

# Corporate Financial Reporting on Environmental Liabilities: An Accounting & Auditing Perspective



# Deloitte.

**Sarbanes Oxley and the EHS Professional**  
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**Note: The views expressed in this presentation are those of the presenters.**



# AGENDA

- **Introduction**
- **Accounting for Environmental Liabilities**
- **Auditing Environmental Liabilities**
- **Q&A**



# About the presenters...

- ◆ **Mr. Baker is a partner in the New York office of Deloitte's Forensic & Dispute Services practice. He has a broad range of experience in financial and forensic investigations including bank regulatory actions, breach of contract, damage claims, insurance claims, purchase price disputes, financial statement fraud and asset theft. Mr. Baker directs the Deloitte Environmental practice. His experience includes superfund matters, due diligence investigations and CGL claims for reimbursement of remediation costs.**
- ◆ **Brian Degano is a Senior Manager in the New York office of Deloitte's Forensic and Dispute Services practice. He serves clients primarily on fraud and forensic investigations, and post-closing purchase price disputes. From July 2001 to July 2003, he was a Practice Fellow at the Financial Accounting Standards Board (FASB.)**



# Accounting For Environmental Liabilities



# Authoritative Guidance

- **FASB Statement No. 5, *Accounting for Contingencies***
  - **FIN 14, *Reasonable Estimation of the Amount of a Loss - an interpretation of FASB Statement No. 5***
  - **SOP 96-1, *Environmental Remediation Liabilities***
  - **SAB 92, *Accounting and Disclosures Related to Loss Contingencies***
- **FAS 143, *Accounting for Asset Retirement Obligations***
  - **FIN 47, *Accounting for Conditional Asset Retirement Obligations***
- **EITF Issue 90-8, *Capitalization of Costs to Treat Environmental Contamination***

# FAS 5

- Provides guidance on the accounting for contingencies.
- Defines the likelihood of a loss contingency as follows:

<b>Probable</b>	The future event or events are likely to occur.
<b>Reasonably possible</b>	The chance of the future event or events occurring is more than remote but less than likely.
<b>Remote</b>	The chance of the future event or events occurring is slight.

# FAS 5

- ◆ Requires an estimated loss from a loss contingency to be accrued if both:
  - a. Information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss.
  - b. The amount of loss can be reasonably estimated.
- ◆ Indicates that disclosure of an accrual made for a loss contingency and in some cases the amount accrued, may be necessary.



## FAS 5 (cont'd)

- ◆ If a loss contingency is not accrued because one or both of the conditions are not met, or if an exposure to loss exists in excess of the amount accrued, disclosure of the contingency shall be made when there is at least a **reasonable possibility** that a loss or an additional loss may have been incurred.
- ◆ The disclosure shall indicate the nature of the contingency and shall give an estimate of the possible loss or range of loss or state that such an estimate cannot be made.





# FAS 5 (cont'd)

- After the date of an enterprise's financial statements but before those financial statements are issued, information may become available indicating that an asset was impaired or a liability was incurred after the date of the financial statements or that there is at least a reasonable possibility that an asset was impaired or a liability was incurred after that date. Disclosure may be necessary to keep the financial statements from being misleading.
- Disclosure, if made, should indicate the nature of the item and give an estimate of the amount or range of loss or possible loss, or state that such an estimate cannot be made.

# FAS 5 (cont'd)

	<b>Reasonably Estimable</b>	<b>Not Reasonably Estimable</b>
<b>Probable</b>	Accrue & Disclose if material	Disclose if material
<b>Reasonably Possible</b>	Disclose if material	Disclose if material
<b>Remote</b>	Disclose if material	Nothing

# EXAMPLE

- ◆ In January 2005, prior to the issuance of its 2004 financial statements, ABC Company's sole manufacturing plant is severely damaged by an earthquake. ABC hires an engineering firm to evaluate the extent of the damage. The firm concludes that the plant is not salvageable. ABC Company was not insured for this type of event.
- ◆ How should ABC Company account for this in its 2004 Annual Financial Statements?

# EXAMPLE

- ◆ During 2004, XYZ Company has decided to undertake a five year plan to renovate its offices. XYZ has budgeted its future annual expenditures for this program. XYZ has not signed contracts for these items, but currently believes that it is probable that it will incur these costs in the future. The annual expected cost is:

Year	Amount
2005	\$100
2006	\$100
2007	\$100
2008	\$100

- ◆ How XYZ account for this in its 2004 Annual Financial Statements?

# FIN 14

- ◆ If both conditions requiring accrual in FAS 5 are met, but the reasonable estimate of the loss is a range, a loss contingency must still be accrued.
- ◆ When some amount within the range appears at the time to be a better estimate than any other amount within the range, that amount should be accrued.
- ◆ When no amount within the range is a better estimate than any other amount, the minimum amount in the range should be accrued.
- ◆ Disclosure of the nature of the contingency, the amount accrued, and any additional exposure to loss may also be necessary.



# EXAMPLE

- ◆ During 2004, ABC Company receives notice that it is being sued in a class action suit for producing defective products. ABC estimates that its potential liability related to the suit is in a range from \$50,000 to \$1,000,000, but does not believe that any amount in that range is more likely estimate than another.
- ◆ How should ABC Company account for this in its 2004 Annual Financial Statements?
- ◆ What would ABC Company do if \$100,000 was the most likely amount?



# SOP 96-1

- ◆ Provides guidance on the application of FAS 5 to environmental remediation liabilities
- ◆ Provides guidance for:
  - Applying the probability criterion
  - Estimating amounts to be accrued
  - Disclosures



# SOP 96-1 (cont'd)

- ◆ FAS 5's probability criterion is met if both of the following elements are met on or before the date the financial statements are issued:
  - Litigation has commenced or a claim or an assessment has been asserted, or, based on available information, commencement of litigation or assertion of a claim or an assessment is probable. In other words, it has been asserted (or it is probable that it will be asserted) that the entity is responsible for participating in a remediation process because of a past event.
  - Based on available information, it is probable that the outcome of such litigation, claim, or assessment will be unfavorable. In other words, an entity will be held responsible for participating in a remediation process because of the past event.





## SOP 96-1 (cont'd)


- What constitutes commencement or probable commencement of litigation or assertion or probable assertion of a claim or an assessment in relation to particular environmental laws and regulations may require legal determination.



# SOP 96-1 (cont'd)

- ◆ Given the legal framework within which most environmental remediation liabilities arise, AcSEC concluded that there is a presumption that, if:
  - a) if litigation has commenced or a claim or an assessment has been asserted or if commencement of litigation or assertion of a claim or assessment is probable, and
  - b) if the reporting entity is associated with the site—that is, if it in fact arranged for the disposal of hazardous substances found at a site or transported hazardous substances to the site or is the current or previous owner or operator of the site
- ◆ that the outcome of such litigation, claim, or assessment will be unfavorable.

# SOP 96-1 (cont'd)

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- ◆ Estimating environmental remediation liabilities involves an array of issues at any point in time. In the early stages of the process, cost estimates can be difficult to derive because of uncertainties about a variety of factors. For this reason, estimates developed in the early stages of remediation can vary significantly; in many cases, early estimates later require significant revision. The following are some of the factors that are integral to developing cost estimates:
    - The extent and types of hazardous substances at a site
    - The range of technologies that can be used for remediation
    - Evolving standards of what constitutes acceptable remediation
    - The number and financial condition of other potentially responsible parties (PRPs) and the extent of their responsibility for the remediation (that is, the extent and types of hazardous substances they contributed to the site)



# SOP 96-1 (cont'd)

- ◆ An estimate of the range of an environmental remediation liability typically is derived by combining estimates of various components of the liability (such as the costs of performing particular tasks, or amounts allocable to other PRPs but that will not be paid by those other PRPs), which are themselves likely to be ranges.
- ◆ For some of those component ranges, there may be amounts that appear to be better estimates than any other amount within the range; for other component ranges, there may be no such best estimates.
- ◆ Accordingly, the overall liability that is recorded may be based on amounts representing the lower end of a range of costs for some components of the liability and best estimates within ranges of costs of other components of the liability.



# SOP 96-1 (cont'd)

- ◆ At the early stages of the remediation process, particular components of the overall liability may not be reasonably estimable. This fact should not preclude the recognition of a liability. Rather, the components of the liability that can be reasonably estimated should be viewed as a surrogate for the minimum in the range of the overall liability.
- ◆ For example, a sole PRP that has confirmed that it sent waste to a Superfund site and agrees to perform a remedial investigation and feasibility study (RI/FS) may know that it will incur costs related to the RI/FS. The PRP, although aware that the total costs associated with the site will be greater than the cost of the RI/FS, may be unable to reasonably estimate the overall liability because of existing uncertainties, for example, regarding the kinds and quantities of hazardous substances present at the site and the technologies available to remediate the site. This lack of ability to quantify the total costs of the remediation effort, however, should not preclude recognition of the estimated cost of the RI/FS. In this circumstance, a liability for the best estimate (or, if no best estimate is available, the minimum amount in the range) of the cost of the RI/FS and for any other component remediation costs that can be reasonably estimated, should be recognized in the entity's financial statements.



# SOP 96-1 (cont'd)

- ◆ Additional complexities arise if other PRPs are involved in an identified site. The costs associated with remediation of a site ultimately will be assigned and allocated among the various PRPs. The final allocation of costs may not be known, however, until the remediation effort is substantially complete, and it may or may not be based on an entity's relative direct responsibility at a site. An entity's final obligation depends, among other things, on the willingness of the entity and other PRPs to negotiate a cost allocation, the results of the entity's negotiation efforts, and the ability of other PRPs associated with the particular site to fund the remediation effort.
- ◆ Uncertainties relating to the entity's share of an environmental remediation liability should not preclude the entity from recognizing its best estimate of its share of the liability or, if no best estimate can be made, the minimum estimate of its share of the liability, if the liability is probable and the total remediation liability associated with the site is reasonably estimable within a range.



# SOP 96-1 (cont'd)

- ◆ The costs to be included in the measurement of the environmental remediation liability include the following:
  - Incremental direct costs of the remediation effort
  - Costs of compensation and benefits for those employees who are expected to devote a significant amount of time directly to the remediation effort, to the extent of the time expected to be spent directly on the remediation effort



# SOP 96-1 (cont'd)

- ◆ The remediation effort is considered on a site-by-site basis; it includes the following:
  - Precleanup activities, such as the performance of a remedial investigation, risk assessment, or feasibility study and the preparation of a remedial action plan and remedial designs for a Superfund site, or the performance of a Resource Conservation and Recovery Act of 1976 (RCRA) facility assessment, RCRA facility investigation, or RCRA corrective measures studies
  - Performance of remedial actions under Superfund, corrective actions under RCRA, and analogous actions under state and non-United States laws
  - Government oversight and enforcement-related activities
  - Operation and maintenance of the remedy, including required postremediation monitoring



# SOP 96-1 (cont'd)

- ◆ Examples of incremental direct costs of the remediation effort include the following:
  - Fees to outside law firms for work related to determining the extent of remedial actions that are required, the type of remedial actions to be used, or the allocation of costs among PRPs
  - Costs related to completing the remedial investigation/feasibility study (RI/FS)
  - Fees to outside engineering and consulting firms for site investigations and the development of remedial action plans and remedial designs
  - Costs of contractors performing remedial actions
  - Government oversight costs and past costs; usually this is based on the cost incurred by the United States Environmental Protection Agency (EPA) or other governmental authority dealing with the site
  - The cost of machinery and equipment that is dedicated to the remedial actions and that does not have an alternative use
  - Assessments by a PRP group covering costs incurred by the group in dealing with a site
  - Costs of operation and maintenance of the remedial action, including the costs of postremediation monitoring required by the remedial action plan



# SOP 96-1 (cont'd)

- ◆ Determining (a) the extent of remedial actions that are required, (b) the type of remedial actions to be used, and (c) the allocation of costs among PRPs is part of the remediation effort, and the costs of making such determinations, including legal costs, are to be included in the measurement of the remediation liability.
- ◆ The costs of services related to routine environmental compliance matters and litigation costs involved with potential recoveries are not part of the remediation effort.
- ◆ Litigation costs involved with potential recoveries should be charged to expense as incurred until realization of the claim for recovery is considered probable and an asset relating to the recovery is recognized, at which time any remaining such legal costs should be considered in the measurement of the recovery. The determination of what legal costs are for potential recoveries rather than for determining the allocation of costs among PRPs will depend on the specific facts and circumstances of each situation.

# SOP 96-1 (cont'd)

- ◆ Examples of employees who may devote a significant amount of time directly to the remediation effort include the following:
  - The internal legal staff that is involved with the determination of the extent of remedial actions that are required, the type of remedial action to be used, and the allocation of costs among PRPs
  - Technical employees who are involved with the remediation effort



# SOP 96-1 (cont'd)

- ◆ With respect to recorded accruals for environmental remediation loss contingencies and assets for third-party recoveries related to environmental remediation obligations, financial statements should disclose the following:
  - The nature of the accruals, if such disclosure is necessary for the financial statements not to be misleading, and, in situations where disclosure of the nature of the accruals is necessary, the total amount accrued for the remediation obligation, if such disclosure is also necessary for the financial statements not to be misleading
  - If any portion of the accrued obligation is discounted, the undiscounted amount of the obligation and the discount rate used in the present-value determinations
  - If the criteria of SOP 94-6 are met with respect to the accrued obligation or to any recognized asset for third-party recoveries, an indication that it is at least reasonably possible that a change in the estimate of the obligation or of the asset will occur in the near term



# SOP 96-1 (cont'd)

- ◆ With respect to reasonably possible loss contingencies, including reasonably possible loss exposures in excess of the amount accrued, financial statements should disclose the following:
  - The nature of the reasonably possible loss contingency, that is, a description of the reasonably possible remediation obligation, and an estimate of the possible loss exposure or the fact that such an estimate cannot be made
  - If the criteria of SOP 94-6 are met with respect to estimated loss (or gain) contingencies, an indication that it is at least reasonably possible that a change in the estimate will occur in the near term



# SOP 96-1 (cont'd)

- ◆ Entities also are encouraged, but not required, to disclose the following:
  - The estimated time frame of disbursements
  - The estimated time frame for realization of recognized probable recoveries
  - If the criteria of SOP 94-6 are met with respect to the accrued obligation, to any recognized asset for third-party recoveries, or to reasonably possible loss exposures or disclosed gain contingencies, the factors that cause the estimate to be sensitive to change
  - reasons why an estimate of the probable or reasonably possible loss or range of loss cannot be made
  - For individual sites that are relevant for an understanding of the financial position, cash flows, or results of operations of the entity:
    - The amount accrued
    - The nature of any reasonably possible loss contingency or additional loss, and an estimate of the possible loss or the fact that an estimate cannot be made and the reasons why it cannot be made
    - Whether other PRPs are involved and their share of the obligation
    - status of regulatory proceedings
    - time frame for resolution



# EXAMPLE

- ◆ In November 2004, XYZ, Inc., upon removing some underground storage tanks, detects a leak to the soil and possibly to the groundwater. The regulators are informed and a process is put in place to investigate the extent of the contamination and possible remedial options (based on what was in the tanks and the type of soil, among other things).
- ◆ The final remedial option has not been selected but the engineering firm retained by XYZ, Inc. estimates that it will probably be required to excavate and remove soil and to install a groundwater treatment system to operate for a number of years. The amounts of soil and length of treatment, however, are not estimable (but are probable) at this time.
- ◆ What should XYZ, Inc. do in its 2004 Annual Financial Statements?



# EXAMPLE

- ◆ During November 2004, Saturn Oil Company determines that improving its controls around its environmental management will result in fewer penalties and accidents. As a result it voluntarily decides to undertake a series of actions over the next few years and incorporates these expenses into its budgets.
- ◆ Saturn retains the firm of Calypso LLP as consultants to evaluate and improve current controls. The anticipated costs of these audits and revisions are approximately \$1 million over the course of the next two years and include consulting, installation of new information systems applications and the hiring of specialized personnel to manage the program on an ongoing basis.
- ◆ What should Saturn do in its December 2004 Annual Financial Statements?





# EXAMPLE

- ◆ ABC, Inc. operates a manufacturing facility in an light industrial area along with a neighboring company, Acme, Inc. During 2004, Acme initiates legal action against ABC for the costs it is incurring in remediating groundwater and for the loss of value of its property due to down gradient from ABC. Legal counsel for ABC claim that given the history of the area, it cannot possibly be the sole contributor but over the years many of the companies that operated in the area have either moved away or gone out of business. Despite the best defense, counsel also believes that it is likely that ABC will be involved and suggest considering a settlement of the matter.
- ◆ What should ABC do in its 2004 Financial Statements?



# SAB 92

Provides additional guidance related to contingent liabilities from the SEC Staff. The Staff gives its guidance related to several questions including:

- Does the staff believe that it is appropriate to offset in the balance sheet a claim for recovery that is probable of realization against a probable contingent liability, that is, report the two as a single net amount on the face of the balance sheet?
- If a registrant is jointly and severally liable with respect to a contaminated site but there is a reasonable basis for apportionment of costs among responsible parties, must the registrant recognize a liability with respect to costs apportioned to other responsible parties?
- Estimates and assumptions regarding the extent of environmental or product liability, methods of remedy, and amounts of related costs frequently prove to be different from the ultimate outcome. How do these uncertainties affect the recognition and measurement of the liability?



# SAB 92 (cont'd)

- ◆ Assuming that the registrant's estimate of an environmental or product liability meets the conditions set forth in the consensus on EITF Issue 93-5 for recognition on a discounted basis, what discount rate should be applied?
- ◆ What financial statement disclosures should be furnished with respect to recorded and unrecorded product or environmental liabilities?
- ◆ What disclosures regarding loss contingencies may be necessary outside the financial statements?
- ◆ What disclosures should be furnished with respect to site restoration costs or other environmental exit costs?
- ◆ A registrant expects to incur site restoration costs, post-closure and monitoring costs, or other environmental exit costs at the end of the useful life of the asset. Would the staff object to the registrant's proposal to accrue the exit costs over the useful life of the asset?



# SAB 92 (cont'd)

- ◆ May a rate-regulated enterprise present on its balance sheet the amount of its estimated liability for environmental costs net of probable future revenue resulting from the inclusion of such costs in allowable costs for rate-making purposes?
- ◆ May a rate-regulated enterprise delay recognition of a probable and estimable liability for environmental costs which it has incurred at the date of the latest balance sheet until the regulator's deliberations have proceeded to a point enabling management to determine whether this cost is likely to be included in allowable costs for rate-making purposes?
- ◆ How should the acquiring company account for and disclose contingent liabilities that have been assumed in a business combination?



# FAS 143

- ◆ Requires an entity to recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made.
- ◆ If a reasonable estimate of fair value cannot be made in the period the asset retirement obligation is incurred, the liability shall be recognized when a reasonable estimate of fair value can be made.

# FAS 143

- ◆ An entity shall disclose the following information about its asset retirement obligations:
  - a. A general description of the asset retirement obligations and the associated long-lived assets
  - b. The fair value of assets that are legally restricted for purposes of settling asset retirement obligations
  - c. A reconciliation of the beginning and ending aggregate carrying amount of asset retirement obligations showing separately the changes attributable to (1) liabilities incurred in the current period, (2) liabilities settled in the current period, (3) accretion expense, and (4) revisions in estimated cash flows, whenever there is a significant change in one or more of those four components during the reporting period.
  - d. If the fair value of an asset retirement obligation cannot be reasonably estimated, that fact and the reasons therefore shall be disclosed.



# EXAMPLE

- ◆ Nuclear company constructs a nuclear power plant. Federal regulations require all active nuclear power plants to be decommissioned. Nuclear company activates its plant on July 1, 2004.
- ◆ Does nuclear company have an ARO liability?
- ◆ How should nuclear company account for the ARO liability in its 2004 Annual Financial Statements?



## FIN 47

- ◆ Clarifies that a legal obligation to perform an asset retirement activity that is *conditional* on a future event is in the scope of Statement 143.
- ◆ Companies must recognize a liability for the fair value of an ARO that is conditional on a future event, if the liability's fair value can be estimated reasonably.
- ◆ If there is not sufficient information to reasonably estimate the ARO when it is incurred, then it is recognized when the ARO can be reasonably estimated.
- ◆ If the ARO liability cannot be reasonably estimated, that fact and the reasons must be disclosed.





# EXAMPLE

- During 2004, Company ABC acquires a factory that contains asbestos. At the acquisition date, regulations are in place that require Company ABC to handle and dispose of this type of asbestos in a special manner if the factory undergoes major renovations or is demolished. Otherwise, Company ABC is not required to remove the asbestos from the factory. Based on the guidance in FAS 143, Company ABC can reasonably estimate its ARO liability.
- Does the asbestos represent a contingent asset retirement obligation?
- How should Company ABC account for the asbestos in its 2004 financial statements?



# EITF Issue 90-8

- In general, environmental contamination treatment costs should be charged to expense, however, those costs may be capitalized if recoverable but only if one of the following criteria is met:
  1. The costs extend the life, increase the capacity, or improve the safety or efficiency of property owned by the company. For purposes of this criterion, the condition of that property after the costs are incurred must be improved as compared with the condition of that property when originally constructed or acquired, if later.
  2. The costs mitigate or prevent environmental contamination that has yet to occur and that otherwise may result from future operations or activities. In addition, the costs improve the property compared with its condition when constructed or acquired, if later.
  3. The costs are incurred in preparing for sale that property currently held for sale.



# EXAMPLE

- ◆ Tanker Company has a fleet of ships which transport oil. One of Tanker Company's ships has a breach and an oil spill results. Tanker Company incurs costs to clean up waterway and beachfront and to reinforce all of its tanker's hulls to reduce risk of future spill.
- ◆ How should Tanker Company account for the costs to clean up the waterway and beachfront?
- ◆ How should Tanker Company account for the costs to reinforce the hull of its the tankers?



# SEC STAFF VIEWS

- ◆ **Excerpt from Deputy Chief Accountant of the SEC's Remarks before the 2004 AICPA National Conference on Current SEC and PCAOB Developments**
- ◆ *...Given these requirements, the recording of a material accrual for a contingent liability related to an event that occurred several years before should not be the first disclosure regarding that contingency. Rather, disclosures regarding the nature of the contingency and the amounts at stake should, in most cases, have already been provided. Disclosures should discuss the nature of the contingency and the possible range of losses for any item where the maximum reasonably possible loss is material. Vague or overly broad disclosures that speak merely to litigation, tax, or other risks in general, without providing any information about the specific kinds of loss contingencies being evaluated are not sufficient.*
- ◆ *Furthermore, I should point out that Statement 5 and Interpretation 14 require accrual for probable losses of the most likely amount of the loss. While the low end of a range of possible losses is the right number if no amount within the range is more likely than any other, I find it somewhat surprising how often "zero" is the recorded loss right up until a large settlement is announced....*



## Other Potential Disclosure Matters

### **EITF 03-8: Accounting for Claims-Made Insurance and Retroactive Insurance Contracts by the Insured Entity**

- ◆ Discusses the July 1987, Report of the Task Force on Disclosure of Insurance, Disclosure Concerning Insurance Coverage issued by the AICPA which encouraged publicly held entities and entities with public accountability, such as governments, to disclose circumstances in which they are exposed to certain uninsured risks of future material loss.
- ◆ That report indicates that each reporting entity should decide the matters to be disclosed, depending on its circumstances. The report does not recommend any specific disclosures that would be appropriate when an entity changes from occurrence-based insurance to claims-made insurance or elects to reduce significantly or eliminate its insurance coverage.
- ◆ However, the report did note that although the FASB did not discourage disclosure of uninsured risks in appropriate circumstances, AcSEC believes that such disclosures should be encouraged rather than simply not discouraged.



# Auditing Environmental Liabilities



# Who does the work?

- Audit Team
- Auditing Firm's specialist, or outside experts assisting the auditors
- Professionals who are familiar with environmental liability compliance and technical issues
  - Environmental Engineers
  - Environmental Attorneys



# Common Audit Procedures

- Obtain client calculation of reserve for environmental liabilities which contains a listing of all impaired sites
- Client categorizes sites based on whether the client is sole generator or is a potentially responsible party (PRP) in a multiple generator site.
- In a multiple generator situation, further distinction is made between those sites where the client has or does not have control of decision making process
- Professional will test the completeness of each client listing
  - Use public databases
  - Review prior year listing
  - Review legal confirmations, correspondence with regulatory agencies and other documents (e.g. Board Minutes) which may indicate impaired sites
  - Sample the expenditures account to see if additional sites exist
  - Sample the non environmental expenditures to see whether additional sites exist





# Common Audit Procedures

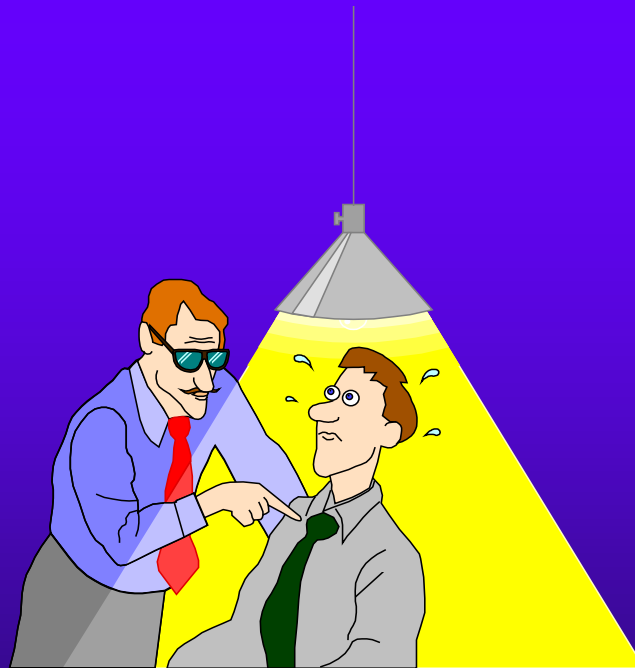
- Select sites from client listing to test accuracy of client's reserve
  - Selection methodology may result in two tiers
    - sites with largest liabilities or sites with liabilities exceeding a certain dollar amount
    - remaining sites may be subject to a statistical sample
- For newly added sites (and all selections made in the first audit year) the client's estimate is evaluated for accuracy and reasonableness:
  - using supporting documents (e.g. engineering reports, contractor estimates, etc.)
  - determine whether reserve needs to be adjusted



# Common Audit Procedures

- For existing sites, the professional will evaluate changes to the reserves
  - Subtractions represent costs for remediation incurred or decreases to expected costs to be incurred
  - Additions represent increases in estimates to complete or new sites added
- For sites that were removed from prior listing (sites that were closed/completed during year)
  - Look for evidence of closure (receiving a notice of no further action, etc.)

# Questions & Answers



**The views expressed are those of the presenters.**



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