



# United States Department of the Interior

OFFICE OF THE ASSISTANT SECRETARY  
POLICY, MANAGEMENT AND BUDGET  
Washington, DC 20240



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## Memorandum

To: Bureau Directors  
Bureau Chief Financial Officers  
Bureau Hazardous Materials Contacts  
Departmental Offices

From: P. Lynn Scarlett   
Assistant Secretary – Policy, Management and Budget

Subject: Updating Database of Sites with Potential Environmental Liability

The Department of the Interior is required to submit quarterly financial statements to the Office of Budget and Management (OMB). Included in these financial statements are accrued environmental cleanup liabilities (ECL). In order for finance offices to prepare timely, fairly stated quarterly and fiscal year-end financial statements, ECL estimates must be well-supported.

Federal accounting standards address how to recognize and measure liabilities, including those related to environmental cleanup, for inclusion in Federal financial statements. In order to comply with these requirements, each bureau's Hazardous Materials Contacts or other designated personnel must: (1) identify and report new sites with potential environmental liabilities, (2) if reasonably estimable, develop environmental response or study cost estimates for newly-reported sites, and (3) update environmental response or study cost estimates for previously-estimated sites. Use of a standard data file structure is mandatory for recording information about environmental contamination sites. (See Attachment.) A web-based database management system will be implemented in FY 2006 to enhance this process.

In the current fiscal year, Hazardous Materials Contacts or other designated personnel must provide bureau finance personnel, the Office of Financial Management (PFM), and the Office of Environmental Policy and Compliance (PEP) with ECL information and cost estimates by the last day of each quarter (e.g. June 30) to be used in preparing the FY 2005 quarterly and annual financial statements. Additional updates are required by September 23, 2005. If any material changes arise subsequent to September 23, 2005, a special update should be submitted by October 6, 2005. The Attachment addresses: (1) applicable accounting standards and ECL recognition and measurement, (2) guidance on estimating environmental liabilities, (3) limited scope of

environmental cleanup reporting, (4) coordination with the Office of the Solicitor, (5) the spreadsheet data file structure, and (6) the ECL Web-based application. Please note that this information is primarily for financial reporting purposes rather than as support for future funding requirements.

A March, 2005 OIG draft audit report on hazardous waste site management raised questions concerning the adequacy of cost estimation and liability code determination for sites with environmental contamination. An inter-bureau team, formed in April, is helping to implement corrective actions. Draft guidance on cost estimation will be finalized in the third quarter.

Upon receipt from Hazardous Materials Contacts or other designated personnel, bureau finance offices should submit information electronically and in hard copy to PEP, Attention: Robert Wilson and PFM, Attention: Eric Eisenstein no later than the final day of each quarter. After the web-based system is fully operational, the only submission required will be confirmation that data has been entered and verified.

This information is sensitive and for internal Departmental use only, and the list is considered a deliberative document. It should not be released outside the bureau, PEP and PFM, without coordination with PEP, PFM, and the Office of the Solicitor (SOL). Please do not photocopy the list or duplicate the file unless the copies are controlled, accounted for, and/or destroyed.

If you have any questions, please call Eric Eisenstein on (202) 208-4701 or Robert Wilson on (202) 208-7556. Thank you for your participation in this important effort.

#### Attachment

cc: Deputy Chief Financial Officers  
Bureau Finance Officers  
Financial Statement Guidance Team  
Regional Environmental Officers

Attachment 1  
Reporting Potential ECL

Accounting Standards and ECL Recognition and Measurement

Federal accounting standards address how to recognize and measure environmental cleanup liabilities, which are included in Federal financial reports. Statement of Federal Financial Accounting Standard (SFFAS) Number 5, *Accounting for Liabilities of the Federal Government*, requires that agencies report information on estimated environmental liabilities in their annual financial reports. Agencies must recognize a liability when a future outflow or other sacrifice of resources as a result of past transactions or events is “probable” and “reasonably estimable.” Federal Financial Accounting and Auditing Technical Release (TR) Number 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*, provides guidance in determining probable and reasonably estimable liabilities related to environmental cleanup responsibilities. While the financial statements include accrued (i.e., “booked”) environmental cleanup liabilities, footnotes to the financial statements disclose contingent liabilities for potential environmental cleanup costs that are considered reasonably estimable but which do not meet the requirement for an accrual.

The ECL amounts accrued and disclosed in the financial statements are developed from a database of sites with environmental contamination and their associated estimated potential environmental liabilities. The database should encompass all of the bureau’s known environmental contamination sites and include estimates of remediation-related costs identified in: (a) remedial investigations/feasibility studies or other studies and evaluations; (b) records of decision or other agreements; (c) legal judgments, assessments, or consent decrees; or (d) any other actions taken that provide estimates. Estimates can be developed from experience gained through cleanup or study of similar sites or conditions.

Estimating Environmental Liabilities

Environmental cleanup costs at sites with known contamination should be estimated with consistent methodologies, and adequate supporting documentation must be maintained.

Sites or projects which require support from the Department’s Central Hazardous Materials Fund (CHF) will require nominating bureaus to prepare a plan for addressing known areas of contamination and a plan for investigating the presence and viability of Potentially Responsible Parties (PRPs). Specific guidance can be found in Environmental Compliance Memo 99-2, *Supporting Information for Central Hazardous Materials Fund Project Nominations*. The CHF is available only for CERCLA-related response actions.

The Bureau of Reclamation (Reclamation) prepares cost estimates for CHF projects. Reclamation has compiled a database of costs for studies, remediation, and long term monitoring at CHF projects. Reclamation is also finalizing a Departmental ECL database that will be implemented soon.

CHF project cost estimates are based on the Remedial Action Cost Engineering Requirements (RACER) System. RACER has been reviewed by PricewaterhouseCoopers, LLP in accordance with DoD Instruction 5000.61, DoD Modeling and Simulation Verification, Validation and Accreditation, and is fully accredited "to provide an automated, consistent, and repeatable method to estimate and document the program cost for the environmental cleanup of contaminated sites and to provide a reasonable cost estimate for program funding purposes consistent with information available at the time of the estimate preparation."

Guidance regarding cleanup cost estimation and related documentation requirements will be issued in the third quarter of F.Y. 2005.

#### Scope of Environmental Cleanup Reporting Limited

There are many Federal and state statutes that provide context in which the Department's properties may be subject to an environmental liability, but there are certain environmental risks which are not within the scope of ECL reporting. Regulated materials (e.g., asbestos) used in construction or renovation of facilities are not within the scope of ECL reporting if they are in an undisturbed or encapsulated state. The practice for such materials is to monitor them but leave them undisturbed. Only if they become "friable" or otherwise released into the environment would they be considered contaminants requiring cleanup or abatement.

Environmental liabilities for ECL reporting purposes must be related to a past transaction or event; in the case of materials used in the construction or renovation of a facility, there is no past transaction or event leading to a future outflow of resources unless and until the materials become capable of causing contamination. Therefore, the costs for monitoring or other management of these materials in an undisturbed or encapsulated state should not be reported as ECL.

Activities funded under O&M (operations and maintenance) do not represent a future outlay of resources and as such are neither recognized nor disclosed as ECL. However, O&M shortfalls that can result in environmental fines and penalties and a quantifiable outflow of resources may need to be listed as ECL.

#### Coordination with Office of the Solicitor

It is necessary for bureau personnel to consult and to coordinate with legal counsel in the Office of the Solicitor (SOL) on certain ECL issues. These issues include large ECL cases where there are questions about bureau or PRP legal liability at a facility or site, and cases that are in litigation. Also, attorney input is appropriate in any unusual circumstances and where there is potential for litigation, particularly where contamination may pose a potential impact on human health and the environment.

Hazardous Materials Contacts and other designated personnel should review the reports of litigation, claims, and assessments with potential ECL from the SOL Contingent Liability System, and reconcile any differences with their own assessments. PFM will provide bureau finance personnel these reports. Bureau finance personnel will in turn provide these reports to Hazardous Material Contacts electronically upon receipt about one week prior to the end of each quarter. Any differences identified between the program office's ECL estimates and the estimates derived by the SOL must be resolved by the last day of each quarter. For assistance in contacting SOL personnel about particular cases, please contact Eric Eisenstein in PFM on (202) 208-3417 or Edward Keable, Associate Solicitor, Division of Administration on (202) 208-6115.

#### Spreadsheet Data File Structure

The use of a standard data file structure is again required for recording information about the bureau's environmental contamination sites. The Microsoft Excel file structure includes the following information for each site, with the date in the heading:

- a. Bureau (or office)
- b. Region
- c. Site Code
- d. Site Description/Operational Unit Name
- e. Site Type
- f. City
- g. State
- h. Law/Regulation  
[C=CERCLA, R=RCRA, U=UST, W=CWA, A=CAA, T=TSCA, O=other]
- i. If "O" above--name and/or description.
- j. Likelihood of Incurring Future Costs for Environmental Cleanup  
[P--Probable, RP--Reasonably Possible, or R--Remote]
- k. Not Estimable
- l. Total (Future) Costs / Range [if known or reasonably estimable]
  - Cost of Study [Entered if cleanup cost not known or reasonably estimable]
  - Cleanup Cost
  - Other Costs
  - Total Cost and Upper Limit (calculated fields)
- m. Known PRPs

[Yes, if established by a judicial decree or other legally binding settlement agreement, or No, under any other circumstances. Bureaus are advised to consult with the Office of the Solicitor to determine any shared liability.]

n. Bureau's Allocation of Liability

[If established by judicial decree or other legally binding settlement, percentage share for Bureau; otherwise No or Unknown. Bureaus are advised to consult with the Office of the Solicitor to determine any allocation of liability.]

o. Amount Recognized or Disclosed in Financial Statements

Amount Recognized

Amount Disclosed

Upper Limit

Column j indicates, for each facility and site, the likelihood of an unfavorable outcome— i.e., the probability that the bureau must incur a future outflow of resources for environmental cleanup. Enter "P" — probable: more likely than not — for cases in which it has been established that the Department is liable for cleanup costs, i.e., Government-related events where the Department/bureau is liable for cleanup costs, including events where the Department: (1) caused or contributed to a known or confirmed release of contamination; (2) is legally liable as a result of a court decision or valid administrative order; or (3) has formally agreed to assume all or part of the costs of a cleanup under a legally binding settlement agreement or consent decree. Government acknowledged events are not reportable liabilities in the financial statements until (and to the extent that) Congress has appropriated or authorized resources and an exchange of services has occurred, as when a contractor begins cleanup.

Enter "RP" — reasonably possible — for facilities and sites where the probability that the bureau must incur a future outflow of resources for environmental cleanup is more than remote but less than probable.

Enter "R" — remote — where the Department is clearly not liable, including Government-acknowledged events that result from a non-federal source where the Department is not liable but chooses to accept financial responsibility for cleanup due to the Government's broad responsibility to provide for the public's general welfare (where there is no specific appropriation and exchange of services.)

Column l indicates estimates of costs or cost ranges for cleanup (e.g., site preparation, remediation, disposal of contaminants, etc.); for sites without known or reasonably estimable cleanup costs, there should be estimates of the cost of study. For financial accounting purposes, estimates associated with "P" sites are accrued or "booked" as ECL, estimates associated with "RP" sites are disclosed in a footnote to the financial statements, and estimates pertaining to "R" sites are neither accrued nor disclosed. For "P" sites with cost ranges provided, the lower end of the range is accrued or "booked" as ECL, and the additional potential cost (i.e., the difference between the high and low ends of the range) is disclosed. The fields for cost to monitor and other ECL costs

(e.g., EPA fines, development of environmental compliance documents) have limited applicability. Estimates should exclude activities funded under O&M.

To determine current FY estimates of ECL, personnel should adjust previous FY estimates of ECL for expenditures, changes in scope or costs, and newly-scoped items. Notes should be used to explain changes from the prior report in, among other items, (1) likelihood of incurring future costs, (2) cost estimates, and (3) clarifications of regulatory or statutory status.

#### ECL Web-based Application (WBA)

To ensure the quality and consistency of the underlying data, bureaus must provide their data in the enhanced spreadsheet, which was provided to each bureau in FY 2004. This spreadsheet will maximize the quality control needed to utilize the WBA. Additional training for use of the WBA will be available shortly.