

January 1997

ENVIRONMENTAL CLEANUP

Inadequate Army Oversight of Rocky Mountain Arsenal Shared Costs



**National Security and
International Affairs Division**

B-270287

January 23, 1997

The Honorable Ben Nighthorse Campbell
United States SenateThe Honorable Dan Schaefer
The Honorable John D. Dingell
House of Representatives

As you requested, we examined cleanup costs claimed by Shell Oil Company and shared by Shell and the U.S. Army at Rocky Mountain Arsenal, Colorado. Specifically, we assessed selected aspects of the processes that the Army uses to review cost claims under its settlement agreement with Shell. This report discusses the adequacy of these processes.

Background

The Army's current mission at Rocky Mountain Arsenal is to clean up the contaminated soils, structures, and groundwater there. The arsenal, established in 1942, occupies 17,000 acres northeast of Denver, Colorado, and is contaminated from years of chemical and weapons activities. The Army manufactured chemical weapons, such as napalm bombs and mustard gas, and conventional munitions until the 1960s and destroyed weapons at the arsenal through the 1980s. In addition, it leased a portion of the arsenal to Shell from 1952 to 1987 to produce herbicides and pesticides.

In 1983, the United States sued Shell Oil Company for its share of the cleanup costs. In February 1989, after extended litigation, the Army and Shell signed the Rocky Mountain Arsenal Settlement Agreement and the related Rocky Mountain Arsenal Federal Facility Agreement.¹ The agreements apportion cleanup costs to be paid by each party and costs to be shared by both, direct that environmental legislation be complied with, and provide a procedure for resolving disputes. An additional document, the Army/Shell Rocky Mountain Arsenal Financial Manual, provides an overview of financial, accounting, and auditing policies for costs related to the cleanup. Descriptions of the agreements and cost categories and guidance are contained in appendixes I and II.

¹Other signatories were the Departments of Interior, Justice, and Health and Human Services, and the Environmental Protection Agency.

Shell uses contractors for cleanup activities. Two primary contracts provide for studies and cleanup activities and cover about 86 percent of Shell's shared costs. A third contract provides for public affairs support. Each quarter, Shell provides the Army a claim for its allocable, or shared, costs. After review, the Army generates a quarterly statement, from which the Army determines how much each party owes. Under the agreements, the shared cost to be borne by each party is a percentage of the total shared costs (see table 1).

Table 1: Shared Costs to Be Paid by the Army and Shell Oil Company

Cumulative total of allocable costs (Army and Shell combined)	Percent of total to be paid by Army	Percent of total to be paid by Shell
Up to \$500,000,000	50	50
\$500,000,000 to \$700,000,000	65	35
Over \$700,000,000	80	20

As we previously reported, when the Army negotiated the settlement agreement, it estimated the shared cleanup cost would be less than \$700 million, which would not have breached the demarcation between the 65/35 percent split and the 80/20 percent split.² The Department of Defense (DOD) currently estimates the cost for arsenal cleanup at \$2.1 billion.³

As of December 1995, the Army's quarterly statement showed shared costs of \$656 million. Army officials stated that shared costs reached \$700 million in November 1996, and thus, the Army would begin paying 80 percent of the shared costs. According to Army officials, as of December 1995, the Army had incurred \$308 million in costs not shared by Shell. Shell officials told us Shell's nonallocable costs amounted to \$95 million for studies, cleanup activities, and program management costs, including litigation.

Results in Brief

The process the Army uses to review claims under its cost sharing for cleanup at the arsenal has not been sufficient to ensure that costs claimed by Shell are appropriate. Specifically, the review process does not always ensure that (1) sufficient documentation is available to review claimed

²Environmental Cleanup: Progress in Resolving Long-standing Issues at the Rocky Mountain Arsenal (GAO/NSIAD-96-32, Mar. 29, 1996).

³Defense Environmental Restoration Program Annual Report to Congress, dated May 15, 1996, for fiscal year 1995.

costs and (2) formal agreements exist to define which costs should be shared. The review process generally does not look at the detailed documentation supporting cost claims. Our work showed in most cases further information was available, but in some cases, it was not.

Also, the review process does not have effective checks and balances—such as separation of key duties and responsibilities and independent reviews. For example, staff associated on a daily basis with the shared cost system also conduct the annual assessment of the shared costs. The combination of limited documentation and inadequate controls places the government at the risk of paying for unwarranted charges.

The Army's Process to Control Cost Sharing Has Weaknesses

The Army's process to review cost sharing claims under its settlement agreement with Shell is insufficient to ensure that costs are documented and appropriate. Weaknesses in the process involve (1) documentation to support claims, (2) agreements to define which costs should be shared, (3) separation of duties for recording and reviewing shared costs, and (4) documentation of decisions on the treatment of capital assets and disposition of real estate. Federal standards require that, among other elements, internal control systems provide reasonable assurance that assets are safeguarded and that revenues and expenditures are recorded and accounted for properly.⁴

Insufficient Review of Documentation for Shared Cost Claims

The Arsenal Financial Manual allows costs to be disputed on several grounds. Specifically, costs can be disputed if: the work was not supported by a task plan, the work was not performed or the costs were not incurred, duplicate charges were made, or the costs were arbitrary and capricious in comparison with normal commercial practices. However, the Army's review of the costs to be shared with Shell has been minimal. Our work showed that additional documentation is available in most cases and could have been reviewed by the Army. In some cases, however, more documentation would have been needed to perform detailed reviews.

We examined 153 randomly selected summary vouchers covering \$31 million of Shell's allocable costs incurred from January 1988 to February 1995. As part of this examination, we reviewed documentation that Shell had provided the Army in support of its quarterly cost claim. We also reviewed secondary documentation maintained by the primary

⁴The Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512) requires that agencies' systems must comply with internal control standards prescribed by the Comptroller General. Standards for Internal Controls in the Federal Government were issued in 1983 by us as required by the act.

contractor. Based on these examinations and additional data later provided by Shell, we stated in our draft report that 31 entries for items totaling \$3.1 million lacked the documentation needed for the Army to review the appropriateness of the cost claims. In some cases, the claims were partially documented, and in others, there was no documentation provided.

In commenting on the draft report, Shell stated that in every instance, adequate information was either already in our possession or provided to us in meetings during March and April 1996. Shell further stated that full support was attached to invoices for each of three examples cited in our report. We again met with representatives of Shell and its principal contractor, Morrison Knudsen, in November 1996, but most of the documentation was not yet available and we agreed to examine additional documentation that was provided to us in December 1996. As a result of the most recent data, we revised the examples described below. The difficulty in obtaining documentation for the three examples illustrates our point that the Army needs to have procedures for documentation and the examination of claims.

Taking the additional information into consideration, the following are examples from our sample of selected summary vouchers where insufficient documentation was available to make an adequate review of shared costs.

- For a \$666,035 line item at first described as “other direct costs,” support for only \$30,125 had been provided to us at the time of our draft report. Shell provided detailed support by December 1996 for an additional \$479,015. The detailed support indicated that the costs were for contractor studies and left \$156,895 in need of further documentation.
- \$301,977 for brine disposal by a subcontractor did not have, at the time of our draft report, information on the quantity to be paid for, such as number and size of railroad tank cars. The separate agreements cited in Shell’s comments permitted payments up to a limit, but data on actual amounts were still needed. Such data were provided for \$266,723, but were still lacking for the remaining \$35,254.
- \$187,275 of \$326,566 for operations of an incinerator appeared to be for incentive awards but was not specified sufficiently, such as the number or type, to show the basis for the expenditure. The claim did not actually include awards, and support for \$166,183 was provided in December 1996, although a clear link to invoices was not always shown. The remaining \$21,092 lacked sufficient detail.

Overall, the Army does not have detailed procedures for examining Shell's shared costs. In the absence of such procedures, the Army's examination consists of comparing Shell's monthly costs with the previous month's costs to look for significant variances.

We found that the Army has not fully exercised its authority to review the costs of Shell's contractors and subcontractors. For example, the Army shared about \$48 million in costs that Shell claimed for technical studies, but has not examined the relevant contracts. Army officials said that they operate with Shell in an atmosphere of trust. They also stated that they believe that they have no right to interfere in Shell's relationship with its contractors and that standard government contract controls do not apply to Shell's commercial contracts. Notwithstanding these points, the Army is permitted to review Shell's costs under the arsenal agreements and should do so to ensure that costs being claimed are appropriate.

Lack of Agreement to Authorize Tasks and Costs to Be Shared

The arsenal agreements require that shared costs be supported by an approved task plan or other written agreement. The arsenal's Program Manager's Office and Shell officials have made numerous agreements implementing the guidance in the settlement agreement. However, not all agreements were written, and written agreements sometimes lacked approval signatures, estimates of costs to be incurred, clear descriptions of the tasks to be done, or statements that costs can be shared. Of the 153 summary vouchers we reviewed, 48 lacked specific written support, such as a signed agreement, a statement stipulating that the item was allocable or reimbursable, or authorization for the task. In some cases where signed agreements were lacking, Shell and the Army used their commercial and government practices as a standard in determining reasonableness of costs.

Community relations activities is one area where cost sharing agreements have not been finalized and documentation was limited, thus making it difficult to adequately review claims. A written agreement was drafted and dated June 1990 (retroactive to January 1988), but was never signed. Although the unsigned agreement called for the Army to assume the lead responsibility in this area, Shell retained a contractor to provide public relations support. Shell and Army officials stated that for guidance on community relations activities, they refer to the requirements of the Comprehensive Environmental Response Compensation and Liability Act.

Our random sample included \$481,000 in charges for public affairs activities, and the Army had approved them based on two Shell statements of allocable costs that gave totals for broad categories. Incurred from August 1991 through December 1992, the largest categories were for public affairs activities regarding the successful operation of an incinerator (\$245,047), public education/involvement (\$120,927), and agency support (\$73,864). Each category in the statements included a brief summary but no breakout of amounts for specific activities. Breakouts were often available on request, but detailed expense data were incomplete. For example, Shell provided additional data to us showing that public education/involvement included subcategories such as an arsenal brochure (\$19,066), a Fish and Wildlife Service Spring Event (\$14,480), and Bald Eagle Day (\$15,567). Further, the detailed data for Bald Eagle Day showed \$4,679 for unspecified labor costs; \$4,622 for promotional "eagle pencils;" \$3,026 for advertising; \$1,278 for bus service; and other categories of less than \$1,000 each for such items as photographs, videotape, copying, and box lunches.

We did not review the appropriateness of individual cost claims. However, the above examples further demonstrate that the Army has not ensured it has sufficient information to review shared costs. The arsenal's Director of Public Affairs stated that he would require supporting documentation on such claims in the future.

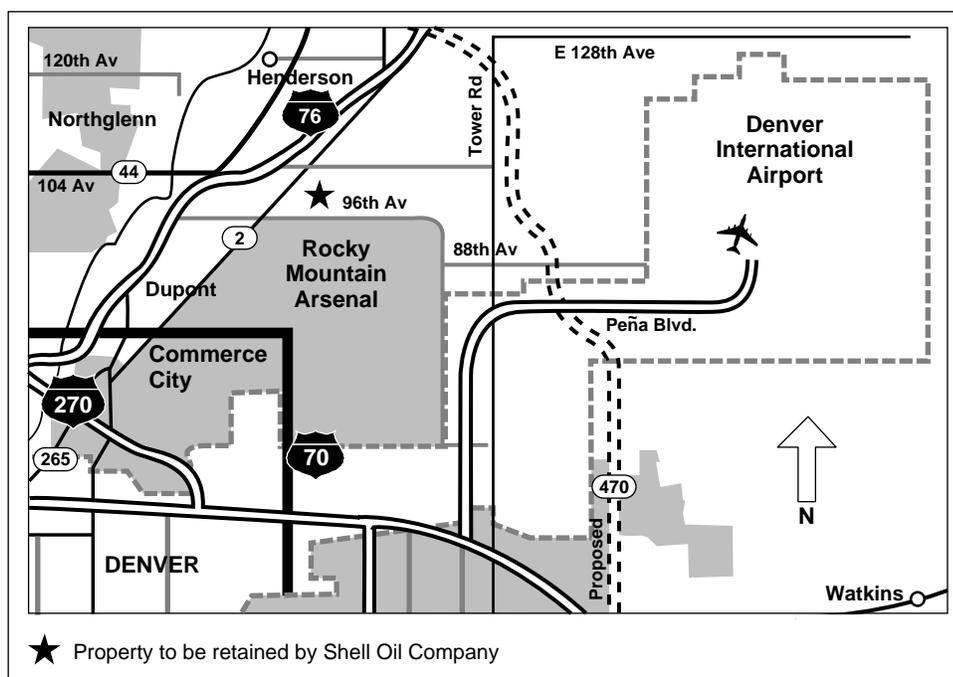
Undocumented Treatment of Capital Assets and Real Estate

Federal standards require that internal control systems provide reasonable assurance that expenditures are documented, recorded, and accounted for properly. We found that the Army has not adequately documented its decisions concerning some capital assets and real estate.

For example, as part of interim response activities, Shell had to vacate an office building it owned and occupied on the arsenal. The Army provided land on the arsenal for Shell to build a replacement building. The Army also reimbursed Shell for the full \$670,000 cost of construction. Several provisions in the arsenal agreements could allow construction to take place on the arsenal. Depending on the circumstances that caused the building to be vacated and a replacement built, the construction might have been an Army-only cost, a Shell-only cost, or a shared cost. In this case, the building was treated as an Army-only cost, but the reasons for this treatment were not documented.

In another instance, the Army did not document the basis for a transaction with Shell. Shell purchased property located just outside the arsenal's north boundary for about \$4 million. The Army needed access to the land to conduct offsite groundwater treatment activities. The groundwater treatment was a shared cost. Shell purchased the land because it was able to do so more quickly than the Army would have been able to, according to Army and Shell officials. For its use of the property, the Army paid Shell about \$2 million through transaction adjustments—half the purchase price. The land is well situated for commercial and industrial development as it is near an interstate highway and the new Denver International Airport (see fig. 1). Shell will retain the land when cleanup is complete.

Figure 1: Rocky Mountain Arsenal and Surrounding Area



Another instance involved capital assets purchased by Shell and charged as an allocable cost. The Army could receive a proportionate credit for such assets as vehicles, office equipment, and furniture, when they are disposed of or sold. However, the identification and disposition of the allocable assets was not documented. In discussing this issue, Army and

Shell officials did not provide detailed documentation, but described the disposition of a large set of assets relating to an incinerator. They stated that the Army had received a credit for items sold and that other items were being stored.

Inadequate Separation of Duties and Independent Reviews

Because the same Army staff members record, review, and audit Shell's allocable costs, the Army does not have adequate control over the shared cost process. Federal internal control standards require that key duties and responsibilities such as recording and reviewing transactions be separated systematically among individuals to protect the government against error, waste, and wrongful acts.

Moreover, the Army and Shell staff who conduct the day-to-day operation of the shared cost system also review the shared costs annually. In 1988 and 1989, the Army Audit Agency reviewed Shell's costs and found numerous problems, including insufficient documentation and costs claimed without a task plan. Although the annual reviews by operating staff continue, there have been no other independent verifications or follow-on audits of Shell's shared costs.

Recommendations

The Army will be paying 80 percent of millions of dollars in shared costs for the cleanup of Rocky Mountain Arsenal. Strengthening its review process for shared cost claims is key to ensuring appropriate sharing of costs. Thus, we recommend that the Secretary of the Army

- establish specific procedures for the examination of Shell's cost claims and documentation, including costs of its contractors and subcontractors;
- establish standard procedures for the approval and documentation of supplementary agreements regarding the allocability of costs and treatment of capital assets and real estate; and
- require that such key duties and responsibilities as recording and reviewing transactions be performed by different individuals.

DOD's and the Shell Oil Company's Comments and Our Evaluation

Both DOD and Shell provided written comments on a draft of this report (see apps. III and IV). DOD concurred with our recommendations regarding procedures for documentation of costs and agreements, but noted that adequate documentation exists for most shared cost claims. In its comments, Shell did not agree that documentation it made available was insufficient to review the appropriateness of the cost claims.

In its comments concerning our two recommendations for procedures to ensure documentation of costs and agreements, DOD stated that most claims were documented. However, we identified cases where documentation for summary vouchers and cost sharing agreements for the tasks involved was lacking. We continue to believe that these conditions represent weaknesses in the Army's review process.

With regard to Shell documentation, we do not recommend action on individual items, but focus on the Army's review process. We agree that Shell provided records, but the amounts did not always support the summary vouchers we examined. We believe that our comments regarding the weaknesses in the review process are correct, but revised our report to reflect the additional information provided by Shell and its contractor. Our initial review raised questions about support for 55 of 153 items. After discussing the 55 with Shell and its contractor and examining additional contractor documents during March and April 1996, we reduced the number of items with questions to the 31 cited in our draft report, including the 3 examples. Following Shell's written comments, we met again in November and December regarding the examples. A substantially greater amount is now supported, but gaps remain in each example, as described in this report.

Finally, DOD partially concurred with our recommendation for separation of duties, stating that it complies with requirements under procedures now in place. We recognize that internal controls are adapted to the risks being faced and the resources available. DOD has attempted to address such control issues by designating one person in a two-person group to be a staff accountant to review data and the other to make sure data are generally complete. We believe controls could be further strengthened by having others—who do not conduct the day-to-day operation—be responsible for the annual review of shared costs. This is a particular issue where only one external review has been made of transactions, and that was just after the settlement agreement was put in place 8 years ago.

Scope and Methodology

We interviewed officials at, and reviewed documentation provided by the arsenal Program Manager; Shell Oil Company, Denver, Colorado, and Houston, Texas; the Defense Contract Audit Agency, Boise, Idaho; Morrison Knudsen and Holme Roberts Owen, Denver, Colorado; and the state of Colorado.

We obtained and reviewed Army and Shell shared cost documentation, but we did not verify the total reported costs. We reviewed 153 randomly selected items from Shell's journal entries for allocable and reimbursable costs incurred from January 1988 to February 1995. We also reviewed all monthly invoices for allocable costs from the Shell contractors Morrison Knudsen and Holme Roberts Owen incurred for the fourth quarter, ending November 1988, through the third quarter 1995. We examined supporting documents provided by Shell and its contractors. We did not review the appropriateness of individual cost claims. Although we examined additional documentation provided by shell and its contractor for 3 examples in our report, we did not pursue additional documentation for the remaining 28 of the 31 sample items cited in the report.

We conducted our review from April 1995 to December 1996 in accordance with generally accepted government auditing standards.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies to appropriate congressional committees. We will also make copies available to others on request.

If you or your staff have any questions concerning this report, please contact me on (202) 512-8412. Major contributors to this report are listed in appendix V.



David R. Warren, Director
Defense Management Issues

Contents

Letter		1
Appendix I		14
Description of	The Rocky Mountain Arsenal Settlement Agreement	14
Agreements Between	The Rocky Mountain Arsenal Federal Facility Agreement	14
the Army and Shell	The Army/Shell Rocky Mountain Arsenal Financial Manual	14
Regarding Rocky		
Mountain Arsenal		
Appendix II		15
Description of Cost	Allocable Costs	15
Categories and	Shell-Only Costs	15
Guidance	Army-Only Costs	15
Appendix III		17
Department of		
Defense Comments		
Appendix IV		20
Shell Oil Company		
Comments		
Appendix V		22
Major Contributors to		
This Report		
Table	Table 1: Shared Costs to Be Paid by the Army and Shell Oil Company	2
Figure	Figure 1: Rocky Mountain Arsenal and Surrounding Area	7
Abbreviations		
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act	
DOD	Department of Defense	

Description of Agreements Between the Army and Shell Regarding Rocky Mountain Arsenal

The Army and Shell formalized their agreements and guidance regarding activities and costs for environmental cleanup at the Rocky Mountain Arsenal in the Rocky Mountain Arsenal Settlement Agreement, the Federal Facility Agreement, and the Financial Manual.

The Rocky Mountain Arsenal Settlement Agreement

The Settlement Agreement establishes a mechanism for apportioning cleanup responsibilities and costs between the Army and Shell. The agreement defines allocable costs and includes lists of Shell-only and Army-only costs. Under this agreement, Shell may hire contractors “subject to the approval of the Army.”

The Rocky Mountain Arsenal Federal Facility Agreement

The Federal Facility Agreement ensures compliance with environmental legislation, including the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) of 1980 (42 U.S.C. 9601), and establishes a procedure that allows the various participants to cooperate in environmental cleanup at the arsenal. It “provides the process for the planning, selection, design, implementation, operation, and maintenance of response actions taken pursuant to CERCLA as the result of the release or threatened release of hazardous substances, pollutants or contaminants at or from the arsenal, including the public participation process.”

The Army/Shell Rocky Mountain Arsenal Financial Manual

The Financial Manual describes the financial, accounting, and auditing procedures to be used for shared costs incurred in connection with arsenal cleanup. It describes primary and secondary documentation for allocable costs and includes examples of some documentation. It provides procedures under which cost-related disputes between the Army and Shell are to be settled, but it does not include procedures for examining and accepting shared costs. The Manual stipulates that the procedures described in it will be conducted in accordance with generally accepted accounting principles consistently applied.

Description of Cost Categories and Guidance

The following material summarizes cost definitions found in the Rocky Mountain Arsenal Settlement Agreement, which provides guidance regarding allocable, reimbursable, Shell-only, and Army-only costs. The Army and Shell supplement this guidance with agreements on the specific tasks to be included in each category.

Allocable Costs

The Settlement Agreement defines allocable costs as

- all response costs, excluding Army-only and Shell-only costs;
- all response costs for activities outside the arsenal boundaries;
- associated costs for involvement of the Environmental Protection Agency, the Agency for Toxic Substances and Disease Registry, and the Department of the Interior;
- all natural resource damage assessment costs; and
- other costs agreed on in writing by the Army and Shell as allocable costs.

Shell-Only Costs

Exhibit D of the Settlement Agreement describes Shell-only costs as those pertaining to the following actions:

- demolition, removal, and disposal of all buildings and structures owned by Shell or its predecessor company (includes a list of the structures);
- demolition, removal, and disposal of all equipment in Shell-owned structures and in buildings leased by Shell immediately before the effective date of the Settlement Agreement;
- assessment activities associated with the two above activities;
- Shell staff at the Central Repository and the Joint Administrative Record and Document Facility;
- Shell activities associated with dispute resolution, judicial review, and the Technical Review Committee; and
- Shell's program management, including labor, materials, supplies, and overhead for Shell's Denver Project Site Team, litigation support, legal fees, and auditing expenses.

Army-Only Costs

Exhibit C of the Settlement Agreement describes Army-only costs as those pertaining to the following actions:

- assessment, demolition, removal, and disposal of all buildings, structures, and equipment not listed as Shell-only in Exhibit D;
- assessment, identification, removal, and disposal of unexploded ordnance;

Appendix II
Description of Cost Categories and
Guidance

-
- assessment, decontamination, removal, treatment, and/or disposal of all soil, excluding soil that includes a Shell compound, in specified areas;
 - Army staff, and all facilities and equipment, for the Central Repository and the Joint Administrative Record and Document Facility;
 - Army activities associated with dispute resolution, judicial review, and the Technical Review Committee;
 - Army program management, including labor, materials, supplies, and overhead for the Army's arsenal Program Manager's Office and its divisions, litigation support, legal fees, and auditing expenses; and
 - other specific miscellaneous actions, such as emergency action responses to a release of pollutants or contaminants.

Department of Defense Comments



OFFICE OF THE UNDER SECRETARY OF DEFENSE

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WASHINGTON DC 20301-3000

18 NOV 1996

Mr. David R. Warren
Director, Defense Management Issues
National Security and International
Affairs Division
U.S. General Accounting Office
Washington DC 20548

Dear Mr. Warren:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "ENVIRONMENTAL CLEANUP: Inadequate Army Oversight of Rocky Mountain Arsenal Shared Costs," dated October 3, 1996 (GAO Code 709127/OSD Case 1177-A).

As indicated in the DoD official oral comments to the draft report, the Department concurs with the GAO recommendations to (1) establish specific procedures for the examination of Shell's cost claims and documentation, including costs of its contractors and subcontractors, (2) establish standard procedures for the approval and documentation of supplementary agreements regarding the allocability of costs and treatment of capital assets and real estate, and (3) require that key duties and responsibilities as recording and reviewing transactions be performed by different individuals. Enclosed is the specific DoD position on each of these recommendations.

Very truly yours,

Sherri W. Goodman
Deputy Under Secretary of Defense
(Environmental Security)

Enclosure

Environmental Security



Defending Our Future

Appendix III
Department of Defense Comments

Draft Response to Draft GAO Report
"Environmental Cleanup: Inadequate Army Oversight
of Rocky Mountain Arsenal Shared Costs"
(GAO Code 709127) OSD Case 1177-A
Dated October 3, 1996

Recommendation 1: The GAO recommended that that Secretary of the Army, establish specific procedures for the examination of Shell's cost claim and documentation, including costs of its contractors and subcontractors.

DoD Response: Concur. Although the Army has adhered to appropriate accounting procedures in reviewing and approving the Shell cost claims, the procedures were not committed to a readily accessible Standing Operating Procedure (SOP) in written format. The Army will develop a written SOP by December 31, 1996. The process used to review and audit Shell's contractor documentation occurs monthly. The documentation provided is as follows:

- a. Summary project cost sheet - delineates overhead rates, labor charges, construction/small tools costs, other direct costs (ODC), and fees by department.
- b. Automated time sheets to support labor costs.
- c. Summary ODC sheet - with supporting documentation including copy of the check written, copy of the invoice received, copy of the accounting data to assign the invoice to a project, copy of the purchase requisition that initiated the invoice. Usually, but not always, there are receiving reports, depending on whether supplies or service are invoiced.
- d. Adjusting entries, if any (as these costs are prepaid to Shell's contractor, this is a reconciliation of costs, usually including a written explanation).

Recommendation 2: The GAO recommended that the Secretary of the Army, establish standard procedures for the approval and documentation of supplementary agreements regarding the allocability of costs and treatment of capital assets and real estate."

DoD Response: Concur. A Cost Allocability standard procedure will be completed by January 31, 1997, and a Capital Assets and Real Estate SOP will be accomplished by February 28, 1997. While adequate documentation currently exists for most shared cost claims a more thorough documentation procedure will further ensure that no future cost claims lack the written information necessary to approve cost allocability and treatment of capital assets and real estate.

Appendix III
Department of Defense Comments

Recommendation 3: The GAO recommended that the Secretary of the Army, require that such key duties and responsibilities as recording and reviewing transactions be performed by different individuals.

DoD Response: Partially concurs. DoD believes it is complying with the recommendation under procedures now in place. Currently the Shell representative submits summary financial data via a Cost Claim to the Army's lead accountant at Rocky Mountain Arsenal. The lead accountant reviews the information for general completeness and forwards to the staff accountant. The staff accountant reviews summary cost sheets, automated time sheets, summary "other direct costs" sheets, and all back-up data (as discussed in Recommendation 1 above) for accuracy, completeness, and relevancy of charges to on-going projects.

Finally discrepancies are resolved with Shell and their contractor. As indicated, a separation of duties already occurs, ensuring adequate checks and balances in the review process. The Army has not considered additional personnel requirements which may be necessary if the process is modified to any extent.

Shell Oil Company Comments

Shell Oil Company



P.O. Box 538
Commerce City, CO 80037

October 29, 1996

Mr. David R. Warren
Director, Defense Management Issues
United States General Accounting Office
Washington, DC 20548

Dear Mr. Warren:

SUBJECT: GAO DRAFT REPORT B-270287

Thank you for the opportunity to comment on the GAO audit report of the United States Army and Shell Oil Company shared expenses at the Rocky Mountain Arsenal before final publication. The following is Shell Oil Company's official response to the report.

Clearly, the cleanup and relationships between the organizations at the Arsenal are complex. In early 1995, Shell welcomed the GAO review of our financial and accounting system. This system was designed by Shell and its contractors to adhere to generally accepted accounting practices while also meeting the requirements of the Arsenal Settlement Agreement and Financial Manual.

Shell voluntarily opened its records to the GAO and notes that the agency has not found any financial improprieties, recommending only certain procedural changes.

The primary issue Shell wishes to address is the assertion by GAO that insufficient documentation was made available by Shell and its contractors to ascertain the adequacy of documentation and the appropriateness of certain costs. Specifically, the report states, "31 entries for items totaling \$3.1 million lacked the documentation needed to review the appropriateness of the cost claim."

In March and April 1996, Shell and its contractor met the GAO several times to respond to questions relating to certain cost documentation issues and to provide additional information requested by the GAO. In every instance, adequate information was either already in the GAO's possession or provided to them. Shell is not aware of a single case where information for which Shell was responsible was not made available. The conclusion that these costs lacked the necessary backup is unfounded in Shell's view and is demonstrated by Shell's response to the three specific examples that are presented in the GAO report:

1. The GAO stated "\$635,910 of \$666,035 was described only as an 'other direct costs' line item; whereas, more detailed support was provided for the remaining \$30,125."

The \$666,035 line item reviewed by the GAO is a year-to-date cost. The supporting detail identified by the GAO pertained only to the current month's expenses of which \$30,125 was

Mr. David R. Warren
October 29, 1996
Page 2

a portion. Detailed information supporting prior months' costs was included in each of the previous monthly invoices.

2. The GAO stated "\$301,977 for brine disposal by a subcontractor did not provide information on the quantity to be paid for, such as number and size of railroad tank cars."

Only \$30,427 of the \$301,977 total was for railroad tank cars. Supporting documentation for railcar leasing was not required to be included with the invoice since these costs were predetermined and approved in a separate agreement as required by the subcontract. Further, the GAO was provided a copy of this approved agreement which detailed the number, size and quantity of cars to be leased. Supporting documentation for the balance of subcontractor costs was included in the invoice.

3. The GAO stated \$187,275 of \$326,566 for operations of an incinerator at the Arsenal was for incentive awards. However, the costs were not specified sufficiently, such as the number or type, to show the basis for the expenditure."

These costs were not for incentive awards, but rather represented the subcontractors' normal operating costs for the month including a reconciliation of advances, and is exclusive of any incentive awards. Full documentation for the \$326,566 is available in supporting documents attached to the invoice.

It is clear from these examples that GAO's conclusion that sufficient information was lacking is based on misunderstanding. Hopefully these explanations will aid the GAO in reconsidering the validity of these determinations. If it would be helpful for Shell and its contractors to sit down with the GAO, we will be glad to do so.

Mr. Benton is on vacation until November 13, 1996. If GAO has any questions please contact Mr. Shelly H. Hillman at 713-241-5529 until Mr. Benton's return.

Sincerely,



W.J. McKinney
Manager, Denver Site Project

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