
Roundtable on Implementation of Technical Bulletin 2006-1



Summary of June 2011 Meeting Final Minutes

August 1, 2011

**Federal Accounting Standards Advisory Board
Roundtable on Implementation of Technical Bulletin 2006-1
441 G St NW – Room 7B16 (Warren Room)
Tuesday, June 14, 2011
8 AM – 12 NOON**

Agenda

Objective: To provide an opportunity for the federal community to:

1. learn about others' experiences and methodology for estimating asbestos cleanup costs per the requirements of:
 - FASAB Statement of Federal Financial Accounting Standards 6, *Accounting for Property, Plant, and Equipment*, Chapter 4, Cleanup Costs; and Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*; and,
 - FASB Accounting Standards Codification (ASC) 410-20, *Asset Retirement Obligations*
2. discuss best practices and issues surrounding the implementation of Technical Bulletin 2006-1

8:00 – 8:05	Introductions and Objectives
8:05 – 9:45	Best Practices Presentations / Methodology Sharing
9:45 – 10:00	Break
10:00 – 11:40	Group discussion of issues surrounding implementation of Technical Bulletin 2006-1
11:40 – 12:00	Wrap-Up and Next Steps

FASAB References (available online at <http://www.fasab.gov/accounting-standards/authoritative-source-of-gaap/accounting-standards/fasab-handbook/>):

- FASAB Statement of Federal Financial Accounting Standards 6, *Accounting for Property, Plant, and Equipment*, Chapter 4, Cleanup Costs
- Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*
- Technical Release 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment*

FASB References (available online at <http://asc.fasb.org/>)

- FASB Accounting Standards Codification (ASC) 410-20, *Asset Retirement Obligations*

Disclaimer: This roundtable is being hosted by FASAB as a means for the federal community to come together to share information. FASAB does not endorse any particular firm or methodology.

Disclaimer: In the course of researching, developing or updating federal accounting standards, FASAB staff periodically utilizes task forces, roundtables, surveys, and other means of communication to solicit feedback from the federal community. The information contained in these minutes is intended to assist staff in preparing materials for the board's deliberations; it is not intended to reflect authoritative or formal views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

Roundtable on Implementation of Technical Bulletin 2006-1

Summary of June 2011 Meeting

Participants:

There were more than 28 individuals composed of preparers, auditors and consultants representing the entities and organizations below either in person or via conference line. Minutes of the roundtable have been non-attributed to encourage open communication and discussion.

Booz Allen Hamilton

Supporting Defense Environmental Management Office

Commerce, U.S. Department of

Office of the Chief Financial Officer (CFO)

National Institute of Standards and Technology (NIST)

National Oceanic and Atmospheric Administration (NOAA)

Homeland Security, U.S. Department of

Energy, U.S. Department of

Federal Accounting Standards Advisory Board (FASAB)

General Services Administration (GSA)

Government Accountability Office

Interior, U.S. Department of the

KPMG LLP

National Aeronautics and Space Administration (NASA)

Office of the CFO

Office of Inspector General

State, U.S. Department of

Treasury, U.S. Department of

Introductions and Overview of Project

FASAB staff member Julia Ranagan welcomed participants and provided them with some brief background information on the reason for the roundtable. She explained that an agency had recently requested that FASAB allow the information required by Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*, be reported as required supplementary information (RSI) for two to three years to provide them with additional time to gather survey data.

Ms. Ranagan stated that several FASAB board members had asked staff to gain an understanding of the status of other agencies' implementation of Technical Bulletin 2006-1. Ms. Ranagan noted that staff had sent a brief poll to the executive branch agencies that reported the majority of buildings and structures in the 2009 Federal Real Property Statistics report maintained by GSA.¹ Invitations to the roundtable were then sent to the agencies that had responded to the poll. She explained that the meeting was intended to be a free-flowing dialogue for the benefit of the federal community—a way to exchange information that could have benefits for multiple federal agencies. A summary of the meeting would be prepared in order to inform the members of FASAB and others in the federal community but comments would be non-attributed to encourage participants to openly share their thoughts.

Ms. Ranagan went over the logistics of the meeting and then asked participants to briefly introduce themselves to the group before starting with the presentations.

Group Discussion

Best Practices Presentations / Methodology Sharing

(Presenters 1 and 2 are preparers; Presenters 3 and 4 are auditors)

Presenter 1 thanked FASAB for holding the roundtable and introduced his agency's presentation by saying that the presentation was illustrative and had only been discussed at a high-level with the agency's auditors. He noted that they were going to describe the process they followed in selecting their methodology and the reasons for selecting the option they did in order to share the knowledge learned to date with other federal agencies. He also noted that his agency is looking into early implementing the methodology for fiscal year 2011.

Presenter 1 went on to say that his agency was looking for a solution that was cost-effective, got to the heart of

"We were looking for a solution that was cost-effective, got to the heart of materiality, and resulted in a reasonable estimation."

-- Roundtable
Presenter

¹ available online at www.gsa.gov/graphics/ogp/FY2009_FRPR_Statistics.pdf

materiality, and resulted in a reasonable estimation. He emphasized that their approach is an estimate and should be viewed that way instead of being viewed as an absolute number. He acknowledged the tremendous amount of work that two individuals had done in looking at the different options they considered, as well as the potential for modifications after they have had an opportunity to discuss the approach in detail with their auditors. He then turned the presentation over to another representative from his agency to share their approach with the group.

Presenter 2 said that he was going to address the status of the current situation at the agency; go over the assumptions they used in coming up with the selected methodology, the options they considered, and the pluses and minuses of each option; and then discuss the approach they chose.

He described their agency and noted that it is composed of ten major centers with each having its own separate management structure, including a Chief Financial Officer and Office of Human Resources, so it is very much decentralized. He noted that his office can get information from the centers but cannot dictate how the centers will conduct their own operations. He said, for that reason, the agency values what each center does and what information they already have available.

Regarding the current situation at his agency, Presenter 2 explained that there is a wide variation in the information available at each of the ten centers. One center has the most complete information; they have identified where and what type of asbestos-containing materials (ACM) they have in their centers and costed it out, providing a good estimate that can be used to project costs for other centers.

Three centers have identified where and what type of ACM they have in their facilities but they do not have any cost information. Four other centers have identified the buildings that contain asbestos but have not identified the extent of that containment. That leaves two centers that have not provided their office with any information on asbestos.

Presenter 2 then went on to describe the assumptions that were used in the agency's analysis:

- Only real property assets are reasonably likely to have asbestos-related cleanup costs;
- Certain categories of real property (e.g., runways, roads, sidewalks, and street lights) were excluded from the analysis because they are not reasonably likely to have asbestos-related cleanup costs;
- Of all the structures they looked at, 99.5% of the structures that contained asbestos were built before 1981; therefore, selecting buildings with construction dates before 1981 would capture all material costs;
- Costs to be considered are only for remediation/removal and not maintenance because routine maintenance is expensed as it is incurred; and,

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- There are a number of different structures in their centers—some are research, some are operational—but based on the information provided, they are similar enough to be able to extrapolate from one center to another; they are not unique enough to worry about doing a center by center analysis.

One participant asked how the agency received the information on where the asbestos was located because that is something other agencies are grappling with. Presenter 2 responded that the one center with the most detailed information had hired a contractor to survey buildings and go out and walk the grounds with them to actually find where all the asbestos was contained. The center that contracted for this information had done it as part of good management practices, and not to meet the requirements of Technical Bulletin 2006-1. Other centers used their civil service engineers and experts to review their facilities over a period of several years. The agency leveraged the information that had already been collected by the various centers.

Presenter 1 noted that, in some of the centers, there was already ongoing renovation that required remediation of ACM so those centers have a better idea of where asbestos may be located within their structures. However, not every center, as Presenter 2 noted, has information on the potential ACM in their structures.

Presenter 2 then described the four options his agency considered in selecting a methodology for implementing Technical Bulletin 2006-1:

- **Option 1: Survey Assessment** – would require the nine centers without existing cost estimates to estimate and disclose the cost of performing a survey or assessment of asbestos and abatement cost for all buildings constructed before 1981.
 - Pluses: would result in a quick and consistent approach across all centers
 - Minuses: Presumes agency would fund and complete surveys or assessments in a reasonable time which would be too expensive; cannot be accommodated under tight budgets. Expense would not be justified since there are alternative ways to estimate the costs.
- **Option 2: Demolition / Renovation** – would require the agency to build a model based on the actual costs that have been incurred to remove asbestos at the time of demolition or renovation. That cost would be extrapolated against remaining buildings.
 - Pluses: does not require additional effort by the centers and would result in a consistent approach across all centers
 - Minuses: data not currently captured; facilities division would need to begin requiring that contractors separately report this data. Therefore, model would have to be refined over time as more data is collected.
- **Option 3: Straight-line Average** – would estimate cleanup costs per square foot based on the experience of the one center that has the most complete information

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- Pluses: uses actual information already available from the center with the most complete information; simple; easy to calculate and maintain
 - Minuses: ignores the data available from the centers that have gathered at least some of the asbestos information; is a calculation based upon the square footage of the buildings and not on the estimated (or observed) ACM in those buildings
- **Option 4: Abatement** – would use a model that is based upon the center that has gathered the most complete information but also considers the partial data collected by many of the other centers to extrapolate to the remaining centers and data points. Would update the model as more and better information becomes available.
 - Pluses: most fully conforms with the guidance in the technical release; uses actual information already available from several of the centers; considers the estimated abatement cost based on the current estimated amount of ACM, not just the incremental cost to demolish or renovate; results in a logical and consistent approach across all locations
 - Minuses: complicated to explain, calculate and maintain; relies on information from non-financial databases; need to be concerned about the controls over the source data

Presenter 2 stated that his agency believes Option 4 is the best methodology and proceeded to explain the chart on the following page as follows:

- Column A lists all of the locations (Centers 1 – 10 and Other 1 – 4) that have probable ACM,
- Column B lists the number of facilities (515) that eight of the locations have identified as probably containing ACM (Centers 2, 3, 4, 7, 8, 9, and 10 and Other 3),
- Column C lists the number of real property assets constructed before 1981 (386) for the locations that have not identified their facilities that have probable ACM (Centers 1, 5, and 6 and Other 1, 2, and 4),
- Column D includes the total square footage (29,879,996) of the 901 (515 plus 386) facilities that have probable ACM,
- Column E lists the number of estimated ACM units (19,122,208) that four of the locations have identified (Centers 4, 7, and 9 and Other 3). An “ACM Unit” is defined as one square foot of ACM (e.g., a one square foot ceiling tile or one linear foot of ducting). The average ACM Unit per square foot is 1.6 (19,122,208 total square feet in Centers 4, 7, and 9 and Other 3 ÷ 11,918,202 estimated ACM units in the same centers = 1.6 average ACM per square foot). Presenter 2 said they have no reason to believe the 1.6 is not a reasonable proxy for the centers that have not developed an estimate of their ACM units,

Abatement

Agency Example for Illustrative Purposes Only

Estimated Friable and Non-Friable ACM Abatement Cost by Location							
Using Available Asbestos-Related Information from Locations							
Location (A)	Facilities with Probable ACM		Estimated Total Sq Ft of Facilities with Probable ACM (D)	Estimated ACM Units		Est. ACM Abatement Cost	
	Estimated by the Center (B)	# of Real Property Assets Constructed Before 1981 (C)		Estimated by the Center (E)	Estimated by the Model (Total Sq Ft X 1.6 ACM units/sq ft) (F)	Cost Index (Relative to Center 9) (G)	Estimated ACM Cost at the Location (Est ACM Units X \$3.31 cleanup cost rate/unit X Cost Index) (H)
Center 1		144	4,686,525		7,498,440	1.28	\$31,769,391
Center 2	13		471,364		754,182	1.28	3,195,320
Center 3	29		1,803,154		2,885,046	1.03	9,835,989
Center 4	82		2,249,079	8,139,608		1.12	30,175,155
Center 5		75	1,974,346		3,158,954	1.28	13,383,855
Center 6		112	3,782,645		6,052,232	1.09	21,835,848
Center 7	191		6,050,446	3,104,188		1.13	11,610,594
Center 8	51		2,576,604		4,122,566	1.03	14,055,064
Center 9	102		3,389,365	7,766,574		1.00	25,696,564
Other 1		39	1,166,096		1,865,754	1.12	6,916,724
Other 2		7	57,701		92,322	1.28	391,148
Center 10	37		1,400,977		2,241,563	.96	7,122,791
Other 3	10		229,312	111,838		1.03	381,289
Other 4		9	42,382		67,811	.92	206,499
Total	515	386	29,879,996	19,122,208	28,738,871		\$176,576,230
	Basis for cost model						
	Indicates estimate based on quantity or cost model (see below)						
<u>Model</u>							
(D) Facility Sq Ft		Where agency records did not provide total sq ft for a facility, used avg of known sq ft at the facility					
(F) ACM Units per Sq Ft		Avg ACM per Sq Ft = 1.60 based on Centers 4, 7, and 9 and Other 3					
(G) Location Cost Index		Cost Index basis is Center 9 = 1.0 (http://www.fixr.com/costs/asbestos-removal)					
(H) Cost per ACM Unit		Avg Cost per ACM Unit = \$3.31 based on Center 9 only					

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- Column F calculates the estimated ACM units (28,738,871) for the locations that have not yet estimated them (Centers 1, 2, 3, 5, 6, 8 and 10 and Other 1, 2, and 4). This calculation is performed by multiplying the total square footage of buildings constructed before 1981 for those centers (column C) by the 1.6 average ACM per square foot,
 - Column G includes a cost index by location, recognizing that the abatement costs vary between locations. This cost index was taken from a Web site on estimated asbestos removal costs—<http://www.fixr.com/costs/asbestos-removal>,
 - Column H calculates the total abatement cost (\$176,576,230) by multiplying the estimated ACM units per location (columns E and F) by the cost index (column G) and the average cleanup cost rate of \$3.31. The average cleanup cost rate of \$3.31 was determined by dividing the total estimated cost for Center 9 (\$25,696,564 based on actual collected data) by the number of estimated ACM units in Center 9 (column E: 7,766,574)

Presenter 2 concluded by saying that his agency believes the \$177 million cost they came up with for abating their asbestos is a reasonable estimate. He added that Option 3 (the straight-line average option) resulted in an estimate that was around \$300 million (versus \$177 for Option 4) so he believes it is worth the extra work involved in Option 4 over Option 3 in order to come up with a more reasonable estimate.

Presenter 1 added that they purposely did not allow the engineers to further refine the estimate because they did not want it to become any more complex than it already is.

Ms. Ranagan thanked Presenters 1 and 2 and noted that is an important point—there is a concern that some agencies may try or may be trying to come up with such an exact and thorough and complete calculation that they are overlooking the fact that the standards only require a reasonable estimate (which is in the judgment of a reasonable person).

Ms. Ranagan asked for clarification that the reason some of the centers have estimated facilities with probable ACM in column B but do not have estimated units of ACM in column E is because they have estimated ACM at the building-level but not any further than that. Presenter 2 confirmed that understanding; only four of the centers have estimated the actual extent of asbestos within the buildings.

Ms. Ranagan asked for clarification that the reason the average ACM per square foot can be greater than 1.00 is because there can be more than one type of ACM per square foot of building space (e.g., one square foot of ceiling tile and one linear foot of ducting in the same square foot of building). Presenter 2 confirmed that understanding.

Ms. Ranagan thanked Presenters 1 and 2 for sharing all four options that they considered because what was not the best option for one agency may work for another agency. For example, if an agency's contractors have already been separately

reporting on what asbestos-related abatement costs are during demolition or renovation projects, Option 2 may very well be the best option for that agency.

Ms. Ranagan asked participants if they had any questions for the first presenters. One participant asked why the agency decided not to separate asbestos into friable (poses an immediate health threat) and nonfriable (does not pose an immediate health threat). The response was that Center 9, the basis for the cost estimate, did not find that there was a material difference between abatement costs for friable and nonfriable asbestos.

Another participant added that their agency also did not distinguish between the two in its estimate because the estimate is based on demolition and, regardless of whether it is currently friable or not, it can become friable when the building is demolished. It would make a big difference when estimating costs for renovation, but since the estimate is looking towards an end state of demolition, there is not much difference.

Ms. Ranagan noted that the standards allow two options for booking the liability—either book the whole liability or book some portion of it based on the useful life—and asked if the presenters were booking the whole liability. The presenters responded that they plan to book the whole liability because many of their buildings are from the 1940s with a 40-year useful life.

One participant asked if there was any difference in the amount of asbestos in a 1940 building versus a 1980 one. Presenter 2 responded that the costs are a lot more in the older buildings because there is a lot more ACM in the older buildings; he noted that the amount of ACM in existing structures tapers off to almost nothing in 1980. As noted previously, 99.5% of known ACM was in structures built prior to 1981.

Another participant added that asbestos started being phased out of general construction materials in 1970, and dropped off steadily until the last use for general construction around 1989. She noted that ACM can still be used in construction for special purposes but is not commonly manufactured in the U.S., and is mainly found in old buildings. She added that asbestos can be in virtually any material one can think of. In the 1940s, ACM could be used in a dozen or more different types of materials throughout buildings; in the 1980s, it had a much more limited use.

One participant asked Presenter 2 to clarify how the cost index was calculated. Presenter 2 responded that they found a Web site on estimated asbestos removal costs (referenced on the bottom of the illustration in the note for column G) that has a map of the U.S. and when you click on it, it will tell you, for example, California is +28% over the baseline. They normalized that to Center 9 as being 1.00 because it was the basis for the cost model. All costs incurred by other locations have a cost index that is either higher or lower than Center 9. For example, the cost index for California is 1.28, because costs there are 28% higher than the costs for Center 9. Presenter 2 noted that the Web site is for abatement of residential pipes but they felt it was a reasonable basis for comparing costs of abatement across the country.

One participant noted that the agency has a single point in time liability identified and asked how they plan to adjust that over time. Presenter 2 responded that, per the

standards, they will reduce the liability as costs are actually incurred for asbestos-related cleanup during renovation or demolition. The participant asked if they would do that on a project by project basis. Presenter 1 responded that they have not determined that yet; they may do an adjustment periodically based on particular classifications or grouping of buildings or a reduction in pre-1981 square footage.

Ms. Ranagan asked if they might refine the calculation to tailor the 1.6 average ACM units per square foot more towards the age of the buildings. For example, the actual average might be closer to 3.5 ACM per square foot for structures built in the 1940s versus .5 for structures built in the late 70s. Presenter 1 responded that this is an estimate and he believes it is a reasonable estimate, and trying to be that specific would probably not result in a material difference. Presenter 2 added that they do plan to take actual results into consideration to improve the model as they go forward.

One participant asked how long the effort took. Presenter 2 replied that it took about six months; a lot of the time was spent on collecting the data. Presenter 1 added that they began talking about it a couple of years ago and Center 9 got out in front in terms of developing an estimate for their asbestos-related cleanup costs. One participant asked if Center 9 undertook the effort because of Technical Bulletin 2006-1 or because of agency practices without regard to Technical Bulletin 2006-1. Presenter 1 confirmed that Center 9 developed an estimate as part of their own good business practice.

One participant asked where the agency would go from here in terms of procuring the funds to start actually doing some of the cleanup work. Presenter 1 clarified that the agency has already developed the estimate to book the liability; it is the health standards, and not the accounting standards, that drive what needs to be cleaned up.

Ms. Ranagan responded that the participant's question reminds her of one of the concerns that was brought up when Technical Bulletin 2006-1 was being exposed for comment. A lot of environmental specialists became involved because they were concerned that booking an accounting liability would somehow affect their legal liability for cleanup. Ms. Ranagan emphasized that it is important to separate the two. The accounting liability required by Technical Bulletin 2006-1 is an estimate of the costs an agency will incur in the future to cleanup asbestos in the structures it owns as of the reporting date; estimating an accounting obligation does not in any way require actual cleanup to begin. There generally is no legal liability for cleanup of asbestos to begin until the asbestos becomes friable (e.g., during renovation or demolition).

Ms. Ranagan thanked the first presenters and acknowledged that, even though the approach had not been completely vetted in detail with the agency's auditors yet, several agencies are struggling with developing an estimate right now and will benefit tremendously from their experience. Presenter 1 added that although they were not able to sit down with their IG or external auditors and have this full presentation, their auditors have responded favorably in their high-level discussions regarding the agency's approach.

Ms. Ranagan introduced Presenters 3 and 4 and thanked them for accepting the invitation to share their thoughts with the group.

Presenter 3 said they appreciated being invited to participate in the roundtable and that it is helpful to hear everyone else's perspectives and even the questions that get asked are helpful in understanding what the agencies are thinking about and looking at. Presenter 3 emphasized that their comments are personal views, and not policies or views of their firm. The agency personnel need to have these discussions with their particular audit team because each agency encounters different facts and circumstances.

Presenter 4 started off by laying out the following general principles:

- According to the accounting standards, if costs are probable and measurable, you have to record a liability;
- The estimates for that liability have to be based on the best information available at the reporting date;
- If everyone had perfect knowledge about all their facilities and knew their asbestos contents and the future costs for abatement, you wouldn't need an estimate; you would be able to just record the liability. However, we live in a world where we don't know a lot of things but it is important that the estimate at the reporting date be as good as you can make it and based on valid assumptions and the best information you have available about your facilities and the asbestos-related cleanup costs;

"You should have a good estimate upfront that you can defend and then work to refine it over time."

-- Roundtable
Presenter

- We recognize that many agencies do not know a lot of things about their facilities population. In some cases, you will need to make assumptions about your population and the removal costs, but that estimate should be refined over time as better information becomes available. You should have a good estimate upfront that you can defend and then work to refine it over time, replacing some of the assumptions with facility-specific data or category specific data.
- We recognize that no one has unlimited time or unlimited money so you assess the costs and the benefits of obtaining the information. It would be great to have an asbestos survey for every building in your population, but, of course, that's not practical. You cannot spend half of your accounting budget satisfying this one accounting requirement, which, in the overall scheme of things, is probably not a big part of your financial statements.
- As you go through developing your methodology and accumulating your information, make sure you have your auditors on board and they understand what your approach is and what your assumptions are, and they get a chance to provide feedback on those. As you have probably experienced, it is better to discuss things early and have no surprises later.

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- This is a team effort; you need to have several divisions or organizations within your entity involved; property management and others need to provide information to the CFO shops to make the estimate as good as you can. I don't imagine that a CFO shop in any entity has enough information on its own to develop an estimate.
 - It is also helpful to reach out to your colleagues in other entities on a regular basis.

Presenter 4 went on to discuss the two main pieces of information that are needed to record a liability for friable and nonfriable asbestos-related cleanup costs:

1. A Population of Facilities that Contain or Are Likely to Contain Asbestos

2. Information on How Much it Will Cost to Remove the Asbestos from the Population

Presenter 4 noted that in the first presentation, the agency seemed to have quite a bit of information about their facilities. In their experience, agencies don't have a lot of information about the existence of asbestos in their facilities so they need to make some assumptions about their facilities. Presenter 4 noted that their experience and thoughts being communicated today mostly relate to nonfriable asbestos because agencies have usually already recorded a short-term liability for the abatement of their friable asbestos because those are near-term urgent problems that generally are addressed as they arise. Presenter 4 offered the following general thoughts:

- Agencies should start with a general listing of their facilities, which hopefully everyone can come up with.
- If you do not have a lot of information about which facilities contain asbestos, what is the best way to come up with some assumptions about what has asbestos and what does not? As discussed in Technical Release 10, the best information would be if you have an asbestos survey for all of your facilities or a large number of them. Then you would have enough information to make an informed assumption. However, having the surveys and actually knowing the information that is contained within those surveys may be two different things. Most likely, the results of the surveys are not matched up with the listing of facilities; there is usually no little flag in your system that indicates whether a property contains asbestos or not. If the surveys exist, you will most likely have to get that information from your facilities management division through a data call.
- If you do not have ready access to asbestos surveys, an approach might be to group property by asset type (e.g., office buildings built prior to 1981, railroad tracks, power lines, warehouses, etc) to make high-level assumptions about the likelihood of each group of property containing asbestos. Considering how old the individual assets are, you can group them by asset types that have similar characteristics and make assumptions about how likely the group is to contain asbestos and how much it will cost to remove it.

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- Another good source of information would be the history of renovations and refurbishments or demolition that your entity has done. In their experience, when you have such work done, the contract or contractor billings will clearly specify the portion of the work that relates to asbestos removal. If you have a history of renovations in your facility population, that should provide you with some good information about what types of facilities contain asbestos and how much the remediation costs will be.
 - The age of the properties in your inventory is an important indicator, as discussed earlier during the first presentation. However, in some cases, acquisition dates can get updated in the system if there is a major addition to the property. Therefore, you may not be able to tell how old a property is just by looking at the date in the property management system. An alternative might be to look at how much accumulated depreciation you have relative to the asset cost.
 - In their experience, many agencies have a lot of non-building property (e.g., power lines, port facilities, railroad tracks, etc), and sometimes these facilities are so numerous relative to the number of buildings they have that it is not practical to do surveys or get specific data about individual assets or even categories of assets. It may be appropriate, in these instances (depending on each agency's individual facts and circumstances), to determine how much remediation may be necessary in the other structures and facilities category and make an allowance for that while spending most of your efforts on where you think the big costs are in your buildings.
 - If you have installed machinery and equipment that fits into the category of real property, you need to consider whether asbestos remediation costs (i.e., parts containing asbestos are replaced on a routine basis) would fall into the category of routine operations addressed by Technical Release 11. Of course, that should be something that your auditors concur with.

Ms. Ranagan asked the presenters to expand on the comment about using an allowance for the other structures and facilities category. Presenter 3 responded that agencies define what is included in the category of other structures and facilities differently; that category is the leftovers once you have captured the majority of the liability, but it is the 80/20 rule—you want to put 80% of your effort into the big part of the liability. You can extrapolate for the remaining structures.

"It is the 80/20 rule—you want to put 80% of your effort into the big part of the liability."

-- Roundtable
Presenter

Ms. Ranagan responded that is the message that she wants to make sure comes out because there are a number of agencies that have a significant number of little structures such as sheds, maintenance buildings, guard buildings, etc., that they may be inclined to treat more like the larger buildings as far as gathering data and developing an estimate, but she would like to see them use the allowance method

for these types of structures. She said that, in keeping with the pursuit of a reasonable estimate, the allowance method for immaterial groups of structures would be even more in line with a reasonable estimate; agencies cannot justify spending the time to come up with a better estimate for these little groups of structures.

Presenter 3 agreed, stating that if you have several guard shacks that have asbestos in their insulation or piping, you would not want to treat them as individual structures, necessarily, because you might end up overstating your liability in that case.

Presenter 4 added that materiality plays a role too; at some point the individual structures are not material enough to justify the costs of developing detailed estimates. However, in their experience, if you have a lot of those types of structures, someone has cleaned up some of them so you would have an idea, within your organization, of what it takes to clean them up.

One participant added that her agency is using the allowance method for its other structures and facilities. They have thousands of other structures and facilities but they only make up 3-4% of the overall total environmental liability for the facilities. It would not make sense to develop a more detailed estimate for those other structures and facilities, even though there are thousands of them. Their tentative approach, which they have discussed with their auditors, is to use the percentage from their main buildings and apply it to the other structures and facilities in order to extrapolate a cost for those.

One participant asked if Technical Release 11 can be applied if the agency has no plans to demolish its buildings, but instead plans to maintain them indefinitely. Ms. Ranagan responded that FASB FIN 47, *Accounting for Conditional Asset Retirement Obligations*,² upon which Technical Bulletin 2006-1 is based, introduced the premise that “no building lasts forever” and therefore requires that an estimate be made for all asbestos (of course considering materiality) because it is probable that it will eventually have to be cleaned up (either as a result of renovation or demolition). Measurement of the estimate would need take into consideration the method of renovation / demolition and the applicable remediation regulations in effect as of the reporting date.

The participant responded that it seems odd to book a liability that will be on the books for 50 years or more, just sitting there. Several participants discussed how to determine a useful life for historical buildings that will be around for years and years. Presenter 3 responded that there is a provision in the standards for something to be considered inestimable but auditors are generally very skeptical about statements that something is inestimable.

Presenter 1 noted that there may be a more reasonable approach, such as estimating costs for the next 20 to 30 years instead of for the next 1,000 years.

² FASB Accounting Standards Codification™ (ASC) 410-20

One participant noted that a baseline estimate is being made in year 1 and asked what, from an audit perspective, would justify changes in that estimate in ensuing years. Presenter 4 replied that, if better information becomes available to replace one set of data with another set of data and results in a more precise estimate, you would have a change in estimate. If you realize you have left a certain piece of information out or a certain category of facilities totally out of your calculation, you might get into a situation where you have a correction of an error.

The participant then asked if it would be more cost-effective and least burdensome on the agencies to reestimate annually rather than try to determine the actual reduction to the liability, which might not have been valid to begin with, for incurred costs. Presenter 3 responded that may be a workable approach, depending on an agency's situation, to sit down every year and reestimate it based on facts and circumstances. Presenter 3 noted that the agency's auditors will probably ask why they are doing it that way versus another way, but if the response is thoughtful, reasonable, and supportable, it would probably not be objectionable.

The participant agreed, noting that the objective is a snapshot of the liability on an annual basis, and whether that is achieved by reestimating annually or adjusting based on activity during the year should not matter.

Presenter 3 noted that the auditors will ask the agency why there is a change in estimate. If it is a relatively minor change, and the agency is using the same methodology and the same approach, it may be relatively easy to explain. If the agency has based the estimate on one or two major inputs, such as the use of Center 9 in the first presentation, there may come a time when they decide to update the major assumptions because more information has become available from additional centers. In addition, other things may result in a change in estimate such as inflation, changes in regulatory requirements, new technology, etc; those types of changes should be continually monitored so you can update your estimate to reflect material changes.

The participant asked if there are any complexities involved in making an adjustment in the estimate from year to year.

Presenter 2 replied that the standard states that you do not change the estimate unless there is a material change. If there is not a material change, you merely reflect the change using indexing.

Another participant asked if the liability is reduced by actual costs incurred, would those actual costs inform the average cleanup cost per square foot and revise that calculation as costs are incurred or if you just leave it. Presenter 4 responded that it is important to track your actual experience and compare that to your assumptions in the estimate. However, you need to be careful if you are looking at one facility that has a greater than average amount of contamination with asbestos. It would be more appropriate to look at actual cleanup costs for a span of buildings that would more closely approximate the average contamination per square footage used in the estimate.

Presenter 4 also stated that judgments need to be made along the way for reducing the liability as well. For example, if actual cleanup costs for a building that had an estimated cost of \$6 million, were \$14 million, even if you think your assumptions are still valid, you would need to decide whether to reduce the total estimated liability by the \$6 million provision or the \$14 million full cost. Presenter 4 said they cannot tell you what the right answer is but you should carefully consider and document your decision.

Presenter 3 read the following paragraph on changes in estimates from Technical Release 10, par. 15:

Estimates shall be revised periodically to account for material changes due to inflation or deflation and changes in regulations, plans and/or technology. New cost estimates should be provided if there is evidence that material changes have occurred; otherwise estimates may be revised through indexing. As additional information becomes available, key assumptions should be reevaluated, cost estimate revised, and necessary adjustments made to the liability recognition.

Presenter 3 said their interpretation of that paragraph is that agencies are going to need to sit down each year and discuss whether there is a need to change their liability estimates. If you do not revisit the estimates periodically, you may find yourself in a situation where, five years down the road, you find out asbestos removal is costing you twice what it was when you originally developed the estimate. If this information has been available to you for several years, and you ignored it, you will probably have a pretty uncomfortable discussion about whether that is a correction of an error. Presenter 3 said the cited paragraph indicates that this is an estimate that needs to be monitored each year like every other estimate in your financial statements.

"Developing a cost estimate through a cost model might be a good approach, but it's important to segregate the population of facilities into categories because different types of properties have different characteristics that would lend themselves to different costs."

-- Roundtable
Presenter

Ms. Ranagan added that there are various reasons why you cannot just estimate and forget about it, such as if your agency acquires older buildings on a regular basis; there are various reasons for revisiting your estimate each year.

Presenter 4 continued the presentation, stating that an alternative approach to actual costs of completed renovations or demolitions is the development of a cost model, as was discussed in the first presentation, which would estimate the unit cost of asbestos removal by type of facility (e.g., office buildings, warehouses, dams, etc). The model might be developed around type of facility because the different types may have similar

characteristics such as extent of ACM usage in the facility and the cost of removal.

A trained person would be able to enter information into the model about the different facility types and develop a cost factor that, based on size or capacity of each facility, can estimate the removal cost for asbestos. Presenter 4 referenced the cost factors used in the first presentation of 1.6 units of ACM contamination per square foot and \$3.31 per square foot of removal costs. If your agency has something like tanks, you might calculate a cost factor to be applied based on capacity (e.g., gallons or meters). Presenter 4 stated that developing a cost estimate through a cost model might be a good approach, but it is important to segregate the population of facilities into categories because different types of properties have different characteristics that would lend themselves to different costs.

Presenter 4 went on to say that depending on how precise you think your estimate is, it may be appropriate to add a contingency factor to the calculation that you have prepared. One example of a contingency that we have discussed is an allowance for other structures and facilities. If you think you have a pretty good handle on asbestos costs for buildings but you have these other structures and facilities, you might determine that it is reasonable to add a percentage allowance (whatever is reasonable in your particular facts and circumstances—e.g., 10% of your building removal costs) based on the number and characteristics of those other structures and facilities.

Another example of the use of a contingency factor would be if you have developed a building estimate, but based on the assumptions you have had to make due to limited information, you are not quite comfortable that you have captured the majority of potential costs, it may be appropriate to add a contingency factor based on the risk of the actual number being higher. It is important to not go overboard and to be reasonable with whatever contingency factor you use, because as seen in the first presentation, as the model was refined using available information, the estimated cost dropped significantly, so adding a contingency factor may not be appropriate in all cases.

Presenter 1 added that, for other structures and facilities that may be under property, plant, and equipment (PP&E), there may already be a liability established for cleanup and removal so it is important to be sure that you do not double-count either.

One participant added that their agency made sure they did not double-count in a number of ways because they have a large number of facilities that are already considered contaminated for hazardous waste so they knew they were already slicing off a large part of their population and looking at just those facilities that were not contaminated with something else.

The participant added that another duplication to consider would be any existing liabilities for facilities containing friable asbestos because activities to take care of friable asbestos may also take care of the nonfriable asbestos as well.

One participant asked what additional disclosures people are considering. Presenter 2 noted that the necessary disclosures are listed in the requirements and they are going to go through those.

One participant stated that their agency already has a very long footnote that discusses the environmental liability and the cost to cleanup their facilities. In the past several years, they have also had some description about the Technical Bulletin and that they did not think it was going to be material but they would be recognizing it. The participant noted that their preliminary estimates of the asbestos liability are coming in around .03% of their total environmental liabilities. That estimate includes a contingency factor because they do apply contingency to their environmental liability estimates. The contingency estimate is also based on a cost model used for facility types.

Presenter 3 added that a lot of times the disclosures will vary based on materiality. To one entity where it is not material, it may get a passing mention. If it is significant, you may want to get into more disclosure, and if you go the route of concluding that it is not estimable, that will require even more disclosures.

Ms. Ranagan referred participants to the Department of Justice, which had early implemented for fiscal year 2010, if they would like to see an example of the disclosures.

Ms. Ranagan asked if there were any other agencies that wanted to share their methodology with participants. One participant responded that their agency was probably starting from a very different place than a lot of the agencies because they already had a large environmental liability cost model system in place as part of their very large environmental management program to cleanup the nuclear legacy from the Cold War. Therefore, they already had the mechanisms in place to compare with their facilities people and draw upon them on an annual basis to update their facilities and other structures inventory, square footage, and we have a set of cost models to bin the other facilities and structures into. Their agency was already capturing an environmental liability for things with hazardous or radiological contamination, or both. Their agency already had an inventory going in; they already had large slices that they did not even need to look at because they were already considered contaminated. If they were already in the agency's environmental management program, they already had a base-line estimate for those that they didn't have to model. For the asbestos piece, they developed an add-on module to their system of estimating for those facilities that were not already accounted for elsewhere.

The participant went on to say that their model works similar to the one described in the first presentation, but they have had the benefit of closing a couple of sites in the last several years so they were able to take the actual asbestos cost data from two sites, which contained hundreds of facilities, to base the module upon.

The participant noted that one difference between their model and the one described in the first presentation is that they did not calculate units of contamination, but

rather classified facilities according to whether they had a high, medium, or low level of contamination. They asked the facilities people to consider whether it is more likely than not that a building contains ACM and, if so, how much do they think the building contains in relation to the volume of the building. The participant also noted that they do not do the cost indexing even though they have facilities in many states and locations but they add on a factor for the contingency, which is also a Monte Carlo-based model.

The participant went on to say that, as noted previously, they are going to apply a percentage to their other immaterial structures and facilities based on the estimate for their larger buildings. Their agency operates on a continuum—not just for asbestos, but for the entire environmental liability—from long-term cleanup that is modeled and projected to short-term cleanup that can be populated with known data that has been collected through surveys and assessments. They would adjust for that continuum by moving the facilities out of the department-level model and into the site-level model and then adjusting the higher-level estimate with more specific estimates as more data becomes available. They follow up on changes that cause a 10-15% cost variance to find out what caused the difference.

On the active facilities side, they do not typically match the estimate up with the actual costs coming out of operations. Instead, they would remove the provision for the facility that was included in the liability estimate; that way there is no mismatch between what was spent and what was estimated.

Ms. Ranagan asked if the module that was added on for asbestos is from any particular software. The participant responded that the front-end is a web-based input that goes across the facilities with an internal control review structure built in; that user-entered data is then fed into an Access database that uses various algorithms to compute the estimate.

Presenter 4 emphasized that it is important to document the estimation methodology, the assumptions on which the estimate is based, the factors considered in developing those assumptions, the rationale for those assumptions, the calculations performed, and the results of those calculations to support the estimate. If you document all of those steps, the estimate then becomes auditable. Presenter 4 noted that it is important to establish controls, such as management reviews of the methodology, assumptions, and results; and controls over data input to ensure that it is complete and accurate. Those are additional factors that make an estimate auditable and help it survive an audit unscathed.

“Thoroughly documenting the process you followed as well as establishing the proper controls help to make an estimate auditable.”

-- Roundtable
Presenter

Presenter 4 added that, as mentioned previously, all of the assumptions need to be revisited periodically to make sure that they are still valid and improved as better information and nuances that may impact those assumptions become evident.

Example of FIN 47 Implementations

FASB FIN 47 (now ASC 410-20), upon which Technical Bulletin 2006-1 was based, was effective for periods ending after December 31, 2005. Since commercial entities had several years' experience implementing FIN 47, Ms. Ranagan asked for information regarding commercial experience. Presenter 3 responded that a lot of

"Many commercial entities have been able to conclude that their liability is immaterial because the fair market value of cleaning up a facility 50+ years out there is often not material to the financial statements. That does not apply in the federal world because the standards require current cost so we do not have the ability to discount back."

-- Roundtable
Presenter

the same questions arose during implementation of FIN 47 but noted that the key difference between Technical Bulletin 2006-1 and FIN 47 is recording things at current cost (Technical Bulletin 2006-1) versus recording things at fair market value (FIN 47). Many commercial entities have been able to conclude that their liability is immaterial because the fair market value of cleaning up a facility 50+ years out there is often not material to the financial statements. That does not apply in the federal world because the standards require current cost so we do not have the ability to discount back.

Presenter 3 noted that oil and gas companies dealt with FIN 47 quite a bit, particularly in their capping of wells. The companies would leverage their existing databases of wells and use that information to develop an estimate of when the wells would cease production and be capped. The companies had closed wells

before so they could estimate what it would cost based on experience. They would group those wells by category—sometimes by geography, sometimes by type, sometimes based on size. They used their existing closure costs to project an estimated cost for all of their wells.

Presenter 3 provided a couple of examples of commercial entities with the caveat that they do not know anything more about them than what they presumed from reading the companies' 10-K statements from the Security Exchange Commission's Web site:

- Exxon Corporation (estimate of their asset retirement obligations changed in the last two years by 4% and 47%)

-
- Chevron also discloses a line item in their asset retirement obligations—Revisions in Estimated Cash Flows—that has changed over the last three years by 24%, 10%, and 17% due to increasing costs of abandoned wells, equipment and facilities

Presenter 3 stated that there is an expectation that over time, your estimate will change—you will get better information, you will get updated information, technology will change and regulations will change. You should continually monitor the need for changes to your estimate.

Presenter 3 stated that the commercial application of FIN 47 seems to be pretty consistent with what the federal entities are doing to comply with Technical Bulletin 2006-1; for example, the oil companies have taken information from one well and applied it to others, similar to the process described in the first presentation.

Ms. Ranagan added that there are still some federal entities that primarily apply FASB standards – the Tennessee Valley Authority (TVA) and the Government Printing Office are two examples of federal entities that had to comply with FIN 47 when it was issued. TVA has developed an estimate. GPO received a reportable condition in the first year after implementation of FIN 47 because it had not yet estimated its liability. It no longer has a reportable condition, but it has not reported a liability either. Ms. Ranagan noted that she is not sure exactly what occurred but that is what she gathered from reading their financial statements.

One participant stated that the large variations between the estimate from year to year regarding the oil companies as noted by Presenter 3 leads to a question about the ability to develop reasonable estimates. The participant asked how the audit community views such large swings in the number.

Ms. Ranagan responded that she would let Presenters 3 and 4 answer that question but the objective is what is reasonable as of the reporting date. In the estimate being developed for oil and gas resources, the estimate is affected by the price of oil and gas, which varies significantly from year to year depending on the barrel cost, but the estimate is what is reasonable at the time based on current conditions and assumptions and all material estimates are required to be accompanied by disclosures about the variables and assumptions used that can affect the estimate from period to period.

Presenter 3 responded that auditors will question why an estimate changed from one period to the next period. Sometimes those changes may be legitimate such as changes in technology, approach, and additional information. If you are making an estimate based on the best information available, as you do additional work, you are able to obtain additional information and refine that estimate, so often those types of changes are legitimate changes in estimate. If changes are because of things such as the preparer forgot about a facility, their database was not functioning correctly, information was available but they just missed it, those types of changes will probably result in a correction of an error. You may not be able to tell from looking at a company's reporting how much of the change in estimate was due to one reason versus another because the correction of an error may be considered immaterial because of other factors, particularly for the companies Presenter 3 cited because they are huge

companies and the asset retirement obligation is not dominant on their financial statements.

Ms. Ranagan thanked Presenters 3 and 4 for their very thoughtful and helpful presentation. Presenter 3 responded that it is important to emphasize that their presentation represents only their views and they cannot overemphasize the importance of communication, upfront planning, and working with your own auditors because your facts and circumstances will be different from everyone else's in the roundtable.

Issues with Implementation

Ms. Ranagan asked participants to share any issues they have overcome or constructive thoughts regarding implementation of Technical Bulletin 2006-1.

One participant asked if materiality was referring to the overall financial statement materiality or if the auditors sometimes apply a different level of materiality to asbestos. Presenter 3 responded that there is no particular reason for the auditors to apply a different materiality to the asbestos liability than for any other estimate in an agency's financial statements, but materiality is considered both on an aggregate basis as well as on qualitative characteristics, so while a number may not be material quantitatively, it may be material qualitatively. For example, in the commercial world, if a company has an expectation in the market that they are going to have \$1 per share of earnings and they are at 99 cents, that penny is more material than it would be otherwise. If earnings are at \$1.05 or 95 cents per share, the materiality changes based on qualitative characteristics. That would be a judgment call depending on the facts and circumstances of your agency.

Ms. Ranagan responded that is the same reason why standards-setters do not define materiality; it really does require judgment. She asked if there were any other comments or questions.

One participant said if she had one thing to pass on to the participants about implementing the technical bulletin, it would be that you cannot do it without your property, facility, and technical people that do this for a living and there is a whole other realm of professional standards and regulatory environment that they are dealing with. Upfront education about what these determinations as to whether you have a liability or not are going to be used for is extremely important. These individuals are going to feel compelled to follow steps A-Z to

"Upfront, remedial, and repetitive education of your technical and programmatic people to get them to understand what you are using the information for, most importantly what you are not using it for, and the level to which they have to go to provide it for cost/benefit, will save you a lot of time in the long run in winning them over as to what you're doing and what you're using it for."

-- Roundtable
Participant

comply with their professional standards before they can provide you with the information, but you do not need steps A-Z to meet the accounting standards. Upfront, remedial, and repetitive education of your technical and programmatic people to get them to understand what you are using the information for, most importantly what you are not using it for, and the level to which they have to go to provide it for cost/benefit, will save you a lot of time in the long run in winning them over as to what you're doing and what you're using it for. That is a big hurdle to have a Health Physics person say, okay, I'm going to ignore what I signed up to for my professional standards and I'm going to make this more likely than not determination or high/medium/low categorization without a lot of data; that is a very uncomfortable place for them.

One participant asked if the nonfriable assessment applies to properties an agency is leasing but does not own. After a robust back and forth discussion, participants determined that the assessment would only apply if the lease agreement states that the lessee is responsible for asbestos remediation. It was agreed that, even if there is no remediation law in a foreign country, if a lease agreement states that the lessee is responsible for asbestos remediation, it would be appropriate to estimate that liability. In addition, if an agency owns buildings in a foreign country that does not have laws requiring cleanup of asbestos, an agency may not be required to recognize a liability for cleanup; however, some participants thought that the agency should also consider the history of previous actions taken by the agency in similar circumstances and agency policy to determine whether a liability should be recognized.

One participant asked if the useful life upon which to recognize the liability over time should be based on the normal depreciable useful life or the real physical useful life, especially for that cost you expect to be the asset retirement obligation at the end of the use of the asset. Do people agree that you might have different lives you are applying depending on the particular type of asbestos you have to deal with? Another participant responded that they would think that would be a nightmare to try to maintain two sets of useful lives or if you would be permitted by the standards to do that. Presenter 4 said you may be able to justify it but it seems that the default would be the useful life for depreciation and you would need to have a pretty good reason to deviate from that.

The participant responded that they have placed a 30-year useful life on most of their buildings as a reasonable period over which to depreciate the buildings and recoup the costs through their business-like revolving fund, but it seems that the standards call for building up the liability until the time that you expect to incur it. If his agency were to use the same 30-year useful life for the asset retirement obligation, they would be recognizing the full liability immediately even though they have no plans for the foreseeable future to remediate nonfriable asbestos and plan to continue to maintain the buildings for decades into the future. He said it does not seem right to do an immediate recognition just because they are at the end of their normal depreciable life.

Presenter 3 said you would need to have a good explanation or basis as to why you are using a different life for depreciation because the underlying concepts are similar; for example, while a building may be standing for 100 years, they do not stand for 100 years because you did nothing to them and the likelihood of that ceiling tile that has asbestos staying there for 100 years is not very likely. The piping that has asbestos

around it is going to wear out and probably have to be replaced. You would need to think through the reasons that you depreciated the building over 30 years and you may find that they may apply to the thought process on the asset retirement obligation as well.

The participant asked if they could break out the different types of asbestos (for example, steel beams with an asbestos covering that are encased in concrete that will never be touched until demolition, versus ceiling tile, piping, etc) and recognize the expense over a different useful life for each different type.

FASAB Executive Director Wendy Payne responded that if you have a business case for taking that sort of detailed approach—which in a revolving fund that is pricing its product, you may well have a business reason for doing that—maybe you make a case for slicing up the different kinds of asbestos removal costs and doing different lives. The auditor may ask why you didn't carve the building up as finely though.

Presenter 3 responded that you probably will get a lot of questions from your auditors if you are treating the asset side of the house differently from the liability side of the house.

Ms. Ranagan asked if there were any more questions from participants. One participant asked the presenters to talk a little more about the provision in FIN 47 that allows entities to conclude that something is not reasonably estimable if the settlement date or method of settlement cannot be determined as of the reporting date. She said this would seem to impact the universe of obligations that nongovernmental entities would have to report because of the differences in calculating an obligation at fair value versus calculating an obligation at current cost. She added that waiting until one gets closer to an actual renovation or demolition project would also seem to improve the accuracy of the estimate. She said that FIN 47 seems to say that something is only reasonably estimable if an entity has the settlement date and the method of settlement specified.

Ms. Ranagan replied that it depends on the relevant facts and circumstances in each situation and determining whether an entity has enough information to estimate the settlement date and the method of settlement requires judgment. Furthermore, she added, FIN 47 states that the inability to reasonably estimate the settlement date or method of settlement is not an acceptable reason to say something is not reasonably estimable. Uncertainty about the facts and circumstances would affect the measurement of the obligation not the existence.

Presenter 3 agreed that the underlying premise of FIN 47 is that you may not have a date certain but that does not mean you do not record an asset retirement obligation. That may factor into the determination of fair value but the simple fact that you do not know when you are going to retire it is not a basis for not recording it. Presenter 3 reiterated that when you say something is not estimable, you need to be able to support your position that it is not estimable.

Ms. Ranagan asked the presenters what was their greatest challenge in selecting a methodology and how did they overcome it. Presenter 1 responded that it was driven by materiality, using what was already existing and going through various scenarios to

"I don't think it was necessarily difficult; it was just a matter of trying to lay out the different possibilities and walking through each one of those."

-- Roundtable
Presenter

come up with the one that they thought would provide the most reasonable methodology, and thinking about the pros and cons. Presenter 1 said he does not think it was necessarily difficult; it was just a matter of trying to lay out the different possibilities and walking through each one of those. Presenter 2 stated that it just evolved as they went along and kept on pointing to the methodology they selected.

Ms. Ranagan asked Presenters 1 and 2 how many FTE it took. They responded that there was one contract support person working part-time for six months and two other personnel in a very limited capacity as well as field personnel responding to surveys.

One participant responded that it is not so much the difficulty, but rather the volume of information that one must go through from the field. It is hard to say what kind of resources it takes; she had one asbestos specialist and two supporting contractor staff that worked on the model, but literally they had dozens if not 100 people in the field pulling information that was already available. Coming up with a logic flow and then determining what the assumptions are going to be is pretty straightforward; most of us have done that in a number of different areas for financial statements. That is the beginning part; the hurdle is to leverage and get hold of enough information to apply to a model.

"Coming up with a logic flow and then determining what the assumptions are going to be is pretty straightforward; most of us have done that in a number of different areas for financial statements. That is the beginning part; the hurdle is to leverage and get hold of enough information to apply to a model."

Ms. Ranagan asked Presenters 3 and 4 if they used a particular software package or statistician to validate an agency's estimates or if their approach

-- Roundtable
Participant

was to look at what the clients had prepared and document whether that was considered reasonable or not. Presenter 4 responded that their personal approach is to look at the way the client estimates the liability and audit that as a starting point. They typically do not prepare their own estimate for comparison to the client's estimate. Presenter 3 responded that the auditing standards provide three ways for testing an estimate: (1) test subsequent facts, basically vouch what actually got paid; that's not going to happen in this case because of the timing; (2) develop your own estimate; and (3) test management's process for developing their estimate. For these big complicated

liabilities, it's almost always that third method because to develop your own estimate is far more time-consuming and just isn't real practical in these particular cases so their approach is almost always to understand the methodology, the process, how the data was gathered, and the controls around it to support the liability.

Presenter 1 responded that there is software that is available, but it is just software; you still have to feed the model, which is the hard part, conduct testing, and ensure security.

"You have to consider the cost/benefit of how much better your estimate would be versus how much more it is going to cost to get the additional data points needed to refine the estimate."

How relevant the software is depends on your own operation and how patient you are. A participant added that you also need homogenous information to populate the model which does not apply for a lot of agencies. You have to consider the cost/benefit of how much better your estimate would be versus how much more it is going to cost to get the additional data points needed to refine the estimate.

Ms. Ranagan commented that a software package might be good for an entity that has really homogenous groups of data that fit well with the software.

-- Roundtable
Participant

Ms. Ranagan noted that the reason she asked about how an estimate might be audited because she has had several people express concerns to her that they will go through the process of developing an estimate and the auditors will come in and make a material adjustment to it. She wanted to emphasize that the better the rationale is documented and the better support you have for it, the less likely it is that the auditors would come in and make an adjustment to it.

Presenter 3 responded that the estimate is management's estimate; the auditors can't issue an opinion on financial statements that include numbers that they have come up with. It is not appropriate for an auditor to issue an opinion on financial statements that contain numbers that they created. Even audit differences that auditors insist be recorded have to be based on management's analysis and decisions. Ultimately the auditors can disagree and qualify their opinion and they can discuss that with management and management can go back and rework their estimate until they can come with something that is supportable that the auditor can sign off on, but we can't record numbers in the financial statements and we can't make the estimates, because they are not our financial statements and we have to maintain independence.

Ms. Ranagan asked if there were any additional questions. One participant asked if there was a possibility of sharing cost factors across agencies. For example, if one agency has developed a cost factor for a certain type of structure, could another agency use the same cost factor?

Ms. Ranagan stated that sounded like a question for the CFO Council. Presenter 1 responded that the CFO Council is looking at sharing ways to implement the standard and development of a standard cost factor or factors will be part of the discussion.

Ms. Ranagan asked if any participants wanted to share their thoughts regarding the usefulness of the roundtable or anything they had heard at the roundtable.

One participant stated that it had been really helpful and if some of the agencies have been doing costing techniques rather than survey techniques, he would like to hear more about those because his agency has been going down more of the survey route which is very burdensome to the facilities management people. He is interested in how to reach a reasonable approach using just a costing technique rather than having to survey to determine even what kind of asbestos we might be dealing with. He stated that they have people drilling boar holes into walls to determine if there is asbestos and that is resource heavy. If there are other broad techniques where you do not even have to know what you have that are deemed appropriate, he would like to hear more about these.

Ms. Ranagan responded that the Technical Bulletin states that one reason for asbestos to not be reasonably estimable is if you would have to disturb the asbestos to determine it is there by drilling holes and such. Participants responded that is what asbestos assessments are; the technical people will tell you that the only way they can tell what ACM is in the facility and the extent of it is to do an asbestos assessment which cannot be done without drilling holes.

Ms. Ranagan read footnote 5 of Technical Bulletin 2006-1, noting that it states that you do not have to go to that extent to estimate asbestos.

...asbestos may be contained within walls, flooring, or roofing and is inaccessible without destroying or weakening the existing structure or disturbing the asbestos, which would be undesirable. Without experience with a similar site and/or conditions, it may not be possible for the entity to reasonably estimate the cost...

However, she added that if you use that argument that it is not reasonably estimable without drilling into the building, you would have to support that argument with evidence that there is also no comparable data on similar buildings and structures that can be used to develop a reasonable estimate and that is often a difficult argument to support. She emphasized that the standard does not require drilling holes into buildings.

Presenter 3 added that if you have 100 buildings built in 1940 and you have cleaned up three of them and all three of them had asbestos in it, and the other 97 were built during the same time, using the same technology and everything else, it would probably not be unreasonable to assume the other 97 buildings have asbestos.

One participant asked if the auditors are pretty comfortable that you won't really know what you have and yet you can reasonably estimate. Several participants responded that is the nature of an estimate.

Presenter 4 stated that you need to have some basis for your assumptions, like in Presenter 3's example, if you have three out of three buildings that did contain asbestos and you have 97 similar facilities, you have a valid basis for an assumption. You wouldn't want to make an assumption without having a pretty good basis for it.

One participant responded that what they struggle with is getting agreement on what is enough work to meet the reasonableness test and when is it too onerous. He likes the RSI route that some agencies had proposed.

Ms. Ranagan responded that there is no real answer to the question about how much is enough because it depends on each agency's particular situation. She stated that, although she cannot speak for the board, the view of members in recent years has generally been that if you are going to a massive effort to prepare an accounting estimate that has no management value, then you are doing too much. You need to scale it back to be a reasonable estimate that, unless you have management use for it—and it very may well be a good management practice to know how much your asbestos liability is—the general view of the board is that if you are spending millions and millions of dollars to prepare an estimate for which you have no management value, then there is probably a more reasonable way to prepare the estimate. FASAB recently issued some implementation guidance on accounting for grant accruals which you may find helpful with regard to estimating.

The participant responded that he will try to make sure they think of it that way and appreciates the board's consideration that way. He stated that it really does end up being an exercise in working with your auditors to say what is the reasonable effort to get to a reasonable estimate, and when auditors are supposed to look at the end result of what you give them and say if that's reasonable or not, it gets tricky.

Ms. Payne replied that what we have seen happen is a preparer will develop a methodology that is very precise and their auditor might say, yes that will work, but if you choose to do it that way, you really need to validate along this step, this step, this step... What the preparer fails to realize is they went overboard, and if they choose to go that overboard, their auditor is going to go with them and not point out to them that there might have been a less costly approach. Finding that sweet spot right out of the box is a real challenge for you all and we appreciate that but just be aware of the dynamics that you are working with when you go to your auditors.

Ms. Ranagan added that because it is so judgmental and because it is situation-specific and there are so many different variables involved we can't provide exact guidance on this is what materiality is, this is what reasonable means, etc. We try to provide as much guidance as we can but the preparers and auditors working together have to determine what that sweet spot is.

Ms. Ranagan asked if there were any more comments about the usefulness of the roundtable. One participant added that he felt a whole lot better about the issue going out of the meeting than he did going in.

Ms. Ranagan thanked everyone for their time and input and stated that she greatly appreciated everyone's participation.

Subsequent Event:

At the June 22, 2011, board meeting, FASAB members directed staff to prepare an exposure draft (ED) to extend the deferral of Technical Bulletin 2006-1 by one year to allow the community more time to work together to share methodologies and best practices and perhaps work on developing a common cost factor or factors, where possible. The ED, *Technical Bulletin 2011-2, Extended Deferral of the Effective Date of Technical Bulletin 2006-1*, was released on July 13, 2011, with comments requested by August 3, 2011. Early implementation is still strongly encouraged so early implementers will not be affected if the extended deferral is ultimately approved following due process.

Next Steps:

FASAB staff plans to develop a short summary of the thoughts shared at the meeting and publish them in the *FASAB News* and / or the *AGA-DC Washington Connection* newsletter. In addition, FASAB staff plans to host another roundtable in early 2012 to share further progress on methodologies and best practices.

FASAB Staff Contact:**Julia Ranagan****202-512-7377****ranaganj@fasab.gov**