



National
Defence

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Chief Review Services Chef - Service d'examen

CRS  CS Ex

Audit of Contaminated Sites Liability

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Acronyms and Abbreviations

ADM(Fin CS)	Assistant Deputy Minister (Finance and Corporate Services)
ADM(IE)	Assistant Deputy Minister (Infrastructure and Environment)
AFSP	Audited Financial Statement Project
CCME	Canadian Council of Ministers of the Environment
CF	Canadian Forces
CRS	Chief Review Services
DIEC	Director Infrastructure and Environmental Comptrollership
DGE	Director General Environment
DND	Department of National Defence
DSFC	Director Strategic Finance and Costing
FAM	Financial Administration Manual
FCSAP	Federal Contaminated Sites Action Plan
FY	Fiscal Year
IM	Information Management
L1	Level One
L2	Level Two
OPI	Office of Primary Interest
UXO	Unexploded Explosive Ordnance



Synopsis

In accordance with the 2007/08 Internal Audit and Evaluation Work Plan, Chief Review Services (CRS) conducted an audit of the Department of National Defence's (DND) contaminated sites liabilities. The audit consisted of a reasonableness assessment of the fiscal year (FY) 2006/07 contaminated sites accrued (\$378 million) and contingent liability (\$1.2 billion) ending balances.

The most significant issue related to the liability amounts reported in the departmental financial statements was that project files did not contain sufficient supporting documentation to facilitate independent validation of the estimates. Furthermore, at the time of the audit, departmental financial staff had neither the resources nor established procedures to ensure financial information was assessed for accuracy and reasonableness.

Over the past year, Assistant Deputy Minister (Infrastructure and Environment) (ADM(IE)) staffs have implemented numerous initiatives aimed at improving the contaminated sites liability amount determination and reporting framework, but there is still work to do, especially in the areas of monitoring and validating the reported liability amounts.

From the perspective of completeness, notes to the departmental financial statements did not provide a complete and accurate portrayal of the Department's contaminated sites accrued and contingent liabilities. The notes were lacking details regarding the cost estimation procedures used by environmental officers which, when combined with the inherent uncertainty associated with estimating contaminated site remediation costs, could result in significant year-to-year fluctuations in the reported contaminated sites liabilities. Additionally, the notes did not provide specifics regarding the existence of suspected contaminated sites which had not yet been assessed, and that could result in further liabilities to the Department.

The management action plan provided by ADM(IE) appears sound and, when fully implemented, should provide for the improvements needed to ensure a more accurate determination, documentation and disclosure of estimated remediation costs associated with both known and suspected contaminated sites.



Results in Brief

CRS conducted an audit of DND's contaminated sites liabilities. The audit consisted of an assessment of the FY 2006/07 contaminated sites accrued and contingent liability ending balances. The financial statements reported an accrued liability of \$378 million and a further \$1.2 billion contingent liability. The objective of the audit was to assess the overall reasonableness of the reported liability amounts based on a review and assessment of the adequacy of supporting documentation.

Overall Assessment

The management framework in place to develop, assess and report contaminated sites liability amounts needs to be improved in order to ensure the reasonable and consistent development of contaminated sites liability amounts.

Findings and Recommendations

Supporting Documentation. Project files did not contain sufficient detailed documentation to support the contaminated sites liability amount reported in the FY 2006/07 financial statements.

It is recommended that the Director General Environment (DGE) and the Director Infrastructure and Environmental Comptrollership (DIEC) continue ongoing efforts to ensure that there is sufficient supporting documentation for reported liability amounts and that there are means to verify that the liability amounts were developed in accordance with policy and direction.

Cost Verification. Financial staff does not validate the reasonableness or accuracy of financial information used to determine contaminated site accrued and contingent liability values before they are reported in the departmental financial statements.

It is recommended that DIEC, with the assistance of Assistant Deputy Minister (Finance and Corporate Services (ADM(Fin CS))) staff, continue its efforts to ensure Command and Group comptrollers take an active role in the verification and assessment of project liability amounts calculated and reported by project staffs in their respective organizations.

Cost Estimation. Current cost estimation procedures and the inherent uncertainty associated with estimating contaminated site remediation costs result in significant annual fluctuations in the reported contaminated sites liability.

It is recommended that DGE/DIEC develop a reasonable and consistent cost estimation process that addresses financial statement reporting requirements, yet takes into account both the level of effort and uncertainty associated with estimating remediation costs. Additionally, notes to the financial statements should provide information regarding any limitations associated with the cost estimation process attributes that could contribute to significant year-to-year swings in the liability projections.

Completeness. The notes to the departmental financial statement do not fully disclose that there are other suspected contaminated sites which have not yet been assessed and that there could potentially be a liability associated with these sites.

It is recommended DGE/DIEC provide notes to the departmental financial statements that fully disclose the number of suspected contaminated sites that have not yet been assessed and that could possibly increase the contaminated sites liability.

Note: For a more detailed list of CRS recommendations and management response, please refer to [Annex A](#)—Management Action Plan.



Introduction

Background

As shown in Figures 1 and 2, the FY 2006/07 ending environmental liabilities were \$497 million with an estimated additional contingent liability of \$1.6 billion. For financial statement reporting purposes these liability amounts are the sum of the contaminated sites liability with the Unexploded Explosive Ordnance (UXO) liability. The contaminated sites portions of the environmental liability and contingent liability were approximately \$378 million and \$1.2 billion respectively.

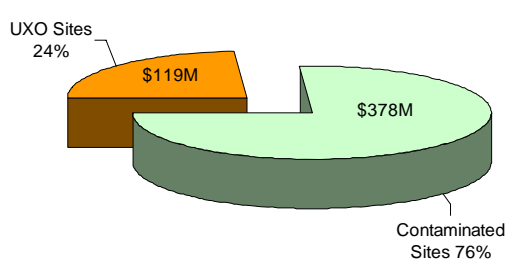


Figure 1. Environmental Liabilities (\$497M for FY 2006/07). This pie chart shows that contaminated sites account for 76 percent (\$378 million) of DND's accrued environmental liabilities whereas UXO sites account for 24 percent (\$119 million).

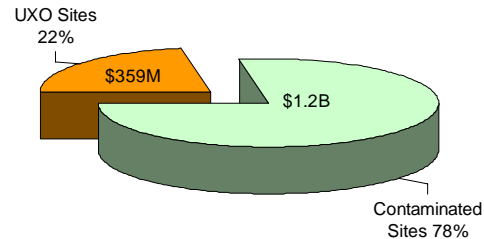


Figure 2. Contingent Environmental Liabilities (\$1.6B for FY 2006/07). This pie chart shows that contaminated sites account for 78 percent (\$1.2 billion) of DND's contingent environmental liabilities whereas UXO sites account for 22 percent (\$359 million).

Objectives

The objectives of this audit were to provide assurance regarding the accuracy and completeness of the contaminated sites liabilities and to assess compliance with the applicable Treasury Board policy related to accounting for contaminated sites.

Scope

The audit scope included DND's contaminated sites liability and the associated contingent liability for FY 2006/07. The analysis focused on data from FY 2005/06 and FY 2006/07. The audit did not include an assessment of engineering methods or technical decisions. It focussed on the reasonableness and consistency of the methods used to develop the estimates and the quality of the supporting documentation.

Methodology

The audit results are based on:

- Review of policies and guidance documents;
- Interviews with key ADM(IE) and project management personnel;
- Quantitative and qualitative analysis and testing of the Econet database;
- Verification of records supporting the liability and contingent liability for 27 contaminated sites (five different locations, with a 33 percent of coverage of the departmental accrued liability amount).

Findings and Recommendations

Supporting Documentation

Project files did not contain sufficient detailed documentation to support the contaminated sites liability amount reported in the FY 2006/07 financial statements. Measures have since been implemented that should lead to improved documentation of reported liability amounts.

Guidance

In FY 2006/07, there was no detailed guidance available to project staff detailing what documentation was to be retained as substantiation for the calculated liability amounts recorded in Econet, the Department's contaminated sites information system.

Project directors and managers, whose primary roles are to provide engineering or environmental science guidance/oversight to departmental projects, are also responsible for the determination, recording, and tracking of the contaminated sites accrued and contingent liabilities. These individuals, however, had not received sufficient financial training and did not have project resources to ensure that financial information was recorded accurately.

Contingent Liability Determination

Inconsistencies were observed in how and when contingent liability amounts were determined. In some instances, project staff would use the worst case scenario related to projected remediation costs, while in other instances, the difference between the highest and lowest contract bid would be used. Furthermore, at some sites a contingent liability was recorded even though there was no plan to remediate the site. Depending on the methodology followed, the contingent liability could range from zero to hundreds of millions of dollars. The varied interpretations of the contingent liability reporting requirement illustrate the need for clear guidelines that ensure the proper identification and consistent determination of contingent liability amounts. While contingent liabilities are reported as notes to the financial statements and therefore have a lesser effect on financial reporting, they may impact future funding decisions.

Documentation

In the absence of guidance, determination of liability amounts was treated very informally and in some cases was based solely on professional knowledge and judgement (in many instances without including corresponding backup documentation or rationale).

As illustrated in Table 1, only 8 of 27 FY 2006/07 projects were found to have sufficient detailed documentation to substantiate amounts recorded in Econet (7 of the 8 were the responsibility of the same manager). These sites had backup in the form of consultant reports, industry standard reports, and detailed calculations as to how the liability was determined. The remainder of the sites were found to have varying degrees of supporting documentation on file.



Total number of sites reviewed	Complete supporting documentation	Incomplete documentation Not readily available No documentation available
27 (Closing liability of \$166,034,468)	8 (2006/07 Closing Liability of \$8,689,000)	19 (2006/07 Closing Liability of \$157,345,468)

Table 1. Sites Reviewed. Most site files had either incomplete or no supporting documentation.

Where documentation was available, it was not always organized in a clear and consistent format. In some cases, project cost estimates covered the level of effort required to complete all the work through to the completion of remediation. Other projects included only the costs that would be incurred during the next stage of the remediation process. As a result, there was a heavy reliance on the corporate memory of project staff—or, in some cases, consultants—to explain how liability amounts were determined. In cases where estimates were made before the current project manager was in place and there was little or no supporting documentation, project staff could not confirm the rationale used to develop the estimated liability amounts. Given the materiality of the contaminated sites liability, better supporting documentation is needed to reduce the Department’s risk of receiving a qualified audit opinion.

Current Initiatives

The observations in this report relate to the assessment of FY 2006/07 contaminated sites liability. Since that time, the DGE group and DIEC have made efforts to provide better training and guidance to project staff in order to improve the quality, completeness and consistency of environmental liability financial information.

The release of an Econet update document (March 2008) and a new Financial Administration Manual (FAM) chapter (September 2008) provides strengthened guidelines for identifying, estimating, recording and reporting environmental liabilities. DIEC has also provided additional training opportunities to project staff at events such as the Comptrollers Forum and the DGE Environment & Hazardous Material Officers Annual Workshop. DGE and DIEC staffs have also met with Treasury Board to discuss environmental liability accounting policy as it relates to defining both the contaminated sites liability and the contingent liability. As a result of these discussions, the process to identify contingent liabilities should change and thus better reflect intended departmental remediation strategy.

Recommendation

DGE and DIEC continue their efforts to provide clear guidance and support regarding the determination and documentation of contaminated site liabilities. Particular attention should be paid to ensuring there is sufficient supporting documentation for reported liability amounts and that there are means to ensure liability amounts are developed in accordance with policy and direction. **(OPI: ADM(IE)/DGE and DIEC)**

Cost Verification

Financial staff does not validate the reasonableness or accuracy of financial information used to determine contaminated site accrued and contingent liability values before they are reported in the departmental financial statements.

Verification Activities

At the project level, there is no formal cost estimate verification and approval process. Neither Level One (L1) nor Level Two (L2) comptrollers review estimated liability amounts applicable to their Group or Command prior to the numbers being recorded in Econet.

At the departmental level, there has been no formal monitoring of the yearly data entry process performed on data entered by individual units. Liability estimates are entered once a year by project staff with no confirmation from DIEC that the information has been accepted. The only observed monitoring activities were the production of an automated exception report that identifies missing data from required Econet fields and a cursory check of reported values by DGE and DIEC staffs to ensure that there were no large year-to-year discrepancies in the data.

Resource constraints preclude DIEC from performing detailed monitoring of reported liabilities. ADM(Fin CS) staff, who are responsible for departmental financial statements, indicated that due to resource constraints their verification is limited to a review of the DIEC process to develop the contaminated site liability amount.

Current Initiatives

ADM(IE) staff do not validate the contaminated site liability amount for each and every site maintained in the Econet database; data entry is performed by the various Command and Group environmental project staffs and thus the requirement for L1 and L2 comptrollers to be actively involved in monitoring and assessing the numbers. DIEC has requested that L1 and L2 comptrollers assume more responsibility for reviewing and assessing liability amounts calculated and reported by project staffs in their organizations. However, it is the monitoring and information validation mechanisms within the control framework that need to be addressed in order to ensure the determination of more reliable and consistently developed contaminated sites liability amounts.

In an effort to increase the level of monitoring, DIEC has recently prepared a statement of work to hire a consulting firm to validate the information that project staff have entered into Econet.

Recommendation

DIEC, with the assistance of ADM(Fin CS), continue in its efforts to ensure Command and Group comptrollers take an active role in the verification and assessment of project liability amounts calculated and reported by project staffs in their respective organizations. Additionally, DIEC should develop and implement measures to monitor and assess the reasonableness of reported amounts. **(OPI: ADM(IE)/DIEC)**

Contaminated Site Cost Estimation

Current cost estimation procedures and the inherent uncertainty associated with estimating contaminated site remediation costs result in significant annual fluctuations in the reported contaminated sites liability.

Cost Estimation Quality and Uncertainty

Unlike liabilities related to goods or services which are determined based upon contract terms and confirmed receipt of the goods or services, the contaminated sites liability is an estimate of the costs required to remediate confirmed contaminated sites.

Indicative Estimates. Due to the uncertain nature of contaminated site remediation activities (assessment complexities, extent of contamination, remediation options, or lack of available technologies), precise estimates are very difficult to develop without investing significant time and money. More than 75 percent of DND’s reported contaminated sites (Figure 3) had estimated liability amounts developed based on indicative estimates that have a level of accuracy of plus or minus 15 percent to 20 percent.

Sites with a Liability—Classified by Quality of Estimate

(Total number of sites: 240; total FY 2006/07 Econet closing liability: \$421 million)

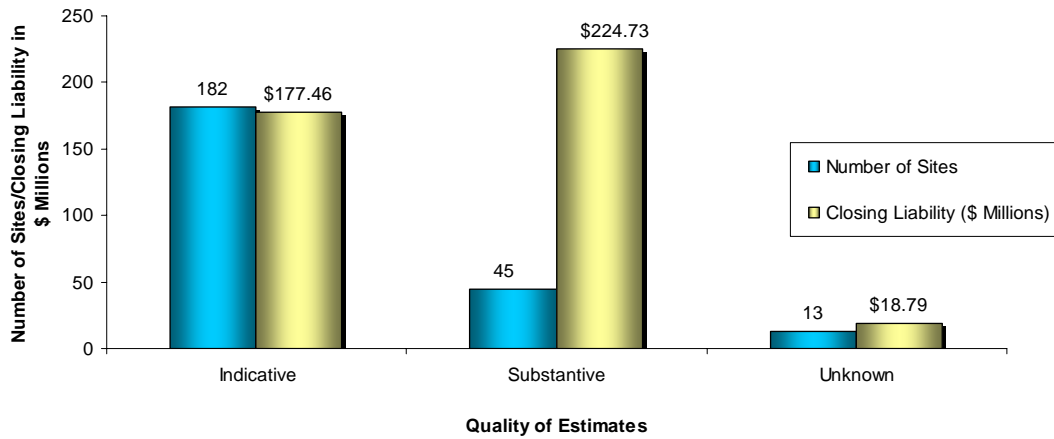


Figure 3. Quality of Liability Estimate. This chart and data table show that 182 of 240 contaminated sites (75 percent) had a closing liability (FY 2006/07) based on an indicative estimate (source: Econet Database).

Quality of Estimate	Number of Sites	Closing Liability (\$ millions)
Indicative	182	\$177.46
Substantive	45	\$224.73
Unknown	13	\$18.79

Table 2. Quality of Liability Estimate.

This type of estimate contains minimal detail and can involve a significant number of assumptions. Consultant reports, used to support preliminary site remediation estimates, often cautioned that referenced financial information was of an indicative nature and could be subject to large variations.

Substantive Estimates. Substantive estimates are also used to determine the contaminated sites liability. They are more detailed and are based on working drawings, site investigations and action plans. Only 9 of the 27 files reviewed indicated that estimates were of a substantive nature.

Figure 4 gives some indication of how new information can impact estimated liability amounts, especially those based on indicative estimates. Sixty-four of the 220 sites with a FY 2006/07 opening liability had increases to the opening balance exceeding 20 percent of the initial estimate resulting in a \$155-million increase to the liability. Conversely, the opening balance for another 47 sites was decreased by more than 20 percent or \$7 million (primarily cases where work had been completed and/or an adjustment was needed to close the project).

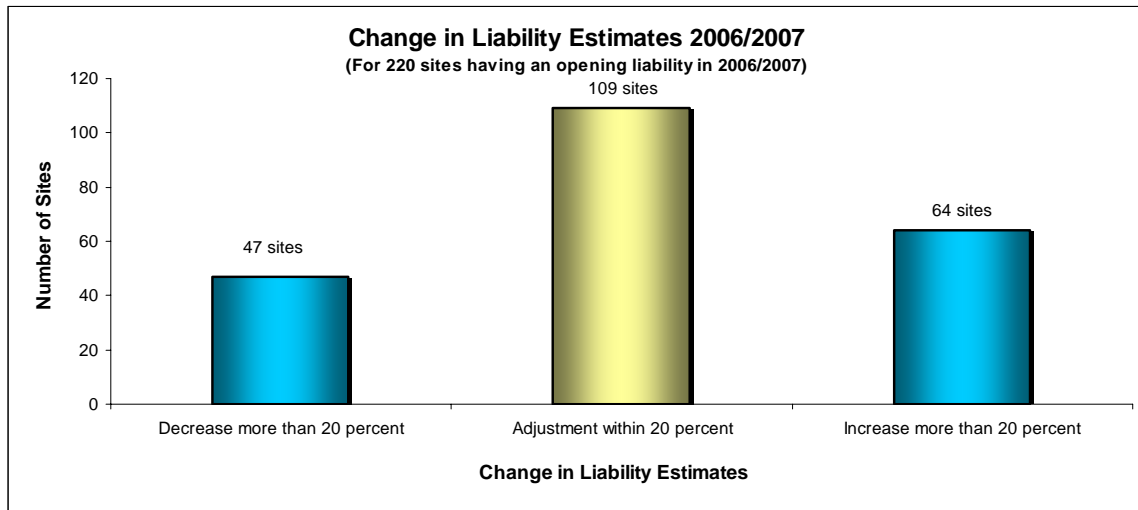


Figure 4. FY 2006/07 Adjustment to Sites with an Opening Liability. This chart and data table show that the opening liability was increased or decreased by 20 percent or more for half of the sites (109 of 220 sites) (source: Econet Database).

Site Groupings	Total Opening Liability	Total Adjustment	Expenditure Reducing Liabilities	Closing Liabilities
47 sites that had a decrease more than 20%	\$ 7,941,166	\$ (7,399,675)	\$ 136,289	\$ 405,201
64 sites that had an increase more than 20%	\$50,029,473	\$155,830,986	\$35,512,880	\$170,347,579

Table 3. FY 2006/07 Adjustment to Sites with an Opening Liability. Forty-seven sites had an opening liability of \$7.9 million and a decrease of \$7.3 million. Sixty-four sites had an opening liability of \$50 million and an increase of \$155.8 million.

Given the inherent difficulty in estimating contaminated site liability amounts and the predominant use of indicative estimates to determine site liability amounts, it is not unreasonable to expect significant swings in the year-to-year liability amounts, at least until all sites have been assessed and are being actively remediated. This is, however, significant information that should be provided to users of financial statements.

Recommendations

Cost Estimate Quality. DGE/DIEC select a reasonable and consistent approach to estimating contaminated sites liability amounts that addresses financial statement reporting requirements yet takes into account both the level of effort and uncertainty associated with estimating contaminated site remediation costs.

(OPI: ADM(IE)/DGE and DIEC)

Cost Estimate Uncertainty. DGE/DIEC ensure notes to the financial statements disclose any limitations associated with the contaminated sites liability estimation process and how it may impact year-to-year numbers. **(OPI: ADM(IE)/DGE and DIEC)**



Completeness

Departmental financial statements do not disclose that there are other suspected contaminated sites which have not yet been assessed and that there could potentially be a liability associated with these sites.

Suspected Sites

The current financial statement portrayal of the Department's accrued and contingent contaminated site liability position is limited to sites that have been confirmed as being contaminated and in need of future action. The notes to the financial statements do not make users aware of sites yet to be assessed and that may need future remediation work, in turn, resulting in the recognition of a further liability.

Currently, DND follows a 10-step classification system developed by the Contaminated Sites Management Working group that provides a common federal approach to managing contaminated sites. In Step 4 of this 10-step process, staff score and classify sites using the Canadian Council of Ministers of the Environment's (CCME) national classification system.

Sites are classified according to their current or potential adverse impact on human health and the environment. Financial information entered into the Econet database for Class 1, 2 and I (action required, action may be required, and sites without enough information to be classified, but a reasonable estimate can be made) is used in the calculation of the estimated accrued and contingent liability that is reported in the departmental financial statements.

An analysis of Econet indicated that there were numerous suspected sites identified as not having completed Step 4 where the need for future action had not yet been determined and, therefore, may have a future liability associated with them. Figure 5 shows a breakdown of the last step completed for each of the contaminated sites recorded in Econet. There were 613 sites still in the initial stages (not having completed Step 4). Of these 613 sites, (after removing those sites indicated as having no further action required, being risk managed, or under remediation) there were 171 sites where no decision had been made regarding the need for future action. Depending on the outcome of the decision process for these 171 sites, there is a possibility that additional contaminated sites liabilities may still need to be recorded. Financial statement users could find this information valuable, especially from a resource requirement perspective.

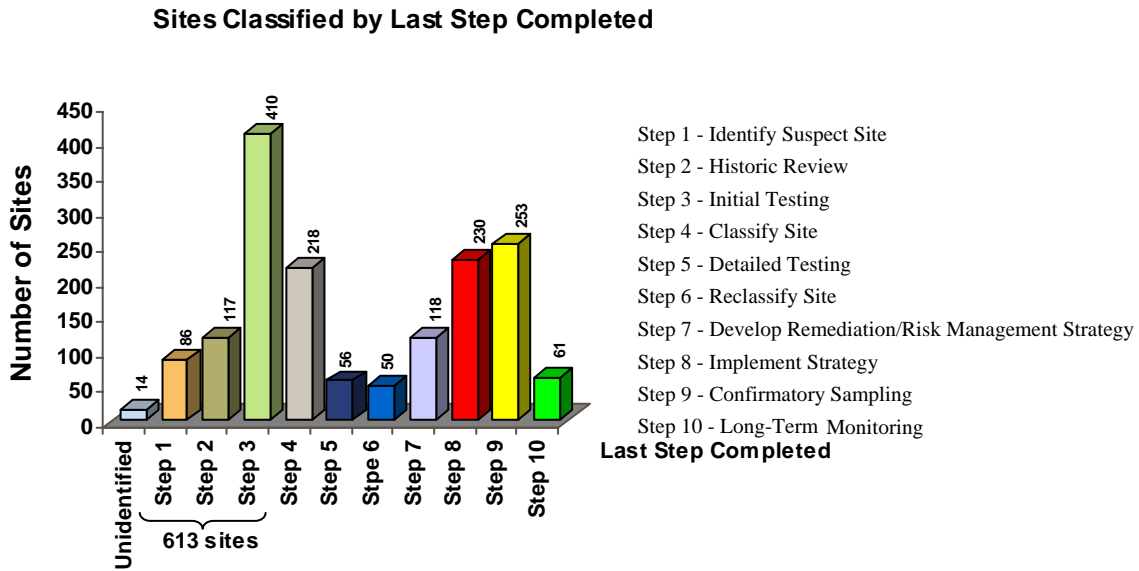


Figure 5. Contaminated Sites Classified by Step. As shown in this chart, there are 613 sites that have not made their way through the assessment phase (completed Step 4) (source Econet).

Recommendation

DGE and DIEC prepare notes to the departmental financial statements that disclose the number of suspected contaminated sites that have yet to be assessed and that could possibly increase the contaminated sites liability. **(OPI: ADM(IE)/DGE and DIEC)**

Contaminated Site Liabilities Database

Business rules and application controls related to the Econet application need to be updated in order to ensure the accuracy and integrity of reported contaminated sites liability values.

While this audit was not intended to be an audit of the Econet application, it was observed that business rules and controls related to Econet needed to be upgraded in order to ensure the accuracy and integrity of contaminated site liability amounts.

Econet is used to record, track, and manage financial and tombstone information related to contaminated sites, solid waste landfills, and storage tanks. Econet data is also used to produce the contaminated sites liability figure but the system lacks a transaction history trail; in essence an audit log. Therefore, if changes are made to site information, the system does not track who made a change, when the change was made, or the amount of the change.

Occurrences were also noted where displayed information did not agree with business rules dictated by the 10-step process. For example, there were numerous instances where suspected contaminated sites had a CCME classification; however, the database reported the sites as being in a pre-classification stage—and vice versa. Furthermore, there were also occurrences where liability values recorded for sites labelled as still being in Steps 1-4; however, both Econet guidance documents and the departmental FAM state that liability amounts can only be recorded for sites in Steps 5 and above.

Additionally, it was noted that Econet updating was not closed off after the FY 2006/07 departmental liability report was produced. Users continued to make changes to FY 2006/07 data resulting in the archival of inconsistent liability data for that fiscal year. The error was discovered and action was taken to correct the data. However, some Econet screen views still displayed incorrect information resulting in a variance between the liability amounts found in Econet and what was reported in the financial statements.

Recommendation

To ensure the accuracy and integrity of Econet data the application should be enhanced to include transaction logs and controls that make certain liability amounts are determined at the appropriate stage of the 10-step process. **(OPI: ADM(IE)/DGE and DIEC)**

Annex A—Management Action Plan

Supporting Documentation

CRS Recommendation

1. DGE and DIEC continue their efforts to provide clear guidance and support regarding the determination and documentation of contaminated site liabilities. Particular attention should be paid to ensuring there is sufficient supporting documentation for reported liability amounts and that there are means to ensure liability amounts are developed in accordance with policy and direction.

Management Action

Activities Completed

Since the audit was conducted there has been corrective action taken to improve the guidance and support available for determining contaminated site liability estimates. In addition, DIEC has established three full-time equivalents dedicated to the area of environmental liability accounting, including interpreting policy, issuing guidance and instruction, providing training and performing oversight functions. Specific actions taken are described below.

Beginning in FY 2007/08 and then again in FY 2008/09, DIEC and DGE wrote and distributed detailed accounting guidance for the determination and documentation of contaminated sites liabilities. This document was based on Treasury Board policy and served to “operationalize” that policy. The guidance described the accounting and documentation requirements for both accrued and contingent liabilities and included an annex entitled “Documentation Guidelines for Accrued and Contingent Liabilities.” In FY 2008/09 this document was issued as an “Instruction” to further emphasize the importance of compliance with the accounting actions.

In addition, DIEC worked with Director Financial Policy and Procedures to write and publish the FAM Chapter 1021-3 Environmental Liabilities in September 2008. This policy outlines the accounting requirements for determining contaminated site liabilities.

In FY 2008/09, DIEC staff participated in the Federal Contaminated Sites Action Plan (FCSAP) project submission process, led by DGE. In this process all contaminated sites projects seeking funding from the FCSAP program were required to provide the basis of the estimates that were used to estimate total project costs and request funding. As part of the FCSAP submission process, the project description, status, work plan and financing were analyzed relative to previously reported liability amounts for reasonableness. DIEC will continue to support the Department’s FCSAP program to ensure all financial issues are correctly actioned.

DIEC and DGE have also provided training for those involved in the liability estimation process. This has been accomplished through delivering presentations at forums including the annual Comptrollers’ Training and Development Forum and the DGE Environmental and Hazardous Materials Officers Workshop.

Ongoing Activities

DIEC and DGE will continue to provide training through the above-mentioned departmental financial and environmental forums, and intend to present to higher-level committees, including the Strategic Environmental Management Committee and DND’s Contaminated Sites Working Group.

In FY 2009/10, DGE and DIEC will engage a consultant to audit the financial data, including supporting documentation, for the amounts reported in Econet. The results of this audit will be used as inputs to improvements to processes, guidance documentation and to promote consistent cost and liability accounting practices.



ANNEX A

As part of the Audited Financial Statement Project (AFSP) effective June 2009, DIEC has engaged a consultant to establish and document the business processes required to produce environmental liability estimates that will enable the Department to achieve an unqualified audit opinion. This initiative will establish a consistent process in determining and reporting liability estimates and will be developed in accordance with policy and direction. DIEC expects the processes to be developed by 31 March 2010 and fully implemented by 31 March 2011.

OPI: ADM(IE)/DGE and DIEC

Target Completion Date: 31 March 2011

Cost Verification

CRS Recommendation

2. DIEC, with the assistance of ADM(Fin CS), continue in its efforts to ensure Command and Group comptrollers take an active role in the verification and assessment of project liability amounts calculated and reported by project staffs in their respective organizations. Additionally, DIEC should develop and implement measures to monitor and assess the reasonableness of reported amounts.

Management Action

Activities Completed

Beginning in FY 2007/08, DIEC developed a procedures document detailing the analysis performed to assess the reasonableness of reported liability amounts. This was distributed to both environmental and financial communities.

In FY 2008/09, DIEC staff participated in the FCSAP project submission process, led by DGE. In this process all contaminated sites projects seeking funding from the FCSAP program were required to provide the basis of the estimates that were used to estimate total project costs and request funding. As part of the FCSAP submission process, the project description, status, work plan and financing were analyzed relative to previously reported liability amounts for reasonableness. DIEC will continue to support the Department's FCSAP program to ensure financial issues are correctly actioned.

As part of the management of the Corporate Environmental Program managed by DGE, all environmental projects greater than \$1 million must now follow the Department's Project Approval Guide published by the Vice Chief of the Defence Staff. This requires all projects to undergo a full cost validation before receiving departmental or Treasury Board approval. This validation is performed by the ADM(Fin CS)/DSFC (Director Strategic Finance and Costing) organization. The outcome of this validation process is that the relevant components of the total project cost become the liability estimates calculated in Econet. This validation has been completed for the 5 Wing Goose Bay Remediation Project.

Beginning in FY 2007/08, DGE required L1 Contaminated Sites Managers to provide a certificate of attestation as part of their annual update exercise in Econet. The intent of the attestation is to provide assurance to DGE that there has been local oversight and review of the amounts entered into Econet. Additional training will be required to improve the attestation process. DIEC and DGE will work together to provide this training. DIEC also expects Command Group comptrollers to become involved in this attestation process once their roles and responsibilities have been clarified and once comptroller staffs receive training on the production and reporting of liabilities.

ANNEX A

Ongoing Activities

DIEC will inform, train and support Command and Group comptrollers with respect to liability amounts reported and developed by project staffs in their respective organization. DIEC expects to clarify the roles and responsibilities of Command and Group comptrollers as part of the AFSP initiative which will document business processes for estimating contaminated sites liabilities.

In conjunction with DGE, DIEC will consult with environmental officers and project managers to review guidance documents and identify areas that require specific attention. DGE and DIEC will jointly develop and deliver a comprehensive training package for environmental officers and Command and Group comptrollers. The object of the training will be to improve awareness of the significance of cost and liability reporting and encourage a consistent approach across the DND/CF for estimating contaminated sites liabilities.

OPI: ADM(IE)/DIEC

Target Completion Date:

- a. Inform and support Command and Group Comptrollers—ongoing
 - b. AFSP Business Process Development and Documentation Initiative—31 March 2010
 - c. Implementation of the Process—31 March 2011
-

Contaminated Site Cost Estimation**CRS Recommendation**

3. **Cost Estimate Quality.** DGE/DIEC develop a reasonable and consistent approach to estimating contaminated sites liability amounts that addresses financial statement reporting requirements yet takes into account both the level of effort and uncertainty associated with estimating contaminated site remediation costs.

Management Action

Ongoing Activities

DGE and DIEC continue to work together to standardize the approach to estimating contaminated sites liability amounts. The 10-step process adopted by the Federal Contaminated Sites Management Working Group: *A Federal Approach to Contaminated Sites Contaminated Sites* forms the basis for the approach. The FCSAP project submission review also helps to promote a consistent approach for estimating liabilities. The relevant planned costs included in the Estimated Total Project Costs of the submission will be the basis for liability estimates, and will be supported by documentation.

In FY 2009/10 DGE will provide training on the Econet database (minimum of two regional training sessions) to the environmental officer user community to ensure that guidance and processes are implemented correctly and consistently.

In FY 2009/10, DGE and DIEC will engage a consultant to audit the liability information in Econet. The results of this audit will be used as inputs to improvements to processes, guidance documentation and to promote better cost and liability accounting practices.

OPI: ADM(IE)/DGE and DIEC

Target Completion Date: 31 March 2010



ANNEX A

CRS Recommendation

4. **Cost Estimate Uncertainty.** DGE/DIEC ensure notes to the financial statements disclose any limitations associated with the contaminated sites liability estimation process and how it may impact year-to-year numbers.

Management Action

Activities Completed

The following wording will be added to Note 16b to the Department's Financial Statements:

“Liability estimates are based on information known at a given point in time. These estimates are subject to variability due to: professional judgement involved in estimating quantities and schedules; the possibility that additional volumes of contaminated media may be discovered upon implementation of the remedial action plan; and/or new technologies becoming available during the course of implementing the remedial action plan.”

OPI: ADM(IE)/DGE and DIEC

Target Completion Date: 30 May 2009

Completeness**CRS Recommendation**

5. DGE and DIEC prepare notes to the departmental financial statements that disclose the number of suspected contaminated sites that have yet to be assessed and that could possibly increase the contaminated sites liability.

Management Action

Activities Completed

As part of the FY 2008/09 Public Accounts exercise, DGE and DIEC provided more details in Note 16b to the Department's financial statements. The updated Note 16b now includes details relating to the number of sites under assessment for which liabilities may be reported in the future. This disclosure will continue to be included as part of future annual liability reporting.

OPI: ADM(IE)/DGE and DIEC

Target Completion Date: 30 May 2009

Contaminated Site Liabilities Database**CRS Recommendation**

6. To ensure the accuracy and integrity of Econet data the application should be enhanced to include transaction logs and controls that make certain liability amounts are determined at the appropriate stage of the 10-step process.

Management Action

Ongoing Activities

In FY 2009/10, in conjunction with the IM Group, DGE will review resources and priorities for upgrades to Econet to determine when this upgrade to the Econet database can be completed. This review/prioritization process will be completed by 31 March 2010.

OPI: ADM(IE)/DGE and DIEC

Target Completion Date: 31 March 2010

Annex B—Audit Criteria

Objective

To provide assurance on the accuracy and completeness of the contaminated sites liabilities and to assess compliance with the applicable Treasury Board policies.

Criteria

- Controls are in place to ensure reported contaminated site liability amounts are reliable, accurate, complete and verifiable.
- Clear and current contaminated sites liability policy and procedures identifying roles and responsibilities are available, accessible and followed.

