



DEPARTMENT OF HOMELAND SECURITY - US COAST GUARD
Notification of Finding and Recommendation (NFR)
Fiscal Year Ended September 30, 2004

Risk Factor - High

Location/Office: Headquarters

Finding number: CG 04-020

Audit Area: Environmental Liabilities

W/P Reference:

Date Provided to Management: October 29, 2004

Date Response Due: November 3, 2004

Title: Environmental Remediation – Lighthouse/Light Stations

Background: The Coast Guard controls a significant number of lighthouses/light stations, which have an average age of 100 years. The construction process for these lighthouses/light stations often involved the use of materials such as lead-based paint, asbestos, and mercury – environmentally hazardous materials that may require remediation. Pursuant to Comprehensive Environmental Response Compensation and Liability Act (CERCLA), the Coast Guard is responsible for managing any required remediation at these lighthouses/light stations. Within the Coast Guard, Maintenance and Logistics Command Atlantic (MLCLANT) and Maintenance and Logistics Command Pacific (MLCPAC) are responsible for conducting remediation actions.

Currently, the Coast Guard has a total of 300 lighthouses/light stations:

- MLCPAC is responsible for 67 lighthouses/light stations
- MLCLANT is responsible for 217 lighthouses/light stations
- Coast Guard units in Alaska (under MLCPAC control) are responsible for 9 lighthouses/light stations, of which 6 need remediation
- Coast Guard units in Hawaii (under MLCPAC control) are responsible for 7 lighthouses/light stations

MLCPAC established a liability of \$950,000, which represented the estimated cost to perform environmental due diligence assessments (EDDA) for its lighthouses. MLCPAC has not established a liability amount for the estimated cost for the remediation of the hazardous materials at these lighthouses.

MLCLANT has established a liability of \$2.6 million, which represents the estimate for the remediation of hazardous materials at 25 lighthouses/light stations. However, MLCLANT has not established a liability amount to remediate hazardous materials at the remaining 196 lighthouses/light stations. Additionally, MLCLANT does not include the cost for EDDAs in its liability amount.

Coast Guard units in Alaska have completed the EDDAs for all 9 lighthouses/light stations, determined that 8 needed remediation and established a liability for the estimated costs to remediate the hazardous material.

Coast Guard units in Hawaii have completed the EDDAs on all 7 lighthouses/light stations, and determined that no remediation is necessary. However, documentation was not available to supported the rational for this decision, thus it was not clear if no work was planned or if hazardous materials were not found.

Condition: As of our fieldwork, Coast Guard's process related to the definition and management of the environmental liabilities associated with lighthouses/light stations was inconsistent and did not include estimates for Phase II analysis and potential remediation costs. As each lighthouse property is unique and remediation methods can range from little, if any, action (e.g. nonfriable asbestos) to land-use controls to full soil removal, estimates of costs for remediation may vary. Based on our analysis, the cost of remediation should be estimated, using historical costs, regardless of the possible conveyance of the lighthouse to other entities. Once the Phase II analyses are completed, the remediation liability should be adjustment appropriately.

Criteria: Statement of Federal Financial Accounting Standards Number 5, *Accounting for Liabilities of the Federal Government*, states that general purpose federal financial reports should recognize probable and measurable future outflows or other sacrifices of resources arising from (1) past exchange transactions, (2) government-related events, (3) government acknowledged events, or (4) nonexchange transactions that, according to current law and applicable policy, are unpaid amounts due as of the reporting date.



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Fiscal Year Ended September 30, 2004

Federal Accounting Standards Advisory Board's Technical Release Number 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*, states that an agency is required to recognize a liability for environmental cleanup costs as a result of past transactions or events when a future outflow or other sacrifice of resources is probable and reasonably estimable. Probable is related to whether a future outflow will be required. Reasonably estimable relates to the ability to reliably quantify in monetary terms the outflow of resources that will be required.

Under CERCLA (42 U.S.C. §§ 9601 *et seq.*), the United States, as a landowner, is liable for the remediation of any environmental contamination located up on its real property. The remediation requirement can be triggered by actions taken pursuant to section 120(h) of CERCLA, when property is conveyed to a non-Federal entity.

The National Historic Lighthouse Preservation Act of 2000 (NHLPA), provides a mechanism for the disposal of federally owned historic light stations. Per the NHLPA, once the Department of Homeland Security has determined that a given historic light station is excess to its needs, the Coast Guard is responsible for the reporting that property of GSA, which acts as the Government's real property disposal agency. As such, the Coast Guard and GSA, are responsible for complying with Section 120(h) of CERCLA (42 U.S.C. §§ 9601 *et seq.*). Section 120(h) requires that the United States, in conveying property to a non-Federal entity, provide within the deed a description of any hazardous substances that were stored, released, or disposed upon the property. This description is based on a search of agency records (Phase I level analysis).

The GAO *Standards for Internal Control in the Federal Government* states that management is responsible for developing and documenting detailed policies, procedures, and practices that fit their agency's operations and as part of their monitoring of internal control, management must continue to maintain these policies and procedures and access the quality of performance over time.

Commandant Publication M11011.10, Chapter 3 – *Real Property Disposals*, Section II – *Environmental Considerations*, dated November 30, 2001, assigns the responsibility for the remediation of environmental liabilities at lighthouses to the Coast Guard. The directive states that the Coast Guard is responsibility for assessing and remediating environmental liabilities regardless of disposal or plans for disposal.

Cause: Coast Guard has not developed formal policies to define the technical approach, cost estimation methodology, and overall management of lighthouses/light stations, thus MLCPAC and MLCLANT have different process for assessing, estimating and documenting various environmental liabilities and project remediation.

Effect: The Coast Guard's estimate for environmental liabilities is understated by \$26,950,000.

Recommendations: KPMG recommends that the Coast Guard:

1. Develop and promulgate a single policy defining the technical approach, cost estimating methodology, and overall management of lighthouse/light station remediation projects.
2. Create reasonable estimates of the remedial actions associated with lighthouses, even prior to conducting an EDDA.
3. Estimate the cost of remediation to include an estimate for EDDAs, and report these costs as an environmental liability. At such time that the Phase II analyses provide better data, such costs shall be adjusted to a more precise estimate.

Handwritten note: ^① ^② ^③ ~~document initial~~ take empirical data into model. Overall project liability cost.

Management Response:

KPMG policy requires that we obtain your response to this notification of finding and recommendation in writing. As such, please indicate your response by checking the appropriate box below and providing the appropriate supporting documentation to KPMG within five business days from the date of this notification. Your written response will be considered when preparing the draft consolidated audit report.



DEPARTMENT OF HOMELAND SECURITY - US COAST GUARD
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- Management concurs with the Notification of Finding and Recommendation and has provided a corrective action plan, with milestone dates, developed to address the condition in the space provided below or as an attachment to this document. (Note: Responses should not be delayed until plans are finalized. If plans are not complete, specify a completion date when forwarding your responses.)
- Management does not concur with the Notification of Finding and Recommendation and provided further detail supporting our position in the space provided below or as an attachment to this document.
- Corrective action will be taken and completed in current fiscal year (check box if "yes").

General Comments

Corrective Action Planned
 HQ will hire an A/E firm to develop a cleanup/remedial action cost estimate approximation for the inventory of owned lighthouses remaining in the CG inventory. This will be predicated on past costs associated with remedial actions at divested LH and application of best industry practices. We will also add costs for undertaking Phase II (EDDA) studies at all remaining Lighthouses in CG inventory. After the Phase II's are completed, we will continually refine remediation costs in the EC&R remediation backlog.

KPMG Response, if Necessary: (See GAGAS paragraph 5.30)

1. _____
 Bruce Antiporowich
 Senior Manager, KPMG LLP

 September 22, 2004
 Date Provided to Management

2. _____
 CAPT Jay Manik
 Chief, Office of Civil Engineering

3. _____
 CAPT Larry White
 Chief, Office of Financial Policy

Date Response Received from Management