DOD Needs to Expedite Plans to Implement Deferred Maintenance Accounting Standard (GAO/AIMD-97-159R, September 30, 1997), and Deferred Maintenance: Reporting Requirements and Identified Issues (GAO/AIMD-97-103R, May 23, 1997).

[5]Financial Management: DOD Needs to Expedite Plans to Implement Deferred Maintenance Accounting Standard (GAO/AIMD-97-159R, September 30, 1997).

NASA Responses Regarding Agency Readiness to Implement Deferred Maintenance Requirements

Reported Amount of PP&E

For fiscal year 1996, NASA reported general PP&E of $26.4 billion. Of this amount, $9.2 billion is space hardware; $5.9 billion is structures, facilities, and leasehold improvements; $5.0 billion is work in process; $5.0 billion is equipment; and the remaining $1.4 billion is land, special tooling and test equipment, and assets under capital lease. NASA holds approximately 2.7 percent of the federal government's reported PP&E.

Fiscal Year 1996 Audit Opinion

For fiscal year 1996, NASA received an unqualified opinion on its financial statements from the independent public accountant (IPA) contracted for and monitored by the NASA Office of Inspector General. The IPA determined that the financial statements present fairly, in all material respects, the financial position of NASA as of September 30, 1996.

Management Actions

The CFO stated that NASA will implement the new deferred maintenance requirements of SFFAS No. 6 for fiscal year 1998 as required. The NASA CFO reported that, while his office is exploring whether there is reportable deferred maintenance on other types of assets, the agency expects the new reporting requirements to primarily affect facilities maintenance for which it has a system that captures some deferred maintenance data. Other types of PP&E for NASA are not anticipated to report deferred maintenance. For example, program equipment or contractor-held property is considered mission critical and is subject to very stringent safety and quality measures. As a result, maintenance would need to be performed right away or the equipment would be replaced. The CFO believes that minor adjustments to NASA's facilities maintenance system will allow it to meet the new reporting standard. The NASA CFO has also designated an individual in charge of compliance issues related to the deferred maintenance requirements of SFFAS No. 6.

Status of Policies and Procedures

The NASA CFO reported that agency policy will be developed and documented by June 30, 1998; however, NASA does not plan to change its overall approach to reporting deferred maintenance. NASA also uses and will continue to use the condition assessment method in determining levels of deferred maintenance for facilities. Although the CFO stated that the agency plans additional work to determine whether the same methodology will be used for all assets, the CFO is fairly confident there will be no deferred maintenance on these items.

Agency Experience With Deferred Maintenance Reporting

The CFO for NASA reported that the agency currently has an estimate of deferred maintenance on facilities as of the end of fiscal year 1996. The CFO reported that NASA policy requires that Centers continuously assess facility conditions in a manner which results in an appropriate identification and quantification (in terms of dollars) of the backlog of maintenance and repair. Once deficiencies are identified, industry standard estimating guides are used to arrive at estimated repair costs. Estimates of deferred maintenance have not been validated; the CFO stated that NASA is reviewing SFFAS No. 6 to determine if additional work is needed to comply with the deferred maintenance requirements. The NASA policy regarding facilities maintenance is a public document available on the Internet.

Agency Assessment of Key Challenges

The CFO stated that a key challenge for NASA lies in implementing the deferred maintenance requirements and other accounting standards at the same time that it is implementing a wholly new, integrated financial system and a full cost accounting, budgeting and management system with declining human resources. However, the CFO stated that the agency believes it has the appropriate expertise to make maintenance estimates. In cases where workloads necessitate additional resources, the CFO for NASA reported that the agency could use contractor assistance.

IG Assessment of Agency Readiness and Audit Issues

Based upon NASA's audit history, the IG believes that NASA will be able to implement the deferred maintenance requirements as required by fiscal year 1998. The IG reported that a key issue in auditing deferred maintenance reporting for NASA will be to determine whether the measurement method was properly and consistently applied across the different Centers.

DOT Responses Regarding Agency Readiness to Implement Deferred Maintenance Requirements

Reported Amount of PP&E

For fiscal year 1996, DOT reported general PP&E of $24.4 billion. Of this amount, $10.4 billion is structures, facilities, and leasehold improvements; $8.5 billion is equipment; $3.4 billion is construction in progress; $1.6 billion is aircraft; and the remaining $0.4 billion is in land, assets under capital lease, ADP software, and other PP&E. DOT holds approximately 2.5 percent of the federal government's reported PP&E. Problems with PP&E reporting contributed to a disclaimer of opinion on DOT's fiscal year 1996 consolidated financial statement. In particular, the IG's report cited PP&E as a material weakness, stating that several DOT operating administrations did not (1) report all PP&E that should be reported, (2) maintain accurate subsidiary property records, (3) retain documentation to support the value of property and equipment, (4) reconcile subsidiary property records with general ledger property and equipment accounts, and (5) post property and equipment transactions to the proper general ledger asset accounts.

Fiscal Year 1996 Audit Opinion

For fiscal year 1996, DOT received a disclaimer of opinion on its Consolidated Statement of Financial Position from the IG. The IG noted that several operating administrations had not reconciled all general ledger balances to subsidiary records, affecting the Property and Equipment and Operating Materials and Supplies accounts.[1] Also, a lack of records meant that the IG could not determine whether the balances reported for the corresponding material line items were fairly presented. In addition, the IG found that operating administrations were expensing amounts that should have been capitalized, resulting in an understatement of assets.

Management Actions

The Deputy CFO for DOT stated that the agency intends to report deferred maintenance in its fiscal year 1998 financial statements. The Deputy CFO for DOT stated that implementation of the deferred maintenance requirements of SFFAS No. 6 occurs in the Maritime Administration (MARAD), the Federal Aviation Administration (FAA), and the U.S. Coast Guard (USCG). Since the requirement was not effective until fiscal year 1998, the Deputy CFO reported that his office has been focusing efforts to correct material weaknesses identified in prior financial statement audits, particularly in the area of PP&E. However, the Deputy CFO stated that implementing the deferred maintenance requirements, although impaired because of the inability to support all of the account balances with subsidiary detail, does not preclude an agency from implementing the

[1]These three operating administrations accounted for over 90 percent of DOT reported PP&E.

standards. He further noted that for the validated PP&E, implementation can proceed and estimates may be made where aggregate asset information is available. Also, the Deputy CFO stated that in cases where assets may not have been fully validated for financial statement purposes, he believes that deferred maintenance estimates may also be implemented. He described these actions as an evolving process that will continue to improve with increased data accuracy and integrity. The Deputy CFO for DOT reported that a key unresolved question for the agency is how to place assets in proper categories for financial reporting on deferred maintenance. He also stated that he would be interested in guidance regarding acceptable reporting formats. The Deputy CFO has designated an individual in charge of compliance with this new reporting standard.

Status of Policies and Procedures

The Deputy CFO for DOT reported that the agency has distributed SFFAS No. 6 to departmental CFO and accounting offices. He further noted that the CFO office will provide more detailed guidance on departmental reporting at a later date and that any additional policy would be limited to supplementary information used to clarify areas not clearly defined in accounting standards or by the central agencies (e.g., Treasury or OMB). The Deputy CFO reported that DOT is likely to use both condition assessment and life-cycle cost, depending on the operating administration and the classes of assets. He stated that MARAD has documented and communicated the reporting requirements to staff and contractors who need to make the estimate, while other operating administrations have not completed this step. The Deputy CFO reported that three relevant operating administrations currently have standards which define “acceptable condition” for major assets.

Agency Experience With Deferred Maintenance Reporting

The Deputy CFO reported that each of the three operating administrations for which major deferred maintenance occurs has its own maintenance plans for different types of PP&E. MARAD ships and facilities undergo periodic inspections which typically result in the discovery of deficiencies. If funds are available, the appropriate repairs are made; otherwise, the requirements are made known and funds are requested during the normal budget process. In some cases, this process is automated and spending plans are developed from the database of information. The Deputy CFO reported that FAA relies on the General Maintenance Handbook for Airway Facilities, which addresses maintenance requirements, policies, and procedures for specific assets. FAA estimates of deferred maintenance only address certain areas such as the modernization of building and equipment capital investment plan. Finally, the Deputy CFO reported that the USCG has standard maintenance plans/requirements for its aviation, naval, electronic, and shore assets. USCG does not currently have an estimate of deferred maintenance. According to the Deputy CFO, USCG uses these plans to (1) ensure that priority maintenance is accomplished, (2) estimate budget requirements, (3) plan and program resources to meet mission objectives, and (4) ensure that total expenditures stay within budgetary limits.

Agency Assessment of Key Challenges

The Deputy CFO cited three key challenges to implementing the deferred maintenance requirements of SFFAS No. 6, namely (1) identifying and validating an inventory of existing PP&E, (2) obtaining and allocating the resources necessary to estimate, document, and report deferred maintenance requirements, and (3) ensuring a system that centralizes the data repository for management and analysis to meet deferred maintenance reporting requirements.

IG Assessment of Agency Readiness and Audit Issues

The DOT IG does not believe that DOT will be prepared to implement the deferred maintenance requirements. Based on his office's experiences in auditing property and equipment at DOT, the IG is concerned that amounts for deferred maintenance reporting may not be adequately supported and documented. The IG stated that in order to effectively implement the deferred maintenance requirements, the operating administrations must complete physical inventories of assets to determine what is actually owned and properly account for these assets. The IG stated that DOT must issue implementing guidance for SFFAS No. 6 which should identify the types of assets qualifying for deferred maintenance. Finally, the IG stated that DOT, in coordination with the operating administrations, must establish an internal control system that requires documenting the process of estimating amounts of deferred maintenance and accurately reporting these estimates. The IG stated that the key issues in auditing the deferred maintenance amounts are that (1) each operating administration obtain an accurate inventory of property and equipment, (2) DOT have formal written policies on deferred maintenance to ensure consistency among the operating administrations, and (3) DOT establish a formal system to effectively track and adequately document amounts reported for deferred maintenance cost.

DOE Responses Regarding Agency Readiness to Implement Deferred Maintenance Requirements

Reported Amount of PP&E

For fiscal year 1996, DOE reported general PP&E of $22.0 billion. Of this amount, $11.9 billion is structures and facilities, $5.9 billion is equipment, $3.7 billion is construction work in process, and the remaining $0.5 billion is land, ADP software, and natural resources. DOE holds approximately 2.3 percent of the federal government's reported PP&E.

Fiscal Year 1996 Audit Opinion

For fiscal year 1996, DOE received an unqualified opinion on its financial statement from the DOE IG. The IG noted that the financial statements present fairly, in all material respects, the financial position of the department as of September 30, 1996. The IG did note, however, in their report on Internal Control Structure accompanying the financial statements, that the department needed to strengthen its internal control system over PP&E.

Management Actions

The Acting CFO stated that DOE plans to implement the deferred maintenance requirements of SFFAS No. 6 in fiscal year 1998 as required. In preparation for implementing the standard, the Acting CFO reported that DOE has reviewed the deferred maintenance requirements and considers that, for the most part, the agency is complying with the requirements. For example, DOE's Life Cycle Asset Management Order (LCAM) currently requires estimates of deferred maintenance, specifically requiring the management of backlogs associated with maintenance, repair, and capital improvements. The Acting CFO stated that DOE is determining whether existing policy requirements are sufficient to meet SFFAS No. 6 as well as to develop a cost-effective approach for accumulating data from DOE field offices. The Acting CFO has also designated an individual point of contact for meeting the deferred maintenance disclosure requirement.

Status of Policies and Procedures

DOE has policies in place that require field offices to estimate and document deferred maintenance amounts. However, the Acting CFO reported that there is no requirement for reporting this information to the department's headquarters. She further stated that DOE is in the process of determining the most cost-effective process for accumulating this information from the field offices and reporting it to headquarters. She stated that DOE uses condition assessment methods to determine its deferred maintenance estimates.

Agency Experience With Deferred Maintenance Reporting

While DOE did not provide a departmental estimate of deferred maintenance, it does have experience tracking and estimating maintenance backlogs. DOE's LCAM order establishes minimum requirements for asset management. One requirement of this order calls for the management of backlogs associated with maintenance, repair, and capital improvements, which DOE considers to be synonymous with deferred maintenance. The Acting CFO for DOE reported that approximately 50 percent of agency assets are managed using a Condition Assessment Survey (CAS) program which follows industry standards and inspection methods. Sites using CAS can determine their deferred maintenance or maintenance backlogs from the inspection and cost estimating features of the program. Unautomated sites would base the deferred maintenance estimates on their site-specific facility inspection program. Sites annually report to individual Operations Offices estimates of deferred maintenance as part of their performance indicators. These estimates are periodically sampled by on-site individual evaluators.

Agency Assessment of Key Challenges

The Acting CFO stated that DOE's key challenges are to (1) confirm that field sites are complying with deferred maintenance policies, (2) ensure that proper databases, inspection procedures, and cost estimating programs are being used to calculate deferred maintenance, and (3) determine the appropriate level (i.e., materiality) of the inclusion of personal property.

IG Assessment of Agency Readiness and Audit Issues

Based upon DOE's representations regarding its plans, the Deputy IG stated that it appears that the disclosure will be auditable. However, the Deputy IG believes it is too early to make a definitive judgment on the readiness and capability of DOE to implement the deferred maintenance requirements. The Deputy IG stated that during the fiscal year 1996 audit, his office determined that a number of locations within DOE lacked the ability to specifically identify amounts spent on repair and maintenance. The IG office will have the capacity to audit the deferred maintenance amounts, but stresses that doing so will further diminish its capacity to provide audit coverage for high risk areas designated by GAO and OMB. He also noted that coverage of high risk areas continues to decline because of diminishing personnel resources and the continued increase in statutory audit work. The Deputy IG stated that audit work related to the deferred maintenance requirement will generally address three key questions: (1) Has DOE developed cost-effective policies and procedures for developing the estimate required to support the disclosure? (2) Is the appropriate level of expertise applied to developing the estimate? and

(3) Is the overall estimate reasonable, properly documented, and readily verifiable?

DOI Responses Regarding Agency Readiness to Implement Deferred Maintenance Requirements

Reported Amount of PP&E

For fiscal year 1996, DOI reported general PP&E of $16.6 billion. Of this amount, $15.9 billion is land, buildings, dams, structures and other facilities and the remaining $0.7 billion is vehicles, equipment, aircraft and other property, plant, and equipment. DOI holds approximately 1.7 percent of the federal government's reported PP&E. Documentation and internal control deficiencies with PP&E contributed to a qualified opinion on DOI's fiscal year 1996 financial statements. The audit opinion of the IG also stated that internal controls for PP&E at the Bureau of Indian Affairs and the National Park Service did not ensure that transactions were properly recorded and accounted for to permit reliable and prompt financial reporting.

Fiscal Year 1996 Audit Opinion

DOI received a qualified opinion on its fiscal year 1996 financial statement from its IG because the Bureau of Indian Affairs could not provide adequate documentation or reliable accounting information to support $170 million for other structures and facilities, $17 million in accounts receivable, $136 million of revenue, and $19 million of bad debt expense.

Management Actions

The Acting CFO for DOI stated that the agency will implement the accounting requirements for deferred maintenance in fiscal year 1998. The agency also noted that it intends to include deferred maintenance disclosures in its fiscal year 1997 financial statements. To implement the deferred maintenance requirements, the Acting CFO stated that he is relying heavily on the work of the Facilities Maintenance Study Team and other agency officials charged with coordinating implementation. In March 1997, this multibureau team was tasked with seeking better methods of determining, validating, and correcting maintenance and repair needs. The Acting CFO reported that he expects the Facilities Maintenance Study Team's report to provide the agency with current and deferred maintenance information as well as guidance on standard definitions and methodologies for improving the ongoing accumulation of current and deferred maintenance information.

Status of Policies and Procedures

The Acting CFO for DOI stated that his office has not yet issued guidance for implementing the deferred maintenance reporting requirements of SFFAS No. 6. However, he noted that the work of the Facilities Maintenance Study Team is currently addressing how to standardize definitions and procedures throughout the department. The Acting CFO stated that his office has determined that the condition assessment method will be used to estimate deferred maintenance for all types of PP&E. Because information on deferred maintenance will come from individual bureaus within DOI, the Acting CFO reported that he plans to establish an appropriate working group to define condition assessment criteria and procedures for different facility types to further improve the comparability of the information generated. While the Acting CFO does not plan to distinguish between critical and noncritical assets in DOI's consolidated statements, he noted that the Bureau of Reclamation does make a distinction between critical and noncritical deferred maintenance.

Agency Experience With Deferred Maintenance Reporting

The Acting CFO stated that DOI has experience reporting and tracking maintenance spending and deferred maintenance through the budgetary process. Each bureau has established standards and a methodology for determining which PP&E is not in acceptable condition due to deferred maintenance. However, the Acting CFO reported that DOI's past maintenance funding requests have been tempered by available budgetary resources. Given the varying missions of the agency, "acceptable condition" has had (and will continue to have) different meanings for each bureau.

Agency Assessment of Key Challenges

The Acting CFO believes that the key challenges to implementing the deferred maintenance reporting requirements are (1) developing consistent terminology and data among the bureaus, (2) integrating the data requirements into maintenance and accounting systems, and (3) validating estimates for accuracy, while working within limited human and financial resources.

IG Assessment of Agency Readiness and Audit Issues

The IG would not express an opinion on whether DOI would be prepared to implement the deferred maintenance requirements of SFFAS No. 6 in fiscal year 1998. The IG noted, however, that past IG work has addressed the need for several bureaus within DOI to gather maintenance information so that maintenance programs could be better managed. The IG stated that his office is planning to perform a preliminary assessment of the deferred maintenance information provided by DOI in its fiscal year 1997 financial statements. Further, deferred maintenance will be included in the IG audit of the fiscal year 1998 financial statements. Because audit requirements for deferred maintenance have not been issued, the IG stated that his office cannot make a determination regarding the skills or abilities required for its audit of information reported in accordance with this standard.

However, the IG stated that it will require additional resources to audit the added financial statement requirements and cost accounting standards. The key issue in auditing deferred maintenance will be the adequacy of systems established by DOI to gather complete and accurate data.

GSA Responses Regarding Agency Readiness to Implement Deferred Maintenance Requirements

Reported Amount of PP&E

As of September 30, 1996, GSA reported general PP&E of $12.1 billion. Of this amount, $6.9 billion is buildings and leasehold improvements, $2.4 billion is construction in process, $1.7 billion is motor vehicles and other equipment, $1.0 billion is land, and the remaining $0.1 billion is telecommunications and ADP equipment. GSA holds approximately 1.3 percent of the federal government's reported PP&E.

Fiscal Year 1996 Audit Opinion

For fiscal year 1996, GSA received an unqualified opinion on its financial statements from an IPA contracted for and monitored by the GSA Office of Inspector General. The IPA stated that the financial statements present fairly, in all material respects, the financial position of GSA.

Management Actions

The GSA CFO stated that the agency intends to implement the accounting requirements for deferred maintenance in fiscal year 1998. He believes that agency reporting would be more meaningful and consistent if specific guidance relating to certain asset types would be provided. In this regard, he thinks that policy and coordination could be provided by the central agencies such as OMB and the Treasury, with additional guidance from GSA's Office of Policy, Planning, and Evaluation. However, the GSA CFO noted that he would expect the individual services within GSA to define deferred maintenance and determine a methodology for reporting whether or not additional guidance is pending. GSA has also designated an individual responsible for leading GSA's efforts to implement this standard.

Status of Policies and Procedures

GSA reported that policies for implementing the new accounting standard were inherent in its Agency Accounting Manual and in financial statement preparation guidance. GSA also provided an implementation guidance package prepared by an independent accounting firm which includes actions to be taken and recommended completion dates in order to achieve timely implementation of the standard. The CFO stated that GSA has not determined whether it will use condition assessment or life-cycle cost to estimate deferred maintenance, nor has it determined whether it will distinguish between critical and noncritical assets.

Agency Experience With Deferred Maintenance Reporting

While the CFO reported that GSA does have a universe of maintenance needs, he also stated that it does not differentiate between deferred and nondeferred maintenance, nor does it have an agencywide standard maintenance plan. Instead, decisions regarding the level and frequency of PP&E maintenance are established by each GSA service. According to the CFO, each service performs maintenance both on a scheduled and as needed basis. For example, the CFO noted that the Public Buildings Service has maintenance plans for specific buildings in its inventory and that maintenance spending is tracked against available resources, and funds for maintenance needs are included as part of GSA's annual budget request. The CFO also reported that each service determines if PP&E is in acceptable condition as well as when each type of PP&E ceases to be functional.

Agency Assessment of Key Challenges

The CFO considers the key challenges to implementing the deferred maintenance requirements of SFFAS No. 6 to be (1) developing consistent terminology and data among the services, (2) integrating the data requirements into maintenance and accounting systems, and (3) working with limited human and financial resources.

IG Assessment of Agency Readiness and Audit Issues

The IG stated that at the present time, there is not enough information to form an opinion as to whether GSA will meet the deferred maintenance requirement. However, the IG stated that he is encouraged by the steps the agency has taken to date and its overall commitment to financial statement reporting. The IG noted that his office contracts with an IPA to perform the financial statement audit of GSA; hence, the IG expects to have the resources, skills, and abilities needed to audit the deferred maintenance amounts. The IG stated that the key issues in auditing deferred maintenance are those of definition and completeness. He believes that it will be necessary—but may be difficult—for the agency to obtain agreement within GSA as to when an asset is considered to be in acceptable condition. Further, he noted that GSA's internal control structure will need review to determine whether GSA has properly included all classes of assets for purposes of calculating deferred maintenance amounts.

VA Responses Regarding Agency Readiness to Implement Deferred Maintenance Requirements

Reported Amount of PP&E

For fiscal year 1996, VA reported general PP&E of $11.1 billion. Of this amount, $7.1 billion is buildings, $1.9 billion is equipment, $1.2 billion is construction in progress, and the remaining $0.8 billion is land and other PP&E. VA holds approximately 1.2 percent of the federal government's reported PP&E.

Fiscal Year 1996 Audit Opinion

For fiscal year 1996, the VA Acting IG rendered an unqualified opinion on the VA's Statement of Financial Position and a qualified opinion on the Statement of Operations because his office was unable to satisfy itself as to the opening balances recorded for net PP&E and net receivables. The Acting IG stated that the Statement of Financial Position presented fairly, in all material respects, the financial position of VA. However, the Acting IG cited six reportable conditions that could adversely affect VA's ability to record, process, summarize, and report financial data. One condition cited was the need for VA to continue its efforts to refine property, plant, and equipment records. In particular, the Acting IG noted problems with correctly recording depreciation and capitalizing assets and data entry errors.

Management Actions

The VA CFO stated that the agency will implement SFFAS No. 6 in 1998 and is in the process of developing a formal plan for implementing the deferred maintenance requirements. He also noted that his office is developing guidance to communicate deferred maintenance reporting requirements for fiscal year 1998. The CFO stated that VA does not defer maintenance on medical devices or critical hospital systems but that deferred maintenance exists on noncritical building systems such as parking lots, roads, grounds, roofs, and windows. The CFO has designated an individual in charge of implementing the reporting requirements for deferred maintenance.

Status of Policies and Procedures

The CFO provided a copy of a draft policy intended to provide financial accounting policy for PP&E, noting that this policy is currently being circulated throughout the department for concurrence. VA's draft policy defines deferred maintenance as in SFFAS No. 6 and reiterates the reporting requirements for a footnote disclosure. The CFO also stated his intent to provide more detailed guidance to individual units within the agency. The CFO plans to set up a statistical account in VA's general ledger to record deferred maintenance information as policy is implemented throughout the department. The CFO is leaning towards establishing condition assessment as the method for determining deferred maintenance and plans to use the same methodology for all types of assets. The CFO also intends to require each individual unit within VA to review and classify its deferred maintenance into the various categories of PP&E and then record material amounts in various representative statistical accounts. These categories and totals are then planned to be rolled up to the departmental level, thus providing the basis for meeting the disclosure requirements of SFFAS No. 6.

Agency Experience With Deferred Maintenance Reporting

The CFO noted that VA's experience with deferred maintenance reporting is largely decentralized. While the VA does not have an agencywide maintenance plan, it does have a standard policy requiring maintenance of PP&E. For example, VA Medical Centers follow maintenance schedules developed from equipment manufacturer's information. Each VA unit estimates its operational funding, which includes maintenance. Individual VA administrations determine the acceptable condition of each type of PP&E based on its mission. In the case of critical hospital equipment, the VA CFO asserted that maintenance is not deferred since a hospital environment requires that equipment be operational and items must be kept in working condition for safety and reliability reasons.

Agency Assessment of Key Challenges

The CFO reported that VA's biggest challenges in implementing the deferred maintenance requirements will be to (1) get VA's several hundred units to provide comparable deferred maintenance data and (2) determine the most efficient and effective method to estimate and report required data for deferred maintenance.

IG Assessment of Agency Readiness and Audit Issues

The Acting IG[1] expressed confidence that VA will implement the deferred maintenance requirement. The Acting IG stated that this confidence is based on the CFO's progress over the past 4-5 years addressing issues raised by the IG in audits. The Acting IG cited VA improvements in accounts receivable and PP&E as examples. The Acting IG stated that his office will audit a deferred maintenance amount if it is a material item. The Acting IG believes that his office has the necessary resources or would be able to get an independent engineer or consultant to assist in evaluating any deferred maintenance issues beyond the expertise of his office. The Acting IG believes that the key audit requirements are an audit trail, a good system of information, and the ability of his office to test the records. The Acting

[1]At the time of our interviews, the VA had an Acting IG who responded to GAO's questions. As of November 7, 1997, a new IG was confirmed for this agency.

IG stated that one challenge will be whether the VA issues ground rules to facilities so that consistency will occur among the 173 Medical Centers and other units. The Acting IG also noted that it is difficult to draw a line between critical and noncritical assets and that this distinction may vary among different administrations of VA. Thus, the Acting IG stated that his office would need to review each administration's definition of "critical."

USDA Responses Regarding Agency Readiness to Implement Deferred Maintenance Requirements

Reported Amount of PP&E

For fiscal year 1996, USDA reported general PP&E of $8.6 billion. Of this amount, about $5.9 billion is land; $1.8 billion is structures, facilities, and leasehold improvements; $0.8 billion is equipment; and the remaining $0.1 billion is ADP software and other PP&E. USDA holds approximately 0.9 percent of the federal government's reported PP&E. Problems with PP&E reporting contributed to a disclaimer of opinion on USDA's fiscal year 1996 consolidated financial statement. In particular, the Forest Service, which has over 90 percent of USDA's PP&E, was unable to provide complete auditable financial statements for fiscal year 1996. The IG also noted that problems with fiscal year 1995 Forest Service reporting resulted in an adverse opinion due to pervasive errors, material or potentially material misstatements, and/or departures from applicable accounting principles.

Fiscal Year 1996 Audit Opinion

For fiscal year 1996, the USDA IG issued a disclaimer of an opinion on the consolidated financial statements of USDA. The IG stated that his office did not attempt to audit the statement of financial position and related statements because of problems with Forest Service reporting. In addition to the Forest Service being unable to provide complete auditable financial statements, the IG also stated that the Secretary of Agriculture reported that the department could not provide assurance that, as a whole, agency internal controls and financial management systems comply with Federal Managers' Financial Integrity Act (FMFIA) requirements.[1] As a result, USDA's fiscal year 1996 consolidated financial statements were prepared using the Forest Service's fiscal year 1995 account balances and activity. With regard to Forest Service accounting for PP&E, the IG cited inadequate documentation, pervasive instances of errors, and material control weaknesses.

Management Actions

The Acting CFO for USDA stated that the agency elected to implement SFFAS No. 6 beginning in fiscal year 1997 and anticipates it will be substantially implemented for fiscal year 1998 as required. His office provided its draft plan for implementing the standard which is outlined in chapter 9 ("Property, Plant, and Equipment") of the USDA Financial and Accounting Standards Manual (FASM). The Acting CFO noted that this chapter conforms with SFFAS No. 6, but does not include milestones. He stated that suitable milestones will be developed during fiscal year 1998. With regard to designating an official responsible for ensuring the implementation of the

[1]FMFIA requires ongoing evaluations of the internal control and accounting systems that protect federal programs against fraud, waste, abuse, and mismanagement. It further requires the heads of federal agencies to report annually to the President and Congress on the condition of these systems and on their actions to correct the weaknesses identified.

deferred maintenance requirements, the Acting CFO stated that he makes departmentwide determinations on financial statement reporting and oversees compliance with SFFAS No. 6. In addition, he has also identified responsible officials in the two agencies that control the material portion of USDA PP&E—Agriculture Research Service (ARS) and the Forest Service. The Acting CFO believes that his agency needs additional guidance in the following areas: (1) related OMB budget requirements related to maintenance and deferred maintenance, (2) general criteria for critical and noncritical deferred maintenance, (3) setting priorities for deferred maintenance, (4) minimum standards for condition assessment surveys and for life-cycle costing, (5) criteria for distinguishing between deferred maintenance and reconstruction, and (6) the point at which a need to perform deferred maintenance becomes a need for a new asset.

Status of Policies and Procedures

USDA has established broad policies for implementing the deferred maintenance requirements of SFFAS No. 6. The Acting CFO stated that rather than arbitrarily restricting the USDA agencies to only one method of estimating deferred maintenance, USDA policy allows the use of any of the methods described in SFFAS No. 6. The Acting CFO believed that the agencies within USDA are in the best position to determine which of the allowable methods is most appropriate for their particular agency. The Acting CFO stated that these policies provide a great deal of discretion to individual agencies within USDA. For example, each agency has the option of selecting condition assessment and/or life cycle cost methodologies as allowed by SFFAS No. 6. The USDA Acting CFO expressed his belief that the agency has described the allowable measurement methodologies (e.g., condition assessment or life-cycle cost) but stated that it must give more attention to communicating the methodologies to those making the estimates. He stated that his office intends to more clearly communicate methodology requirements during fiscal year 1998. The FASM does establish mutually exclusive major classes and base units of measurement for general, heritage, and stewardship land PP&E. It also requires that management distinguish between critical and noncritical deferred maintenance and disclose the basis for distinguishing between the two.

Agency Experience With Deferred Maintenance Reporting

Both agencies with the material portion of USDA PP&E—Forest Service and ARS—have some experience with deferred maintenance reporting and have estimates for deferred maintenance. We were told that ARS has a standard maintenance plan for facilities that is called the ARS 10-Year Facility Plan. The USDA Acting CFO stated that the plan provides the framework for future decision-making, setting priorities, and allocating resources to implement necessary improvement, maintenance, modernization, and repairs to ARS research facilities. We were also told that ARS uses information from USDA's Central Accounting System to update its 10-Year Facility Plan each year and to ascertain that spending is in accordance with congressional intent. According to the Acting CFO, ARS routinely estimates its funding needs for repairs and maintenance each fiscal year. In contrast, individual Forest Service managers are responsible for assessing the condition of their PP&E and obtaining the funding needed for maintenance. We were told that Forest Service managers also inspect the actual condition of PP&E, using a building and facility handbook that broadly defines maintenance levels ranging from level 1, not in operation, to level 5, major offices and high-use areas.

ARS and Forest Service provided deferred maintenance estimates. The Acting CFO for Forest Service cautioned that the Forest Service estimates were overstated per SFFAS No. 6 because they included activities needed to expand, upgrade, or reconstruct a facility. The USDA's Acting CFO noted that both agencies are scheduled to update these estimates for fiscal year 1998. He believes that the current estimates of deferred maintenance may not comply fully with SFFAS No. 6.

Agency Assessment of Key Challenges

According to USDA's Acting CFO, the department's key challenges to comply with the new deferred maintenance accounting requirements include (1) communicating applicable requirements, (2) documenting the correct and consistent use of allowable methodologies, (3) establishing an accurate physical inventory of PP&E, and (4) obtaining guidance from central agencies.

IG Assessment of Agency Readiness and Audit Issues

The IG stated that, assuming that agencies continue to emphasize financial management, and the Forest Service completes its inventory of PP&E, USDA should be prepared to implement the requirement for fiscal year 1998. At the time of our review, the IG noted that the department has a draft policy for implementing the deferred maintenance requirements that adequately mirrors requirements addressed by SFFAS No. 6.[2] However, the IG also emphasized that deferred maintenance estimates are contingent on a complete and accurate inventory of PP&E. While efforts are underway within the Forest Service (the largest PP&E holder for USDA) to develop complete inventories and supportable valuations for its PP&E, the IG stated

[2]According to the Acting CFO, this policy has been finalized.

that these efforts may or may not be completed by the end of fiscal year 1998. The IG said that if the Forest Service cannot complete its efforts and accurately report PP&E in its financial statements, little reliance can be placed on estimates reported for the associated deferred maintenance. The IG stated that the key issues in auditing the deferred maintenance requirements are determining if the estimation methodology is appropriate, applied correctly, applied consistently, and adequately documented. And, since deferred maintenance estimates are contingent on a complete and accurate inventory of PP&E, audit results addressing PP&E will play an important role in his office's evaluation of the deferred maintenance estimates.

Department of State Responses Regarding Agency Readiness to Implement Deferred Maintenance Requirements

Reported Amount of PP&E

For fiscal year 1996, the Department of State reported general PP&E of $4.6 billion. Of this amount, $2.3 billion is land and land improvements, $1.9 billion is capital improvements and buildings, structures, facilities, and leaseholds, and the remaining $0.3 billion is construction in progress and vehicles and other equipment. State holds approximately 0.5 percent of the federal government's reported PP&E.

Fiscal Year 1996 Audit Opinion

For fiscal year 1996, State received a qualified opinion on its consolidated financial statements from an IPA. The IPA noted that, except for any adjustments that might have been necessary had it been possible to review undelivered orders, State's 1996 Consolidated Statement of Financial Position is presented fairly in all material respects. The IPA also stated that the undelivered orders scope limitation did not affect the Consolidated Statement of Financial Position for the department.

Management Actions

The State CFO intends to implement the deferred maintenance requirements for the fiscal year 1998 financial statements. He cited several actions by the agency to prepare for deferred maintenance reporting. The CFO reported that State has contracted with a firm to provide recommendations on implementing the new federal accounting standards, including SFFAS No. 6. The CFO has also designated individuals from the Bureau of Finance and Management Policy to determine the reporting policy and (in conjunction with the IG Office) oversee compliance.

Status of Policies and Procedures

The CFO for State reported that the agency has not yet developed a formal policy on implementing the deferred maintenance requirements of SFFAS No. 6, but expects to develop a policy by April 1998. The CFO stated that he expects, but has not decided, to use the condition assessment method, because the process is substantially the same as the one now used for determining maintenance requirements. The CFO further noted that he does not plan to disclose critical and noncritical assets on the financial statements.

Agency Experience With Deferred Maintenance Reporting

The CFO reported that State has experience with estimating maintenance needs through the budget process. For example, he noted that each overseas mission prepares an annual budget for routine maintenance and repair and special maintenance requirements and submits it to the Office of Foreign Buildings Operations (A/FBO). The CFO said that A/FBO allots funds to overseas missions to carry out maintenance activities. He also reported that appropriations for specific maintenance projects are requested as line items and are included in the functional programs' budget submissions to OMB and the Congress. He noted that A/FBO then compares actual costs of implementing these maintenance projects with the budget established for their execution.

The CFO reported that currently State has the results of condition assessment and other surveys recorded in a database. Offices review, determine priority ratings, and develop cost estimates to implement requirements. The CFO reported that these priority ratings are used to balance requirements with available resources. Unfunded requirements are then listed as State's maintenance and infrastructure repair deficit. He cautioned, however, that State's backlog includes repair and replacement requirements and minor property improvements, and therefore goes beyond deferred maintenance. He further stated that routine maintenance requirements at individual posts are not broken out or tracked separately. In addition, the CFO noted that State's estimates may not separate deferred maintenance from current maintenance requirements. In addition, he noted that the current estimates also include some improvements and other projects that would not fall within the scope of the accounting standard's definition of deferred maintenance.

Agency Assessment of Key Challenges

The CFO described the primary problem of implementing the deferred maintenance requirements of SFFAS No. 6 as being one of definition. For example, he noted problems with defining deferred maintenance and determining when maintenance requirements are past due. He also cited the complexity and cost of maintaining current data for a program responsible for management oversight of more that 3,000 properties in 260 locations worldwide.

IG Assessment of Agency Readiness and Audit Issues

Based upon the work that the CFO's staff has done, the IG believes that State will be able to implement the deferred maintenance requirement. However, until her office reviews the deferred maintenance information reported for fiscal year 1998, the IG is unable to determine if the information provided will be reliable. The IG reported that work with the CFO has focused on establishing a process to track deferred maintenance so that auditable information would be available for the fiscal year 1998 financial statements. The IG stated that her office would be able to audit the amount presented on the fiscal year 1998 statements and she anticipates that she will have adequate resources and abilities to review the deferred maintenance amount. Although the IG has not yet developed an audit plan for deferred maintenance, she noted that key issues for auditing the deferred maintenance amounts included reviewing the (1) methodology established to value deferred maintenance, (2) qualifications of officials making the determination of the value of deferred maintenance, and (3) completeness and accuracy of the deferred maintenance amounts.

TVA Responses Regarding Agency Readiness to Implement Deferred Maintenance Requirements

Application of Deferred Maintenance Requirements of SFFAS No. 6

TVA follows private sector practices in its financial statement reporting. However, TVA is included in the governmentwide financial statements and will be subject to reporting deferred maintenance under SFFAS No. 6 if reported amounts prove material to the governmentwide statements.

Reported Amount of PP&E

As of September 30, 1996, TVA reported general PP&E of $30.4 billion. Of this amount, $22.2 billion is completed plant, $6.3 billion is deferred nuclear generating units, $1.1 billion is nuclear fuel and capital lease assets, and $0.8 billion is construction in progress. As of September 30, 1996, TVA held approximately 3.2 percent of the federal government's reported PP&E.

Fiscal Year 1996 Audit Opinion

For fiscal year 1996, TVA received an unqualified opinion from an IPA. The IPA found that TVA's financial statements present fairly, in all material respects, the financial position of the power program and all programs of TVA.

Management Actions

Prior to being contacted by GAO, the TVA CFO stated that he was unaware of the SFFAS No. 6 reporting requirement for deferred maintenance. The CFO noted that TVA does comply with the U.S. Treasury's request for TVA financial statement information which is then consolidated within the U.S. government financial statements. However, the CFO stated that as of December 1997, TVA had not heard from Treasury regarding compliance with the deferred maintenance requirement in SFFAS No. 6.

Status of Policies and Procedures

Because the TVA was unaware of the deferred maintenance reporting requirement, no policies and procedures for implementing the standard have been initiated. The CFO noted that TVA's definition of deferred maintenance differs from that of SFFAS No. 6 and varies by category of asset. For example, the CFO stated that maintenance of nuclear assets is not deferred because of safety and health reasons; hence, deferred maintenance on these assets does not exist. The CFO said that deferred maintenance for fossil fuels and hydro power means repair work that is not performed on equipment if the problem has minor effects on the performance of the equipment. For building facilities, the CFO noted that TVA defines deferred maintenance as maintenance that can be delayed indefinitely based on factors such as the change in the PP&E's function, an increase/decrease in PP&E life expectancy, and the relationship between repair, replacement, or abandonment costs. For land management, TVA defines deferred maintenance as the delay or postponement of needed repairs or refurbishment, and maintenance which was not performed at the scheduled time and continues to accumulate. However, should TVA be required to report deferred maintenance for the consolidated U.S. government financial statements, the CFO reported that TVA would comply. The CFO indicated that TVA could provide an estimate of deferred maintenance with about 2 months notice.

Agency Experience With Deferred Maintenance Reporting

The TVA CFO reported that, for the most part, the agency does have standard maintenance plans for its different types of PP&E. For example, the very nature of the agency's nuclear power program requires sites to comply with Nuclear Regulatory Commission regulations to ensure that plants can operate safely and that equipment is not degraded. He also noted that fossil and hydroelectric fuel programs have standard maintenance plans and use an automated Maintenance Planning and Control system for scheduling and tracking of maintenance work.

Agency Assessment of Key Challenges

The TVA CFO noted that the agency has the systems to track PP&E related to fossil fuel and building facilities deferred maintenance, but does not have data on hydroelectric power, transmission of power, land management, and certain recreation areas. The CFO also noted that TVA has qualified in-house expertise in all operations areas who could estimate deferred maintenance.

USPS Responses Regarding Agency Readiness to Implement Deferred Maintenance Requirements

Application of Deferred Maintenance Requirements of SFFAS No. 6

The USPS follows private sector practices in its financial statement reporting. However, USPS is included in the governmentwide financial statements and will be subject to reporting deferred maintenance under SFFAS No. 6 if reported amounts prove material to the governmentwide statements.

Reported Amount of PP&E

For fiscal year 1996, USPS reported general PP&E of $17.9 billion. Of this amount, $8.3 billion is structures, facilities, and leasehold improvements; $5.9 billion is equipment; $2.1 billion is land; and $1.6 billion is general construction in progress. USPS holds approximately 1.9 percent of the federal government's reported PP&E.

Fiscal Year 1996 Audit Opinion

For fiscal year 1996, USPS received an unqualified opinion on its financial statements from an IPA. The IPA found that the financial statements present fairly, in all material respects, the financial position of USPS.

Management Actions

The USPS CFO stated that the agency does not have any deferred maintenance and, therefore, will not need to disclose a figure for purposes of the governmentwide financial statements. The USPS CFO indicated that he has not been contacted by officials from Treasury with regard to deferred maintenance reporting requirements.

Status of Policies and Procedures

The CFO stated that USPS has standard maintenance plans provided in agency handbooks and policies for its primary types of assets, such as buildings, vehicles, and equipment. These plans or schedules include detailed records of maintenance required for each building, vehicle, and piece of equipment in operation. However, the CFO stated that the agency does not own airplanes or ships to move the mail; thus for these activities, required maintenance is performed by the contractors as stipulated in the contracts. For example, the CFO stated that USPS leases planes from a contractor for its overnight and priority mail. The contractor is motivated to keep its planes regularly maintained because USPS can impose fines for late or nondelivery of mail caused by not properly maintaining such equipment.

Agency Experience With Deferred Maintenance Reporting

The USPS has extensive experience with reporting maintenance on its buildings, vehicles, and equipment. USPS buildings, vehicles, and equipment must be regularly maintained so that the mail service operates promptly and smoothly.

Agency Assessment of Key Challenges

The USPS CFO did not report any challenges to implementing the deferred maintenance requirements because he does not believe the agency has any deferred maintenance.

Comments From the Department of Transportation

U.S. Department of Transportation
Office of the Secretary of Transportation

400 Seventh St., S.W.
Washington, D.C. 20590

Mr. Gene L. Dodaro
Assistant Comptroller General
Accounting and Information Management Division
General Accounting Office
Washington, D. C. 20548

Dear Mr. Dodaro:

Enclosed are our comments and clarifications on your Draft Report on Deferred Maintenance Reporting: Implementation Remains a Challenge.

As we originally noted implementation varies among the Operating Administrations (OAs) to support their diverse missions and functions. We recognize the need to have compatible financial reporting guidance in place consistent with the DOT and OA mission and structure. DOT fully intends to be sensitive to any elements of deferred maintenance financial reporting which may require added guidance such as (1) standardization of the types of assets, (2) types of estimates and (3) documentation required to be maintained by OAs to support financial reporting of the deferred maintenance estimates. This will ensure consistency of reporting within the DOT OAs and improve the accuracy and integrity of our inventory of PP&E on which to assess deferred maintenance and result in better information for financial statement preparation and consolidation processes.

We appreciate that the report now recognizes that the flexibility in SFFAS No. 6 is useful to agencies when they develop departmental policies and guidance. This permits that guidance to be compatible with agency mission and organizational structure.

We believe it is advisable that DOT be noted as one of four Departments able to provide partial estimates of deferred maintenance at the entity level.

Additional comments are included on the enclosure that refine or correct the DOT DCFO responses and references in the report.

If you require additional information, please contact Evelyn Brown at (202) 366-5626.

Sincerely,

David K. Kleinberg
Deputy Chief Financial Officer

Enclosures

Enclosure

Now on p. 11.

Page 15 - Paragraph 1 - The IG is quoted as stating that the agency has not established a formal system to centrally identify or track deferred maintenance....

See comment 1.

We note that beyond the financial statement there is no financial reporting requirement to establish a formal system to centrally identify or track deferred maintenance estimates. Each OA will submit their deferred maintenance estimates to the CFO's OFM for inclusion in the DOT Consolidated Financial Statement for FY 98 which will permit consolidation of this information.

See comment 2.

Page 22 - Paragraph 2, Second sentence - "The Deputy CFO reported that DOT applies financial policies issued centrally within the Executive Branch without interpretation".

See comment 2.

To retain the context of that statement we note that in the same paragraph of the original comment the DCFO said DOT will provide more detailed guidance on Departmental reporting on deferred maintenance through the issuance of guidance for preparation of the fiscal year 1998 financial statements.

We refer to the DOT letter to Dr. Gerald L. Dillingham, copy attached, paragraph 3 which states the following:

See comment 2.

"When financial policies are issued centrally within the Executive Branch it is the policy of this Department to apply that financial policy in a straight forward manner without interpretation and variation. In those cases where there is a clear benefit associated with removing the flexibility of applying those policies from the operating entities, we would add or interpret those policies".

Now on p. 16.

To place the statement in context we recommend revising the report by deleting the word "**without**" and replace it with the wording, "with interpretation as necessary where there is a utility" - a paraphrase of the full paragraph.

Now on p. 17.

Page 15, Paragraph 2 states that the Department has not established a formal system to centrally identify or track deferred maintenance estimates.

See comment 1.

We suggest that GAO note the absence of such a financial reporting requirement unless it refers to a consolidation of such estimates in the financial statement.

Now on p. 19.

Page 25, Paragraph 3 - Last sentence - Because deferred maintenance is linked to PP&E, the IG believes that DOT needs to identify and validate PP&E **before** estimating amounts of deferred maintenance.

See comment 1.

We believe that implementation of Deferred Maintenance or other standards, although impaired because of the inability to support all of the account balances with subsidiary detail, does not preclude an agency from implementing the standards. For the validated PP&E, implementation can proceed and estimates may be made where aggregate asset information is available. Also, in cases where assets may not have been fully validated for financial statement purposes, deferred maintenance estimates may also be implemented. This is an evolving process that will continue to improve with increased data accuracy and integrity.

Now on p. 19.

Page 26, Paragraph 2, While providing useful new information for decisionmaking, ...

See comment 2.

The need for deferred maintenance information is not new. Departments and Agencies have had a need for maintenance information to support the programs and missions. Deferred maintenance is not a separate line item reported in the budget. What is new is the requirement to "formally" report financial estimates of deferred maintenance on the agency financial statement in FY 98.

Now on p. 37.

Page 38, Management Actions, Second sentence - The Deputy CFO DOT stated that implementation of the deferred maintenance requirements of SFFAS No. 6 is "limited" to the MARAD....

See comment 2.

The comment should be changed from "**limited to**" to "**occurs in**". We recognize that other elements of DOT have modest levels of assets that require maintenance.

See comment 2.

Page 38, Management Actions - Mid Paragraph - "Because deferred maintenance is linked to PP&E, the Deputy CFO asserted that it needs to identify and validate its PP&E before deferred maintenance can be accurately determined".

See comment 1.

Upon examination we believe that full validation of PP&E need not precede implementation of deferred maintenance (see the related comment above.)

See comment 2.

Page 38, Paragraph 2, Sentence 5, The Deputy CFO for DOT reported that a key unresolved question is for the agency how to determine the universe of categories of assets that have deferred maintenance;

Now on p. 38.

We believe use of the term "universe" in our original comment was in error. Please delete the word "universe" and restate the sentence to read "to place assets in proper categories for financial reporting on deferred maintenance.

Now on p. 38.

Page 39, Agency Experience with Deferred Maintenance Reporting, First sentence - that each of the three operating administrations relevant to deferred maintenance ...

Delete "relevant to" and replace with "for which major deferred maintenance occurs.

Now on p. 39.

Page 40, Agency Assessment of Key Challenges/barriers to comply with the new accounting requirement to Implementing the Deferred Maintenance Requirements of SFFAS No. 6.

See comment 2.

Delete the word "developing" and replace with "ensuring" as submitted in the original DOT response.

We believe that the OAs management deferred maintenance could be improved by the collection of data and analysis of that information.

The following are GAO's comments on the Department of Transportation's letter.

GAO Comments

1. Discussed in the "Agency Comments and Our Evaluation" section.

2. We considered DOT's suggestions and have modified the report as appropriate.

Comments From the Department of Defense

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

JAN 22 1998

COMPTROLLER

Mr. Gene L. Dodaro
Assistant Comptroller General
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Dodaro:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) Draft Report "DEFERRED MAINTENANCE REPORTING: Implementation Remains a Challenge," dated December 15, 1997 (GAO Code 935245/OSD Case 1506).

The draft report states that the deferred maintenance requirements of Statement of Federal Financial Accounting Standards (SFFAS) No. 6 will present a significant challenge to the agencies. In addition, as asked by Senator Stevens, the draft report provides the GAO's assessment of the agencies' status in implementing the new standard.

The deferred maintenance requirements of SFFAS No. 6 require the reporting of information that is not accounting information and cannot be produced from existing financial management systems. In addition, most of the required deferred maintenance information is not captured in existing DoD property, plant and equipment (PP&E) related automated systems. Therefore, in order to fully comply with the standard, it appears that the Department will have to significantly modify existing processes and automated systems to capture and produce the deferred maintenance information required to be displayed in a footnote to the Department's financial statements.

Establishing new procedures and modifying the Department's many diverse PP&E related automated systems is a significant challenge that will be costly in terms of both funding and personnel resources. Adding to the complexity of the Department's efforts to comply with the standard is the fact that the Military Departments and Defense Agencies have enormous quantities of unique and diverse types of PP&E. Further, the PP&E is located worldwide and may be involved in military missions that change maintenance decisions and schedules, as well as the availability of the PP&E for maintenance.

In spite of these difficulties and the significant cost, the Department is striving to comply with the deferred maintenance disclosure requirements.

I am concerned that the draft report fails to provide an assessment of what the impact will be on the agencies in implementing and complying with the standard. The lack of this perspective in the draft report is of particular concern to the Department, because, as the draft report indicates, the Department has 80 percent of all federal government PP&E. Furthermore, deferred maintenance amounts are only a "snap-shot" in time--the end of the fiscal year.

However, the federal agencies' financial statements are not required to be submitted until approximately 5 months after the end of the fiscal year. In the DoD, the amount of deferred maintenance will have changed significantly within that 5-month period as items of PP&E are moved into depots for maintenance, items of PP&E are returned from military operations, items of PP&E become available for maintenance after use in training or joint exercises, etc.

Given the significant effort, and cost, of reporting the amount of deferred maintenance on an agency's financial statements, it is unclear whether the benefits to be derived will be proportionate to the effort and costs that will be required to obtain and report this information. The draft report fails to address that question.

Sincerely,

William J. Lynn

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