

National Aeronautics and
Space Administration
Headquarters
Washington, DC 20546-0001



October 11, 2006

Reply to Attn of: **Office of the Chief Financial Officer**

TO: Distribution

FROM: Chief Financial Officer

SUBJECT: Revision to Financial Management Requirements (FMR) Volume 6, Chapter 9,
Environmental and Contingent Liabilities

The enclosed Financial Management Requirement (FMR) Volume 6, Chapter 9, Environmental and Contingent Liabilities provide the revised National Aeronautics and Space Administration accounting policy concerning the Environmental and Contingent Liabilities. This revised FMR supersedes the previous version and is effective immediately.

If you have any questions regarding this FMR Chapter, please contact Mr. Ron Brooks at (202) 358-4473 or by e-mail at ronald.s.brooks@nasa.gov.

A handwritten signature in black ink, appearing to read "Gwendolyn Sikes".

Gwendolyn Sikes

Enclosure

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CHAPTER 9**ENVIRONMENTAL AND CONTINGENT LIABILITIES**0901 OVERVIEW

090101. This chapter describes the accounting policy and procedures for recognizing and disclosing environmental liabilities associated with National Aeronautics and Space Administration (NASA) activities and/or ownership of land, facilities, and equipment by NASA. This chapter describes the accounting policy for recognizing and disclosing environmental liabilities associated with environmental cleanup, also known as environmental restoration, at NASA Centers.

090102. Legal action, with the possibility of a negative outcome for the Agency, can create a contingent liability that must be recognized in the Agency's financial statements. This chapter describes the accounting policy and procedures for recognizing and disclosing contingent liabilities.

090103. In all cases, recognition of an environmental or contingent liability shall not be based on the current or future availability of funds. All liabilities meeting the requirements described in this chapter will be properly recorded in the system of record and reported to all concerned parties as set out in this chapter.

0902 AUTHORITY AND REFERENCES

090201. Environmental and contingent liabilities policies and procedures are developed in accordance with the following references.

A. Treasury Financial Management Manual Volume I Part 2 Chapter 4700; [Agency Reporting Requirements]

B. Treasury Financial Manual Volume I Part 6 Chapters 3100; [Certifying Payments and Recording Corresponding Intragovernmental Receivables](#)

C. Federal Agencies' Centralized Trial-Balance System (FACTS I) [Agency Reporting Requirements](#)

D. Statement of Federal Financial Accounting Standard No. 1, "Accounting for Selected Assets and Liabilities", March 1993; [\[SFFAS No. 1\]](#)

E. Statement of Federal Financial Accounting Standard No. 5, "Accounting for Liabilities of the Federal Government" related to environmental cleanup, September 1995; [\[SFFAS No 5\]](#) as amended by SFFAS No. 12.

- F. Statement of Federal Financial Accounting Standard No. 6, "Accounting for Property, Plant, and Equipment" related to environmental cleanup costs, June 1996; [[SFFAS No. 6](#)]
- G. OMB Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements," October 16, 2000; [[OMB 01-02](#)]
- H. OMB Bulletin No. 01-09, "Form and Content of Agency Financial Statements," September 25, 2001; [[OMB 01-09](#)] as amended by OMB Circular A-136, Financial Reporting Requirements.
- I. United States Standard General Ledger; [[USSGL Fiscal Year 2004-2005 Reporting](#)]
- J. Accounting and Auditing Policy Committee, Technical Release 2, "Environmental Liabilities Guidance," March 15, 1998; [[Accounting and Auditing Policy](#)]
- K. AICPA Statement of Position 96-1, "Environmental Remediation Liabilities" October 10, 1996; [Available in hardcopy only]
- L. NASA Policy Directive (NPD) 8730.5, NASA Quality Assurance Policy

0903 ROLES AND RESPONSIBILITIES

090301. Center Environmental Management Offices (CEMOs). CEMOs are responsible for:

- A. Planning, budgeting, and management of contractual effort for the implementation of restoration projects to reduce NASA's environmental liability.
- B. Estimating, documenting, and processing changes to environmental liability estimates in Integrated Data Evaluation and Analysis Library (IDEAL). CEMOs are also responsible for creating User Defined Estimates (UDEs) of environmental liabilities outside of IDEAL and uploading it to the IDEAL for review and documentation. Documentation supporting the restoration process and the environmental liability estimates in IDEAL may include but are not limited to the following:
1. Engineering assumptions including modifications and changes due to new technology
 2. Experience and professional judgment used to arrive at an estimate for a restoration project
 3. Preliminary assessments, Sampling Reports

4. Remedial Investigations, Resource Conservation and Recovery Act (RCRA) Facility Investigations
 5. Feasibility Studies, Corrective Measures Studies
 6. Record of Decision
 7. Remedial design
 8. Contractor Quote
 9. Determinations and/or Orders from regulators
 10. Input into the Note field containing reasons for assumptions
- C. When there is a change from the previous estimate of an environmental project of \$200,000 or more, the CEMO shall be responsible for documenting the reasons for the change in IDEAL.
- D. CEMOs shall be responsible for coordinating review of environmental liability estimate with the Center Office of the Chief Financial Officer during the mid-year and year-end updates. The year-end updating of environmental project estimates will be done only for significant events such as:
1. New probable and estimable sites identified
 2. Existing sites removed from environmental liability estimate
 3. Liability estimate changes by more than \$200,000 for any reason including the following:
 - a. New information about the site increases project scope
 - b. Unexpected changes in remediation system performance
 - c. Schedule changes
 - d. New or revised regulation issued that significantly affects mid-year estimates
 - e. Regulatory action that significantly changes site cleanup requirements
 - f. Major event cause changes to site condition (natural disaster, accident or incident)
- E. Following regulatory criteria, understanding market conditions as they affect liability estimates, developing and reviewing lifecycle cost to complete, and the

funding profile for the environmental liabilities. The CEMOs shall have the authority to delegate these responsibilities to the respective Restoration Project Managers (RPMs).

090302. Headquarters Environmental Management Division (EMD). Headquarters EMD is responsible for managing the Environmental Compliance and Restoration Program and providing guidance on NASA environmental liability policy to the CEMOs. Headquarters EMD is also responsible for:

- A. Initiating the annual process to update the environmental liability estimates
- B. Providing initial review of environmental liability estimates for completeness
- C. Providing management review for reasonableness through EMD Advocates
- D. Coordinating with Agency Office of the Chief Financial Office (OCFO) External Reporting Branch to finalize and record the environmental liability estimate and footnote disclosures and
- E. Managing, providing training for and supporting the IDEAL system.

090303. Center Office of the Chief Financial Officer (COCFO). COCFO shall observe the review and update of environmental liability estimates by CEMOs. In coordination with the CEMOs, the COCFO shall review estimates for environmental restoration projects selected through a statistically selected sample of environmental projects to determine the reasonableness and adequacy of documentation. The COCFO shall process the approved environmental liability estimates in the Agency integrated accounting system.

090304. Agency OCFO. Agency OCFO shall establish financial accounting policy for environmental liability estimates and provide guidance and clarification on policies to the NASA Centers. The OCFO will generate a statistical sample from the environmental liability estimates by project, communicate it to the COCFOs, EMD, and CEMOs, and observe the review and update of environmental liability estimates by CEMOs. Agency OCFO shall conduct joint review of the environmental liability estimates with EMD, approve final environmental liability estimates, and notify COCFOs to record the environmental liability estimates in the Agency integrated accounting system.

0904 DEFINITIONS

090401. Liability. Liability is a future outflow or other sacrifice of resources as a result of past transactions or events.

090402. Contingency. Contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity which will ultimately be resolved when one or more future events occur or fail to occur.

090403. Contingent Liabilities (U.S. Standard General Ledger Account 2920) represents the amount that is recognized as a result of a past event where a future outflow or other sacrifice of resource is probable and measurable. A contingent liability should be disclosed in the notes to the financial statements if any of the conditions for liability recognition (probable and measurable) are not met and there is a reasonable possibility that a loss or additional loss may have been incurred. Disclosure should include the nature of the contingency and an estimate of the possible liability, an estimate of the range of the possible liability, or a statement that such an estimate cannot be made.

090404. Environmental Liability. Environmental Liability should be recognized when there is a probable and measurable future outflow of resources as of the financial reporting date for environmental cleanup costs resulting from past transactions or events.

090405. Estimated Cleanup Cost Liability (U.S. Standard General Ledger Account 2995) represents the estimated liability for projected future cleanup costs (for which funding has not been appropriated) associated with removing, containing, and/or disposing of (1) contamination or hazardous waste from property, or (2) material and/or property consisting of hazardous waste or other environmentally regulated substances at permanent closure, temporary closure or shutdown of the associated property, plant, and equipment.

090406. Liability Recognition. Recognized Liability means the formal recording or incorporating of a liability amount into the financial statements of the Agency. (Source: FASAB Consolidated Glossary).

090407. Liability Disclosure. Disclosed Liability means the reporting of a liability in the notes that are an integral part of the financial statements. (Source: FASAB Consolidated Glossary).

090408. Probable. Probable is defined as that which can reasonably be expected or believed to be more likely than not on the basis of available evidence or logic and includes amounts where there is a more than 50 percent chance of payment being made. The probability of a future outflow or other sacrifice of resources is assessed on the basis of current facts and circumstances. These current facts and circumstances include the law that provides general authority for federal entity operations and specific budget authority to fund programs.

090409. Reasonably Possible. Reasonably Possible means the chance of the future confirming event or events occurring is more than remote but less than probable.

090410. Remote. Remote means the chance of the future event or events occurring is slight.

090411. EMD Advocate. Headquarters individual or environmental specialist assigned with oversight responsibility for Center environmental cleanup projects.

0905 POLICIES AND PROCEDURES

090501. Criteria for Recognition of a Contingent Liability (SFFAS No. 5). A contingent liability should be recognized (recorded in the Agency's general ledger) when all of these three conditions are met:

- A. A past event or exchange transaction has occurred (e.g., a federal entity has breached a contract with a nonfederal entity).
- B. A future outflow or other sacrifice of resources is probable (e.g., the nonfederal entity has filed a legal claim against a federal entity for breach of contract and the federal entity's management believes the claim is more likely than not to be settled in favor of the claimant).
- C. The future outflow of resources is measurable (e.g., the federal entity's management determines an estimated settlement amount).

The estimated liability may be a specific amount or a range of amounts. If some amount within the range is a better estimate than any other amount within the range, that amount is recognized. If no amount within the range is a better estimate than any other amount, the minimum amount in the range is recognized (posted to the general ledger) and the range and a description of the contingency should be disclosed in the notes to the financial statements.

090502. Criteria for Determining Environmental Cleanup Costs. Key factors must be considered in determining whether a future outflow of resources from a federal agency for environmental cleanup is probable. A detailed explanation of these factors can be found in Federal Financial Accounting and Auditing, Technical Release 2, "Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government." [[Accounting and Auditing Policy](#)] The factors are:

- A. Likely Contamination
- B. Government Related and Legally Liable
- C. Government Acknowledged Financial Responsibility
- D. Monies Appropriated/Transaction Occurred
- E. No Known Remediation Technology Exists

090503. Liability Cost Estimates.

A. Liability cost estimates may be prepared at the Center or other organizational level. Cost estimates prepared for this purpose shall consider, on a full cost basis, the anticipated costs of the level of effort required to cleanup (i.e., remove, contain, or dispose of) hazardous waste, or contamination resulting from past transactions in accordance with applicable federal, state, and local requirements. Cost estimates shall be revised when there is evidence that significant changes in the cost estimates have occurred. Liability estimates should be reviewed as required in section 090301 of this volume.

B. Cost estimates are subject to audit. The preparation of cost estimates may involve the application of specialized tools, methods, accumulation and study of historical costs, and/or the conduct of technical analyses. Organizations that prepare cost estimates must retain adequate documentation to identify data sources, estimating methods, and rationale used. Documentation of management reviews must also be retained. Any estimate produced must be based on site-specific information, engineering estimates, and/or validated cost models.

C. Estimates for liability costs should be offset by estimated cash proceeds only when the proceeds are permitted to be used by the organization that funds the cleanup costs.

090504. Recording and Reporting Liability Cost.

A. Contingent Liabilities.

1. As part of the end-of-year procedures, the Office of Chief Counsel (OCC) at each Center provides during the fourth quarter of the fiscal year information relating to all pending or threatened litigation, claims, and assessments, including cases to be paid from the Judgment Fund, against the Agency to the Office of the General Counsel (OGC) at NASA Headquarters. The OGC consolidates the information received from all Center OCCs and OGC's own information regarding any Headquarters-level litigation, claims, and assessments into a single report and provide this report to the Agency OCFO. Data is due to the Agency OCFO by September 30th.

2. The data collected, is summarized into three categories: probable, reasonably possible, and remote. "Probable" includes amounts where there is more than a 50 percent chance of a payment being due. "Reasonably possible" is when there is less than a 50 percent chance and "remote" is when there is little or no chance of a payment being required in the future.

3. Amounts classified as probable are recognized in the accounting systems and reported on the consolidated balance sheet. Amounts reported as reasonably possible are disclosed in the footnotes to the financial statements. Amounts reported as remote are not included in the reports.

4. A summary of commitments and contingencies is reported annually by each COCFO and included as a line item or footnote to FACTS I and the

NASA Performance and Accountability Report. This data reflects the Agency's position at the end of the fiscal year. The data includes all Agency financial commitments and contingencies stated at the maximum limit of risk.

5. Detailed Center reporting instructions are in Chapter 7, Report on Summary of Commitments and Contingencies of FMR Volume 8, External Reporting. Three categories of probability shall be identified in the transmittal; “probable”, “reasonably possible”, and “remote”

B. Environmental Liabilities.

1. During the year, NASA’s environmental engineers and scientists may be alerted to new information that may result in a change to existing (recorded) liabilities or a new, previously unrecorded liability. That information is processed in accordance with guidance described in the NASA Environmental Restoration Handbook. The Handbook provides guidance used to address contamination in conformance with the Comprehensive Environmental Response and Liability Act (CERCLA) of 1980 (Pub. L. 96-510, as amended) and the Resource Conservation and Recovery Act (RCRA) of 1976 (Pub. L. 94-580, as amended), and other applicable laws.

2. During the second quarter of each fiscal year, the Office of Infrastructure and Administration, EMD, issues a data request to all the CEMOs for an estimate of potential environmental liabilities. The estimate is derived by each center utilizing the IDEAL. The IDEAL System creates reports for each individual project. Each report contains updated assumptions made during the year for the project and forms a basis for any accrued liability.

3. The IDEAL reports are summarized and submitted to the Agency OCFO for review and approval. The COCFO is responsible for posting the mid-year and year-end adjustment to the Agency integrated accounting system. The new balance is reported on the Trial Balance prior to the generation of the Annual Performance and Accountability Report.

4. The CEMOs are the official depository for all records, both electronic and hardcopy, that support estimates for environmental liabilities. Summarized data submitted through the CEMOs to the COCFO for recording and disclosure should be supported by the official records.

C. Materiality.

1. The recognition and disclosure of liability cost estimates in financial statements is subject to materiality criterion. Statement of Federal Accounting Standards No. 1, “Accounting for Selected Assets and Liabilities,” states materiality depends on the degree to which omitting or misstating information about an item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.”

2. Materiality has both quantitative and qualitative aspects. Even though quantitatively immaterial, certain types of misstatements could have a material impact and warrant disclosure in the financial statements for qualitative reasons.

3. The determination of materiality requires the application of professional judgment. The determination of materiality for any liability estimate will be made based on the specific facts of the case. Detailed records will be maintained to support all materiality decisions.

4. Liability estimates that are material shall be recorded in the accounting system and reported in financial statements as of the report date.

090505. Office of Quality Assurance. To ensure that all required data on contingent and environmental liabilities are accurate and timely, the reporting requirements are included in the annual Fiscal Year End Checklist. The annual Checklist includes due dates, points of contact, and any special requirements for the reporting period. The NASA OCFO publishes the checklist each year during the last quarter of the fiscal year. Please refer to NASA Policy Directive (NPD) 8730.5, NASA Quality Assurance Program Policy for requirements for performance of work and independent assurance of compliance through quality assurance program.

090506. External Reporting. For environmental and contingent liabilities external reporting requirements, please refer to Volume 8 External Reporting.