



How to Ensure Quality in Environmental Due Diligence

Quality is a Hot Topic in Environmental Due Diligence. Here's How to Deliver.

Quality environmental due diligence matters

A commitment to quality, especially when it comes to risk management, might seem like a no-brainer. However, sometimes the high stakes and innate pressures of environmental due diligence translates to prioritizing speed. The result can end up being subpar due diligence that costs lenders and environmental professionals extra time and money.

In the 2020 [Environmental Bankers Association Summer Journal](#), an article written by Lizz Barringer Lagomarsino, Principal at Lagomarsino Planning + Management, caught our eye. The recommendations in her article, *The High Cost of Low Quality – Improving the Quality of Environmental Risk Management*, will certainly elevate quality in environmental due diligence if the industry pays attention.

“Lenders need complete, correct, and reliable information to ensure a clear understanding of the environmental risks associated with properties or property transactions,” Lagomarsino says.

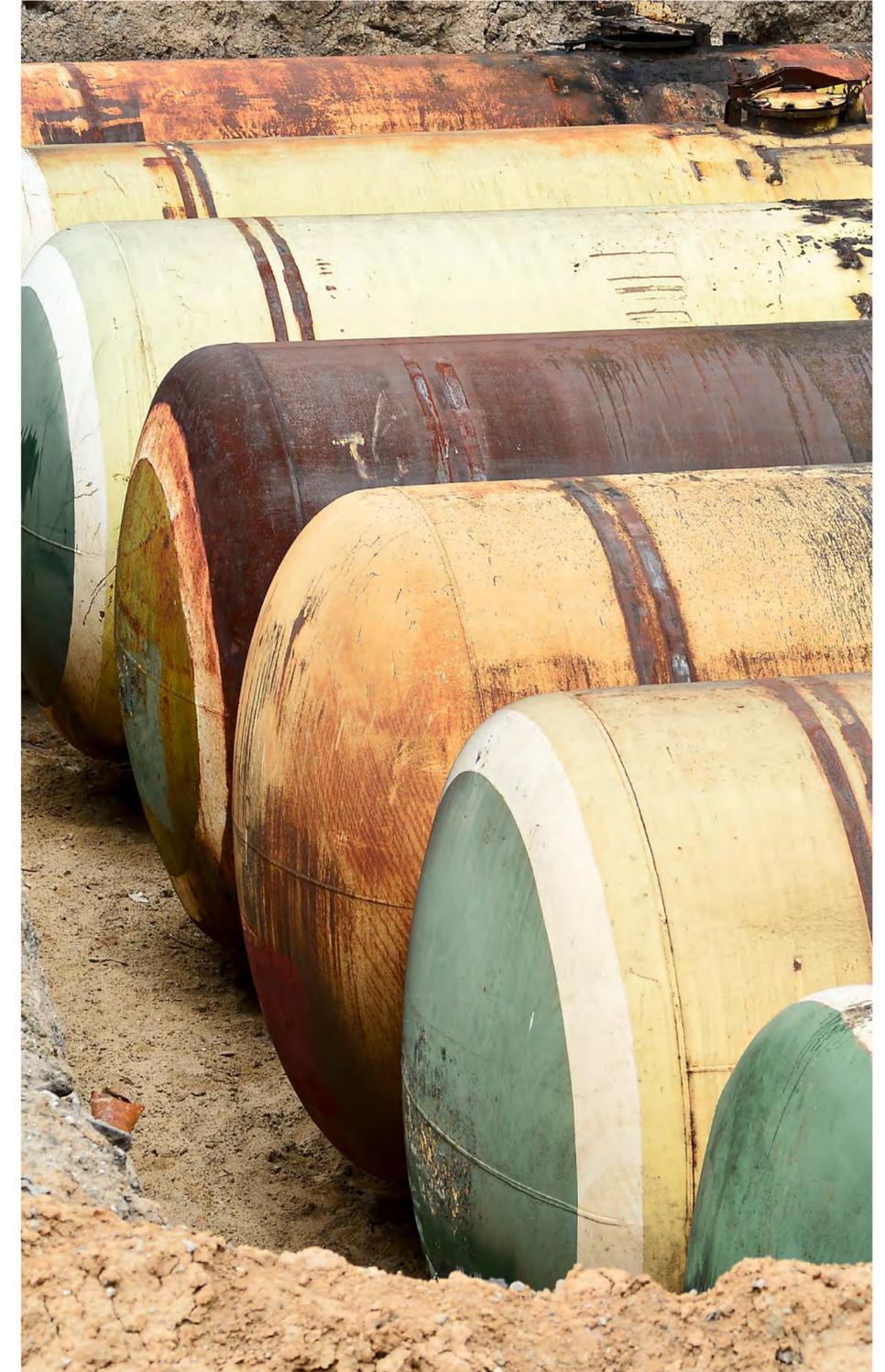
According to Lagomarsino, high quality means that Phase I ESAs must:

- ✓ Perform its intended function (explain environmental risk) without fail
- ✓ Have a high degree of excellence (better than the competitor), with clear and complete information
- ✓ Meet the customer's expectations at a price that is fair to both the customer and producer

Doubling down on the call for a higher standard, the EBA followed Lagomarsino's article with the summary of an informal survey they conducted titled *Quality v. Commoditization in Environmental Due Diligence*. The survey questions asked whether EBA members have experienced barriers to quality, and if so, what the applicable reasons/challenges are. Lagomarsino's article paired with the results of the EBA survey both points toward one thing—barriers to producing and expecting quality work need to be removed to most effectively do the job of environmental risk management.

Lagomarsino explains that many lenders seem to believe that 'good enough' is often acceptable for environmental due diligence, as long as it comes fast and cheap. As a result, there is pressure to produce reports quickly, which ends up sacrificing value. However, as Lagomarsino points out, lenders and EPs need to focus on better due diligence to prevent flawed decision making that can lead to legal liabilities, financial losses, and can also negatively impact human health and the environment.

Mistakes cost money and they end up wasting time having to review and reissue reports. Quality is needed to protect the bank's portfolio from environmental risk, and everyone in environmental risk management should be committed to higher standards.



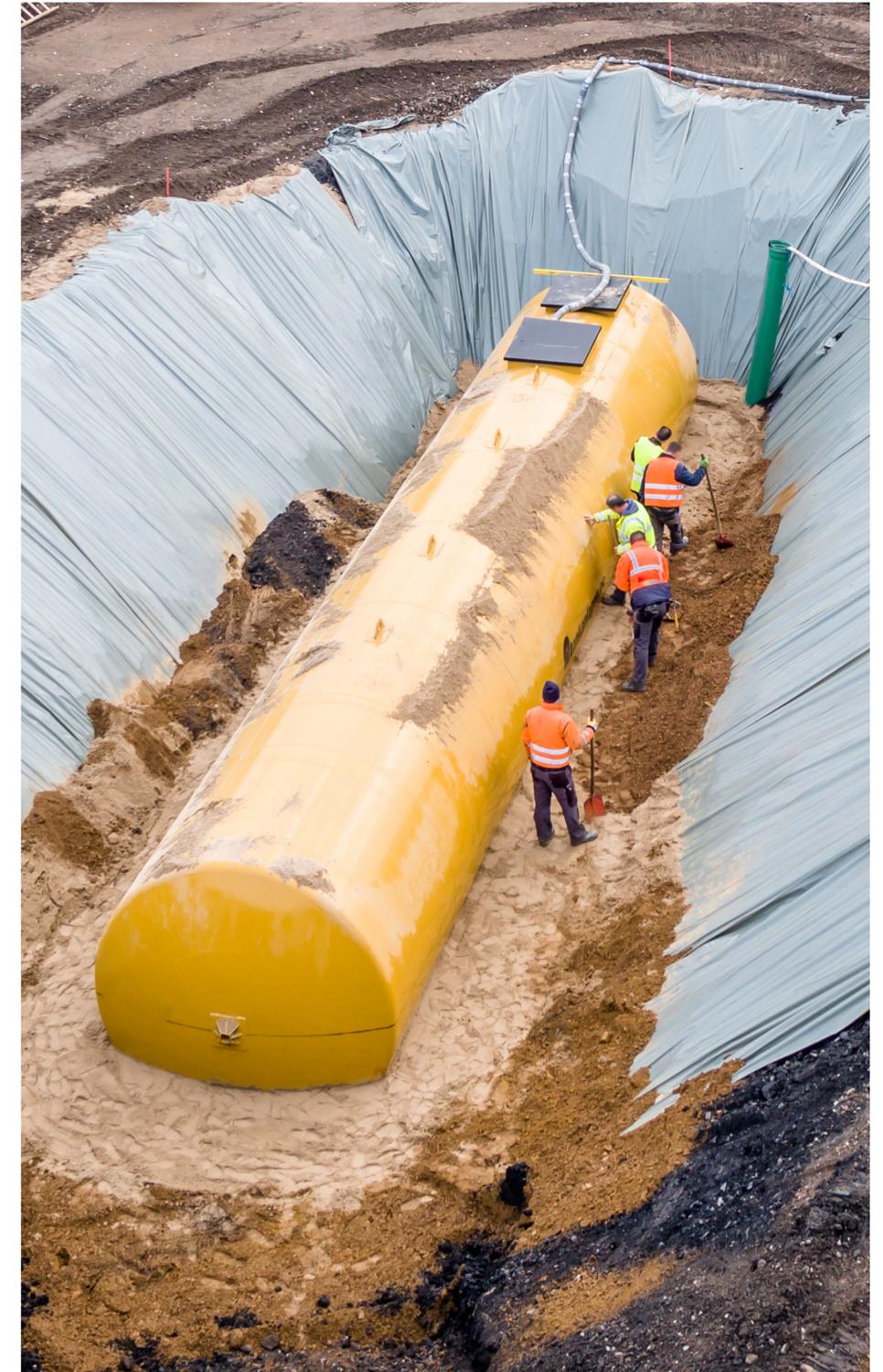
Three ways environmental professionals can overcome barriers to quality

According to the survey, Producers (defined as consultants and affiliate members) identified barriers to quality more than Users (defined as lenders). Achieving quality alongside speed requires several factors, and the top noted solution in the survey was better communication at every step of the process. “The need for better, early communication concerning site history, activities, knowledgeable contacts, and timelines. Investing more time and focus at this crucial step, and having a better information exchange between Producer and User “will pay dividends to the quality of the Phase I report,” Lagomarsino says.

Here are some of the top barriers to quality according to EPs, and what can be done about it:

1. Lacking information on property history and/or activities: Lacking information on property history and/or activities was noted as one of the top barriers for Producers. Based on other results in the survey, it appears that Producers often struggle to gain access to basic property information needed for due diligence. Without easy access to information, Producers may either have to spend extra time digging for information or may have to omit information they do not have access to. Lagomarsino recommends lenders make sure to provide vendors with adequate and comprehensive information to conduct their assessments (e.g., correct address and boundary information, parcel numbers, anticipated buildings, site use, future use, prior reports, and any quirks or potential challenges anticipated).

- 2. Lack of site information from Users:** One barrier noted strongly by Producers was deficient site information, including owner contact information. The survey shows that Producers lay some of the blame on either a lack of access to owners (or a knowledgeable individual with intimate site knowledge) or government records, while Users feel the responsibility lies with the Producer to obtain data via alternative methods. This confirms Lagomarsino’s point about the need for better communication between Producers and Users. Users should seek out ways to be as transparent as possible with Producers, assuring them they have the information needed to correctly perform their jobs. Additionally, Producers should be sure to have the technology and databases required to gather this information quickly and efficiently so that they don’t always have to rely on Users.
- 3. Tight turnaround times:** A common theme running through survey responses was that the pressure to produce reports quickly can often lead to subpar results. One Producer from the survey is quoted as answering: “The default to 2-week turns, makes it difficult to do as thorough DD as we’d like. Someone gets squeezed, whether it’s the field assessor, sr. reviewer or report production staff that send links, upload, or email PDFs. Often, it’s everyone on the consultant side that’s constantly pressed.”The need for a tight turnaround is unlikely to change, and the solution is to improve the workflow. Again, this starts with better communication, and technology that supports efficient workflows.



How to Ensure Quality in Environmental Risk Management

Producers must commit to delivering higher caliber reports, but Users also play an important role if the standards are to change. Lagomarsino's article points to the responsibility lenders have to require quality reporting and to support this with clear communication and by defining specific improvement measures.

“Take the time to track the quality of reports received and communicate with your vendors about expectations,” Lagomarsino says. “Track the most common problems, gaps, and errors in reports and work with vendors to identify solutions. Communicate issues and quality failures to your vendors routinely to keep the process improvement loop open.”

Here are some of the top barriers lenders face in ensuring quality:

✓ **Lacking information on property history and/or activities:** Similar to Producers, lacking information on property history and/or activities were noted in the survey as a leading barrier for Users. Perhaps they feel it is up to Producers to access this information. However, it's clearly a waste of time and resources when Users end up spending time double-checking and having to correct the information or searching for omitted information.

The solution to this problem is a due diligence platform that provides instant access to property information for both Users and Producers, allowing them to instantly verify or fill in gaps of missing information. Also, access to the best available historical property information is critical.

✓ **Full understanding of the consultant's expertise:** Many Users noted not having the experience or training of consultants is a barrier for them. This means Users don't entirely understand what Producers need to deliver better due diligence reporting, and might not know how to solve inefficiencies.

Again, the solution to this comes down to better communication and increased feedback from both sides. Lagomarsino offers these recommendations:

“Annually provide vendors a copy of general policy requirements and scopes of work, and communicate

the most common problems you are having (e.g., lack of file review for projects with specific risk, adjoining property risk concerns, turnaround time issues.). If you keep scorecards on the quality of work, take the time to discuss these with the vendor on a routine basis. If errors or quality failures are routinely accepted or not communicated, improvements cannot be made. If you don't keep scorecards on the quality of work, implement scorecards.”

“Do a senior supervisory review of a percentage of internal environmental risk decisions. Confirm that decisions are consistent with policy and catch errors or inconsistencies in the risk management department before they become systemic. Communicate about these errors and create training around common risk situations (e.g., dry cleaning).”

✓ **Rapid turnaround time for senior reviewers:** Users on the survey said senior reviewers are too rushed to be as thorough as they'd like to be. This indicates that senior reviewers likely need more time to double-check information delivered in due diligence reports, and are often having to rework areas where information is not valid or is incomplete.

✓ **Incomplete information: Missing or purged regulatory records:** Regulatory reporting is essential to ensuring compliance, and Users in the survey find that missing or purged regularly reporting is a barrier to quality in due diligence.

Consistent Quality is Possible with LightBox

When you make the decision to prioritize quality above all other metrics, the next steps are to define what that means specifically for your organization, and then determine how to support those metrics.

Environmental risk management is complex and requires an analysis of a wide range of data and information. EPs also have to be fully up to date on the latest laws, regulations, policies, and practices. Due diligence has to be delivered quickly, but done in a way that protects the bank's portfolio and serves the end-users. High-quality reports using accurate data are needed for informed decision-making.

Environmental consultants and lenders throughout the country rely on LightBox to help streamline the property due diligence process and to ensure quality due diligence. For lenders, our platform allows you to manage all due diligence from one centralized system, including procurement of appraisal, and environmental, commercial evaluations, flood certificates, collateral site inspections, and more.

Our end-to-end platform for environmental consultants that optimizes property due diligence workflows, streamlines the bidding process, makes it easier to collect the best data and provides powerful report writing tools. Combined and connected on the LightBox platform, these powerful applications are helping stakeholders across the CRE cycle make better decisions and do their best work faster.

[Contact us](#) for a free demo and to discuss how LightBox can help ensure the quality of your due diligence reporting.



About LightBox

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