



Environmental & Disposal Liabilities (E&DL) for Department of Defense (DoD) Weapons Systems

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E&DL Drivers

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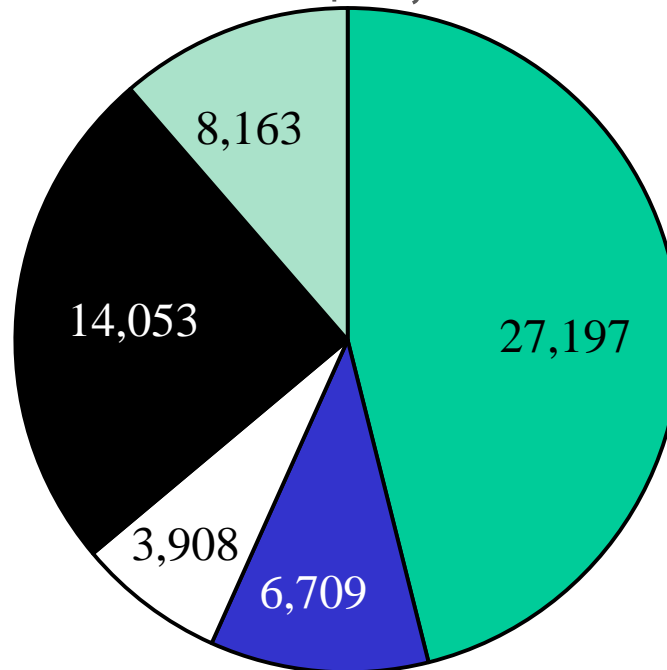
- The Chief Financial Officers Act of 1990 requires that all federal agencies prepare financial statements
- The Government Management Reform Act of 1994 requires that those statements be audited
- The FY2010 NDAA requires that the DoD be audit ready no later than September of 2017
- Environmental & Disposal Liabilities (E&DL) are required to be reported on financial statements
- E&DL is the second largest liability in the DoD



Note 14. FY14 DoD E&DL

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Environmental and Disposal Liabilities FY 2015 - \$60,030 Million



- Accrued Environmental Restoration Liabilities
- Other Accrued Environmental Liabilities—Active Installations
- Base Realignment and Closure (BRAC)
- Nuclear Powered Military Equipment / Spent Nuclear Fuel
- Chemical Weapons Disposal Program



E&DL Definition

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- *E&DL are future outflows or expenditures of resources that exist as of the financial reporting date for environmental cleanup, closure, and/or disposal costs resulting from past transactions or events.*
- There are two basic types of E&DL
 - 1) event-driven liabilities are caused by release of contamination to the environment that will require future cleanup; and
 - 2) asset-driven liabilities are the environmental costs associated with disposal of an asset.



Accounting Standards – Definitions

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- SFFAS 5 – Liabilities
 - Liability: Probable future outflow or other sacrifice of resources as a result of past transactions or events... recognized when the event occurs.
- SFFAS 6 – Plant, Property & Equipment (PP&E)
 - Cleanup costs are the costs of removing, containing, and/or disposing of (1) hazardous waste from property, or (2) material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associated PP&E.
 - Cleanup costs shall be estimated when the associated PP&E is placed in service... recognized over the asset life.



What Does DoD Need to Report?

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- Assets or sites that operate in a compliant manner **may have future E&DL**
 - Closure / post-closure requirements specified in operating permits (USTs/ASTs, landfills)
 - Non-routine HW disposal associated with closure and disposal of structures, equipment, munitions, and weapons

A portion of estimated total cleanup costs shall be recognized as expense during each period PP&E is in operation...begin when PP&E is placed in service

SFFAS#6



Implementation Guidance on Cleanup Costs Associated with Equipment (TR 11)

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- E&DL are defined by cleanup costs and hazardous waste in SFFAS 6.
- Cleanup costs that occur when operations cease are recognized over the life of the asset.
- However, “.... ..cleanup that is part of **“ongoing part of operations** are accounted for in accordance with liability standards...”
 - Immediate cleanup (e.g., spill)
 - Routine HW disposal (part of “ongoing operations”)



E&DL vs. Ongoing Operations

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- When is cleanup the same as ongoing (day-to-day) operations?
- Considerations include:
 - Regulatory requirements - Is it the same waste code as routinely disposed waste?
 - Method of managing the waste - Does it go to the same place as routinely disposed waste?
 - Ongoing contract - Is this activity non-routine, requiring a special contract?

Common Operational Waste

- Batteries, cleaning solvents, motor oil
- Wastewater from equipment cleaning
- Certain sludges, residues characteristic of operational waste
- Product or waste recovered for reuse: fuel, used oil

E&DL

- Ship scrapping operations
- Nuclear waste
- Asbestos
- Permitted unit closures



Approaches to Defining the Scope of Military Equipment

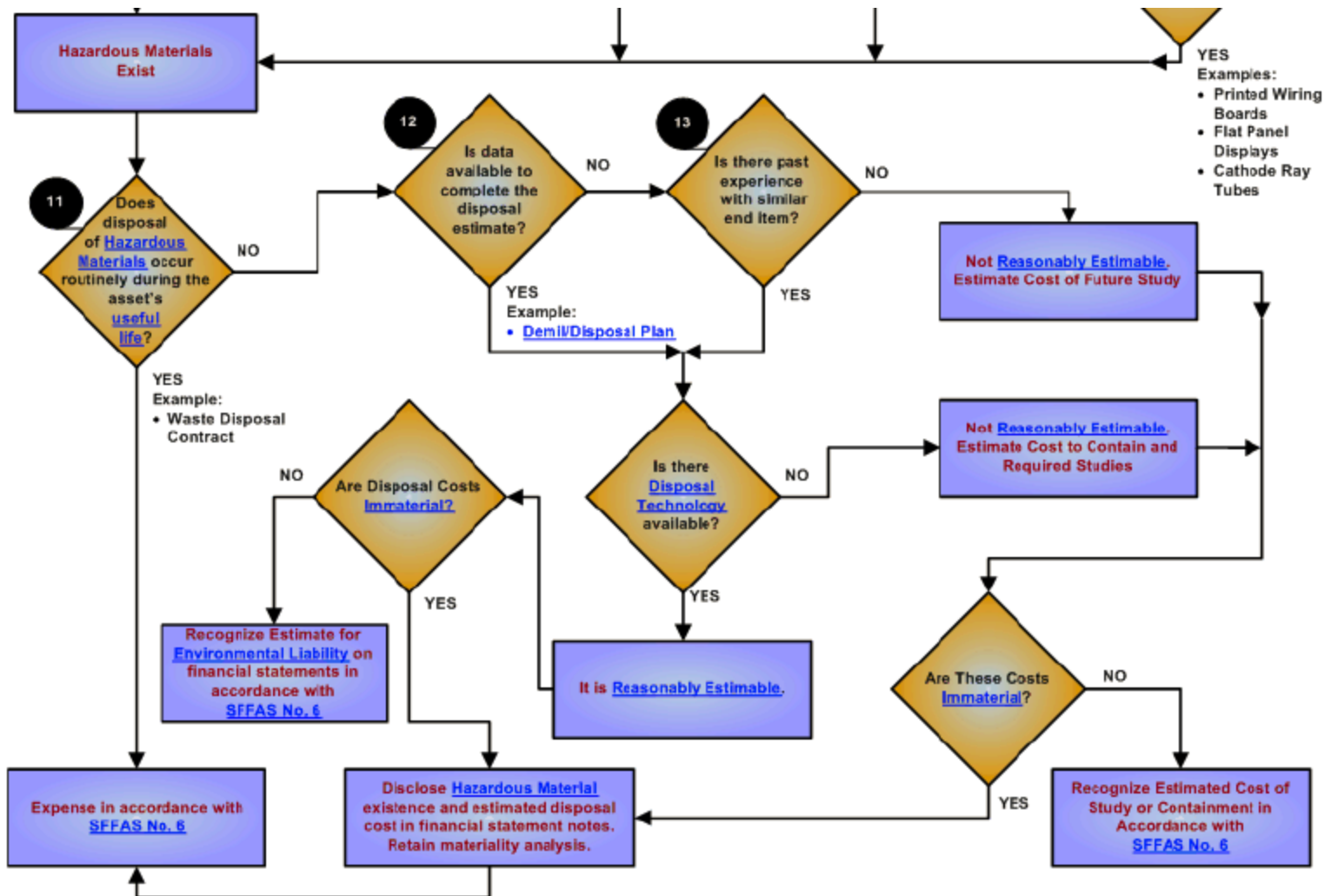
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- Routine Operating Costs - Technical Release 11
- Capitalization / Accountability Thresholds
- Regulatory Drivers
- Types of Hazardous Materials
- Types of Equipment
- DLA – DRMO waste streams and costs



Recognizing E&DL for Equipment

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E&DL Policy and Guidance

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- Statement of Federal Financial Accounting Standard 6 (SFFAS 5) – Accounting for Liabilities of the Federal Government
- SFFAS 6 – Plant, Property & Equipment
- Technical Release 11 – Implementation Guidance on Cleanup Costs Associated with Equipment
- DoD Financial Management Regulation (FMR), 7000.14-R, Volume 4, Chapter 13
- DoD Strategy for E&DL Audit Readiness



Summary and Conclusions

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- Audit Readiness legislative deadline of FY17 fast approaching;
- DoD still reporting little E&DL for Military Equipment
 - Nuclear ships and submarines
 - Chemical weapons disposal
- DoD E&DL community is working with the DoD Equipment community to develop methodologies to identify the universe of hazardous materials of interest in Military Equipment/Weapons Systems
- Next steps – how to incorporate into acquisition



Questions

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Backup Slides

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E&DL with Equipment – Background

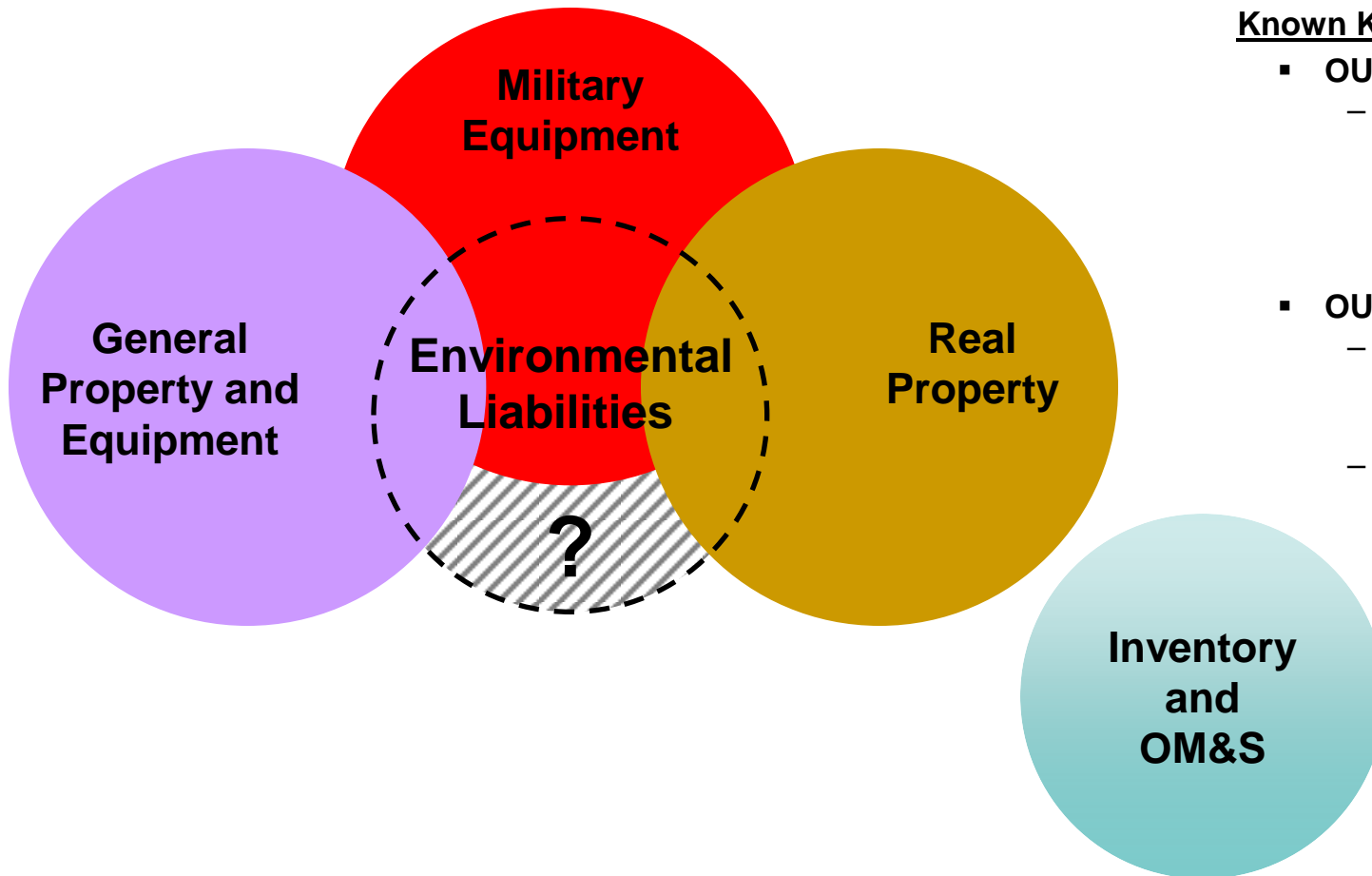
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- “DoD’s Liability for Aircraft Disposal can be Estimated,” GAO Report, Nov 1997
 - Requirement to estimate EL’s associated with major acquisition systems dates back to NDAA 1995
 - GAO referenced NDAA, and newly published 1997-1998 SFFAS 5 and 6.
- Navy Ships and Submarines
 - Assertion in November 2008
 - Process based on 2006 study of disposal costs
 - DoD IG reported several findings in the calculations but concluded the liability was “fairly stated”
 - Reporting Environmental and “non-Environmental” portion of the non-nuclear ships
 - Total disposal cost for nuclear ships is reported as “Environmental”



Defense Community Roles

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Known Key DoD Stakeholders

- OUSD-(Comptroller)
 - DCFO
 - Accounting & Finance Policy Directorate
 - FIAR Directorate
- OUSD (AT&L)
 - OASD(EI&E)
 - ESOH Office
 - BSI Office
 - Director, Acquisition Resources & Analysis
 - Property & Equipment Policy Office

E&DL Responsibility Encompasses Multiple Stakeholders Across the Department



Data Sources

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- CAMS-ME inventory of ME assets
- Army Lifecycle Cost data
- DRMS waste streams, quantities, cost (not tied to assets)
- Military Equipment Disposal Plans
- Actual / Historical Costs