



# United States Department of the Interior

OFFICE OF THE SECRETARY  
Washington, D.C. 20240

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## Memorandum

To: Bureau Chief Financial Officers  
Bureau Hazardous Materials Contacts

From: *for* Director, Office of Financial Management and  
Director, Office of Environmental Policy and Compliance

Subject: Environmental Cleanup Liabilities and Materials Used in Facility Construction

The purpose of this memorandum is to clarify Departmental policy with respect to reporting of certain activities in the periodic Environmental Contingent Liabilities Report (ECL Report). The scope of the ECL Report is defined in two documents issued by the Office of Management and Budget, "Statement of Federal Financial Accounting Standards No. 5 (Accounting for Liabilities of the Federal Government)" (SFFAS 5) and "Federal Financial Accounting and Auditing Technical Release No. 2 (Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government)" (TR 2).

Under the OMB guidance, the definition of an environmental liability for purposes of the ECL Report is fairly narrow. While potential violation of any statutory or regulatory requirement could be considered a "liability", SFFAS 5 states that "a liability for federal accounting purposes is a probable future outflow or other sacrifice of resources *as a result of past transactions or events.*" SFFAS 5, at 6 (emphasis added). TR 2 clarifies that an agency is required to report "a liability for environmental cleanup costs *as a result of past transactions or events* when a future outflow or other sacrifice of resources is probable and reasonably estimable." TR 2, at 1 (emphasis added).

Many Departmental facilities have regulated materials, e.g., asbestos, used in the construction or later renovation of the facility. These materials, while in an undisturbed or encapsulated state (e.g., non-friable asbestos), are not subject to cleanup under applicable law. In fact, the generally-recognized Best Management Practice for such materials is to monitor them, but leave them undisturbed. Only if they become friable or otherwise released to the environment would they be considered contaminants requiring cleanup or abatement. Under normal circumstances, cleanup or abatement should be limited to situations such as the remodeling or demolition of a building containing these materials where the materials could be released and cause contamination of the environment.

It is the policy of the Department of the Interior that environmental liabilities for purposes of the ECL must be related to a past transaction or event. In the case of materials used in the construction or later renovation of a facility, there is no past transaction or event leading to a future outflow of resources unless and until the materials become friable or otherwise capable of causing contamination. Therefore, until that happens, costs for monitoring or other management of these materials in an undisturbed or encapsulated state should not be accrued on the ECL. Any cost for remediation or abatement would only accrue if the material becomes friable or is otherwise released to the environment. It would then be reported in the same manner as any other environmental liability.

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