

**DEPARTMENT OF HOMELAND SECURITY**  
**Office of Inspector General**

Review of Compliance with  
the Currituck Beach Lighthouse  
Operating License



**Office of Audits**

**OIG-05-08**

**December 2004**





**Homeland  
Security**

## Preface

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the Homeland Security Act of 2002 (*Public Law 107-296*) by amendment to the Inspector General Act of 1978. This is one of a series of audit, inspection, investigative, and special reports prepared by the OIG as part of its DHS oversight responsibility to identify and prevent fraud, waste, abuse, and mismanagement.

This report assesses the strengths and weaknesses of the program or operation under review. It is based on interviews with employees and officials of relevant agencies and institutions, direct observations, and a review of applicable documents.

The recommendations herein have been developed to the best knowledge available to the OIG, and have been discussed in draft with those responsible for implementation. It is my hope that this report will result in more effective, efficient, and economical operations. I express my appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in black ink that reads "Richard L. Skinner".

Richard L. Skinner  
Acting Inspector General



# Contents

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Introduction.....□.....	3
Results in Brief.....	4
Background.....□5	
Detailed Results of Review.....	10
Conclusion ...□.....	16

## Appendices

Appendix A: Committee on Government Reform Request .....	18
Appendix B: Government Letter on Instructions on Final Accounting .....	20
Appendix C: Purpose, Scope, and Methodology .....	22
Appendix D: Management Comments.....	24
Appendix E: Major Contributors To This Report.....	25
Appendix F: Report Distribution.....	26

## Abbreviations

DHS	Department of Homeland Security
GSA	General Services Administration
OBC	Outer Banks Conservationists, Incorporated
OIG	Office of Inspector General
U.S.	United States



Tourists atop the Currituck Beach Lighthouse

Source: United States Coast Guard files

## **Introduction**

In June 1990, the Coast Guard issued a license to Outer Banks Conservationists, Incorporated (OBC) for the non-federal use of the Currituck Beach Lighthouse (Lighthouse)<sup>1</sup> located on the outer banks of North Carolina. The license required OBC to maintain the Lighthouse tower; acknowledged that the Coast Guard is responsible for maintaining and operating the automated lantern as an aid to navigation; allowed OBC to charge an admission fee to the Lighthouse to help with maintenance, repair, and operating costs; and required OBC to remit excess revenue to the Coast Guard.

OBC expressly sought permission to use the Lighthouse tower to draw tourists and tourist dollars to its leased property, which surrounds the Lighthouse. OBC has leased the adjoining Currituck Beach Lighthouse Reservation (Keepers Reservation) from the State of North Carolina since 1980. The Keepers Reservation is comprised of 5.2 acres and contains two houses, which OBC restored, that were used by keepers of the Lighthouse. The Lighthouse property is less than an acre and contains the tower.

OBC accumulated revenue from admission fees. Because the admission fees are program revenue generated from the granted use of federal property, such fees are public money. OBC reported to the Coast Guard that, starting in 1990, it charged climbers a \$1.50 fee for admission to the Lighthouse, and a \$1.50 fee for admission to the Lightkeepers' Reservation; subsequently, OBC increased each fee to \$3. The license required OBC to annually submit to the Coast Guard a certified statement showing an accounting of operating expenses and revenue. The license also required a final accounting of the revenues and expenses generated from OBC's use of the property under the license, and remittance to the government of any excess revenues not used for allowed purposes.

The General Services Administration (GSA) conveyed the deed to the Lighthouse to OBC on October 17, 2003, thereby terminating the license.

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<sup>1</sup> License for Non Federal Use of Real Property, number DTCGZ75130-90-RP-037L

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On September 11, 2003, the Chairman of the U.S. House of Representatives, Government Reform Committee (Committee) presented evidence that suggested that money owed to the Coast Guard had never been remitted and requested OIG to determine how much money OBC owes the Coast Guard under the license. (See Appendix A.) The areas of concern raised by the Committee are summarized in the following three key questions:

1. *Was OBC's practice of accumulating and carrying-over revenues proper?*
2. *What is the amount of excess revenue owed the government to settle the license?*
3. *Did the Coast Guard provide appropriate oversight of the Lighthouse license?*

## Results in Brief

During the course of the license, OBC properly accumulated and carried over revenues from period to period, allowing it to pursue not only maintenance, but also more capital-intensive restoration and preservation of the Lighthouse. With termination of the license, these accumulated revenues, generated from OBC's use of the Lighthouse property, became excess revenue inuring to the government.

OBC submitted, and the Coast Guard accepted, with adjustments, a final accounting of the license revenues and expenses. The Coast Guard determined that the amount of excess revenue owed the government to settle the license was \$328,392, of which the Coast Guard allowed OBC to use \$220,000 for planned maintenance and restoration of the Lighthouse in lieu of remittance and demanded the balance of \$108,392 from OBC<sup>2</sup>. The OIG agreed with the Coast Guard's calculation; and while the OIG found no definitive legal authority permitting OBC to use the \$220,000 for the restoration and maintenance contracts it had cancelled, the OIG deemed allowing this proposed expenditure to be equitable considering the facts and circumstances in this matter.

The Coast Guard concluded that the primary purpose of the license, i.e., the restoration and preservation of the Lighthouse structure, was accomplished. The license required OBC to assume responsibility for repairs, maintenance, renovations, restoration, and preservation of the Lighthouse and the grounds. The Coast Guard's inspections of the Lighthouse determined that it was adequately

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<sup>2</sup> On November 10, 2004, OBC agreed that the \$108,392 held in escrow should be distributed to the U.S. Treasury, and that OBC would proceed with its planned restoration work.



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maintained overall, although conditions found during some inspections raised concerns about the effects of tourists' foot traffic and triggered closer Coast Guard oversight at times.

The Coast Guard's primary concern was the accomplishment of its aids-to-navigation mission. Therefore, the Coast Guard generally limited its oversight of OBC and Currituck to monitoring the physical condition of the tower and working order of the light. The Coast Guard relied on OBC to comply with the financial provisions of the license, with minimal financial management oversight. However, prompted by congressional inquiries, the Coast Guard conducted a financial management review in July 2003. The Coast Guard's review of OBC's final accounting report in March 2004 resolved all material discrepancies noted during these reviews and resulted in its approval of OBC's final accounting with exceptions.

The Coast Guard reviewed our report and concurred with our findings. The Coast Guard's comments to the report are Appendix D.

## Background

In June 1989 OBC requested permission from the Coast Guard to allow tourists to climb to the top of the Lighthouse. OBC sought this permission to draw tourists to its surrounding property leased from the State of North Carolina. According to OBC's request, with the draw of climbing the Lighthouse, OBC would then charge tourists an admission fee to the surrounding property, allowing OBC to obtain funding needed to complete restoration of its surrounding property. In subsequent discussions, the Coast Guard indicated that it could only license OBC to use the Lighthouse and collect admission fees for the benefit of the Lighthouse.

In June 1990, the U.S. Department of Transportation, through the Coast Guard, issued a license<sup>3</sup> to OBC for the non-federal use of the Currituck Beach Lighthouse. The license allowed for an admission fee to generate revenue for maintenance, repair, operation, restoration, and preservation and required the licensee to submit certified financial statements annually. Specifically, the license required that OBC:

- protect, maintain, and keep the facilities in working order;

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<sup>3</sup> License for Non Federal Use of Real Property, number DTCGZ75130-90-RP-037L

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- obtain prior approval for any additions or alterations to the structures; and
  - annually submit a certified statement showing a breakdown of operating expenses and revenue.

The license authorized OBC to open a museum gift shop at the base of the tower and to charge an admission fee to the Lighthouse. The license limited OBC's use of the property to the restoration and preservation of the property and its structures.

Since 1980, OBC has leased the Currituck Beach Lighthouse Reservation (Keepers Reservation) from the State of North Carolina. The Keepers Reservation is comprised of 5.2 acres surrounding the Lighthouse and contains two houses that were used by keepers of the Currituck Beach Light. Both keepers' houses were restored by OBC. One keepers' house is not open to the public. The other is used as a museum gift shop. The keepers' houses are shown in the photo on the next page taken from atop the Lighthouse.

OBC and the County of Currituck, North Carolina, in which the Lighthouse is located, both applied in February 2003 for ownership of the historic structure under the National Historic Lighthouse Preservation Act.<sup>4</sup> On April 4, 2003, the Department of the Interior selected OBC's proposal for ownership of the Lighthouse. OBC's stewardship of the Lighthouse and the surrounding Keepers Reservation was the primary reason cited for the Department of Interior's decision to award the deed to OBC.<sup>5</sup> The County of Currituck appealed the decision. However, the Department of the Interior upheld its decision on July 30, 2003, awarding the Lighthouse to OBC.

The GSA conveyed the deed for the Currituck Lighthouse property to OBC on October 17, 2003, thereby terminating the license. OBC assumed responsibility for maintaining the tower as an historic landmark according to historical preservation standards, while the Coast Guard retained responsibility for maintaining the automated lantern as an aid to navigation. The Coast Guard

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<sup>4</sup> On October 24, 2000, the National Historic Lighthouse Preservation Act of 2000, Public Law 106-355, amended the National Historic Preservation Act for the purposes of establishing a national historic lighthouse preservation program. The National Historic Lighthouse Preservation

the Coast Guard identifies for disposal as excess property. Eligible entities are: any federal agency, the state or local government of the community in which the historic light station is located, and any nonprofit corporation, educational agency, or community development organization that has agreed to comply with certain historic preservation and public access conditions and is financially able to maintain the historic light station.

<sup>5</sup> Assistant Secretary for Fish and Wildlife and Parks, United States Department of the Interior, decision memorandum on disposition of the Currituck Beach Lighthouse of July 30, 2003.



The surrounding Keepers Reservation as seen from atop the Lighthouse

Source: United States Coast Guard files

continues to operate the lantern providing a reference point for mariners navigating Currituck Sound or the Atlantic Ocean.

### **Coast Guard's July 2003 Compliance Review**

The Coast Guard, in response to congressional inquiries, planned and conducted a limited scope review of OBC's compliance with the license. In July 2003, the Coast Guard issued a report on its review of OBC's Lighthouse operations, basic business processes, revenues, and expenses.

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While generally finding that OBC complied with the Coast Guard license agreement, the review disclosed a number of discrepancies, including:

- OBC used the property for fund-raising for the Corolla Wild Horse Fund, as well as other OBC operations.
- OBC held the Lighthouse admissions receipts in interest-bearing accounts and accrued interest revenue, but did not report the interest in its annual financial statements.

The Coast Guard's report noted that only half the admission revenues OBC collected were considered as Lighthouse revenues and attributed this to the collection of admission fees for the adjoining Lightkeepers Reservation that OBC leases from the State of North Carolina. The report recommended that the Coast Guard send a letter to OBC approving OBC's practice of collecting fees for both the Lightkeepers Reservation and the Lighthouse at the entrance to the Lighthouse. Also, the report recommended that the letter direct OBC to change entrance signs, shown in the photo below, to specify that two admission fees are collected, and either remove or request approval for an unauthorized wishing well being used by OBC to collect donations to OBC's Corolla Wild Horse fund. Finally, the report recommended that future licenses be written with more specific and defined terms. Although the Coast Guard provided OBC with a copy of its report, it did not send the recommended letter.



The Coast Guard recommended in its July 2003 compliance review report that OBC change this sign to specify two admission fees were being collected

Source: United States Coast Guard files

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### **Government Instructions for Final Accounting**

In response to a request for guidance from OBC's accounting firm,<sup>6</sup> the GSA, the Coast Guard, the OIG, and the National Park Service sent a letter to OBC on January 9, 2004. (See Appendix B.) The letter advised OBC that:

- The intent of the federal government is for OBC to conduct a final accounting and submit a financial statement reporting all Lighthouse revenues and expenses.
- The final accounting should include the financial transactions related to the Lighthouse operations conducted during the period of the license from July 1, 1990, through October 17, 2003. At a minimum, the financial statement should report:
  - 1) All revenues OBC generated from its use of the Lighthouse, including but not limited to one-half of the admission fees; and the federal government's share of wishing well revenues, Lighthouse donations, and interest income, over the course of the license. The final accounting should describe the methodology used to determine the amount of wishing well revenues, Lighthouse donations, and interest income due the federal government.
  - 2) All restoration expenses OBC incurred during the period of the license, to include expenditures incurred for preserving, restoring, maintaining, repairing, and renovating the Lighthouse.
  - 3) All operating expenses OBC incurred during the period of the license for the purposes of the license, to include expenses for managing the preservation, restoration, maintenance, repair, and renovation of the Lighthouse and expenses for managing and operating the Lighthouse as a public museum and archive.
  - 4) The amount of revenue in excess of expenses, as determined by subtracting restoration and operating expenses from the revenues.
- A principal officer of OBC, or a public accounting firm should OBC so desire, must certify that the financial statement fairly presents in all material respects the results of operations of the Lighthouse for the period of the license.

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<sup>6</sup> Letter of November 12, 2003, from Maddison, Caison, & Ogburn, LLP to the National Park Service, the United States Coast Guard, the Department of Homeland Security's Office of Inspector General, and the General Services Administration regarding the conduct of a final accounting for the Currituck Beach Lighthouse.

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## Detailed Results of Review

### Was OBC's Practice of Accumulating and Carrying-Over Revenues Proper?

OBC's accumulating and carrying-over revenues from one annual period to the next was proper and compliant with applicable Coast Guard policies and procedures.<sup>7</sup> OBC accumulated more revenues every year than were required for routine repair and maintenance of the Lighthouse, and held accumulated revenues for capital-intensive restoration needs. OBC accumulated excess revenues over more than one year, which allowed funding of more expensive restoration and preservation work to be pursued. For example, in the fiscal year ending June 2000 OBC spent about \$454,000 on restoration and rehabilitation of the Lighthouse, while collecting only about \$403,000 in total admissions and relying on cash reserves from prior years' operations.

The Coast Guard approved this practice, which we deem not only reasonable, but also consistent with the license, federal regulations, and established Coast Guard policies and procedures in effect at the time. The license required the payment to the Coast Guard of revenue in excess of expenditures but did not mandate annual remittance. Under the Coast Guard's policies and procedures for the outgranting of historical lighthouse properties, the Coast Guard either issued a long-term license or a short-term lease:

- Long-term licenses were to be issued for non-profits willing to assume responsibility for care of the lighthouse. Such was the case with the Currituck license to OBC.
- Alternatively, short-term leases could be issued competitively to anyone willing to pay market rent. However, Coast Guard policy, citing appropriation law, precluded care of the lighthouse being accepted in lieu of rents. Therefore, responsibility and expenses for care of a leased lighthouse remained with the Coast Guard.

Under the Currituck license, OBC assumed responsibility for the care of the Lighthouse. Therefore, the Coast Guard's use of provisions authorizing admission fees to fund care of the lighthouse in the license was appropriately made and OBC's practice of carrying-over revenues was proper. Further, carrying-over program income across fiscal periods may be prudent, if not necessary, to

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<sup>7</sup> *Real Property Asset Management Manual*, Commandant Instruction M11011.9B, dated 18 October 1988.

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accomplish program goals requiring capital investment. Such was the case with the Currituck license to OBC.

### **What is the Amount of Excess Revenues Owed the Government to Settle the License?**

On March 4, 2004, OBC provided a final accounting for the license reporting excess revenue of \$187,908 as calculated based on the government's instructions. On September 22, 2004, the Coast Guard determined that the amount of excess revenue owed the government to settle the license was \$328,392. The OIG agreed with the Coast Guard's calculation. The Coast Guard allowed OBC to use \$220,000 of this amount for planned restoration and maintenance work on the Lighthouse in lieu of remittance and has demanded the balance of \$108,392 from OBC. While the OIG found no definitive legal authority permitting OBC to use the \$220,000 for the restoration and maintenance contracts it had cancelled, the OIG deemed allowing this proposed expenditure to be equitable considering the facts and circumstances in this matter.

#### **The Coast Guard Accepted OBC's Final Accounting Report With Exceptions**

The Coast Guard's excess revenue calculation is based on its decision to accept OBC's final accounting for the license, with exceptions. The Coast Guard's analysis identified, and adjusted for, \$162,493 of unallowable professional fees and expenses that OBC reported, raising the calculated amount of excesses revenue to \$350,401. The Coast Guard also identified, and adjusted for, \$22,009 of closeout costs that OBC incurred preparing the final accounting after the period of the license, lowering the calculated amount of excesses revenue to \$328,392.

The Coast Guard's determination also allowed OBC to use \$220,000 for planned maintenance and restoration of the Lighthouse in lieu of remittance. The Coast Guard made this allowance as an equitable adjustment pertaining to two restoration and maintenance contracts that OBC had cancelled at the end of the license. In its final accounting report OBC requested the government recognize the continuing bona fide need for the work to have been performed under the contracts and circumstances of the cancellations and consider these allowances. We reviewed the Coast Guard's proposed allowance and we found no definitive legal authority permitting OBC to use the \$220,000 for the restoration and maintenance contracts that it had cancelled. Nevertheless, allowing this proposed

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expenditure appears equitable considering the facts and circumstances in this matter.

Further, the Coast Guard's acceptance of OBC's final accounting reasonably resolved issues addressed in its July 2003 compliance review report that were raised as concerns in the Committee's request.<sup>8</sup> These issues center on revenue reporting, including admission charges, interest earnings, and revenues resulting from other uses of the Lighthouse, as discussed below.

### **Reporting of Revenues From Admissions Charges**

The Coast Guard accepted OBC's reporting of admission charges. OBC told the Coast Guard in 1990 that it charged both a fee for admission to the Lighthouse of \$1.50 and a fee for admission to the Lightkeepers Reservation of \$1.50. The fees were raised through the years to \$3 and \$3. The two fees were described in OBC correspondence to the Coast Guard. While the charges initially consisted of both a Lighthouse admission fee and a Lightkeepers Reservation fee, OBC began to collect a conservation program donation in later years in lieu of the Lightkeepers Reservation fee after the keepers' house had been rehabilitated. Coast Guard officials said they did not object to this change because it did not affect the lighthouse fee. The Coast Guard had approved the collection, at the lighthouse, of a second admission charge by OBC as part of a cost savings initiative. The Coast Guard does not consider the resulting funds from the second admission fee as miscellaneous receipts or government property.

In its annual financial statements OBC reported the amount of the Lighthouse admission fees collected, but did not report the total amount of admission charges collected or the Lightkeepers' Reservation admission fees or the conservation program donation. OBC's reporting only the Lighthouse admission fee reflected an oral agreement reached with the Coast Guard in 1990. This agreement allowed OBC to consolidate three functions at the base of the lighthouse: collecting admission fees for the Lighthouse; collecting admission fees for the surrounding OBC property, i.e. the Lightkeepers Reservation; and gate keeping. The Coast Guard approved the arrangement since consolidating these activities would reduce salary costs allowing more revenue for restoration. The Coast Guard's July 2003 compliance review of the license acknowledged this agreement. Nevertheless, the

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<sup>8</sup> See Appendix A for the Committee on Government Reform's request letter.



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more than \$1.4 million OBC collected through the conservation donation has been a source of controversy, as reflected in the Committee's request.

### **Reporting of Interest Earnings and Revenues Resulting From Other Uses of the Lighthouse**

The Coast Guard accepted OBC's final accounting for other revenues. The final accounting resolved issues raised in the Coast Guard's July 2003 compliance review, which noted omissions in reporting of other revenues generated by OBC from its use of the Lighthouse. In its annual statements, OBC understated revenues by omitting interest earned on accumulated revenues and not disclosing the other revenues OBC collected by unauthorized uses of the lighthouse, such as wishing well donations and sponsorship solicitations. However, in its final accounting OBC reported \$48,355 in interest earnings and \$10,054 in wishing well donations.

The Coast Guard's July 2003 compliance review also noted that onsite solicitation of sponsorship donations, which offered donors multiple free Lighthouse admissions, appeared to function as a volume discount for admission fees. Therefore, when a donor climbed the Lighthouse as a sponsor without paying an admission fee, the Coast Guard suggested OBC should account for the price of an admission as Lighthouse revenue. The Coast Guard's July 2003 compliance review recommended changes in recordkeeping to capture these transactions. However, lacking sufficient data, OBC was unable to determine the amount of Lighthouse revenue from sponsorship solicitations. As the Coast Guard estimated the amount, over the 13 years of the license, was under \$12,000, it concluded the omission was not a material discrepancy.

### **Reporting of Expenses**

The Coast Guard accepted OBC's final accounting for expenses, with exceptions. The Coast Guard accepted and approved OBC's final accounting for restoration expenses, which were consistent with the results of the Coast Guard's July 2003 compliance review. During the compliance review, the Coast Guard examined the accounting for restoration expenses and found no material discrepancies.

However, the Coast Guard challenged the substantial increase in operating expenses in recent periods during the July 2003 compliance review, upon receipt of the last annual financial statements, and in its review of OBC's final accounting

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report. The Coast Guard found that OBC had included \$162,493 in certain operating expenses, such as professional fees and expenses, which OBC incurred pursuant to its efforts to acquire the lighthouse, but which were unrelated to the license requirements. Therefore, the Coast Guard adjusted its excess revenue calculation, disallowing \$162,493 of \$1,247,133 in operating expenses.

During its compliance review, the Coast Guard conducted limited testing of OBC's accounting for other expenses and found only minor discrepancies. For a judgmentally selected sample, the Coast Guard found OBC generally valued, classified, recorded, and documented the expense transactions correctly. Further, during its review of OBC's final accounting report, the Coast Guard found that the disallowed professional fees and expenses were valued, classified, recorded, and documented correctly. We note that OBC readily disclosed and accounted for professional fees and expenses transactions, including those that were disallowed as license expenses. OIG concluded that the Coast Guard's acceptance of OBC's reporting of expenses, with the noted adjustments for disallowed operating expenses, was reasonable.

### **Did the Coast Guard Provide Appropriate Oversight of the Lighthouse License?**

The Coast Guard appropriately focused its oversight of the Lighthouse and the license on inspecting the physical condition of the tower and working order of the light and performed periodic inspections. However, the Coast Guard was lax in enforcing license provisions requiring annual financial statements to be certified, forgoing the assurance that certification could have provided.

#### **Coast Guard Inspections**

The Coast Guard's primary concern in its inspections and oversight of the Lighthouse was to ensure that its aids-to-navigation mission was accomplished. For example, during the license period, the Coast Guard upgraded the electrical system for the Lighthouse. However, when the Coast Guard did not timely repair windows on the lantern level, OBC made the needed repairs and ensured the results met historical preservation standards. The Coast Guard continues to maintain and operate the lantern providing a reference point for mariners navigating Currituck Sound or the Atlantic Ocean.

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The Coast Guard's inspections of the Lighthouse determined that it was adequately maintained. Structural engineers' assessments conducted in 1989, just prior to the license, and in 2002 show the light tower was sound, and may have improved under OBC's care, as a result of capital investments.

Inspection records also show that the material condition of the Lighthouse varied over the course of the license. For example, when the Coast Guard found that OBC's opening of the Lighthouse to tourists resulted in heavier foot traffic than designed and had unintended adverse consequences placing the integrity of the structure at risk, the Coast Guard and OBC took measures to ensure the safety of the tower and the climbers. In 1992, the Coast Guard's inspections found that:

- OBC was allowing more tourists in the tower than the stairs could safely handle;
- The stress of the shifting foot traffic was adversely affecting the wrought iron stairs and the tower; and
- The tourist climbing operation was a safety risk to the public.

With similar findings in 1993, the Coast Guard instructed OBC to limit the number of tourists in the tower at one time and pressed OBC on conducting structural engineering assessments, which led to OBC's measures to strengthen the staircase supports. Additionally, the Coast Guard directed OBC to more clearly warn the public of the risks, including clear statements on every page of the registry and requiring all persons, regardless of pay status, to sign the registry before climbing.

### **Financial Oversight**

The Coast Guard deemed financial oversight of the out-granted Lighthouses to be a lower priority than oversight of aids-to-navigation mission performance. Inspectors were civil engineers or Aids-to-Navigation Teams, not accountants. Instead, the Coast Guard required annual financial reporting that allowed for monitoring of the Lighthouses' financial management. Additionally, the Coast Guard had included a license provision requiring those annual reports to be certified, which should have provided greater assurance of full and accurate reporting.

However, while the license specifically required the annual statements to be certified, the Coast Guard was lax in enforcing this provision. During the

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license period, OBC did not comply with and the Coast Guard did not enforce this provision. None of the 13 annual statements submitted by OBC's public accounting firm were certified by either the accountant or OBC management. All of the 13 annual submissions from OBC's public accounting firm contained a disclaiming statement that the information in the financial report was given to the accounting firm by OBC and was unaudited. Two of the 13 annual financial reports were unsigned. The Coast Guard accepted the 13 financial statements without challenge and did not question the lack of certification.

However, in July 2003, in response to congressional inquiries, the Coast Guard conducted a review of OBC's financial reporting as part of a limited compliance review. The Coast Guard found that OBC was properly accounting for repair, maintenance, and restoration expenses and admissions revenue, but not other revenues. The Coast Guard's compliance review identified unauthorized and unreported uses of the Lighthouse and resulting revenues, such as wishing well collections and onsite sponsorship donations that appeared to function as a volume discount on lighthouse admissions. The Coast Guard considered revenue generated from these unauthorized operations as inuring to the Coast Guard.

OBC management certified the final accounting report of March 4, 2004, which included interest and revenue from the wishing well. The Coast Guard's determination on OBC's final accounting report accepted OBC's calculation of excess revenues.

## **Conclusion**

The OIG and the Coast Guard found areas of non-compliance by OBC with the terms of the license. Although the Coast Guard did not enforce compliance with the license relative to the certification of annual reports or amend the license to incorporate the oral agreement to consolidate the collection of fees, it concluded that OBC was substantially compliant with the license. The Coast Guard did not find the points of non-compliance material and asserted that the deviations from the letter of the license, while not formally agreed to in advance, were reasonable. Further, after the January 9, 2004, letter to OBC resolved the requirements for the final accounting for the Lighthouse, the Coast Guard accepted much of OBC's ensuing report, made adjustments and allowances for expenses, and determined the amount of excess revenue to be \$328,392. OIG agreed with the Coast Guard's determination.

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We limited our review to the now-terminated Currituck Beach Lighthouse license. Accordingly, we are not making recommendations to the Coast Guard for improving the management and oversight of other lighthouses licensed under this program.

**Management Comments.** The Coast Guard concurred with our findings. The Coast Guard's written response to the report is contained in Appendix D.

TOM DAVIS, VIRGINIA,  
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September 11, 2003

The Honorable Clark Kent Ervin  
Acting Inspector General  
U.S. Department of Homeland Security  
Washington, DC 20593

Dear Mr. Ervin:

An issue as come to my attention that I believe warrants an investigation by your office. For the past 13 years, Outer Banks Conservationists (OBC) has operated the Currituck Lighthouse in North Carolina, under a license from the U.S. Coast Guard. However, evidence suggests that the Coast Guard has never enforced the terms of that license. As a result, money that is owed to the Coast Guard has never been repaid. It is important that your office ensures that all money owed to the Coast Guard is repaid by OBC.

The Coast Guard, using figures it received from OBC, calculates that as of June 30, 2002, OBC had \$175,668 in lighthouse money. That figure may be a bare minimum owed to the Coast Guard due to the oversights and errors in the Coast Guard's accounting detailed below.

1. The federal license allows OBC to charge an admission fee to the lighthouse to cover maintenance, repair and operating costs. It also requires that OBC submit an annual statement to the Coast Guard showing operating revenues and expenses from the lighthouse, and mandates that OBC pay all revenue in excess of expenditures back to the Coast Guard.

The Coast Guard has never enforced this provision. As a result, it has never received the full amount that should have been annually paid back to it.

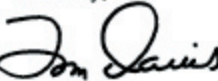
2. At OBC's request, an unknown Coast Guard employee allegedly gave OBC verbal permission to report only half the revenue it took in from the lighthouse (i.e. 50% of the admission fee). However, since paying the fee only allowed visitors the privilege of entering the lighthouse, all revenues from the fee should have been reported and accounted for. *Tax returns show that a sizable share of the nearly \$1.8 million that OBC did not report was spent on non-lighthouse related purposes.*

3. Since 1990, OBC has deposited revenue from the lighthouse into a money market account. However, OBC has never reported, and the Coast Guard has never accounted for, the interest that accrued on this money.
4. The Coast Guard figure does not include revenues OBC has received from the lighthouse since June 30, 2002.

If these factors are taken into account, OBC likely owes U.S. taxpayers considerably more than the Coast Guard's \$175,000 estimate.

In a review of OBC's compliance with the license for the lighthouse, Coast Guard policy personnel recently concluded that OBC had complied with the lease. The Coast Guard's conclusion appears is inconsistent with the facts presented above.

To address this situation, the Inspector General should determine exactly how much money OBC owes the Coast Guard under the license, and then take all necessary measures to collect that money. I would appreciate it if you present your findings to the Committee within 30 days. Should you have any further questions, please contact Drew Crockett at the Government Reform Committee at (202) 225-5074. I look forward to hearing of your progress in this regard.

Sincerely,  
  
Tom Davis  
Chairman

## Appendix B

### Government Letter on Instructions on Final Accounting

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U.S. General Services Administration

January 9, 2004

Mr. John Wilson  
Outer Banks Conservationists, Inc.  
P.O. Box 970  
Manteo, North Carolina 27954

Dear Mr. Wilson:

This letter is in response to a letter of November 12, 2003 from Mr. Laurence B. Maddison, Jr. of Maddison, Caison, & Ogburn, LLP to the National Park Service, the United States Coast Guard, the Department of Homeland Security Office of Inspector General, and the General Services Administration regarding the conduct of a final accounting for the Currituck Beach Lighthouse (the Lighthouse). This letter represents the position of these aforementioned Federal entities, and is intended to clarify the federal government's expectations of OBC's final accounting required to satisfy the terms of its license from the Coast Guard for the use of the Lighthouse and the related deed and escrow provisions.

The deed and escrow documents call for OBC to conduct a final accounting and submit a certified financial statement of such accounting to the United States Coast Guard and the Department of Homeland Security Inspector General. Notwithstanding the cited application of generally accepted government auditing standards in the deed and escrow documents, it is not a requirement, and was not the intent of the federal government, that OBC perform, or have performed, an audit in accordance with generally accepted government auditing standards or the Single Audit Act of 1984. The intent of the federal government is for OBC to conduct a final accounting and submit a financial statement certified by a principal officer, or a public accounting firm, if OBC so desires, reporting Lighthouse revenues and expenses.

The final accounting should include the financial transactions related to the Lighthouse operations conducted during the period of the license from July 1, 1990 through October 17, 2003. At a minimum, the financial statement should report:

- 1) *All revenues* OBC generated from its use of the Lighthouse, including but not limited to one-half of the admission fees; and the federal government's share of wishing well revenues, Lighthouse donations, and interest income, over the course of the license. The final accounting should describe the methodology used to determine the amount of wishing well revenues, Lighthouse donations, and interest income due the federal government.
- 2) *All restoration expenses* OBC incurred during the period of the license to include expenditures incurred for preserving, restoring, maintaining, repairing, and renovating the Lighthouse.

1800 F Street, NW  
Washington, DC 20405-0002  
[www.gsa.gov](http://www.gsa.gov)



Appendix B  
Government Letter on Instructions on Final Accounting

- 3) *All operating expenses* OBC incurred during the period of the license for the purposes of the license, to include expenses for managing the preservation, restoration, maintenance, repair, and renovation of the Lighthouse and expenses for managing and operating the Lighthouse as a public museum and archives.
- 4) The amount of *revenue in excess* of expenses, as determined by subtracting from the *revenues*, as described in subparagraph 1 above, the *restoration expenses*, as described in subparagraph 2 above, and the *operating expenses*, as described in subparagraph 3 above.

A principal officer of OBC, or a public accounting firm if OBC so desires, must certify that the financial statement fairly presents in all material respects the results of operations of the Lighthouse for the period of the license.

Mr. Maddison's letter also asks if the Lighthouse itself should be considered a grant and, if so, who will value the Lighthouse and how should it be valued. In response, the Lighthouse property conveyed by the United States to OBC pursuant to the deed dated October 17, 2003, is not a federal assistance grant, but rather a conveyance of a historic light station made pursuant to the National Historic Lighthouse Preservation Act of 2000. In this regard, it is not the intent of the federal government that OBC place a value on the Lighthouse for the purpose of this final accounting and submission of a certified financial statement.

Furthermore, in light of the delayed government response to Mr. Maddison's letter of November 12, 2003, the due date for OBC's submission of the final accounting is extended to 90 calendar days from the date of this letter.

If you have any questions, please call Mr. Phillip Maulden at the Department of Homeland Security Office of Inspector General on (202)254-4143.

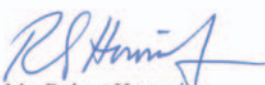
Sincerely,



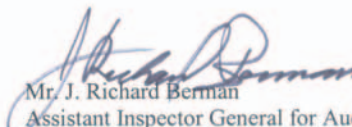
Mr. Samuel J. Morris III  
Associate General Counsel  
General Services Administration



Mr. P. Daniel Smith  
Special Assistant to the Director  
National Park Service



Mr. Robert Horowitz  
Chief Financial Officer  
United States Coast Guard



Mr. J. Richard Berman  
Assistant Inspector General for Audits  
Office of Inspector General  
Department of Homeland Security

cc: Mr. Lawrence B. Maddison, Jr.  
Ms. V. Heather Sibbison, Esquire

## **Purpose, Scope, and Methodology**

On September 11, 2003, the Chairman of the U.S. House of Representatives, Government Reform Committee<sup>9</sup> (Committee) presented evidence that suggested that money owed to the Coast Guard has never been remitted and requested OIG to determine how much money OBC owes the Coast Guard under the license. To accomplish this objective, we determined whether OBC's practice of accumulating and carrying-over revenues was proper and what was the amount of excess revenue owed the government to settle the license. To address the Committee's concerns we also determined whether the Coast Guard provided appropriate oversight of the Lighthouse license. We limited this review to the Currituck Beach Lighthouse license.

We assessed OBC's compliance with the terms of the license. We interviewed OBC and Coast Guard officials. We reviewed license files, compliance review team working papers, and inspection reports obtained from the Coast Guard. We interviewed, held discussions with, and reviewed documents from officials of the General Services Administration, the National Park Service, and the County of Currituck.

We evaluated OBC's practices regarding accumulating and carrying-over revenues. We ascertained OBC's practices, including historical practices on remitting excess revenues, by reviewing Coast Guard's files and interviewing OBC and Coast Guard officials. In evaluating these practices, we applied criteria we developed through research of Coast Guard policies and procedures and federal regulations.

We evaluated OBC's reporting of Lighthouse revenues and expenses, by identifying instructions provided to OBC as shown in the Coast Guard's files and disclosed from discussions with Coast Guard officials and applying criteria we developed through research of license provisions, federal regulations, and Generally Accepted Accounting Principles.

We reviewed and monitored the Coast Guard's determination of the amount of excess revenue owed the government to settle the license. We assessed the reasonableness of the assumptions, risks, and results of the Coast Guard's analysis. We reviewed reports and information provided by OBC. We reviewed the Coast Guard's files and discussed the process and preliminary results of the

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<sup>9</sup> A copy of the letter from the Government Reform Committee is Appendix A of this report.

Coast Guard's review with Coast Guard officials. We identified from Coast Guard documents the amount of excess revenue demanded from OBC.

We evaluated the Coast Guard's oversight of the Lighthouse license by identifying the Coast Guard's practices from reviewing the Coast Guard's files and discussions with Coast Guard officials and applying criteria we developed through research of Coast Guard policies and procedures and federal regulations. We discussed the application of federal regulations with the Office of Management and Budget. We identified circumstances related to administration of historical lighthouse outgrants from discussions with Coast Guard, Department of Interior, and General Services Administration officials and review of Coast Guard, Department of Transportation, Department of Interior, and General Services Administration documents.

Throughout the review, the OIG team worked closely with Coast Guard officials. We greatly appreciate the cooperation and courtesy extended by the Coast Guard, General Services Administration, Department of Interior, OBC, and OBC's accountants during the course of our review. Appendix 5 lists the major OIG contributors. For additional information about the review the principal OIG points of contact are Mr. J. Richard Berman, Assistant Inspector General for Audits, at (202) 254-4100 and Ms. Tamara Faulkner, Congressional Liaison at (202) 254-4100.

Appendix D  
Management Comments

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U.S. Department of  
Homeland Security  
  
United States  
Coast Guard



Commandant  
United States Coast Guard

2100 Second Street, S.W.  
Washington, DC 20593-0001  
Staff Symbol: CG-823  
Phone: (202) 267-2294  
Fax: (202) 267-4850  
Email: mark.kulwicki@uscg.dhs.gov

7501

DEC 7 2004

**MEMORANDUM**

From:  T.W. Allen, ADM  
Chief of Staff, U.S. Coast Guard

Reply to: CG-823  
Attn of: Mark Kulwicki  
202-267-2294

To: Inspector General

Subj: CURRITUCK BEACH LIGHTHOUSE OPERATING LICENSE

Ref: (a) DHSIG Draft Report DHS-05-05

1. This letter transmits our response to the Department of Homeland Security Inspector General report findings and recommendations contained in reference (a).
2. We have reviewed the report and concur with your findings. While the review of the operating license that we have with the Outer Banks Conservationists, Incorporated (OBC) has been quite protracted and of interest to many parties, we believe that both the Coast Guard and Inspector General (IG) reports reflect the business relationships that have taken place. Furthermore, we are confident that both the intent of the national Historic Lighthouse Preservation Act of 2000 and the interest of all parties has been met.
3. We would like to express our thanks for the professionalism, cooperative relationship and open communications maintained by your staff in working with the Coast Guard. If you have any questions, please contact Mark Kulwicki at (202)-267-2294.

#

## **Major Contributors to This Report**

J. Richard Berman, Assistant Inspector General for Audits  
Richard Reback, Counsel to the Inspector General  
Edward M. Stulginsky, Deputy Assistant Inspector General for Audits  
Phillip J. Maulden, Project Manager  
Richard Doery, Attorney

Outer Banks Conservationists, Inc.

**Department of Homeland Security**

Secretary

Deputy Secretary

Chief of Staff

General Counsel

Chief Security Officer

DHS OIG Liaison

United States Coast Guard

**Other Executive Agencies**

U.S. Department of the Interior

General Services Administration

**Office of Management and Budget**

Chief, Homeland Security Branch

DHS OIG Budget Examiner

**Congress**

Committee on Government Reform, U.S. House of Representatives



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