Federal Accounting Standards Advisory Board

**April 21, 2011**

Memorandum

To: Members of the Board

From: Julia E. Ranagan, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Letters from DOI Regarding (1) Natural Resources and (2) Asbestos [1] – **Tab G**

The purpose of this memo is to transmit hard copies of the following two letters we received from the Department of the Interior (DOI) that were emailed to you previously:

- Letter # 1 – clarifies DOI's previous response to the exposure draft Technical Bulletin 2011-1, *Accounting for Natural Resources Other than Oil and Gas*, and
- Letter # 2 – requests that the board revisit Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs* , to consider permitting agencies to report the estimated asbestos cleanup liability in required supplementary information for several years until such time that sufficient survey data has been obtained

Representatives from DOI will be present at the board meeting on Thursday morning to discuss any questions you may have regarding the above two letters. If you have any questions or comments, please contact me by telephone at 202.512.7377 or by e-mail at ranaganj@fasab.gov.

Attachments (2)

[1] The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

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United States Department of the Interior
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APR 15 2011

Ms. Wendy M. Payne, CPA, CGFM
Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6K17V
441 G Street, NW – Suite 6814
Washington, DC 20548

Dear Ms. Payne:

The Department of the Interior (DOI) appreciates the opportunity to provide additional comments to the Board on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft of Technical Bulletin 2011-1, *Accounting for Federal Natural Resources Other than Oil and Gas*.

We believe that explicitly applying Statements of Federal Financial Accounting Standards (SFFAS) 38 to all federal natural resources is warranted, and this technical bulletin will result in more complete, consistent, and useful reporting of federal natural resources. The clarification of appropriate accounting treatment for natural resources other than oil and gas, such as coal, will be beneficial and will help to ensure consistent treatment in the future should there be a need to record an estimated asset value in the financial statements. The specific guidance will also resolve questions and result in more complete and consistent reporting for renewable natural resources.

As you may be aware, a number of bureaus within DOI, including the Bureau of Land Management (BLM), the Office of Natural Resources Revenue (ONRR), and the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE), previously submitted responses to questions posed in the Exposure Draft. From reviewing the comments, it is clear that at least two opinions exist on the cost and feasibility of implementing the technical bulletin. Despite the differences and significant issues that remain to be resolved, the Department believes that, if given adequate time to work through the intricacies of implementation, the challenge can be met. The following is the basis for our rationale.

Establishing a Quantity Baseline

According to ONRR solid minerals experts, it is possible to develop a reasonable methodology to estimate the quantity of coal. Based on current data available, a new process could be developed to establish a recoverable reserve baseline at the federal lease level. Once they are established, depletion of these recoverable reserves would be monitored and adjusted values computed, as necessary. Initially, this process would involve a significant investment of resources and effort. In addition, its success would require extensive and effective collaboration with BLM. However, once established, the baseline could be maintained with appropriate resources and staff.

BOEMRE financial reporting experts believe the standard could be implemented. In the absence of other methods, the methodology that was developed for estimating oil and gas could also be applied to coal. Using this approach, available data would be utilized, gains and losses to the reporting date could be estimated, and the federal domain share would be derived to develop a reasonable quantity estimate from which to then determine a value. While perhaps not quite as precise as the database proposed by ONRR, the methodology would nonetheless produce an estimate that consistently applies the same criteria that was developed and approved for oil and gas. For the final required supplementary information disclosures, a process could also be developed to allocate revenue and accruals to complete the required schedules. While not easy, this particular approach could be accomplished efficiently, at reasonable cost, and with repeatable methodology.

Generally, BLM does not independently collect reserve data and applicants/purchasers are not required to collect or provide such data. As a result, BLM has expressed concern regarding estimating the quantity of proven coal reserves. BLM has stated that the collection of theoretical reserve information would be difficult to obtain and cost prohibitive to maintain. BLM indicated that in some cases, significant research may be required to discover all applicable records that are needed and it would take substantial staff time to develop the data for analysis. The Department agrees with BLM's perspective, but believes these obstacles could be overcome by utilizing one of the approaches proposed by BOEMRE or ONRR.

Valuation

DOI agrees that the valuation guidance in the technical bulletin is reasonably sufficient and provides adequate latitude in developing and selecting the most appropriate method in estimating the value of specific types of natural resources. For this reason, we believe that a reasonably cost effective method can be developed that will meet the intent of the technical bulletin and meet Generally Accepted Accounting Principles (GAAP). Developing an effective valuation methodology will involve considerable work and collaboration. However, as previously stated, we believe this challenge can be met.

While DOI believes that valuation estimates can be developed, some areas will present significant challenges. One challenge is to demonstrate the immateriality of natural resources other than coal. A preliminary analysis indicates that, except for oil and gas, coal is a predominate natural mineral resource that would result in material annual receipts over the life of the related leases. Estimates of the undiscounted value of other minerals generating receipts through ONRR indicate that other natural resources may be immaterial to the Department. ONRR's estimate of materiality was prepared based on a cursory evaluation. However, a more regimented process would perhaps be required when performing the analysis to support GAAP reporting.

Timing

As outlined above, DOI believes that Technical Bulletin 2011-1 could be implemented successfully. However, we do not believe that implementation in fiscal year 2012 is attainable. Currently under consideration by the Board is the 1-year deferral of the implementation date for SFFAS 38, which would be in fiscal year 2013. However, the workload leading up to the implementation would detract from the availability of resources to successfully address the complexities of the technical bulletin. To provide adequate time to meet the challenges of developing the processes and systems needed, we believe a 2014 implementation date would be more appropriate.

Conclusion

DOI believes that the benefits of applying the principles of SFFAS 38 to other natural resources will outweigh the costs of implementation. The clarification, resulting in consistent and complete guidance, will help to enhance the users' understanding of this new requirement. These benefits will become especially evident in the event that a future decision is made to capitalize oil, gas and other natural resources, such as coal. The additional guidance helps ensure that users have the information needed to appropriately account for and disclose other natural resources, where applicable.

In closing, DOI would again like to thank the FASAB for the opportunity to provide additional comments to this important technical bulletin. Many significant issues remain unresolved. However, we believe that with the additional time, as described above, we would be able to meet the challenge of implementing this guidance.

Sincerely,

Eric Eisenstein

Eric Eisenstein, CPA, J.D.
Acting Director, Office of Financial Management, and Acting Deputy Chief Financial Officer

United States Department of the Interior

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APR 15 2011

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Re: Request for Presentation of Asbestos-Related Liability in the Required Supplementary Information Section of the Agency Financial Report

Dear Ms. Payne:

Statement of Federal Financial Accounting Standards (SFFAS) 6: *Accounting for Property, Plant, and Equipment* requires federal agencies to recognize a liability for cleanup costs associated with hazardous waste removal, containment, or disposal and provides guidance on inter-period cost allocation for cleanup costs. Technical Bulletin (TB) 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs,* restates the requirements in SFFAS 6 and specifically applies them to asbestos. It clarifies the required reporting of liabilities and related expenses arising from asbestos-related cleanup costs for federal agencies. TB 2009-1 deferred the effective date of TB 2006-1 to periods after September 30, 2011. Technical Release 10: *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment* provides additional clarification of SFFAS 6 and TB 2006-1 for identification and recognition of asbestos-related cleanup costs and provides a methodology for identifying and recognizing asbestos liabilities associated with federal real property.

To comply with the requirements of SFFAS 6 and TB 2006-1, the Department of the Interior (Interior) began compiling cost data related to the cleanup of friable and non-friable asbestos. To date, Interior has surveyed more than 3,000 buildings and structures at a cost of more than $2.5 million. Interior owns approximately 160,000 buildings and structures. To estimate the total asbestos-related cleanup costs for this large inventory of real property, Interior has chosen the cost modeling approach based on existing survey data. The modeling approach, though the least costly of all methodologies, poses several problems for Interior. First, the cost factor developed based on existing surveys is not representative for all asset types. Actual surveys performed by Interior were primarily on buildings, and Interior owns more than 106,000 structures, for which little or no actual cleanup data is available. Second, although Federal Accounting Standards Advisory Board (FASAB) allows the use of information from industry-specific cost estimation publications or standardized cost factors developed for each state, there is little or no actual asbestos cleanup data available for certain asset groups. For example, there is no actual asbestos-related cleanup data available for monuments and other types of heritage assets owned by Interior. In order to continue with this approach, Interior would need to perform a significant number of additional surveys for certain asset groups and this presents a major challenge. In light of current resource constraints, coupled with probable future budget cuts, the requirement to complete additional surveys would impose a significant financial hardship for Interior. We also need to consider the impact to our financial statement audit. Interior will likely face hurdles with our external auditors due to the inability to dedicate more resources to the performance of more surveys. Because of resource constraints, Interior may experience adverse action during the financial statement audit once TB 2006-1 becomes effective as written.

Based on these concerns, Interior respectfully requests that the FASAB staff examine the requirements of SFFAS 6 and TB 2006-1 and consider the cost and benefit of acquiring more cleanup cost information when resources are scarce. Based on cost-benefit ratio consideration described in FASAB Statement of Federal Financial Accounting Concept 6: *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information,* Interior is requesting that FASAB consider allowing for presentation of the asbestos-related cleanup costs in the Required Supplementary Information instead of the Basic Information of the Agency Financial Report for several fiscal years until more data becomes available to make a more reliable estimation for asbestos-related cleanup costs.

For questions or concerns on this request, please contact Edward King at ed_king@ios.doi.gov or at (202) 208-3425, or Eric Eisenstein at eric_eisenstein@ios.doi.gov or at (202) 208-3417.

Sincerely,

Eric Eisenstein

Eric Eisenstein,
Acting Director, Office of Financial Management, and Acting Deputy Chief Financial Officer