

TAEP Conference – ECIC12

Abstract Submission

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Title:

Navigating Pitfalls in Estimating Costs of Environmental Remediation Liabilities for Financial Reporting Purposes

Abstract:

Management of publicly-held companies is responsible for ensuring that the companies' financial statements and reports are presented in accordance with the applicable accounting guidance. Estimates generated to support Management's estimates of environmental liabilities should similarly align with accounting guidance, and be fully auditable. In many cases, the base of Management's estimate is one generated by the company's environmental/engineering consultants. Often, Management has either not informed the consultant that the estimate will be used for financial reporting purposes or, the consultant does not have the appropriate understanding of the accounting guidance. Both of these situations may result in errors to the estimate from a financial reporting standpoint. Estimates of Fortune 500 companies audited in recent years still exhibit gaps in both the recognition of appropriate costs and the auditable support package for these costs. In some cases, financial statement adjustments of nearly \$100M have been made, and management has received significant comments from the financial auditors and/or regulators. Certain pitfalls continue to be observed:

- Incorrect timing of the recognition of costs
- Incorrect understanding of "probable," "reasonably possible," and "remote" costs and the importance of these distinctions to the financial statements
- PRP assumptions
- Omission of Closure Costs and other Life Cycle Costs
- Lack of understanding of the audit process and lack of auditable support for the estimate (e.g., undocumented professional judgment)
- Inclusion of inappropriate operating costs or costs related to an asset retirement obligation
- Estimate methodologies that violate Management's policies.

Several case studies demonstrate these errors and the role of the environmental consultant and management's representatives in the generation of the estimate. Lessons learned from these cases illuminate ways to navigate these pitfalls, generate a more defensible management estimate, and improve client service.

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Professional Profiles – Abstract Submission, ECIC12

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Profile

Joy is a specialist in the Deloitte Financial Advisory Services LLP's ("Deloitte FAS") Environmental & Sustainability Consulting (E&SC) Group. She focuses on applying her environmental science background to financial and performance reporting and business case development. Prior to joining Deloitte FAS, Joy worked for a multinational environmental geology and engineering consulting group in the areas of Site Investigation and Remediation (SIR), Litigation Support, Mergers & Acquisitions (M&A, "due diligence"), Environmental Impact Assessments (EIAs), and Environmental & Sustainability planning. Joy has been involved in evaluating contingent environmental liabilities for internal evaluations and external financial reporting purposes for approximately three years. Joy received a Bachelor's of Science in Biological Sciences and has completed significant progress toward a Master of Science, with foci in the areas of sustainability, eco-toxicology and environmental management.

Experience

- Environmental Specialist Support for US GAAP FAS 5/ IFRS Environmental Liability Reserves and FIN 47 Asset Retirement Obligations (ARO) Attest (Audit) Services
 - Assessed management assertions and estimates for environmental liability reserves and AROs (over multiple years) for reasonableness against site-specific regulatory requirements and technical criteria for more than 33 sites in 12 U.S. States and 1 international country with a total proposed liability of approximately \$825M and high end of the range of \$2.2+B.
 - Identified, collected, and reviewed management internal liability or ARO estimates (both portfolio and site-specific), estimate build-ups, reserve modification forms, Monte Carlo simulations or other range models, as well as external estimates (contractors and subcontractors) for cost alignment;
 - Performed or facilitated "walk-through" discussions (both remotely and on-site) with Company financial office and remedial management personnel in conjunction with the attest team to identify and assess internal processes and controls utilized by the Company in the development of the liability estimates;
 - Identified, collected and reviewed relevant regulatory documents

- including Administrative Consent Orders, Unilateral Orders, Agreements on Consent, etc. (under CERCLA, RCRA, voluntary programs, etc.) to evaluate management assertions including the completeness of proposed tasks;
- Performed inquiries to both company remedial management personnel and engineering consultant personnel and identified, collected and reviewed relevant technical reports including remedial investigation reports, spill release reports, feasibility studies, corrective measures reports, etc. for assessment of the technical completeness and appropriateness of the proposed actions and costs to meet stated remedial requirements;
- Based on the documentation and other information assessed as described above, analyzed management's reserve and high end estimates and assumptions for accuracy and completeness and communicated results to both senior audit personnel and senior Company financial management personnel.
- Consulted with Company personnel in the development of liability reserve support documentation packages for both quarterly and year-end reporting for both currently filing Companies and for Companies preparing for initial filings. Provided similar consultation for potential acquisitions to support future purchase accounting auditing;
- Participated in Company environmental reserve quarterly calls to support identification of potential audit and recording risks;
- Managed and coordinated multiple, overlapping, Environmental Specialist support projects throughout the season to support audits for various Company year-ends;
- Employed technical knowledge and financial investigations experience to support business management environmental risk and reporting assessments:
 - With a cross-functional consultative team (with statisticians and mathematicians), developed an environmental risk-assessment model to support a Company (confidential client) property dispersal effort;
 - Performed internal walk-throughs and analyses to identify impediments to the successful implementation of an ISO 14001 system at multiple utility sector sites.

Previous Professional Experience

Environmental Resources Management (ERM): 2006-2009

- Environmental Litigation Support
- CERCLA "Superfund" Processes
- TRRP Voluntary Clean-Up Program (VCP) Processes
- Mergers & Acquisitions – Environmental Due Diligence
- Ecological and Human Health Risk Assessments
- Environmental Liability Assessment
- Environmental Sustainability
- Site Investigation & Remediation (SIR)

Education

- OSHA 40-hour Hazwoper Training, 2009
- Nielson School-Contaminated Groundwater Investigations
- University of Houston-Clear Lake, Houston, TX
 - M.S., Environmental Science (ABT)
 - B.S., Biological Sciences

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Chris has more than 16 years of regulatory and consulting experience in the environmental field, including conducting air and waste audits of midstream energy facilities, power plants, and other industrial sources as an investigator for a state regulatory agency. His additional regulatory experience includes negotiating and implementing compliance monitoring strategies with regional Environmental Protection Agency staff, refinement of data systems to manage the reporting of inspection and enforcement data, assisting with rulemaking, drafting regulatory guidance publications, and providing technical knowledge in support of enforcement cases.

His consulting experience includes preparing permit applications and negotiating permits, planning and conducting compliance audits, representing clients in compliance matters before state regulators, air quality modeling, preparing compliance reports, evaluating and implementing environmental management systems, and supporting M&A activities through due diligence engagements. He is also experienced in conducting internal audits with a focus on environmental, health, and safety matters, evaluating internal controls, and providing financial statement audit support expertise, including assessing environmental liabilities and environmental asset retirement obligations.

Experience

- Analyzed contingent environmental liabilities, as well as underlying assumptions supporting asset retirement obligations to determine the appropriateness of environmental reserves represented in clients' financial statements. Analyses supported clients in the chemical, mining, and retail industries.
- Lead internal audit of an electric utility's health and safety program, which included assessing the client's processes and procedures for identifying and complying with state and federal Occupational, Safety, and Health Administration (OSHA) requirements.
- Supported internal audit function of an independent offshore oil and gas exploration and production company by evaluating internal controls, reporting mechanisms, and readiness of the client's safety and environmental management plan/system.
- Partnered with an electronics recycling client's internal audit staff by providing subject matter expertise relating to safety and waste management compliance and internal controls during an internal audit of one of the client's major receiving and processing facilities.
- Assisted an international petroleum client by conducting forensic reviews of vendor invoices for compliance with billing provisions in contracts.
- As an environmental consultant, worked with a refining client's external legal counsel and general counsel to lead client's negotiations related to environmental compliance matters with state regulators. Resulted in the client's compliance ratings at multiple sites being reclassified and improved, thereby saving thousands of dollars in additional permitting fees that would have been imposed by the state.
- As an environmental consultant, determined compliance status and reviewed compliance systems as part of environmental audits at several refineries across the U.S. for a large independent refining corporation. Included ascertaining applicability, evaluating internal

- controls, and delivering reports to corporate Health, Safety, and Environmental staff.
- As an environmental consultant, assisted a mid-stream oil and gas client in selecting and implementing an environmental management system. Included vetting potential vendors, ascertaining data requirements, populating data tables, and customizing system for client's industry.
 - Prepared permit applications and successfully negotiated permit conditions for a major refining company and independent mid-stream oil and gas clients while in the environmental consulting practice.
 - As an environmental investigator for a state regulatory agency, conducted air and waste audits of midstream oil and gas facilities, power plants, and other industrial sources.
 - As a controller, managed all financial aspects of a multi-million dollar environmental consulting firm. Supervised accounting staff, and oversaw financial analysis/reporting, General Ledger, Accounts Receivable, Accounts Payable, and fixed-asset accounting in accordance with Generally Accepted Accounting Principles standards.

Professional Affiliations

- Member, American Institute of Certified Public Accountants
- Member, Association of Certified Fraud Examiners
- Member, Air and Waste Management Association, Gulf Coast Chapter

Education & Certifications

- Angelo State University, Master of Business Administration
- Texas A&M University at College Station, Bachelor of Science in Bioenvironmental Sciences
- Certified Fraud Examiner
- Certified Public Accountant in Texas