



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

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MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (INSTALLATIONS
AND ENVIRONMENT)
ASSISTANT SECRETARY OF THE NAVY (INSTALLATIONS
AND ENVIRONMENT)
ASSISTANT SECRETARY OF THE AIR FORCE
(INSTALLATIONS AND ENVIRONMENT)
DIRECTOR, DEFENSE LOGISTICS AGENCY (DSS-E)

SUBJECT: Defense Environmental Restoration Program Interim Guidance for Estimating
Program Costs and Environmental Liabilities

Forwarded for your implementation are the following attached policy guidance for the
Defense Environmental Restoration Program (DERP):

- Estimating Program Costs and Cost to Complete for the Defense Environmental
Restoration Program (Attachment 1).
- Defense Environmental Restoration Program Environmental Liabilities (Attachment 2).

This policy guidance is effective immediately and supersedes Section 15, Cost-to-Complete
Estimates and Financial Reporting of Environmental Restoration Liabilities, and Paragraph
24.1.2 in the September 2001 DERP Management Guidance.

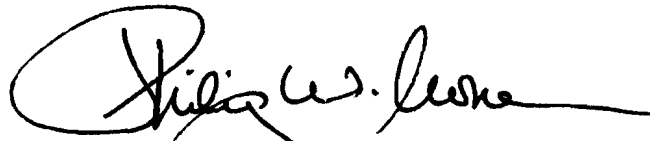
The attached policy guidance providing the program management policy framework is
intended to promote consistency and transparency in DERP cost estimates, and support the
Department's business transformation and sustainable audit readiness efforts. This updated
interim guidance incorporates pertinent recommendations by the Government Accountability
Office and the Department of Defense Office of the Inspector General, in addition to revised
Financial Management Regulation environmental liability policy issued in October 2005.
Specifically, this update responds to DoD IG (D-2004-080) and GAO Environmental Liabilities
Report (GAO-06-427) by clarifying guidance in existing policy for consistent implementation in
the following areas:

- Documentation to be maintained in a Site Audit File that supports cleanup cost estimates
used in environmental liability reporting.
- Qualifications for the Cost Estimator and Cost Estimate Reviewer.
- Supervisory review and Segregation of Duties.
- Inclusion of costs intended to be paid with prior year budgetary authority in the financial
liability reporting.
- Reconciliation of environmental records to property records to ensure completeness of
the environmental liability universe.
- Completeness of cost estimates, particularly of costs after the response complete
milestone and non-site specific management costs.
- Calculation and reporting of current liability estimates.



- Relationship among Financial Improvement and Audit Readiness/Financial Improvement Plans, the Business Process Reengineering implementation plans, and DERP program management information.
- Compliance with OMB Circular No. A-123 on Internal Management Controls.
- Reporting of litigation based Contingent Liabilities.

This guidance was developed with input from the DoD Environmental Liabilities Work Group, and will be incorporated in the next full update of the DERP Management Guidance. My point of contact for environmental liability is Ms. Patricia Huheey at (703) 604-1846 or patricia.huheey@osd.mil.



Philip W. Grone
Deputy Under Secretary of Defense
(Installations and Environment)

Attachments:
As stated

cc:

Assistant Secretary of the Army (Financial Management and Comptroller)
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Assistant Secretary of the Air Force (Financial Management and Comptroller)
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Deputy Inspector General for Auditing, DoD (Audit/DFS)
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Attachment 1: Estimating Program Costs and Cost to Complete for the Defense Environmental Restoration Program (DERP)

1.1 Program Costs and Cost-to-complete (CTC) estimates developed by the DoD Components are used for several purposes including to support the DERP planning, programming, budgeting and execution (PPBE) process; DERP environmental liability estimates; and the Defense Environmental Programs Annual Report to Congress (DEP ARC). Program costs include prior year balances, both liquidated and unliquidated, and CTC estimates for future costs. The DERP is managed on a site-level basis; therefore, these costs must be tracked to the site-level. CTC estimates are developed using the current fiscal year uninflated dollars. However, the estimates are adjusted by inflation indices through the FYDP for various reporting requirements such as DEP ARC and PPBE submissions.

1.2 The following business rules apply to CTC estimates:

1.2.1 Cost estimates must include all IRP, MMRP, and BD/DR sites identified in the OSD DERP database and all non-site specific DERP costs. Site-level estimates must be reported by environmental restoration phase.

1.2.2 Cost estimates must include all DERP requirements, regardless of funding source (i.e., DoD Component Environmental Restoration Accounts or BRAC) or availability of funds.

1.2.3 Cost estimates are developed using uninflated dollars based on the current fiscal year.

1.2.4 Cost estimates must reflect the environmental restoration strategy and sequence as presented in the Management Action Plan (MAP) or equivalent, and be based on the chosen remediation approach based on current land use or reasonably anticipated future land use.

1.2.5 Cost estimates are based on existing remediation technologies.

1.2.6 Cost estimates are point estimates.

1.2.6.1 To develop a point estimate when multiple potential cleanup scenarios exist, a hierarchical approach should be used based on either expected or most likely cleanup scenario using site-specific regulatory requirements and current technology; or if one value within a range is not better than another, the minimum amount in the cost range should be used.

1.2.6.2 Any uncertainties associated with the reported value should be explained in a narrative that accompanies the estimate in the Site Audit File (discussed in Paragraph 1.6 below and Paragraph 2.6 of Attachment 2, Defense Environmental Restoration Environmental Liabilities).

1.2.7 Cost estimates must be revised annually to reflect changes in scope, regulation, or technology; updated information or other significant changes at the site; and inflation. If there are no scope, ownership, regulation, technology or other site-level changes, estimates may be brought to the current year estimate using a price escalation factor.

1.2.8 DERP CTC estimates shall only include DERP-eligible activities. These estimates shall not include the costs of environmental compliance, pollution prevention, and conservation activities; treaty obligations or overseas cleanup; operation, management, and sustainment of operational ranges; and contamination or spills associated with current operations that are not DERP-eligible.

1.3 CTC estimates are based on site-specific study or experience with similar site, remediation, and conditions. Methodologies used to develop the cost estimate include engineering estimates, application of estimates from comparable sites, or cost modeling tools.

1.3.1 A cost estimate produced from a site-specific study is generally the most reliable estimate because it is based on a thorough investigation and sampling of the environmental conditions at the site.

1.3.2 If sufficient site-specific data are not available to estimate complete remediation costs, or if remediation technology does not exist to address contamination present at the site, the estimated cost for initial containment and studies needed to develop the complete cleanup plan will be reported for the site. CTC estimates must be based on sufficient site-specific data to substantiate any assumptions.

1.3.3 If the site has similar characteristics to other sites (e.g., has similar factors that drive the cost estimate such as constituent types and concentrations, media, and technology), and documentation exists to support the similarities, cost estimates may be based on historical costs.

1.3.4 The DoD Components shall ensure that any computer models used to calculate CTC estimates are verified, validated, and accredited per DoD Instruction 5000.61 - *DoD Modeling and Simulation Verification, Validation, and Accreditation (VV&A)*. Per this instruction, DoD Components shall establish VV&A policies and procedures for any cost modeling tools used to develop CTC estimates. Each DoD Component is responsible for resource planning, review and coordination of policies and procedures, documentation of VV&A implementation and results, and interfacing with the appropriate VV&A agents.

1.4 CTC estimates must be reported for each site in the OSD DERP database by the DoD Component responsible for managing and funding that site. The following costs that can be assigned or allocated reasonably to a site cleanup are to be included in the site CTC estimate:

1.4.1 Costs associated with phases of the environmental restoration process from initial containment through the Response Complete milestone and Long Term Management (LTM), including costs associated with obtaining regulatory concurrence.

1.4.1.1 Costs allocable to sites such as compensation and benefits of government personnel, contractor support, machinery and equipment, utilities (if separately billed), security and surveillance, fees for permits, licenses, and approvals, costs for deletion from the National Priorities List, site-specific overhead/management costs, and other project-specific costs.

1.4.1.2 Overhead/management costs for personnel at all levels of the organization (e.g., installation, intermediate command or regional, and headquarters) that are expected to devote significant time directly to cleanup efforts of specific sites should be included in the site allocated estimates. These costs may include compensation and benefits for government and contractor project or program management staff that are expected to spend a significant amount of time devoted to cleanup activity at that site and associated costs to support their work such as travel, training, and supplies.

1.4.2 Costs for the LTM phase (including Land Use Control (LUC) costs), effective with end-of-FY2009 data submission and reporting after October 1, 2009, need to be estimated and reported for a finite period of time bounded by the next two five-year reviews or a specified fixed period (established in regulatory agreement or requirement, or remedial decision document) until there

are no further DERP-eligible activities and associated costs for the site. Thus, for each two-year Program Objective Memorandum (POM) cycle, the next sequential five-year review will enter into the CTC so there are never more than two five-year reviews included in the cost estimate. The finite period of time included in the CTC will be the same period of time included in the Environmental Liability estimate (see Attachment 2 for further discussion on Environmental Liability reporting). Within the finite period of time, all DERP-eligible costs should be included in the CTC estimate. Note that LTM and LUC costs at DERP sites are eligible for DERP funding until site closeout. Site Closeout signifies that DoD completed active management and monitoring at an environmental restoration site and regulatory concurrence is obtained. For cost estimating purposes, Site Closeout occurs when cleanup goals are achieved that allow unrestricted use of the property (i.e., no further LTM or LUC is required). If DoD Components deviate from the above guidance, they will need to document their justification and rationale for choosing a different period for LTM in their internal control system and Site Audit File (See Paragraph 1.6).

1.5 Indirect and overhead/management costs (see paragraphs 1.4.1.1 and 1.4.1.2) that can not be attributed to specific sites are to be added to rolled-up CTC estimates and reported at the appropriate installation, intermediate command or regional, or program level. These rolled-up costs can be captured in the OSD DERP database in "Program Management Sites." These costs are to be reported effective with end-of-FY2009 data submission and reporting after October 1, 2009

1.6 Documentation that maintains an audit trail is a critical element for both the CTC and financial reporting process. DoD Components must maintain defensible, audit-ready records of approved previous and revised cleanup cost estimates in the Site Audit File. The Site Audit File contains the data sources and assumptions needed to validate the cost estimates.

1.6.1 The Information Repository provides the public with information regarding environmental restoration activities at an installation. It contains most items in the Administrative Record (i.e., the documents that form the basis for the selection of a response action), and may also contain other documents pertinent to activities at the installation. Documentation that supports both selection of a response action and cost estimates should reside in the Information Repository with a reference by location in the Site Audit File.

1.6.2 It is imperative that documentation requested by an auditor be readily available for review (i.e., within a day of the request). Further details on audit trail, documentation, and record retention requirements for CTC estimates are given in Paragraphs 2.6 and 2.7 of Attachment 2, Defense Environmental Restoration Environmental Liabilities.

1.7 Internal Management Controls/Quality Assurance is required across the Department of Defense business processes and particularly for financial reporting, including DERP CTC estimates. Internal controls are used to establish a positive control environment, including commitment by management to competence by requiring personnel to possess and maintain a level of proficiency to accomplish their assigned duties. Details on Internal Controls requirements for CTC estimates are provided in Paragraph 2.8 of Attachment 2, Defense Environmental Restoration Environmental Liabilities.

1.8 DoD Components must ensure that personnel responsible for the development, review, approval, and reporting of DERP CTC estimates are appropriately qualified and trained. Qualifications must be based on the DoD Component established internal management controls and training requirements.

1.8.1 DoD Components must ensure a segregation of duties in that individuals performing review and approval of cost estimates are not directly involved in developing the estimates.

1.8.2 Cost estimate reviewers must additionally, at a minimum:

1.8.2.1 Have familiarity with the project being reviewed; and

1.8.2.2 Verify that the estimator has met the training, education, and experience requirements for estimators.

1.8.2.3 Verify the estimate is reasonable based on the assumptions used to estimate.

1.8.3 DoD Components must be able to demonstrate, through records on the specific personnel qualifications referenced in the Site Audit File, that staff engaged in the development, review, approval, and reporting of CTC estimates appropriately are qualified and trained to make estimates and approve estimates.

1.8.4 DoD Components must implement training programs for staff or contractors that develop, review, or approve or certify CTC estimates or prepare environmental restoration liability reports, including introductory training and annual "refresher" training.

1.9 At a minimum, those that develop, review, and/or approve or certify CTC estimates or prepare environmental restoration liability reports must be qualified (by one, or a combination of training, education, or experience) in the following areas:

1.9.1 General environmental studies courses or training that address contamination, laws and regulations governing cleanup, and cleanup processes.

1.9.2 The environmental program related to the type of estimate being developed (i.e., personnel must have training or experience in the environmental restoration field to develop cost estimates for environmental restoration activities.)

1.9.3 Project planning and management practices established by the DoD Component used in preparing cost estimates.

1.9.4 The cost estimating technique used (i.e., estimates prepared using the cost estimating software must be developed by those trained in the use of the current version of the software.)

1.9.5 Accounting/auditing policies established by the DoD Component for CTC estimates.

Attachment 2: Defense Environmental Restoration Program Environmental Liabilities

2.1 Starting with the 1990 Chief Financial Officers (CFO) Act and subsequent legislation, Congress required federal agencies, including the DoD, to improve financial management and reporting, and provide accurate, complete, reliable, timely, and auditable financial information. For DERP, cost-to-complete estimates, as modified for environmental liability reporting, provide the required auditable financial information.

2.1.1 DoD accounting policy for environmental liability is contained in the DoD Financial Management Regulation (FMR) Volume 4, Chapter 13, "Environmental and Non-Environmental Liabilities." DoD accounting policy is based on the accounting definitions of cleanup costs, hazardous waste, and environmental liability, and Federal Accounting Standards Advisory Board (FASAB) standards for financial reporting purposes based on Generally Accepted Accounting Principles. Accounting definitions, which are generally broader in scope than environmental regulatory definitions, are provided in the Statement of Federal Financial Accounting Standards (SFFAS) Number 5: Accounting for Liabilities of the Federal Government, and SFFAS Number 6: Accounting for Property, Plant, and Equipment. This DERP technical guidance must be used in conjunction with the Department's accounting policy,

2.1.2 The DoD Financial Improvement and Audit Readiness (FIAR) Plan establishes a schedule for achieving an unqualified audit opinion for environmental liabilities estimated in compliance with DoD financial and functional policy that will be sustainable through business process improvement initiatives. The DoD Component Financial Improvement Plan (FIP) provides more detailed milestones by expanding on the steps needed to achieve auditability. The DoD Component FIPs roll up to the FIAR Key Milestone Plan (KMP). The DoD Components are required to meet the key milestones established in the FIAR Plan's KMP.

2.1.3 The DoD *Business Process Reengineering (BPR) Environmental Liabilities Recognition, Valuation and Reporting Requirements (ELRVRR)*, ODUSD(I&E)/Business Enterprise Integration Directorate, July 19, 2006 details the process model, logical data model, data elements and business rules that DoD Components must incorporate into their business processes and information systems in order to enable auditable environmental liability reporting. Each DoD Component must develop a BPR implementation plan using the standard template (see 20 Dec 2006 memorandum, entitled *Environmental Liabilities Implementation Plans*, signed by DUSD(I&E)). Development of the implementation plan is also a key milestone in each DoD Component's FIAR Plan. In areas where the FIAR/FIPs are dependent on the BPR implementation plan, the schedules and capabilities must be consistent between the two plans.

2.2 All DERP costs meet the accounting definition of "hazardous waste cleanup" and shall be reported as environmental liabilities. DoD Components must report DERP CTC estimates, as adjusted based on accounting requirements, from their program feeder systems into financial systems to determine DERP environmental liability.

2.2.1 The environmental functional community is responsible for producing reliable, accurate, and reproducible cost estimates to support environmental liability reporting. The environmental staff is responsible for providing the needed site-level input and supporting this information during financial audits.

2.2.2 The financial community is responsible for the preparation of the financial statement (i.e., the Note 14) based on the information supplied by the functional community to the financial community. Information on the financial statement is

explained in this chapter to allow the environmental community to provide the required information so that financial management may determine the liability to recognize on the financial statement.

2.2.3 Environmental functional communities must coordinate at least quarterly with the financial management community who utilize the cost estimates to prepare the financial statements. Open lines of communication should be maintained so that issues and needs are identified and addressed throughout the process.

2.3 Footnotes or “Notes” to a financial statement present additional disclosures and policy explanations to the reported values on the financial statement. Environmental liabilities are reported on Note 14, entitled “Environmental and Disposal Liabilities,” of the DoD financial statement. Note 14 has three main elements: (a) the area where values for each category of liability are reported, called the “Schedule”, (b) the Schedule Disclosures table, and (c) the accompanying narrative referred to as General Narrative Disclosures.

2.3.1 Environmental restoration liabilities are reported in the following two categories on the Note 14 Schedule:

2.3.1.1 **Accrued Environmental Restoration Liabilities.** Accrued environmental restoration (cleanup) liabilities represent the cost to correct past environmental contamination, which is funded from the DoD Component specific Defense Environmental Restoration Account.

2.3.1.2 **Base Realignment and Closure (BRAC) Installations.** Liabilities represent the cost to fulfill environmental legal obligations funded by the BRAC accounts at bases that are realigning or closing. These liabilities can be from past activities that are part of the DERP or for decommissioning and closure activities not covered by the DERP. This guidance is for DERP-eligible costs only.

2.3.2 The Note 14 Schedule reports current and non-current liabilities. The summation of current and non-current liabilities constitute the total liability. These amounts should be reported using uninflated dollars based on the current fiscal year of the reporting period.

2.3.2.1 The methodology and examples of current liability calculations presented in the DoD *BPR Environmental Liabilities Recognition, Valuation and Reporting Requirements (ELRVRR)* shall be used to estimate DERP current liabilities.

2.3.2.2 Current liabilities are the amounts the entity expects to outlay within one year of the reporting date. The current liability is the value of *Expected Delivery & Acceptance from Undelivered Orders Outstanding* (expected expenditures on existing contracts from obligated and unobligated funds that are not yet accounts payable) plus the *Expected Delivery & Acceptance from Projected Obligations* (future contracts). The projected obligations are from both unobligated balances from prior periods, and expected allocations in the next period. In essence, current liability is the dollar value of work that is expected to be performed and accepted in the next twelve months from the reporting date.

2.3.2.3 To enable this reporting, DoD Components will have to implement internal business process changes to their contract management procedures such that funds expended under contract will be tracked and accounts maintained by DERP site. The steps and schedule for implementing this change will be specified in the DoD Component’s BPR Implementation Plan, and FIAR/FIP (see Paragraphs 2.1.2 – 2.1.3). Pending business modernization, DoD Components

will have to update their program systems that feed the OSD DERP database to capture the information needed to support current liability estimates.

2.3.2.4 Non-current liabilities represent the portion of the cost estimates that will be outlaid beyond one year of the reporting date, including Undelivered Orders Outstanding (UOOs) that will be outlaid more than twelve months following the reporting date.

2.3.3 The Note 14 General Narrative Disclosures include text descriptions and disclosures needed to support the recognized environmental liability. The financial community will rely on the functional community to provide information needed for development of these disclosures. Specific required narrative disclosures include:

2.3.3.1 General descriptions of the environmental liabilities included in the financial statement.

2.3.3.2 Applicable laws and regulations for cleanup requirements (i.e., regulatory drivers for the environmental cleanup and disposal requirements.)

2.3.3.3 The methodology used to develop the cost estimate (e.g., cost estimating models, engineering estimates, comparison with similar sites, etc.).

2.3.3.4 Significant changes in the total estimated cleanup costs due to changes in laws, technology, or DoD Component-wide plans (e.g., number of sites, cleanup goals affecting multiple sites).

2.4 DoD Components must be able to demonstrate that a complete universe of DERP environmental liabilities has been identified. A primary element of an audit is assurance that information provided on the financial statement is complete. Information and activities that support due diligence in identifying a complete EL universe may include: reviews of chain-of-custody records, aerial photos and records that may show prior uses, visual site inspections, review of any health complaints, analyses to estimate the existence of uninvestigated sites based on information from known sites, and documentation of investigations conducted for regulatory purposes.

2.5 Each environmental liability shall be reconciled annually with property, plant, and equipment (PP&E) asset records. For DERP sites, environmental records should be reconciled with real property records at the asset level at least annually, and:

2.5.1 The real property records should indicate that each record was reviewed for environmental issues. Any existing environmental restoration sites should be associated with the affected real property record(s) through the unique site identification number.

2.5.2 The responsible environmental program office must also maintain records of each site and associate it with the applicable real property records.

2.6 Documentation is critical to the credibility of DoD environmental liability estimates. Auditors assess relevant factors that may affect the estimate, and seek relevant, sufficient, and reliable data on which the estimate is based. An audit trail must enable verification of a transaction from its source to the resulting record, and from the resulting record or report to the source. Documentation requirements to support the financial statement (e.g., supporting documentation needed to validate environmental liability estimates from source documents such as invoices, cost estimate assumptions, data sources, independent government estimates (IGE), and estimate methodologies with appropriate reviews and approvals) must be maintained by each DoD Component in the Site Audit File. The location of supporting documents referenced but not present in the Site Audit File (e.g., documents in the Information Repository) should be listed and be readily available for audit (also see Paragraph 1.6 of Attachment 1, Estimating Program Costs and Cost to Complete for the Defense Environmental Restoration Program). Site Audit File documentation must include the following:

- 2.6.1 Overview of the site (e.g., maps, narrative descriptions, and physical units).
- 2.6.2 Legal requirements (e.g., applicable laws and regulations).
- 2.6.3 Data sources (e.g., studies, sampling results).
- 2.6.4 Internal control procedures used to review, approve, change, aggregate and archive the data.
- 2.6.5 Site's prior year and current year approved estimates. In addition, previously approved estimates and changes in those estimates should be available for review of historical patterns, along with the date prepared and preparer's name for each cost estimate.
- 2.6.6 Reasons for any fluctuations in cost estimates of ten percent up or down from the last approved estimate for environmental restoration activities and the cause of the fluctuation. Causes for fluctuations may include changes in the following:

- Work planned versus actual expenditures
- Site conditions
- Standards or regulations
- Cleanup technology

2.6.7 Validation of the cost estimate, including project-related documents that support underlying factors and assumptions for each cleanup site, cleanup methodology, estimate elements, costs per unit, and the method for estimating environmental restoration costs (e.g., VV&A'd model, engineering estimate, rationale used, source documents). Documentation must also include the assumptions used as input to cost estimating models.

2.6.8 Quality review and approval of all cost estimates.

2.6.8.1 A checklist is the recommended approach for documenting quality review. Quality review checklists should be developed by the DoD Components based on the requirements in this chapter and any requirements specific to the DoD Component's business process. The checklist should include review steps and questions used by the reviewer to assess the reasonableness of the estimate.

2.6.8.2 Those conducting review and approval of estimates should complete, sign, and date the checklist to reflect final approval, and the checklist should be maintained with the estimate in the Site Audit File.

2.6.9 Qualifications and training met by the estimator, reviewer, and others involved in the preparation or adjustment of the cost estimates (see Paragraph 1.8-1.9 of Attachment 1, Estimating Program Costs and Cost to Complete for the Defense Environmental Restoration Program).

2.6.10 Documentation on feeder systems used to transfer data from DoD Component program systems to financial systems and the OSD DERP database.

2.6.11 Demonstration that a complete universe of environmental restoration sites has been identified and included in the cost estimates.

2.6.12 Other documentation needed to support the Note 14 and narrative disclosures.

2.7 Documentation to support EL recognition and disclosures, including due diligence and management reviews should be maintained for the life of the liability to support the financial statement. Documents must be retained for the longer of the retention time six years, three months and one day after the liability is eliminated based on accounting audit standards of U.S. Department of Treasury, or

the period required by the environmental regulatory requirements, such as fifty years following the establishment of records that characterize the cleanup site pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act record retention requirements (42 USC 9603(d)).

2.8 Internal Management Controls must be established and maintained through DoD and DoD Component organizations to ensure effective business processes, controls over information processing, segregation of duties, and accurate and timely recording of transactions or events. DoDI 5010.40 on the Managers' Internal Control Procedures (January 4, 2006), and OMB Circular No. A-123, Management Accountability and Control (December 21, 2004) establish procedures for improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal management controls. Under these instructions, each DoD Component must establish and maintain a process to identify and report internal management control weaknesses through an annual statement of assurance.

2.8.1 To support the assurance of adequate internal management controls, personnel involved in developing approved estimates must ensure the following:

2.8.1.1 Evidence of management communication of the need for proper accounting estimates.

2.8.1.2 Relevant, sufficient, and reliable data and support documentation for a third party to validate estimates.

2.8.1.3 Segregation of duties for estimators, estimate reviewers, and approvers.

2.8.2 Cost estimate reviews must be performed by qualified Cost Estimate Reviewers (see Paragraphs 1.9 and 1.10 of Attachment 1, Estimating Program Costs and Cost to Complete for the Defense Environmental Restoration Program) to verify the following:

2.8.2.1 Determination that estimates comply with DoD policy and guidance.

2.8.2.2 Cost estimators and cost estimate reviewers are qualified.

2.8.2.3 Sources of relevant factors used to develop cost estimates are valid and reasonable.

2.8.2.4 Assumptions and resulting estimates are reasonable.

2.8.2.5 Comparison of prior and current cost estimates supports the reliability of the cost estimate methodology.

2.8.2.6 Management considers the resulting accounting estimate to be consistent with the operational plans of the facility.

2.8.3 Management review and approval of estimates should be documented and maintained as part of the Site Audit File (see Paragraph 2.6), including documentation of changes required based on management review.

2.9 Contingent Liabilities. The Department reports environmental liabilities separately from litigation based contingencies by reporting environmental and disposal liabilities on Note 14. The FMR Volume 6B Chapter 10, "Notes to the Financial Statements" provides instructions for each of the Notes. Questions related to Contingent Liability classification should be coordinated with the DoD Component's Financial Community and Legal Counsel.

2.9.1 Typically, if the litigation based contingent liability is considered reasonably possible (i.e., not remote or probable) it is disclosed on Note 16. If the contingent liability is probable, it is recognized in Note 15. Legal counsel make the determination of remote, possible, or probable.

2.9.2 Payments that will be made by the Judgment Fund are considered to be Contingent Liabilities. Upon settlement and payment from the Judgment Fund, the liability is removed from the financial statement.