



Federal Accounting Standards Advisory Board

**Deferral of the Effective Date of
Technical Bulletin 2006-1, *Recognition and Measurement
of Asbestos-Related Cleanup Costs***

Technical Bulletin 2009-1

September 22, 2009

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the Federal Government.

FASAB has authorized its staff to prepare FASAB Technical Bulletins to provide timely guidance on certain financial accounting and reporting problems, in accordance with the Board's rules of procedure, as amended and restated through April 2004, and the procedures described in FASAB Technical Bulletin 2000-1, "*Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance.*" The provisions of Technical Bulletins need not be applied to immaterial items.

Additional background information is available from the FASAB or its website:

- ◆ "Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board."
- ◆ "Mission Statement: Federal Accounting Standards Advisory Board", Exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB's website at: www.fasab.gov.

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Summary

This Technical Bulletin defers for two years the effective date of Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*. The guidance in Technical Bulletin 2006-1 will be effective for periods beginning after September 30, 2011.

Table of Contents

Summary..... i

Technical Guidance..... 1

 Scope 1

 Amendment of Technical Bulletin 2006-1 1

 Effective Date 1

Appendix A: Basis for Conclusions 2

Appendix B: Abbreviations 6

Technical Guidance**Scope**

1. This guidance affects all federal entities that own buildings, facilities, ships, or other tangible property, plant, and equipment (PP&E) that contain any form of asbestos and present general purpose financial reports in conformance with Statement of Federal Financial Accounting Standards 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

Amendment of Technical Bulletin 2006-1

2. The effective date of the guidance on recognition and measurement of asbestos-related cleanup costs provided in par. 50 of Technical Bulletin 2006-1 is amended as follows:

This Technical Bulletin is effective for reporting periods beginning after September 30, ~~2009~~2011. Earlier adoption is encouraged.

Effective Date

3. This Technical Bulletin is effective upon its issuance.

The provisions of this Technical Bulletin need not be applied to immaterial items.

Appendix A: Basis for Conclusions

The Federal Accounting Standards Advisory Board has authorized its staff to prepare FASAB Technical Bulletins to provide timely guidance on certain financial accounting and reporting problems, in accordance with the Board's rules of procedure, as amended and restated through April 2004, and the procedures described in FASAB Technical Bulletin 2000-1, "*Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance.*" The provisions of Technical Bulletins need not be applied to immaterial items.

This appendix discusses some factors considered significant by staff in reaching the conclusions in this Technical Bulletin. It includes the reasons for accepting certain approaches and rejecting others. Some factors were given greater weight than other factors. The guidance enunciated in the technical guidance section – not the material in this appendix – should govern the accounting for specific transactions, events or conditions.

- A1. In March 2009, FASAB staff members received a request from the federal agency members of the Accounting and Auditing Policy Committee (AAPC) disposal subgroup, excluding the audit representatives, that the implementation of Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*, be delayed until October 1, 2011 because of the reporting complexity, limited resources, and shifting priorities within the federal government due to the American Recovery and Reinvestment Act (ARRA). This request was not supported by all members of the AAPC disposal subgroup.
- A2. The request stated that when Technical Bulletin 2006-1 was released with an effective implementation date for reporting periods after September 30, 2009, federal agencies began to evaluate their ability to estimate their asbestos-related cleanup cost liability. The subgroup's research into facility management practices has shown that agencies do not track asbestos in buildings, structures, or equipment except on a limited basis. Asbestos in building materials is only federally-regulated under limited conditions. Most asbestos is regulated by states resulting in decentralized data collection and management to address state-specific requirements. Additionally, there is limited guidance available on the collection and reporting of asbestos-related cleanup costs. For example, there is some confusion as to whether federal agencies will be able to model costs or whether they will need to assess each building and structure individually. Once AAPC completes and releases its implementation guidance on asbestos-related cleanup costs, agencies will need to develop agency-specific guidance, collect data, and prepare their cost estimates. In many cases, new or substantially modified tracking systems may be required.
- A3. The request also noted that federal agencies now face the implementation of ARRA and its impact on federal land managers. For example, the Department of the Interior (DOI) has received more than \$3 billion for infrastructure and other projects. This is a two-year funding that must be executed for creating jobs and boosting the economy. Many of the facility, engineering, and environmental staff that would work to develop asbestos cost estimates are now committed to executing this historic endeavor and would not be able to shift priorities to work on asbestos-related liability estimates.

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- A4. In considering the subgroup's request for delayed implementation of Technical Bulletin 2006-1, FASAB staff reviewed deferrals the FASAB has made in the past and discussed Technical Bulletin 2006-1 and the subgroup request at length with representatives from DOL's National Park Service, Office of Environmental Policy and Compliance, and Office of Finance; the Government Accountability Office; and the Department of State.
- A5. When staff originally proposed Technical Bulletin 2006-1, the Board questioned why staff was providing such a long implementation period for a standard that was already in effect; the Technical Bulletin restates the requirements in Statement of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant and Equipment*, and specifically applies them to asbestos. Staff had responded that there was some conflicting guidance in place that had resulted in inconsistent reporting among agencies.¹ The extended implementation period was established to provide federal entities with the time to incorporate the resource requirements into their budget requests and complete remedial investigation / feasibility studies or take similar steps in order to comply with the guidance.
- A6. However, there are several agencies that have been actively working toward compliance with the Technical Bulletin since it was issued in September 2006 and are encountering significant difficulties and unanswered questions. It was expressed to staff that the sheer volume of buildings and structures involved in the estimates is overwhelming. According to the fiscal year 2007 Federal Real Property Report published by GSA in May 2008, there are nearly 1,000,000 federal buildings and structures with a replacement value of over \$1.5 trillion. The top five in number belong to Army (233,000), Interior (163,000), Navy (153,000), Air Force (149,000), and Transportation (59,000) and comprise 82 percent of the total buildings and structures.
- A7. The individuals that staff spoke with have significant concerns about developing a methodology that will be accepted by the auditors and are working with limited resources. Agencies have encountered trouble finding contractors to assist them with developing estimates due to a number of factors, including conflict of interest concerns and a general lack of knowledge about where to begin. One of the primary reasons for the difficulties is due to the contingent nature of the cleanup requirements and other unknowns. Federal regulations do not require tracking of nonfriable asbestos and may not require removal even at the time of building renovation or demolition, depending on the material's condition and the disposal method. In addition, the inability to visibly determine the presence of non-friable asbestos or validate its absence is a significant unknown, which some believe can not be adequately supported without testing. In discussions with staff, federal agency representatives also expressed that a good asbestos estimation model is not available to meet their purposes; many of the models out there require extensive input information and are more useful in developing a cost estimate once the extent of asbestos contamination is already known (i.e., post-survey). Agencies have received

¹ EITF 89-13, Accounting for the Cost of Asbestos Removal

quotes on the additional costs that would be incurred to add nonfriable asbestos to condition assessment surveys (e.g., \$2,000,000) and are hesitant to commit to the expense.

- A8. Agencies have questioned whether they can eliminate from the population those buildings and structures of a smaller size that would incur significantly less asbestos cleanup costs but are uncertain whether that would be acceptable or not. Some agencies have thought about lumping like facilities together (i.e., lumping warehouses together and office buildings together) and then obtaining data on one percent of each grouping of facilities and extrapolate the data across the groupings; however, they again question whether this methodology would be acceptable to the auditors. One agency, which has approximately 20,000 structures, has invested more than \$550,000 in contract costs to have approximately three percent of its structures estimated. From reviewing the initial contract costs and anticipating some economies of scale, the agency estimates spending between \$350 to \$500 per asset using the contractor's approach. Having only recently received the initial results from the contractor, the agency is reviewing the information to determine next steps, including data usability for modeling. The agency remains concerned about the overall implementation cost.
- A9. In addition, staff is aware that the AAPC disposal subgroup is working on implementation guidance for the Technical Bulletin which may prove helpful to agencies in supporting their estimation methodologies and consistently reporting asbestos cleanup costs. Staff would encourage that this guidance be issued as quickly as possible to provide agencies with sufficient time to utilize it.
- A10. While staff understands agencies' concerns about the reporting complexity, limited resources, and shifting priorities within the federal government due to ARRA, the most compelling reason for deferral of the effective date is the forthcoming implementation guidance being developed by the AAPC. Therefore, staff recommends that the effective date of Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*, be deferred for two years to provide federal agencies with additional time to resolve implementation issues that have been identified since Technical Bulletin 2006-1 was issued.
- A11. The exposure draft, *Deferral of the Effective Date of Technical Bulletin 2006-1, Recognition and Measurement of Asbestos-Related Cleanup Costs*, was issued June 4, 2009, with comments requested by July 17, 2009. Upon release of the exposure draft, notices and press releases were provided to the Federal Register; *FASAB News*, the *Journal of Accountancy*, *AGA Today*, *The CPA Journal*, *Government Executive*, *The CPA Letter*, and *Government Accounting and Auditing Update*; the CFO Council, the Council of the Inspectors General on Integrity and Efficiency, the Financial Statement Audit Network, and the Accounting and Auditing Policy Committee's General Property, Plant, and Equipment Task Force; committees of professional associations generally commenting on exposure drafts in the past; and past respondents to Technical Bulletin 2006-1 and others who had expressed an interest in the issue. To encourage responses, a reminder notice was provided to our Listserv on July 16, 2009.

A12. Seventeen comment letters were received from the following sources:

| | FEDERAL (Internal) | NON-FEDERAL (External) |
|----------------------------------|-------------------------------|-----------------------------------|
| Users, academics, others | | 2 |
| Auditors | 2 | |
| Preparers and financial managers | 13 | |

A13. The Board considered responses to the exposure draft at its August 27, 2009, public meeting. Sixteen of the 17 respondents were in favor of deferring the effective date. One respondent did not comment on the proposal. Since there was no opposition to the deferral proposal in the ED, staff recommended that the proposal be issued as final.

A14. The Board has reviewed this Technical Bulletin, and a majority of its members do not object to its issuance.

Appendix B: Abbreviations

| | |
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| AAPC | Accounting and Auditing Policy Committee |
| ARRA | American Recovery and Reinvestment Act |
| DOI | Department of the Interior |
| FASAB | Federal Accounting Standards Advisory Board |
| GSA | General Services Administration |
| PP&E | Property, Plant, and Equipment |
| SFFAS | Statement of Federal Financial Accounting Standards |

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