



DEPARTMENT OF HOMELAND SECURITY - US COAST GUARD
Notification of Finding and Recommendation (NFR)
Fiscal Year Ended September 30, 2005

Location/Office: Headquarters	Finding number: CG-05-04
Audit Area: Environmental Liabilities	W/P Reference: N-30
Date Provided to Management: July 5, 2005	Date Response Due: July 11, 2005
	Severity: 4 (Low 1-High 5)
Title: Environmental Remediation –Lighthouse/Light Station & Small Arms Firing Range	

Background: During the FY 2004 DHS Coast Guard financial statement audit, KPMG submitted findings and recommendations to Coast Guard management regarding the lack of standard formal policies to define the technical approach, cost estimation methodology, and overall management of lighthouse/light station (NFR CG-04-0020) and small arms firing range (SAFR) remediation projects (NFR CG-04-0015). In addition, environmental liability estimates associated with lighthouses/light stations did not include future Phase II (soil testing) assessment or remediation costs (NFR CG-04-0020).

The Coast Guard is currently completing a task order to hire external environmental specialists to develop a cost model for estimating their lighthouse environmental liabilities. The Coast Guard plans to use a similar model for estimating their SAFR environmental liabilities.

Condition: Coast Guard management has determined that the corrective action plan related to SAFR and lighthouse/light station remediation projects will not be completed until FY 2006.

Criteria: The Government Accountability Office's *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 assess the quality of performance over time.

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.

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 upon 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.



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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 in excess to its needs, the Coast Guard is responsible for the reporting that property to 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).

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 responsible for assessing and remediating environmental liabilities regardless of disposal or plans for disposal.

Commandant Publication P5090.1A (COMDTPUB 5090.1A), dated February 4, 2000, provides guidance to Coast Guard Commands for acquiring and maintaining knowledge of laws & regulations governing environmental liabilities and remediation, as well as developing programs to locate, assess, mitigate and monitor environmental liabilities within their jurisdictions. Generally, the Coast Guard assesses compliance with this guidance through their Environmental Compliance Evaluations (ECE).

Cause: The proposed length of the cost model project will preclude Coast Guard personnel from completing corrective action until FY 2006.

Effect: The Coast Guard's FY 2005 estimate for environmental liabilities could be materially underestimated.

Recommendation: KPMG recommends that Coast Guard continue its efforts to implement the corrective action plan associated with SAFR and lighthouse/light station remediation projects.

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.

- 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").



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General Comments

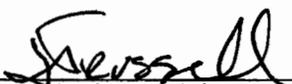
CG-443 concurs with KPMG's recommendations and will continue to implement corrective actions to determine the Environmental Liability Estimates for lighthouses and SAFR's. CG-443 has funded and completed the technical review of a proposal for Task Order DTCG-02-D-EXB001 which will develop a cost estimation model for the environmental remediation of lighthouses. The contract is still in G-ACS-2 and should be awarded soon.

The model and results will be available within six months of the contract award.

The model will also be used to estimate environmental liability of SAFR's.

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

[Empty response box]

1. 
for Bruce Antiporowich
Senior Manager, KPMG LLP

7/5/05
Date Provided to Management

2. 
CAPT David Hill
Chief, Office of Financial Policy & Systems

7/8/05
Date Response Received from Management