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

October 26, 2016

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Agenda

- E&DL Drivers
- Note 14. Fiscal Year 2015 DoD E&DL
- E&DL Definition
- Accounting Standards – Definitions
- What Does DoD Need to Report?
- Implementation Guidance on Cleanup Costs Associated with Equipment (TR11)
- E&DL vs. Ongoing Operations
- Approaches to Defining the Scope of Military Equipment
- Recognizing E&DL for Equipment
- E&DL Policy and Guidance
- Summary and Conclusions
E&DL Drivers

- 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

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

- Accrued Environmental Restoration Liabilities: $27,197
- Other Accrued Environmental Liabilities—Active Installations: $8,163
- Base Realignment and Closure (BRAC): $14,053
- Nuclear Powered Military Equipment / Spent Nuclear Fuel: $6,709
- Chemical Weapons Disposal Program: $3,908
E&DL Definition

• **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 environmental that will require future cleanup; and
  – 2) asset-driven liabilities are the environmental costs associated with disposal of an asset.
Accounting Standards – Definitions

• 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?

- 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...
• 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

- 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

- 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

Hazardous Materials Exist

Does disposal of Hazardous Materials occur routinely during the asset’s useful life?

11

Yes

Example:

- Waste Disposal Contract

No

Are Disposal Costs Immaterial?

12

Is data available to complete the disposal estimate?

Yes

Example:

- Demolition/Disposal Plan

No

Are these costs Immaterial?

13

Is there past experience with similar end item?

Yes

Not Reasonably Estimable, Estimate Cost of Future Study

No

Not Reasonably Estimable, Estimate Cost to Contain and Required Studies

Recognize Estimate for Environmental Liability on financial statements in accordance with SFFAS No. 6

Recognize Estimated Cost of Study or Containment in accordance with SFFAS No. 6

Expense in accordance with SFFAS No. 6

Disclose Hazardous Material existence and estimated disposal cost in financial statement notes. Retain materiality analysis.

It is Reasonably Estimable.

www.acq.osd.mil/pepolicy/training_tools/environmental_liabilities_instructions.html
E&DL Policy and Guidance

- 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

- 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
E&DL with Equipment – Background

• “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

• 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”
E&DL Responsibility Encompasses Multiple Stakeholders Across the Department
Data Sources

- 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