



United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

159734

B-273004

January 7, 1998

The Honorable William S. Cohen
The Secretary of Defense

Subject: Financial Management: DOD's Liability for Missile Disposal Can Be Estimated

Dear Mr. Secretary:

Recent laws have enhanced the legislative requirements to provide policy makers and agency program managers with more reliable financial information to formulate budgets, manage government programs, and make difficult policy choices.¹ Recognizing the extent to which decisionmakers must rely on incomplete and unreliable information on the cost and consequences of government programs and activities, these laws have made implementation of new accounting standards and audited financial statements a priority. New federal accounting standards have been adopted to enhance financial statements by requiring that government agencies show the financial results of their entire operations and provide relevant information on the agencies' true financial status. This report discusses one such requirement for valuable information related to the disposal costs of federal agencies' property, plant, and equipment (PP&E). The fourth in a series of reports² on the Department of Defense's (DOD) implementation of this requirement, this report focuses on missiles.

¹The Chief Financial Officers Act (CFO) of 1990, the Government Management Reform Act (GMRA) of 1994, and the Federal Financial Management Improvement Act of 1996.

²The other reports in this series are Financial Management: Factors to Consider in Estimating Environmental Liabilities for Removing Hazardous Materials in Nuclear Submarines and Ships (GAO/AIMD-97-135R, August 7, 1997), Financial Management: DOD's Liability for Aircraft Disposal Can Be Estimated (GAO/AIMD-98-9, November 20, 1997), and Financial Management: DOD's Liability for Disposal of Conventional Ammunition Can Be Estimated (GAO/AIMD-98-32, December 19, 1997).

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According to a September 1995 report issued by the Joint Ordnance Commanders Group (JOCG),³ Munitions Demil/Disposal Subgroup, missiles are weapons systems that have three characteristics: a motor, an explosive or practice warhead, and a guidance system. These weapons range from shoulder-launched anti-tank missiles to intercontinental ballistic missiles (ICBMs). The disposal process for missiles generally involves disassembly to remove hazardous components and materials, and the destruction, disposal, or salvage of these hazardous items as well as the other nonhazardous components.

BACKGROUND

In October 1990, the Federal Accounting Standards Advisory Board (FASAB) was established by the Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States to consider and recommend accounting standards to address the financial and budgetary information needs of the Congress, executives agencies, and other users of federal financial information. Using a due process and consensus building approach, the nine-member Board, which has since its formation included a member from DOD, recommends accounting standards for the federal government. Once FASAB recommends accounting standards, the Secretary of the Treasury, the Director of OMB, and the Comptroller General decide whether to adopt the recommended standards. If they are adopted, the standards are published as Statements of Federal Financial Accounting Standards (SFFAS) by OMB and by GAO. In addition, the Federal Financial Management Improvement Act of 1996, as well as the Federal Managers' Financial Integrity Act, requires federal agencies to implement and maintain financial management systems that will permit the preparation of financial statements that substantially comply with applicable federal accounting standards.

Issued in December 1995 and effective beginning with fiscal year 1997, SFFAS No. 5, Accounting for Liabilities of the Federal Government, requires the recognition of a liability for any probable and measurable future outflow of resources arising from past transactions.⁴ The statement defines probable as that which is likely to occur based on current facts and circumstances. It also

³The Joint Ordnance Commanders Group consists of representatives from each of the four military services. It was established to coordinate munitions demilitarization and disposal programs.

⁴These requirements generally mirror those of Statement of Financial Accounting Standard No. 5, Accounting for Contingencies (FASB No. 5), which was effective prior to the development of SFFAS No. 5.

states that a future outflow is measurable if it can be reasonably estimated. The statement recognizes that this estimate may not be precise and, in such cases, it provides for recording the lowest estimate and disclosing in the financial statements the full range of estimated outflows that are likely to occur.

SFFAS No. 6, Accounting for Property, Plant, and Equipment, which is effective beginning in fiscal year 1998, deals with various accounting issues pertaining to PP&E. This statement establishes several new accounting categories of PP&E, collectively called stewardship PP&E. Other PP&E is referred to as general PP&E. One of the new stewardship categories—federal mission PP&E—is defined as tangible items owned by a federal government entity, principally DOD, that have no expected nongovernmental use, are held for use in the event of emergency, war, or natural disaster, and have an unpredictable useful life. Federal mission PP&E, which includes ships, submarines, aircraft, missiles, and combat vehicles, is a major part of DOD's total PP&E.

SFFAS No. 6 also provides information on how SFFAS No. 5's standard on liabilities should be applied to PP&E. Specifically, SFFAS No. 6 discusses how to recognize the liability for the cleanup⁵ of hazardous waste in PP&E. While this statement modifies SFFAS No. 5 with respect to the timing of liability recognition for general PP&E, it has no effect on accounting for liabilities related to missiles and other federal mission PP&E.

RESULTS IN BRIEF

DOD has not yet implemented the federal accounting standard that requires recognizing and reporting liabilities, such as those associated with missile disposal. Because missile disposal is an ongoing process whose cost can be reasonably estimated, these activities meet the criteria for a reportable liability. Information on missile disassembly processes and hazardous material removal and disposal is available to estimate a disposal liability for missiles. In developing the missile disposal liability, various factors need to be addressed as DOD develops its policy and specific guidance for the military services. These factors include consideration of the accounting treatment of facilities needed for the disposal process, the cost of removing missiles from silos as well as disposing of the silos themselves, the cost to dispose of spare missile components, reductions in inventory due to foreign military sales and

⁵SFFAS No. 6 defines cleanup as the removal, containment, and/or disposal of (1) hazardous waste from property or (2) material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associated property, plant, and equipment.

reutilization, the cost of military personnel that perform missile disposal processes, and storage and surveillance costs prior to disposal.

In response to previous reports on the disposal liability, DOD concurred with our recommendations that SFFAS No. 5 be incorporated in DOD's Financial Management Regulation and that joint implementing guidance be issued promptly on the SFFAS No. 5 requirements for recognition of the disposal liability. However, DOD stated that it would be necessary to delay the reporting of the disposal liability for ships and submarines, aircraft, and ammunition until fiscal year 1998 because the development and coordination of procedures and reporting guidance would take time to complete. As we stated in our previous reports, SFFAS No. 5 was issued 2 years ago to allow agencies ample time to develop implementing policies and procedures prior to its effective date. In addition, as was the case for the other types of assets, information is available on all of the missile disposal processes to develop a reasonable estimate of missile disposal costs. Although we are not making recommendations in this letter, we believe that the factors we identified will assist DOD as it develops its procedures for estimating the missile disposal liability and that, with a concentrated effort, the Department can develop a reasonable estimate of missile disposal costs for its fiscal year 1997 financial statements.

OBJECTIVES, SCOPE, AND METHODOLOGY

We undertook this review to assist DOD in its efforts to meet SFFAS No. 5 and because of our responsibility to audit the federal government's consolidated financial statements beginning with fiscal year 1997. Our objectives were to (1) determine whether an estimate of the disposal liability for missiles, including the removal and disposal of hazardous materials, could be made and (2) identify key factors DOD should consider as it develops its policy.

To gain an understanding of the procedures and the financial and logistical management information sources and systems that can be used to accumulate and report on missile disposal costs, we (1) examined the logistical and financial management data used by the services to identify missile inventories and disposal costs, (2) reviewed applicable DOD and service instructions and regulations, and (3) interviewed DOD, Air Force, Army, Navy, and Marine Corps officials.

To determine if the liability is reasonably estimable, we identified the financial and logistical management information sources and systems in place that contain information about missile inventory quantities and the costs of missile disposal. We visited or contacted Army, Air Force, Navy, and Marine Corps organizations responsible for managing missiles to develop information on hazardous materials in missiles and missile disposal processes and costs. We

also selected four missiles for more detailed review. We worked with service officials to identify missile systems that would be representative of other missile systems and the disposal practices used within DOD. The four systems selected were the Army's Patriot and Shillelagh missiles, the Navy's and Air Force's HARM (High-speed Anti-Radiation Missile), and the Air Force's Minuteman I and II ICBMs.⁶ The logistical and financial information sources used to determine the inventory and disposal costs for these four missiles are basically the same as those that would be used for identifying the inventory and disposal costs of virtually all other missile systems.

Because hazardous material disposal costs account for most of the cost of disposing of missiles, we performed a more in-depth analysis of these costs. Through discussions with service officials, and reference to technical manuals, environmental assessments, or disposal plans for our selected missile systems, we identified the primary hazardous materials associated with these missiles.

In missile disposal, much of the hazardous material is destroyed through detonation or burning. We compiled the cost of removing and destroying hazardous materials from the missiles based on cost data obtained through depots and other service entities responsible for disposing of the missile systems and their components. We did not independently verify data obtained from inventory and financial systems, and, to the extent that costs were based on hourly labor rate data, we did not independently verify the reported time needed for the disposal processes. Relevant hazardous waste disposal costs were obtained for other missile components (e.g., batteries) that are not disposed of through detonation or burning. We discussed disposal procedures with officials in the Defense Reutilization and Marketing Service. Also, while DOD must consider the costs of cleaning up detonation sites and facilities in developing its total liabilities, those costs were not included as part of the missile disposal costs in this report.

During our review, we contacted personnel and/or conducted work at various locations including the ICBM Systems Program Office at Hill Air Force Base, Utah; Rocket Systems Launch Program Office at Kirtland Air Force Base, New Mexico; Air Logistics Centers at Hill Air Force Base, Utah, Kelly Air Force Base, Texas, Tinker Air Force Base, Oklahoma, and Warner Robins Air Force Base, Georgia; Army Missile Command, Redstone Arsenal, Alabama; Anniston Army Ammunition Depot, Alabama; Letterkenny Army Ammunition Depot, Pennsylvania; Red River Army Ammunition Depot, Texas; Naval Air Systems

⁶Our work included the disposal of conventional warheads but did not address the disposal of the Minuteman nuclear warheads, which are owned, and disposed of, by the Department of Energy.

Command and Naval Sea Systems Command, Arlington, Virginia; Marine Corps Systems Command, Arlington, Virginia; and applicable headquarters offices in the Washington, D.C., area.

We conducted our review between November 1996 and November 1997 in accordance with generally accepted government auditing standards. We requested comments on a draft of this letter from the Secretary of Defense or his designee. On January 6, 1998, DOD officials provided us with oral comments, which are discussed in the "Agency Comments and Our Evaluation" section.

MISSILE DISPOSAL LIABILITY HAS BEEN INCURRED

One of the key criteria cited in SFFAS No. 5 for a liability to be reported is that a future payment is probable—that is, the future outflow of resources is likely to occur. Although in some cases the likelihood of a future outflow may be difficult to determine and an entity may have difficulty deciding whether to record a liability for certain events, this is not the case for DOD. DOD regularly disposes of missiles and has an amount for disposal costs included in its annual budget request. Thus, because it is known at the time of acquisition that costs will be incurred for missile disposal, the probability criterion for recording a liability is met. The Congress has also recognized that disposal costs will be incurred and has emphasized the importance of accumulating and considering this information. For example, the National Defense Authorization Act for Fiscal Year 1995 requires the Secretary of Defense to determine, as early in the acquisition process as feasible, the life-cycle environmental costs for major defense acquisitions programs, including the materials to be used and methods of disposal. The life-cycle cost estimates are required before proceeding with the major acquisition.

Missile Disposal Process

The disposal process for missiles varies by type of missile. In some cases, missile disposal is funded by the service; in other cases, missiles or components are turned over to the Army's Industrial Operations Command for disposal through its demilitarization and disposal program. Smaller missiles may be removed intact from their depot storage and destroyed on site, while disposal of a larger and more complex ICBM may involve an extensive disassembly and recovery effort, with hazardous material disposal carried out at many facilities that are responsible for different missile components.

Prior to a decision to dispose of the missiles, a service may pursue other alternatives, including potential use of the missiles for training, space launches, or approved foreign military sales of the missiles or components. Thus, the

disposal process for a missile system starts with a service's determination that it has no continuing requirement for that missile system.⁷

To conduct a disposal operation, an environmental assessment of the missile may be needed to identify hazardous materials and environmental impacts associated with the disposal process. The service may solicit cost estimates for disposing of the missiles from depots and contractors. The costs associated with state environmental constraints are also considered in deciding where missile disposal will be carried out. Once a disposal process and location have been chosen, and any required environmental permits have been obtained, disposal can be scheduled and carried out. Obsolete missiles, missiles that pose environmental or safety concerns, and those that occupy large amounts of valuable depot storage space will likely be disposed of ahead of other usable items that exceed requirements.

Currently, missile disposal usually involves detonation of the conventional explosive warheads and detonation or firing of the rocket motors—which consume the hazardous content of the explosives and rocket propellant. Other hazardous components that would not be consumed by the detonation or firing are removed beforehand for reuse or disposal as hazardous waste. Classified components also need to be removed and destroyed separately. Other nonhazardous components may also be removed from the missile for reuse. Residual materials, such as scrap metal, can be sold through the Defense Reutilization and Marketing Service.

MISSILE DISPOSAL LIABILITY CAN BE ESTIMATED

The second key criterion in SFFAS No. 5 for reporting a liability is that an amount be reasonably estimable. Information is available to develop cost estimates for the missile disposal processes described in the previous section.⁸ The information in the following sections indicates the types of information available for DOD to develop a missile disposal cost estimate. As stated in

⁷DOD's disposal process is detailed in Federal Property Disposal: Information on DOD's Personal Property Disposal Process (GAO/NSIAD-97-155BR, July 8, 1997).

⁸We, as well as the DOD Inspector General and service auditors, have reported problems with the reliability of information in DOD's accounting and logistical systems. While there are limitations in the data, DOD is working to improve the systems. Over time, this should increase the accuracy of the information and improve the disposal liability estimates. See Defense Financial Management (GAO/HR-97-3, February 1997).

SFFAS No. 5, estimating the liability may result in a range of potential aggregate costs, the lowest of which should be recorded unless an amount within the range which is most likely to occur is estimable.

Inventory of Missiles

The military services maintain a significant inventory of missiles, ranging in size from portable anti-tank and anti-aircraft weapons operated by an individual soldier to ICBMs. Most missiles are identified in the inventory as complete missiles, but ICBMs are generally tracked and maintained as individual rocket motor stages. As shown in table 1, DOD reported over 574,000 missiles and 5,871 rocket motors, according to the most recent available data. The missile inventory serves as the basis for estimating the disposal liability, although reductions in quantity due to reutilization or foreign military sales would have to be considered, as discussed later in this report. Training and operational consumption of active missiles may not reduce the total liability for missile disposal, to the extent they are replaced to maintain inventory levels.

Table 1: Inventory of Missiles and ICBM and Submarine-Launched Rocket Motors

Service	Quantity	Inventory date
Army	405,467	September 1996
Air Force–ICBM Rocket Motors	3,721	November 1996
Air Force–all other missiles	67,027	January 1997
Navy–submarine-launched ballistic rocket motors	2,150	September 1996
Navy–all other missiles	56,117	August 1997
Marine Corps	45,700	September 1996

Source: We obtained Army inventory data from its Missile Distribution Plan report and additional information provided by Missile Command officials. Air Force officials provided inventory data from their Missile Motor Tracking and Reporting System, Combat Ammunition System, Tactical Missile Record System, and Equipment Inventory Multiple Status and Utilization Reporting System. Navy officials provided their missile inventory from their Conventional Ammunition Integrated Management System and other sources. Marine Corps officials provided inventory data from their Ammunition and Accounting Reporting System. Quantities are based on the most current data available at the time of our review.

Estimated Disposal Costs Are Available

Although the specific costs will vary because of the range of missile sizes and complexity, the services were able to provide us with estimated disposal costs for the four missiles we selected for detailed review—the Army Patriot, the Army Shillelagh, the Navy and Air Force HARM, and the Air Force Minuteman I and II. Service officials calculated these estimates using existing data in their logistical and financial systems and related reports, which are sources that could be used for identifying the inventory and disposal costs of virtually all other missiles. Because missiles consist largely of hazardous material, most of the disposal costs for the four missiles related to hazardous material disposal.

As shown in table 2, estimated total disposal costs for the three non-ICBM missiles ranged from \$102 to \$1,038 per missile.

Table 2: Estimated Hazardous Material Disposal and Total Disposal Costs for Selected Missiles

Missile system	Hazardous material disposal cost per missile	Total disposal cost per missile	Quantity^a
MIM-104 Patriot (Army)	\$623	\$1,038	5,205
Shillelagh (Army)	\$102	\$102	41,971
AGM-88 HARM (Navy and Air Force) ^b	\$621	\$673	16,664

Source: Based on cost data or estimates provided by the services.

^aQuantities are based on the most current data available at the time of our review. Patriot and Shillelagh quantities are as of September 30, 1996. The HARM quantity is the combined Navy and Air Force inventories as of January 1997.

^bThere has been no disposal of complete HARM missiles to date, but Navy and Letterkenny Army Depot officials believed that disposal costs for the HARM could reasonably be estimated based on costs incurred for disposing of AGM-45 Shrike missiles, which are similar to the HARM.

Minuteman I and II missiles are stored and tracked as individual rocket motor stages, rather than complete missiles. The Air Force was able to provide estimated hazardous materials disposal costs by stages as shown in table 3.

Table 3: Estimated Hazardous Material Disposal Costs for the Minuteman I and II

Rocket motor stage	Hazardous material disposal costs	Quantity^a
Stage 1	\$323,000	404
Stage 2	\$109,000	510
Stage 3	\$40,000	501

Source: Air Force data.

^aThe quantity of Minuteman I and II rocket motors is as of November 1996.

Air Force officials also provided estimates of additional hazardous and nonhazardous disposal costs of \$3,896 per complete missile, resulting in a total estimated disposal cost of \$475,896 per missile. This estimate is considerably higher than the other missiles we reviewed because it includes the cost of using a propellant wash-out method to dispose of Minuteman motors. Minuteman I and II rocket motors have been deactivated and are no longer in production. Air Force officials indicated that no significant disposal of these motors is anticipated for at least 10 years since they will be used as space launch vehicles and target vehicles in missile defense testing. At that time, rocket motors from other missile systems are likely to be available for launches and tests, and disposal of Minuteman I and II rocket motors may be necessary. The Air Force has disposed of a limited number of Minuteman rocket motors through detonation or static firing. The Air Force estimated a cost of \$59,896 to dispose of a Minuteman missile using detonation or static firing for the rocket motors.

However, officials with the Rocket System Launch Program stated that detonating or static firing would not likely be a viable procedure when the Air Force is faced with disposing of a large quantity of Minuteman rocket motors over a limited period of time. They believed that, for environmental considerations, disposing of large quantities of Minuteman motors would likely require construction of a facility to wash propellant out of the motors. Thus, table 3 includes the estimated cost of disposing of hazardous materials in the Minuteman rocket motors using the wash-out method.

**FACTORS TO BE CONSIDERED IN ESTIMATING
THE MISSILE DISPOSAL LIABILITY**

In estimating the disposal liability for missiles, various factors need to be addressed as DOD develops its policy and specific guidance for the military services. These factors include consideration of the accounting treatment of facilities needed for the disposal process, the cost of removing missiles from silos as well as disposing of the silos themselves, the cost to dispose of spare missile components, reductions in inventory due to foreign military sales and reutilization, the cost of military personnel that perform missile disposal processes, and storage and surveillance costs prior to disposal.

- Facility for large-scale disposals: DOD would need to consider whether or not to include the construction and operating costs of any planned facilities dedicated to missile disposal. For example, as stated previously, Air Force officials indicated that it is likely that construction of a wash-out facility will be needed to dispose of the large number of Minuteman rocket motors that are to be disposed of in the future. DOD officials need to consider whether to include the cost of the facility—estimated at \$80 million by Air Force officials—and related operating costs.
- Missile removal from the silos: Another factor that needs to be considered is the cost to remove an ICBM from the launching silo. Air Force officials estimated a cost of \$75,000 to remove a Minuteman missile from its silo and about \$28,800 to transport it to the potential disposal site. This action has been completed for Minuteman I and II missiles, so these costs were not factored into the disposal cost estimate previously discussed. However, the Air Force will need to consider these costs in estimating the disposal cost of active missile systems such as Minuteman III and Peacekeeper.
- Missile silo cleanup: Additionally, DOD and Air Force officials will need to consider the missile silo cleanup and disposal costs and include them in the Air Force's disposal liability. For example, Air Force officials provided an estimate of \$19 million to dismantle 150 missile silos at Grand Forks Air Force Base, North Dakota.
- Missile components: In addition to the number of complete missiles and ICBM rocket motor components that will have to be disposed of, DOD also needs to consider the costs of disposing of the quantities of other missile components that are in its inventory. For example, component data provided by the Air Force suggest that the disposal of additional components for the HARM missile could increase its total disposal costs by approximately 4 percent. In addition, Air Force data show that it had over 14,000

conventional missile warheads and over 7,000 additional rocket motors associated with air launched missiles as of May 1997.

- Reductions in inventory: To the extent that significant inventory reductions can be projected as a result of foreign military sales or reutilization plans, the number of missiles in inventory used to calculate the disposal liability can be reduced. For example, while no significant inventory reductions due to foreign military sales were anticipated for the four missiles previously discussed, reutilization plans were identified for the Minuteman missile. Information provided by officials with the Air Force Rocket Systems Launch Program Office indicates that about 25 percent of the inventory of Minuteman I and II rocket motors may be consumed over the next 10 years by training, testing, and space launch activities, which could reduce the reported liability.
- Military personnel costs: DOD needs to consider the extent to which the costs of military personnel should be included in the disposal liability. For example, service officials did not specifically identify military personnel costs in any of the disposal cost estimates for the four missiles we reviewed, although military personnel may perform a significant portion of the disposal processes for these missiles.
- Storage and surveillance costs: The cost of storage and maintaining proper security prior to disposal is another factor to consider. For example, the Red River Army Depot estimated that storage and surveillance costs accounted for \$132 of the \$1,038 per missile total disposal costs for the Patriot missiles. However, Anniston Army Depot officials did not provide a separate estimate for storage and surveillance for the Shillelagh because it assumes such costs are part of their overall facility costs. These costs should be considered in DOD's policy to ensure consistent and meaningful reporting.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on a draft of this letter, Department of Defense officials generally agreed with its content. They added that the comments provided by DOD on our earlier reports dealing with implementation of the requirement to report estimates of disposal costs related to submarines and ships, aircraft, and conventional ammunition, also generally applied to this report.

Specifically, DOD officials agreed that implementing guidance should be issued promptly on the SFFAS No. 5 requirements for recognition of a liability for missile disposal costs. In addition, DOD officials agreed that current disposal cost estimates can be reasonably determined for missiles that have been in the active inventory for some period of time. However, similar to their comments

on the earlier reports, DOD officials stated that the development of disposal cost estimates for all missiles in the inventory and the development and coordination of standard application procedures and reporting guidance would take time to complete. In addition, the officials indicated that DOD has already prepared a draft of its fiscal year 1997 financial statements and is in the process of finalizing them. The officials maintained that due to time and resource constraints, it would not be feasible to report the estimated missile disposal liability in DOD's financial statements prior to fiscal year 1998.

As stated previously, we believe that, with a concentrated effort, DOD could record a disposal liability estimate in its fiscal year 1997 financial statements for missiles and the assets discussed in our previous reports. If DOD is unable to meet the requirements of SFFAS No. 5, we believe that, at a minimum, DOD should acknowledge in its "Other Liabilities" footnote to the financial statements that it has a disposal liability for missiles as well as the other assets discussed in our previous reports. The footnote should state that this liability may be material to DOD's financial statements and will be recorded in its fiscal year 1998 statements as required.

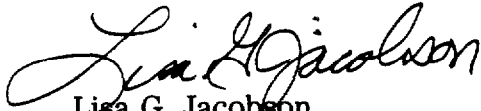
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Please contact me at (202) 512-9095 if you have any questions concerning this report. Major contributors to this letter are listed in the enclosure.

Sincerely yours,

A handwritten signature in cursive script that reads "Lisa G. Jacobson".

Lisa G. Jacobson
Director, Defense Audits

Enclosure

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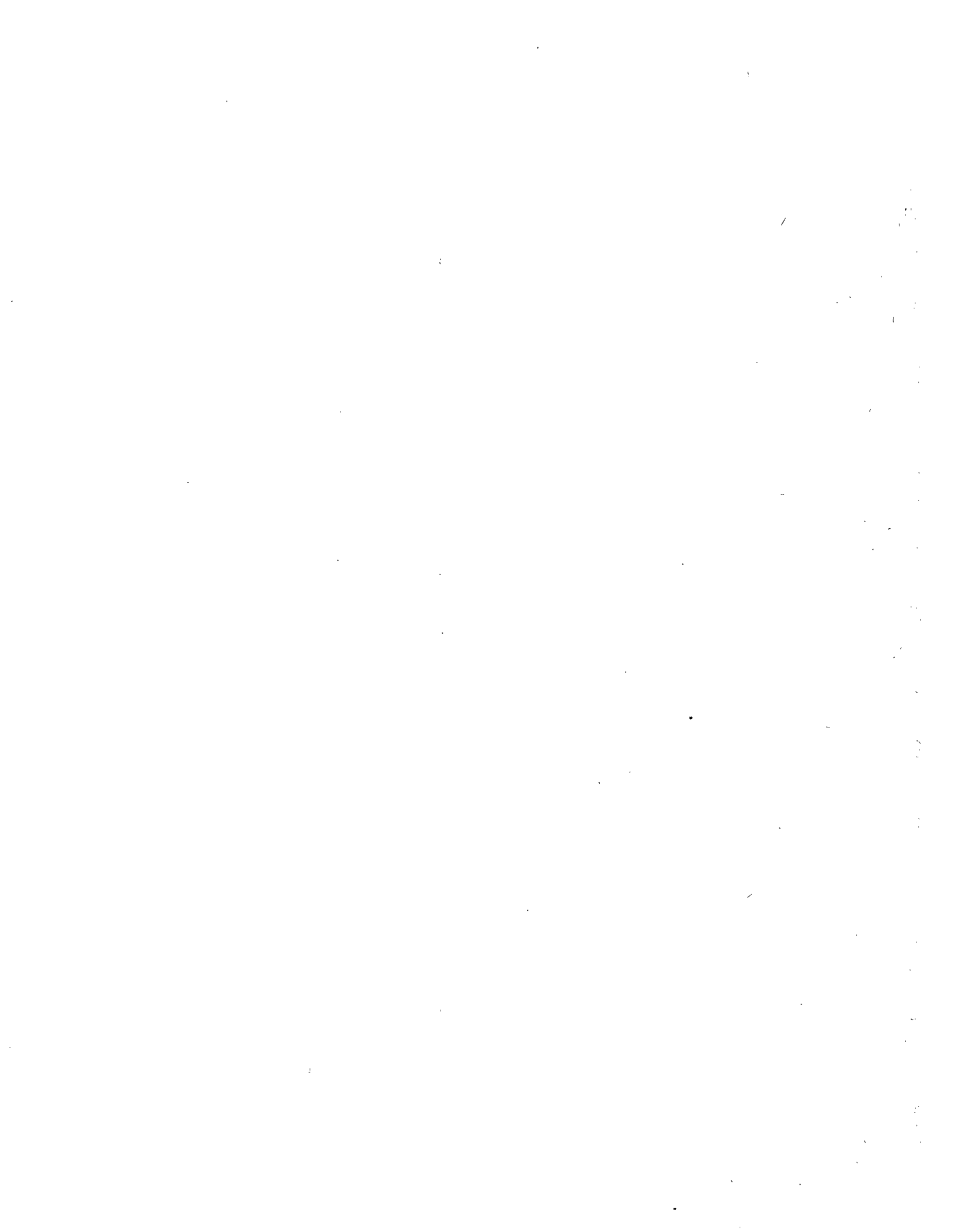
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