Army Environmental Liability Recognition, Valuation, and Reporting

June 2010

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Department of the Army
**Army Environmental Liability Recognition, Valuation, and Reporting**

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13. SUPPLEMENTARY NOTES

**Presented at the NDIA Environment, Energy Security & Sustainability (E2S2) Symposium & Exhibition held 14-17 June 2010 in Denver, CO.**

14. ABSTRACT

15. SUBJECT TERMS

16. SECURITY CLASSIFICATION OF:

<table>
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<th>a. REPORT</th>
<th>b. ABSTRACT</th>
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<td>unclassified</td>
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17. LIMITATION OF ABSTRACT

**Same as Report (SAR)**

18. NUMBER OF PAGES  
**21**

19a. NAME OF RESPONSIBLE PERSON

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Standard Form 298 (Rev. 8-98)  
Prescribed by ANSI Std Z39-18
Agenda

- Why – Statutorily Required
- What – Environmental Liabilities Universe
- Where – Balance Sheet Note 14
- When – Quarterly Reporting
- Who – Many players w/Different Backgrounds
- Challenges
Chief Financial Officer’s (CFO) Act of 1990
- Required Federal Agencies to prepare auditable financial statements.

The Government Performance and Results Act (GPRA) of 1993
- Required agencies to report on plans and performance systematically.

The Government Management Reform Act (GMRA) of 1994
- Applied the CFO Act to all DoD components.
Why – Statutorily Required (con’t)

- The Federal Financial Management Improvement Act (FFMIA) of 1996 and the Clinger-Cohen Act (CCA) of 1996
  - Agencies must install integrated IT systems capable of producing auditable financial statements.

- Not statute, but DoD published Environmental Liabilities Recognition, Valuation, and Reporting Requirements Document
  - July 2006
Legislation requires DoD and Service components to:

- Have auditable financial statements
  - Balance Sheet shows assets and liabilities

DoD can not obtain a clean audit opinion without eliminating the Environmental Liabilities material weakness

- Need auditable Balance Sheet (Note 14)

Environmental Liability is the largest liability in the Army (DoD: $66.2B; Army: $37.4B)

- Second largest in DoD behind Military Retirement and Other Federal Employment Benefits
What Creates an Environmental Liability

**Definition - DoD FMR 7000.14, Vol.4, Ch. 13:**

- A probable and measurable future outflow or expenditure of resources that exist as of the financial reporting date for environmental cleanup, closure, and/or disposal costs resulting from past transactions or events.
Accounting Standards use the terms “cleanup” and “hazardous waste” more broadly than the environmental community:

– Environmental cleanup costs from the accounting perspective include:
  
  • Traditional CERCLA and RCRA Cleanup/Corrective Action (DERP and non-DERP)
  • Closures / Post-Closure per regulatory permits
  • Other future costs at disposal driven by federal, state, or local regulations
  • Asbestos (friable and non-friable) costs incurred at closure/disposal
What Governs EL Reporting

A wide array of policy and guidance governs EL recognition, valuation, and reporting

- Federal Accounting Standards Advisory Board (FASAB) Standards and Bulletins
- DoD’s Financial Management Regulation (FMR)
- DoD’s *Environmental Liabilities Recognition, Valuation, and Reporting Requirements* document
- Environmental Program Guidance within USD(AT&L)
  - DERP Management Guidance
  - Non-DERP EL Guidance
  - Interim Guidance Updates
- OUSD(C) EL Best Practices Guide
- Component-specific Guidance
  - Army Implementing Guidance
What’s Context of Environmental Liability

- Environmental cleanup liability
  - DERP
  - Compliance-related Cleanup

- Environmental closure liability
  - Non-DERP closure
    - Real property

- Environmental disposal liability
  - Weapon systems
  - Military Equipment and other PP&E
What are the EL Categories on Army’s Note 14?

- **Environmental Restoration** (legacy waste)
  - Active installations
  - BRAC installations
  - FUDS properties

- **Other Accrued EL at Active and BRAC installations**
  - Corrective Action
  - Closure
  - Response at Operational Ranges

- **Chemical Demilitarization**

- **Military and General Equipment** (not yet reported)

Army’s FY09 ELs: $37.4B
Environmental Liabilities Organizations

Depends on organizational hierarchy:

A. Federal Accounting Standards Board (FASB)
B. Federal Accounting Standards Advisory Board (FASAB)
C. 24 Federal Agencies Including DoD
D. DoD Comptroller
E. DUSD(I&E)
F. ADUSD(I&E)/EM
G. ASA(FM&C)
H. ACSIM(ISE & OD) & Others (G-4, ASA(ALT), AMC etc.)
I. USAEC, USACE, IMCOM
J. Installations
What the Army’s EL Scope Entails

- Cleanup: ~ 5,000 sites remaining
- Environmental closure: estimate ~90,980 owned buildings (environmental sites)
- Military and General Equipment disposal: unknown
Where You Report
Environmental Liabilities

Note 14 of the Balance Sheet

- Financial Statement
  - Balance Sheet
    - Note 14
  - Statement of Net Cost
  - Statement of Changes in Net Position
  - Statement of Budgetary Resources
## FY 2009 Annual Financial Statement

### CONSOLIDATED BALANCE SHEET

<table>
<thead>
<tr>
<th>Department of Defense - Department of the Army</th>
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<tr>
<th>As of September 30, 2008 and 2009 (Amounts in thousands)</th>
<th>2009 Consolidated</th>
<th>Restated 2008 Consolidated</th>
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<tr>
<td><strong>ASSETS</strong> (Note 2)</td>
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**Intergovernmental:**
- Fund Balance with Treasury (Note 3) $163,425,416 $163,302,471
- Investments (Note 4) 3,241 3,352
- Accounts Receivable (Note 5) 692,947 699,809
- Other Assets (Note 6) 1,401,729 1,430,902

**Total Intergovernmental Assets** $105,301,227 $104,239,003

**Cash and Other Monetary Assets (Note 7):**
- Accounts Receivable (Note 5) 1,068,004 2,418,049
- Inventories (Note 1) 421,058 408,371
- Loans Receivable (Note 8) 63 0
- Inventory and Related Property Net (Note 9) 34,457,560 40,134,002

**General Property, Plant and Equipment Net (Note 10):**
- Other Assets (Note 6) 120,490,006 111,909,005

**Other Assets (Note 6):**
- 7,289,027 6,449,361

**TOTAL ASSETS** $938,645,404 $835,984,001

<table>
<thead>
<tr>
<th><strong>LIABILITIES</strong> (Note 11)</th>
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<tr>
<td><strong>Intergovernmental:</strong></td>
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<tr>
<td>Accounts Payable (Note 12):</td>
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<tr>
<td>Debt (Note 13):</td>
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<tr>
<td>Other Liabilities (Note 15 and 16):</td>
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**Total Intergovernmental Liabilities** $4,217,897 $3,112,895

- Accounts Payable (Note 12): 14,116,603 12,002,675
- Liability - Retired and Other Federal: 1,325,170 1,472,393
- Environmental and Disposal Liabilities (Note 14): 27,074,663 42,476,406
- Loan Guarantees Liability (Note 13): 3,694 2,937
- Other Liabilities (Note 15 and 16): 12,200,206 12,249,852

**TOTAL LIABILITIES** $74,472,055 $73,425,043

**NET POSSESSIONS**
- Unrestricted Appropriations - Other Funds: 151,042,612 150,718,852
- Earned Funds: 118,171,200 63,560,000

**TOTAL NET POSITION** $269,213,812 $214,278,852

**TOTAL LIABILITIES AND NET POSITION** $938,645,404 $835,984,001

The accompanying notes are an integral part of these financial statements.
When You Report
Environmental Liabilities

Quarterly:

- ASA(FM&C) issues quarterly call for information by about the end of the 2nd month of the quarter
- Information is due early in the month following close of the quarter
  - Timelines are tight for the end of September report so that OSD can consolidate and report for the Department
Note 14 Segmentation:

A. Accrued Environmental Restoration Liabilities (Defense Environmental Restoration Program (DERP)) - Cleanup
   1. Active Installations – Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)
   2. Active Installations – Military Munitions Response Program (MMRP)
   3. Formerly Used Defense Sites (FUDS) – IRP and BD/DR
   4. Formerly Used Defense Sites – MMRP

B. Other Accrued Environmental Liabilities – Non-BRAC
   1. Environmental Corrective Action
   2. Environmental Closure Requirements
   3. Environmental Response at Operational Ranges
   4. Asbestos
   5. Non-Military Equipment
   6. Other (for Army, Low Level Radioactive Waste Disposal)
C. Base Realignment and Closure Installations
   1. Installation Restoration Program
   2. Military Munitions Response Program
   3. Environmental Corrective Action/Closure Requirements
   4. Asbestos
   5. Non-Military Equipment
   6. Other

D. Environmental Disposal for Military Equipment Weapons Programs
   1. Nuclear-Powered Military Equipment/Spent Nuclear Fuel
   2. Non-Nuclear Powered Military Equipment
   3. Other National Defense Weapons Systems
   4. Other

E. Chemical Weapons Disposal Programs
   1. Chemical Demilitarization – Chemical Materials Agency (CMA)
   2. Chemical Demilitarization – Assembled Chemical Weapons Alternatives (ACWA)
   3. Other
## Who are EL Functional Leads?

<table>
<thead>
<tr>
<th>I&amp;E Domain</th>
<th>Other Domains</th>
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<tbody>
<tr>
<td><strong>OACSIM</strong></td>
<td><strong>ASA(ALT)</strong></td>
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<tr>
<td>❑ Cleanup</td>
<td>❑ Chemical Weapons Disposal</td>
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<td>❑ Military Equipment</td>
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<tr>
<td>❑ Closure</td>
<td><strong>AMC</strong></td>
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<td></td>
<td>❑ Low Level Radioactive Waste Disposal</td>
</tr>
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<td></td>
<td><strong>G-4</strong></td>
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<td>❑ General Equipment</td>
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<td><strong>USACE</strong></td>
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<td>❑ Dept of Energy FUSRAP (reported on Civil Works Fund financial statement)</td>
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OACSIM
- Cleanup
  - Active sites
  - BRAC
  - Formerly Used Defense Sites
  - Compliance-related Cleanup

ASA(ALT)
- Chemical Weapons Disposal
- Military Equipment

AMC
- Low Level Radioactive Waste Disposal

G-4
- General Equipment

USACE
- Dept of Energy FUSRAP (reported on Civil Works Fund financial statement)
# Environmental Liabilities
## Integration Across Domains

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<th>Domains</th>
<th>Systems</th>
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<tr>
<td><strong>Functional</strong> proponent</td>
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<tr>
<td>I&amp;E</td>
<td>- Real Property</td>
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<td></td>
<td>- Environmental</td>
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<td></td>
<td>- GIS</td>
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<td><img src="#" alt="IFS, HQIIS, PRIDE, RFMIS, REMIS GFEB5" /></td>
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<td>Financial</td>
<td>General Fund Enterprise Business System (GFEB5)/Standard Operation Maintenance Army Research and Development System (SOMARDS)</td>
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<td>Human Resources</td>
<td>Army Training Requirements and Resources System (ATRRS)</td>
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<tr>
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<tr>
<td></td>
<td>- CMA and ACWA</td>
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<td>- Military Equipment</td>
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<td>- LLRW</td>
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<tr>
<td>G-4</td>
<td>- General Equipment</td>
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ENVIRONMENTAL LIABILITIES

Challenges

- **Large Scope (Other accrued environmental liabilities)**
  - 100K + assets: buildings, structures, utilities
  - 25K+ tracts of land
  - General and Military Equipment – unknown number

- **Horizontal integration required**
  - Within OACSIM
  - Between OACSIM and other Army agencies/programs

- **Cross domain interdependencies**
  - I&E
  - Personnel
  - Financial
  - Logistics

- **Concurrent transformation**
  - Financial system
  - Environmental systems
  - Real Property systems
Questions