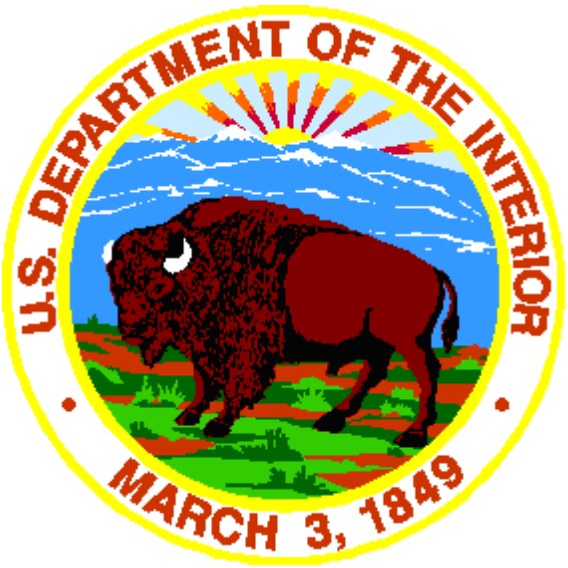
Attachment 1

Department of the Interior

Asbestos Liability Reporting Methodology and Guidance



May 2014

Asbestos Related Cleanup Costs Methodology and Guidance

Table of Contents

1 Introduction

The Federal Accounting Standards Advisory Board (FASAB) issued Technical Bulletin (TB) 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs,* on September 28, 2006. A subsequent bulletin, TB 2009-1, *Deferral of the Effective Date of Technical Bulletin 2006-1,* extended the effective date of TB 2006-1 to October 1, 2011, and TB 2011-2, *Extended Deferral of the Effective Date of Technical Bulletin 2006-1,* further deferred implementation to October 1, 2012. TB 2006-1 provides general guidance regarding the required reporting of asbestos-related liabilities, including the future cleanup costs of asbestos abatement and disposal. It requires agencies to do the following:

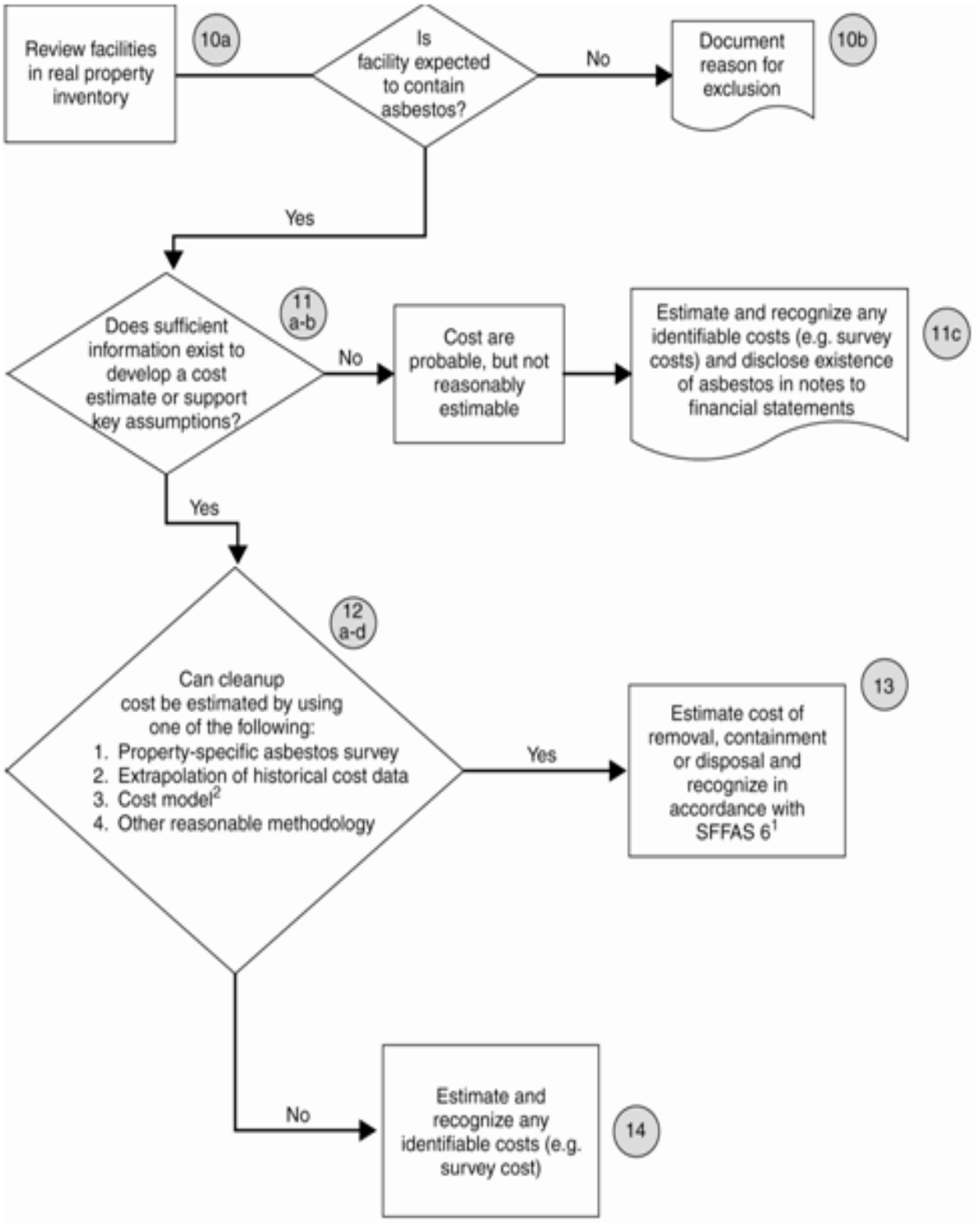
1. Estimate both friable and nonfriable asbestos-related cleanup costs;
2. Recognize a liability and related expense for those asbestos-related cleanup costs that are both probable[1] and reasonably estimable in the financial statements; and
3. Disclose information related to friable and nonfriable asbestos-related cleanup costs that are probable but not reasonably estimable in a note to the financial statements.

To comply with the FASAB requirements for reporting liabilities associated with asbestos clean-up costs, the Department of the Interior (Department) developed this methodology and guidance document to estimate the cleanup costs associated with asbestos in real property owned by the Department.

FASAB Technical Release (TR) 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment,* provides additional guidance to federal agencies on meeting the requirements. The following is Diagram 1 of TR 10, entitled "General Approach to Determining, Estimating, and Recognizing Asbestos Cleanup Costs", demonstrates the general approach which agencies may take in order to meet this reporting requirement. See TR 10 for explanation of footnotes included in the Diagram. The Department's guidance follows this general approach.

[1] Per SFFAS No. 5, paragraph 33 "Probable" refers to that which can reasonably be expected or is believed to be more likely than not on the basis of available evidence or logic. The probability of a future outflow or other sacrifice of resources is assessed on the basis of current facts and circumstances.

General Approach to Determining, Estimating, and Recognizing Asbestos Cleanup Costs



2 Applicable Guidance

The following FASAB guidance applies to the Department's asbestos liability reporting:

- Statement of Federal Financial Accounting Standards (SFFAS) Number (No.) 5, *Accounting for Liabilities of the Federal Government*, amended.
- Statement of Federal Financial Accounting Standards (SFFAS) Number (No.) 6, *Accounting for Property, Plant, and Equipment.*
- Technical Bulletin 2006-1, September 6, 2006, *Recognition and Measurement of Asbestos-Related Cleanup Costs.*
- Technical Bulletin 2009-1, September 22, 2009, *Deferral of the Effective Date of Technical Bulletin 2006-1, Recognition and Measurement of Asbestos-Related Cleanup Costs.*
- Technical Bulletin 2011-2: September 22, 2011, *Extended Deferral of the Effective Date of Technical Bulletin 2006-1, Recognition and Measurement of Asbestos-Related Cleanup Costs.*
- Technical Release Number 2 (TR 2), *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government.*
- Technical Release 10 (TR 10), June 2, 2010, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment.*
- Technical Release 11 (TR 11), June 2, 2010, *Implementation Guidance on Cleanup Costs Associated with Equipment.*

3 Methodology for Estimating Asbestos Related Cleanup Costs

3.1 Overview

This document, the *Department of the Interior's Asbestos Liability Reporting Methodology and Guidance*, addresses the requirement to develop and report an asbestos-related cleanup liability for asbestos cleanup costs that are probable and reasonably estimable. TB 2006-1 defines asbestos-related cleanup costs as the costs of removing, containing, and/or disposing of 1) Asbestos Containing Material (ACM) from property or 2) material and/or property that consists of ACM at permanent or temporary closure or shutdown of associated property, plant, and equipment. Per TR 10[2], the following methodologies may be used in developing asbestos cleanup cost estimates that are both probable and reasonably estimable:

1. A property-specific cost estimate based on survey data (most accurate, if available).
2. An extrapolation of historical cost or cost estimates for asbestos cleanup of similar real properties.
3. A cost model used for an individual real property or group of similar real properties and information from industry-specific cost estimation publications or standardized cost factors developed for each state.
4. Other reasonable methodologies.

The Department currently owns over 110,000 real property assets (buildings and structures) making it cost prohibitive and too time and labor-intensive to conduct surveys on the complete inventory of real property assets to estimate asbestos cleanup costs. Therefore, the Department uses a cost model (Method 3 above) to develop asbestos cleanup cost estimates. The cost model is based on applying cost factors developed from the bureaus' available asbestos survey data to the Department's portfolio of real property.

The Department's methodology consists of the following:

3.2 Generate exemption list
3.3 Develop cost factors
3.4 Apply cost factors to non-exempt assets
3.5 Perform annual updates to the cost factor
3.6 Implement asbestos cleanup liability reporting in FBMS

3.2 Generate Exemption List

The Department analyzes the real property asset types (DOI asset codes) as used in the Department's official property system of record, the Financial and Business Management System (FBMS), to generate an initial list of assets not expected to contain asbestos (e.g. land, roads, etc.)[3]. In addition, the Department works with the bureaus to develop additional exemptions.

[2] TR 10, paragraph 12

[3] See Attachment 2 for a detailed list of exemptions

The bureaus' subject matter experts recommend asset groups to be exempted based on survey results, knowledge of construction materials and techniques, or manufacturer data indicating that the real property asset type is not expected to contain asbestos. Bureaus provide their recommendations for exemptions to the Department and identify the reason for the exemption.

Exemptions will only be applied to asset types and not to individual assets. Individual assets may be removed from the liability using the guidance provided in Section 3.6.

The complete exemption list (Attachment 2) is managed at the Department level and is reviewed and updated when additional information becomes available. Assets with DOI Asset Codes on the exemption list are exempt from the asbestos liability. The remaining non-exempt assets are the real property assets which could potentially contain ACM and this inventory is used to develop the total asbestos-related cleanup costs.

3.3 Develop cost factors

Bans on the use of asbestos-containing building material by the U.S. Environmental Protection Agency began in the early 1970's and led to a significant decline in asbestos in buildings and structures. In fact, the year 1980 is often used in the industry as a cut-off year after which constructed facilities are expected to contain significantly less asbestos containing material. Furthermore, when the Department analyzed the surveys submitted by the bureaus, it was found that there is a significant decline in the asbestos cleanup costs for assets built in 1980 and after. Consequently, the Department develops two cost factors ($/square foot) to estimate the overall asbestos liability, one for assets built prior to 1980 and another for assets built in 1980 and later.

Annually, the bureaus submit asbestos survey data to the Department for analysis and development of the cost factors. The total asbestos cleanup costs from surveys consist of estimated cleanup costs and the survey costs. Due to the fact that surveys are typically performed on the entire asset, total asbestos cleanup costs from surveys are divided by the gross square feet of the surveyed assets to calculate the cost factors.

The Department uses a database to house and analyze the survey data and develop the cost factors. Supporting documentation on surveys conducted is maintained at the bureaus. Bureaus should verify that the information submitted is adequately supported and accurately reflected in FBMS.

3.4 Apply cost factors to non-exempt assets

The cost factors are applied to all non-exempt assets measured in square feet, including those assets with actual and estimated asbestos cleanup costs from surveys, based on asset construction dates, unless bureaus identify those assets as not having ACM in FBMS (see Section 3.6). For non-exempt assets that are not measured in square feet, the average cost of the asbestos surveys conducted by all the bureaus is used to estimate the liability as there is no standard unit of measurement used across all of these assets types. One average cost of survey is calculated for

all assets, regardless of the date of construction. The cost factors and average cost of surveys are provided to the bureaus annually.

Figure 1 below provides a simplified example of how the total estimated asbestos cleanup costs is calculated.

A	Total cleanup costs from surveys	$1,000,000
B	Total gross square feet of assets surveyed	200,000
C	Cost factor [A / B]	$5.00
D	Total gross square feet in inventory of assets	1,000,000
E	Total estimated asbestos cleanup costs for assets in square feet [C x D]	$5,000,000
F	Average Survey Cost	$700
G	Total number of assets not in square feet	1,000
H	Total estimated asbestos cleanup costs for assets not in square feet [F x G]	$700,000
I	Total estimated asbestos cleanup costs [E + H]	$5,700,000

Figure 1: Example asbestos cleanup cost calculations

3.5 Perform annual updates to the cost factors

SFFAS No. 6 requires cost estimates to be reviewed on a periodic basis so that financial statements are fairly presented. The Department reviews the cost factors annually and revises them based on existing survey data as well as newly available survey data through an annual data call to the bureaus.

Periodic updates include adjusting the cost factors for inflation in first quarter of each year, using an inflation rate based on the average of the past five RS Means cost indices. RS Means is widely used by the construction industry to provide accurate estimates and projections for project costs. It is one of several industry standards available for estimating construction and renovation costs. The inflation rate is incorporated into the cost factors which are issued each year to the bureaus.

3.6 Implementing asbestos cleanup liability reporting in FBMS

The Department uses FBMS to implement the asbestos liability reporting requirement. The cost factors, the average survey cost, and the exemption list are provided to the FBMS Business Integration Office (BIO) before the first quarter of the fiscal year in order to be applied to the portfolio in FBMS. The Department works with the BIO and the FBMS programmers to build programming logic in the system so the asbestos liability is automatically calculated. The asbestos cleanup liability is based on the following data elements in FBMS:

- Construction Completion Date
- Gross Square Footage

- Legal interest
- User Status
- DOI Asset Code/Main Usage Type
- Asbestos Survey
- Asbestos Present
- Renovation Complete

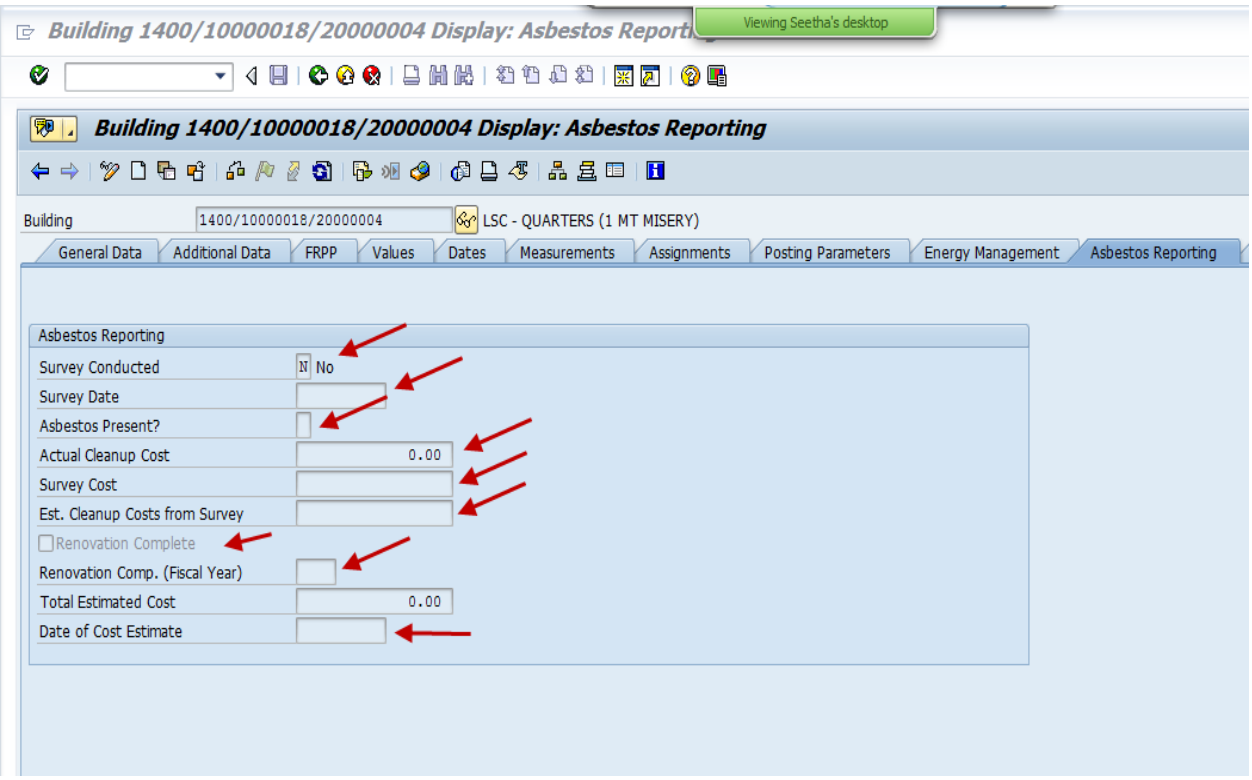
See Attachment 3 for a detailed explanation of the data elements and information regarding documentation used to support the information in FBMS.

To ensure that the asbestos liability is presented fairly in the Department's financial statements, the above data elements in FBMS should accurately reflect the asset's current characteristics. This requires the ongoing validation and update of real property data in FBMS. During internal reviews and external audits, bureaus will be required to provide supporting documentation of the data elements for sampled assets to determine the accuracy of the estimate. The Office of Acquisition and Property Management (PAM) guidance states that bureaus should leverage existing program efforts, such as condition assessments, to review, validate, and update real property records,. Additionally, bureaus may incorporate additional data reviews by focusing on assets having significant impact on the asbestos liability (e.g. assets with missing information, large square footage, or built prior to 1980).

- <u>Validation Rules when updating data fields affecting asbestos liability in FBMS:</u>

  Changes made to the real estate object in FBMS are typically made at the field office level. Therefore, to ensure data consistency and quality, information reported in the system as well as on the asbestos report should be reviewed for accuracy at Regional and Headquarter levels and any gaps should be addressed.

  To minimize the potential for data errors, the Department, in conjunction with the BIO, instituted data validation rules in FBMS in regards to changes to some of the fields on the asbestos reporting tab in the real property module (see screen shot below).



However, there are some user changes which can be made without violating the validation rules. They include the following:

FBMS excludes an asset from the asbestos liability report if a user selects 'No' for "Asbestos Present" or checks "Renovation Complete". However, the system does not prevent a user from clicking both 'No' to "Survey Conducted" and 'No' to "Asbestos Present" in the asset. Additionally, the system does not prohibit users from clicking 'Yes' to "Asbestos Present," but checking "Renovation Complete." Bureaus are reminded by pop-up windows that supporting documentation must be uploaded to the real estate object record and/or kept in the bureaus' project files if a user selects 'No' for "Asbestos Present" or marks "Renovation Complete". This is critical during the review of property data during the Department's external audit.

FBMS has system controls in place prohibiting users from saving new buildings records (35 as beginning DOI Asset Code) with zero (0) for gross square footage and from leaving the construction completion date blank. However, these validations do not apply to existing assets unless bureaus are making changes to the asbestos reporting tab.

FBMS allows users to input zero (0) for cost of survey when selecting 'Yes' for "Survey Conducted." It is critical that when bureaus conduct asbestos surveys and/or have asbestos survey information that they upload it to FBMS or retain it in the real property file.

- Reducing the asbestos cleanup liability for non-exempt assets:

The asbestos cleanup liability for non-exempt assets may be reduced when circumstances change and the assets no longer meet the criteria for reporting a liability. For example, when an asset is disposed of or when information becomes available supporting that no ACM is present in the asset, the Department no longer carries a liability for that asset.

Additionally, the asbestos liability may be reduced when an asset undergoes a renovation to remove asbestos. Since renovations can include many phases and may last for many years, it is difficult to design a consistent method to estimate the portion of asbestos being removed. Thus, the most consistent, cost-effective, and conservative approach is to capture gross square footage renovated after total facility renovations are complete. For the purpose of estimating the financial liability, this approach assumes that when complete renovations are undertaken, all known asbestos containing material is removed as is customarily done in industry. Therefore, when total renovations (all phases/wings/floors) have been completed, the total square footage of the renovated facility will be removed from the asbestos liability model against which the cost factors are applied. When a renovation of a structure has been completed, then the average cost of the survey will be removed from the liability estimate. The estimated liability will not be reduced for partial renovations or single phases of projects because the cost model is based on total gross square footage of buildings or complete renovation of structures.

Bureau personnel with appropriate system roles must update the FBMS real estate object after all phases of a renovation of a facility are complete so the model estimate can be reduced over time.

Once the asset is identified as having undergone a complete renovation, appropriate personnel should check in the system “Renovation Complete” so the cost factor will not be applied to the square footage related to the asset or the average survey cost will not be included in the liability calculation. Additionally, users should select ‘No’ for “Asbestos Present” on the FBMS Asbestos tab when renovation is complete.

Appropriate documentation (contracts, as-built surveys, contractor reports) that an asset has had a complete renovation must be kept for audit purposes. Bureaus have the option of keeping the documentation on hand in the property file and/or uploading it to the real estate object in FBMS to assist with any auditing questions.

Marking that a renovation has been completed at a facility indicates that the bureau property manager is confirming that to the best of his/her knowledge there is no additional asbestos related cleanup costs for the asset, and it should be removed from the cost model. Bureaus are allowed to develop their own bureau-specific internal control policies and procedures in order to ensure the completeness and accuracy of this step.

In addition to actual renovations, bureaus will remove from the liability calculation any assets with documented asbestos surveys demonstrating that the assets contain no ACM. This process will ensure that these assets will not have the cost factors or average survey cost applied.

4 Roles and Responsibilities

The table below summarizes the various roles and responsibilities of both the Departmental offices and the bureaus regarding this requirement.

Entity	Role
Departmental offices: Office of Environmental Policy and Compliance (OEPC) Office of Financial Management (PFM) Office of Acquisition and Property Management (PAM)	Issue and update implementation guidance Determine general exemptions Issue annual data call for additional ACM survey information from bureaus Analyze asbestos survey data, calculate cost factors, provide cost factors and average survey cost to FBMS BIO in order for bureaus to apply to their portfolio Conduct periodic reviews of exemptions, cost factors, and guidance documentation
PAM	Maintain DOI asset code list
PFM	Issue accounting guidance on recognition/disclosure of asbestos cleanup liability and reporting process Reconcile Department-wide asbestos liability with asbestos report
OEPC	Maintain database of bureau submitted asbestos survey data to calculate cost factors and average survey cost
FBMS BIO	Update cost factors and exemptions in FBMS, develop and refine fields, calculations, validations, and reports as needed; Work with Policy Offices to improve reporting capabilities

Bureaus	Submit recommended exemptions and justifications Respond to data calls for asbestos survey and cost data Monitor and validate real property asset data and update real property records based on completed renovations Maintain documentation on renovations and asbestos surveys conducted Reconcile bureau asbestos liability with asbestos report Recognize liability using information provided by the Department in financial systems per due dates from the PFM milestone list

5 Asbestos Cleanup Liability Reporting

Attachment 4 provides guidance to the bureaus for reporting the asbestos-related liability in the Department-wide financial statements.