



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE

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JUL 11 2014

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

SUBJECT: Cost-to-Complete (CTC) Update Procedure – Update to the Department of Defense Manual (DoDM) 4715.20, “Defense Environmental Restoration Program (DERP) Management,” March 9, 2012

The attached updates to Chapter 13, Cost Estimating and Financial Management, and to Chapter 14, Environmental Liabilities Reporting, of DoDM 4715.20 clarify and standardize the procedure for the annual update and reporting of the DoD Components’ CTC estimates for DERP sites.

This update provides guidance on:

- a. When to start reporting an updated CTC for budget and financial statement purposes;
- b. When to use current year cost for the CTC;
- c. How and when to index and inflate the cost estimates; and
- d. How and when to report reasons for changes in the CTC.

This enhanced procedure for updating DoD CTC estimates presents a forward-looking approach to financial management of environmental restoration activities. It will increase consistency and transparency of the cost estimating and reporting process and will assist in preparing the Department for an environmental liabilities audit.

This procedure is effective immediately. The DoD Components will report CTC changes of 10 percent or greater at a site from the prior year estimate (\$25,000 minimum, excluding inflation and work completed), and the reasons for changes, in the DERP information system beginning with the Fiscal Year 2016 President’s Budget backup data submission due in January 2015. We will include the attached procedure in the next update of DoDM 4715.20.

My point of contact for the CTC update procedure is Ms. Patricia Huheey at 571-372-7548.



John Conger

Acting Deputy Under Secretary of Defense
(Installations and Environment)

Attachment:

As stated

cc:

Assistant to the Secretary of Defense (Nuclear, Chemical and Biological Defense Programs)
Assistant Secretary of the Army (Acquisition, Logistics and Technology)
Assistant Secretary of the Army (Civil Works)
Assistant Secretary of the Army (Financial Management and Comptroller)
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Deputy Chief Financial Officer, OUSD(C)
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Procedure: Updating DoD Component Cost-to-Complete (CTC) Estimates for use throughout the Fiscal Year (FY) Reporting Cycle

Attachment 1

DoD Manual (DoDM) 4715.20, "Defense Environmental Restoration Program (DERP) Management," March 9, 2012 UPDATE

13. COST ESTIMATING AND FINANCIAL MANAGEMENT

REPLACE 13.a.(1)

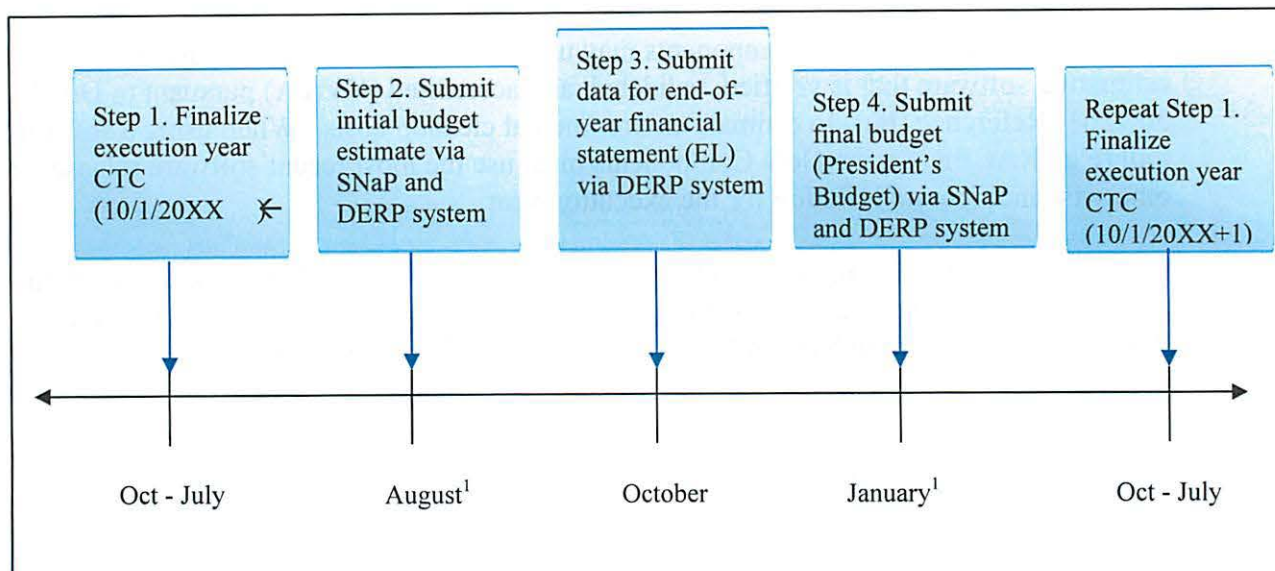
a. Estimating Program Costs and CTC

(1) The DoD Components shall develop CTC estimates to support the DERP PPBE process, DERP environmental liability (EL) estimates, and the DEP ARC. The CTC estimate is the estimated cost remaining at DERP sites, covering the period beginning October 1 of the upcoming FY through the SC milestone. While there are differences in the reporting requirements for these different purposes (e.g., reporting in current year costs for EL versus application of inflation factors through the FYDP for budget submissions), the DoD Components reconcile the reported values to the most recent CTC estimate. The DoD Components report to the DUSD(I&E) and the DoD Component Financial Management Office (FMO) total program costs (i.e., total environmental restoration costs), including prior-year obligated amounts and CTC estimates for future costs. DoD manages the DERP on a site-level basis; therefore, these costs must be tracked to the site-level.

INSERT new 13.a.(2) (Existing 13.a.(2) will become 13.a.(3)):

(2) There are four key steps in the annual CTC estimating and reporting process as shown in Figure 2.

Figure 2. CTC Annual Cycle



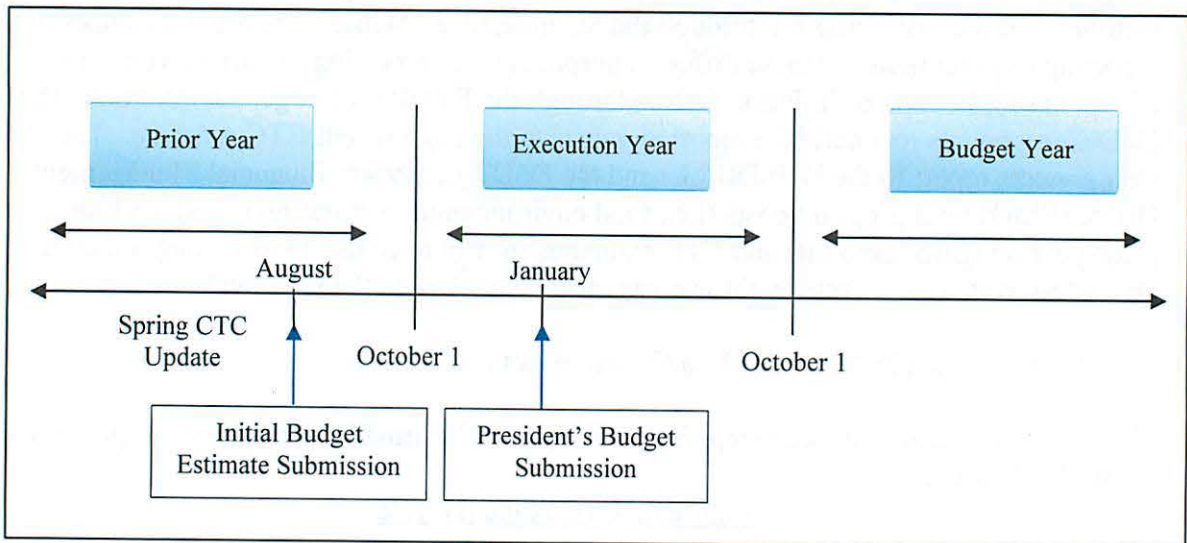
¹ OUSD(C) sets the schedule for the budget estimate and President's Budget submissions (Steps 2 and 4), which may vary from year to year.

Procedure: Updating DoD Component Cost-to-Complete (CTC) Estimates for use throughout the Fiscal Year (FY) Reporting Cycle

(a) Step 1. Update site-level CTC estimates. Complete updates to the CTC estimates for the sites (by phase) by July of each year. Note: the DoD Components may also update the CTC at other times of the year as necessary.

1. The DoD Components complete the CTC update prior to the initial budget estimate submission in August. The DoD Components develop estimates as if completing all work in the present, regardless of known schedules or milestones. The CTC estimates completed by July represent the CTC for the execution year through the SC milestone in current year costs. See Figure 3 for terminology used in this procedure and consistent with the budget submission process.

Figure 3. Budget Submission Terminology



2. The DoD Components may use an environmental remediation cost estimating software that is verified, validated, and accredited (VV&A) pursuant to DoDI 5000.61 (Reference (bu)) to estimate environmental cleanup costs. When using a software tool (e.g., RACERTM), the DoD Components must use the most recent software release, or otherwise incorporate inflation for the execution year.

(b) Step 2. Initial budget estimate submission. The DoD Components submit the initial budget estimate in August in the official budget system (i.e., Select and Native Programming Data Input System (SNaP)), and the DERP information system.

Procedure: Updating DoD Component Cost-to-Complete (CTC) Estimates for use throughout the Fiscal Year (FY) Reporting Cycle

1. For the budget submissions (in August and January), the DoD Components index the CTC estimates to the execution year FY using the inflation factor for that FY.

2. As shown in Figure 4, using the FY2015 budget as an example, the DoD Components inflate the cost estimate over the FYDP to incorporate inflation into the expected cost for each of the respective FYs. The DoD Components inflate the CTC tail to the final year listed in the OUSD(C) financial guidance.

3. The budget submissions include the prior year obligated amounts, execution year planned obligations, and the future spend plan. For the initial budget estimate submission, the DoD Components estimate the prior year obligations based on the current and anticipated contract obligations through the end of the FY.

Figure 4. Example for FY2015 Budget Submissions¹

FY13 Prior Year: actual obligated amounts	FY14 Execution Year inflated to FY14	FY15 Budget Year inflated to FY15	FY16 plan inflated to FY16	FY17 plan inflated to FY17	FY18 plan inflated to FY18	FY19 plan inflated to FY19	FY20 – complete plan inflated to FY19
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¹ Applies to the FY2014 execution year CTC (October 1, 2013, through the SC milestone) submitted for the FY2015 initial budget estimate and President’s Budget (Steps 2 and 4).

(c) Step 3. End-of-year (September 30) financial statement. See subparagraph 14.b.(4)(a) of this Enclosure for the CTC submission procedure for the financial statement.

(d) Step 4. Final budget submission. Using the same inflation and reporting process described in Step 2 (subparagraphs 13.a.(2)(b)1-3), the DoD Components submit the final estimate for the President’s Budget in January in the official budget system (i.e., SNaP) and the DERP information system. The January submission reflects updates to the CTC estimates made since the initial budget estimate submission. The DoD Components record changes to the CTC in the DERP information system as described in subparagraph 13.a.(2)(g)1 of this section. The DoD Components also maintain records of uninflated and inflated CTC estimates, enabling reconciliation of environmental restoration cost estimates reported in the information submissions.

REPLACE 13.a.(2)(g)1 through 3 with 13.a.(2)(g)1 through 5:

(g) Are 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 such changes, DoD Components index the estimates to the execution year using the inflation factor for that FY. The annual OUSD(C) and DoD Component financial guidance, generally issued in January, is the source for the inflation factors.

Procedure: Updating DoD Component Cost-to-Complete (CTC) Estimates for use throughout the Fiscal Year (FY) Reporting Cycle

1. For CTC changes of 10 percent or greater at the site from the prior year estimate (in which the change was also \$25,000 or more, excluding inflation and work completed), the DoD Components shall document the reasons for the change. The DoD Components submit the change amount and reason for the change using the pick list in the DERP information system. Documentation of cost estimate changes is required for a financial audit trail. Calculate the change in CTC using the equation:

$$\text{Execution Year CTC} - \text{Amount due to Indexing} - (\text{Prior Year CTC} - \text{Prior Year Obligations}) = \text{Change in CTC}$$

2. If there are multiple reasons for a change that make a significant contribution to the total CTC change, enter each of the reasons and the associated amount. Project managers determine if certain changes are insignificant and can be included in the larger change amounts while still capturing primary reasons for changes.

3. The DoD Components forward the revised estimate and reasons for CTC changes to the DERP information system. The DoD Component FMO and the OUSD(C) incorporate the information into the DoD Component and DoD-wide annual financial statements, respectively.

4. When updating the CTC at other times of the year, the DoD Components record the changes using the pick list in the DERP information system, and submit the information to the DERP information system at the next submission date.

5. If the EL line item on the financial statement changes more than 10 percent from the same quarterly statement from the prior year, the DoD Components disclose the nature of the change on the financial statement. (See subparagraph 14.c.(3) for required financial statement disclosures.) The DoD Components develop this disclosure based on information from site-level reasons for change.

REPLACE 13.a.(3) and 13.a.(3)(a)-(b):

(3) The DoD Components shall base CTC estimates on site-specific studies or experience with similar sites, remediation, and conditions. 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. Methodologies used to develop the cost estimate include engineering estimates, application of historical costs at similar sites, application of estimates from comparable sites, or cost-modeling tools. Cost estimates developed early in the cleanup process are typically based on preliminary site-specific information and rely on DoD experience with similar sites and professional engineering judgment. The DoD Components may use a VV&A cost model; typically, such models are based upon a compendium of similar site data, completed project data, or data from projects with similar factors that drive the cost estimate such as constituent types and concentrations, media, and technology. (See subparagraph 13.a.(3)(c) for VV&A, and subparagraph 14.f for supporting documentation requirements.) An “early” estimate of the site’s life cycle cost is needed for full disclosure of the expected cleanup cost and for

Procedure: Updating DoD Component Cost-to-Complete (CTC) Estimates for use throughout the Fiscal Year (FY) Reporting Cycle

remedy selection during the RI/FS. The accuracy of the cost estimates will improve as the DoD Components better define cleanup requirements and revisit the estimates, in accordance with subparagraph 13.a.(2)(g).

(a) If insufficient information exists to determine a plan of action for remediating the site, or if technology does not exist to address contamination at the site, the DoD Components will report the estimated cost for initial containment and studies to develop the environmental restoration plan for the site.

(b) The DoD Components shall ensure that any computer models used to calculate CTC estimates have undergone VV&A pursuant to DoDI 5000.61 (Reference (bu)). The DoD Components shall establish VV&A policies and procedures for any cost-modeling tools used to develop CTC estimates pursuant to DUSD(I&E) publication (Reference (bv)). 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.

REPLACE 13.a.(6)

(6) For LTM phases that are expected to continue indefinitely, CTC estimates should include a finite period of 30 years. For example, the 30-year period would apply to restricted use sites that require indefinite 5-year reviews in the LTM phase. However, finite periods longer than 30 years that are substantiated in closure and post-closure plans or other regulatory documents take precedence over the 30-year cut-off. Generally, the RA-O phase is finite in duration with a definite endpoint; therefore, it should be included in its entirety in CTC estimates. However, if an RA-O phase does not have a defined duration supported by an agreement or groundwater model (e.g., MNA with finite period not supported), or based on professional engineering judgment, the CTC estimate should include only the finite period of 30 years. When the DoD Components submit their CTC estimates in the DERP information system, they should provide the DUSD(I&E) with a list of sites where the CTC estimates for the RAO and/or LTM phases are truncated at 30 years. The RA-O and LTM end dates should be consistent with the defined duration, or with the 30-year cut-off date, as appropriate.

14. Environmental Liabilities Reporting
INSERT subparagraph 14.b.(4):

(4) EL Reporting. On a quarterly basis, the DoD Components respond to information requests from the DoD Component FMO, as needed, to update the EL reported on the financial statements. Financial management (FM) accountants reduce the estimated liability by the expensed amounts paid or approved for payment during the quarter, and record these transactions in the accounting system to make changes to the EL balance. The information required by subparagraph 13.a.(2)(g) on reasons for CTC changes supports the audit trail for these transactions.

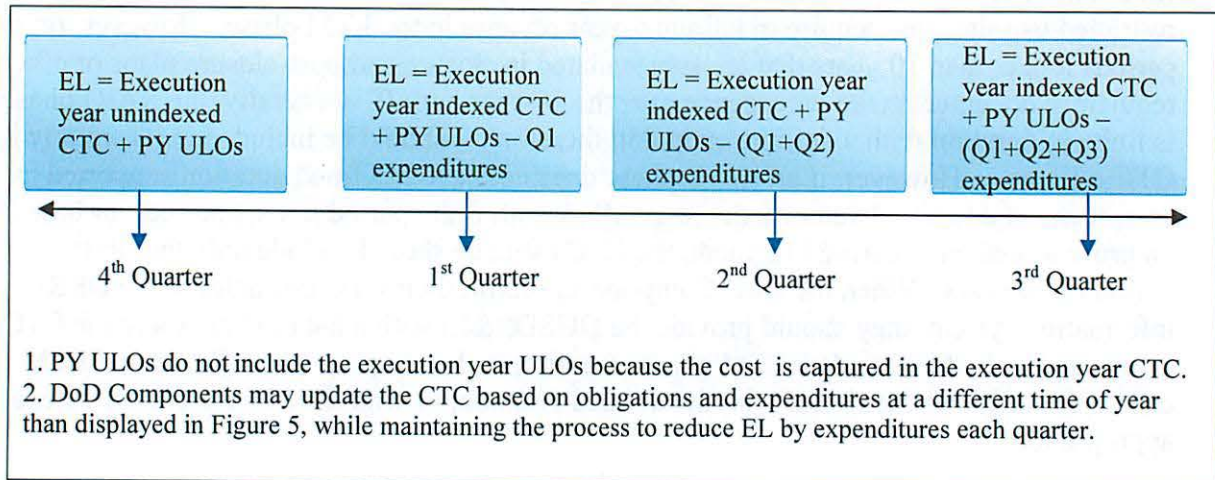
(a) End-of-year (September 30) financial statement. The DoD Components submit their most current execution year CTC estimate, without indexing or inflating, to the

Procedure: Updating DoD Component Cost-to-Complete (CTC) Estimates for use throughout the Fiscal Year (FY) Reporting Cycle

DoD Component FMO so the FMO can prepare the transaction to record the EL. (See subparagraph 13.a.(2) Step 1 for the annual update to the CTC.)

1. The DoD Components also submit the CTC data used in the EL submission, without indexing or inflating, to the DERP information system in early October.
2. The DoD Component FMO adds Unliquidated Obligations (ULOs) from prior years to the CTC estimate to determine the total EL to report on the September 30 financial statement.
3. The DoD Components update the EL balance quarterly based on completed remediation. At the end of each quarter, the DoD Component FMO reduces the EL estimate by the expenditures outlaid during the past quarter.
4. The DoD Components index the execution year CTC for reporting on the quarterly financial statements. The DoD Components include all prior year (PY) ULOs as of September 30 in the EL amount and reduce the EL each quarter by the expenditures. Figure 5 illustrates the annual EL reporting cycle.

Figure 5. EL Reporting Cycle



REPLACE and MOVE 14.f.(6) to 14.c.(3)(e):

(e) Reasons for any fluctuation in a line item estimate on the Note 14 that is greater than or equal to 10 percent from the estimate reported in the same quarter in the PY (excluding inflation and work completed). The DoD Component environmental staff provides the DoD Component FM staff with a narrative disclosure describing the reasons for these fluctuations.

Insert these definitions in the glossary:

Budget Year. The budget year is the first year of the upcoming FYDP.

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CTC. Estimated costs remaining at DERP sites, covering the period beginning October 1 of the upcoming FY through the SC milestone.

Execution Year. The execution year is the first year of the CTC estimate.

Index. Adjust upward or downward annually to maintain estimates on a current cost basis as if acquired in the current period.

Inflate. Adjust future year estimates, using OUSD(C) inflation factors.

Obligated amounts. Amount representing orders placed, contracts awarded, services received, and similar transactions during an accounting period that will require payment during the same, or a future, period.

Prior Year. Year prior to the execution year.