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UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE
SUITE 300-D, 2420 W. 26TH AVENUE
DENVER, COLORADO 80211

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JAN 1 3 1978

Dr. Wilmot N. Hess, Director
Environmental Research Laboratories
National Oceanic and Atmospheric
Administration
Boulder, Colorado 80302

Dear Dr. Hess:

We recently completed a review of the Bureau of Land Management's outer continental shelf environmental studies program. As you know, a major part of the review dealt with the Alaska outer continental shelf environmental studies program, which is managed by the Environmental Research Laboratories. The results of our review were discussed with you and your staff in both Boulder, Colorado, and Rockville, Maryland, and we anticipate reporting the results to the Congress in the near future.

However, additional issues were identified during the review which were not fully developed, and will not be included in the report to the Congress. They are being brought to your attention so that you can obtain further details and take any necessary corrective action. We will be glad to meet with you or your staff and discuss these issues in greater detail if you desire.

We found, in the Alaska outer continental shelf environmental studies program:

—a lack of control over procurement, use, and retention of equipment,

—a potential conflict of interest in the operation of the Fairbanks Alaska Project Office, and

—a possible unfair competitive advantage by one research contractor.

Each issue is discussed below.

## GREATER CONTROL SHOULD BE EXERCISED OVER PROCUREMENT, USE, AND RETENTION OF EQUIPMENT

The Environmental Research Laboratories (ERL) had minimal control over equipment purchased by researchers who were under Federal contract to obtain environmental information about the Alaska outer continental shelf. Even though the Alaska program was initiated about 4 years ago, there are few records available to substantiate either the quantities or costs of equipment purchased by the researchers. One ERL official estimated that approximately 3,000 to 4,000 items have been purchased at a cost of $2 to $4 million. Without adequate control of the equipment:

- —new equipment may be purchased even though similar equipment is currently owned and not being used,
- —researchers may not have access to existing equipment which would be useful in their research,
- —there is no assurance that equipment paid for with Federal funds was actually received, and
- —there is no assurance that equipment purchased with Federal funds will be returned to the Government either upon termination of a contract, or when no longer needed by a contractor.

OCSEAP is responsible for managing the purchase, use, and retention of the equipment, and the ERL Property Office is responsible for maintaining inventory records. Neither the OCSEAP office in Boulder, Colorado, nor its Project Offices in Juneau and Fairbanks, Alaska, maintain inventories of equipment purchased by the contract researchers. In February 1977, the ERL Property Officer informed us that no inventory records were maintained. In March 1977, subsequent to our inquiry, the ERL Property Office requested all research contractors in the Alaska program to submit a complete inventory of equipment purchased. The ERL Property Office now maintains a manual inventory file for each contractor containing:

- —a listing of proposed equipment purchases, and
- —a listing of reported equipment purchases.

Since the available manual records are retained separately for each contractor, neither listing can be readily used to determine if existing equipment can be shared with other contractors rather than authorizing the purchase of similar equipment.

Also, vouchers submitted by researchers requesting payment for costs of research did not include itemized lists of equipment purchased. For example, vouchers for the period March 1975 to July 1977 for two contracts showed no specific equipment purchases. Yet, inventory lists submitted by the researchers showed that 22 items totaling $41,212 had been purchased during the time period covered by the payment requests.

Requests for payment from another contractor contained a single line item for equipment that totaled about $28,000 while the costs shown on the inventory listing received at the request of the ERL Property Office totaled about $25,000. According to OCSEAP, the difference could be attributed to:

—a number of low cost items not shown on the inventory listing,

—the determination of whether or not purchases are classified as equipment, or

—the determination of whether equipment is classified as expendable or non-expendable.

In October 1977, OCSEAP sent letters to non-government research contractors suggesting that requests for payment include a breakdown of equipment costs by manufacturer, serial number, and model number. Similar letters were not sent to Government contractors. We were informed by the ERL Property Office that a current attempt is being made to develop a computer file of equipment by item, location, and cost. However, at the time of our review, the computer file was not operational and there were no specific plans indicating when it would be operational.

We believe that a basis for proper control of equipment would be established if all contractors were required to itemize their equipment purchases prior to payment, and an inventory system were developed from this information. Additional effort would be necessary to determine the quantity, location, availability, and cost of equipment already purchased.

## POTENTIAL CONFLICT OF INTEREST

A potential conflict of interest exists within OCSEAP's Fairbanks, Alaska Project Office because the Project Office is operated by the University of Alaska, which also conducts much of the environmental research for OCSEAP. As a result, the University of Alaska may be receiving more research funds than it otherwise would, and the University of Alaska research efforts may not receive the desired level of objective scrutiny. As of May 1977 OCSEAP had authorized $11,313,400 for University of Alaska contracts.

The Fairbanks Project Office Manager directly participates in the selection and approval of research, much of which is conducted by the University, and also monitors the research. For example, the fiscal year 1978 Technical Development Plans for the Beaufort and Chukchi Sea areas were written by the Project Office Manager and his staff. The OCSEAP Research Planning Committee, of which the Project Office Manager is a member, then recommended approval of the plans to the OCSEAP executive committee which has final approval authority. The Project Office Manager is also a member of the executive committee.

The Project Office Manager stated that he and another member of his staff monitor the progress of approximately 40 research contracts in the Beaufort and Chukchi Sea areas, many of which are conducted by University of Alaska scientists. Although the Project Office is responsible for monitoring the University of Alaska research efforts in the Beaufort and Chukchi Sea areas with the exception of those conducted by the University's Geophysical Institute, the Project Office Manager stated that, in practice, he and his staff also monitor all OCSEAP research by the Geophysical Institute.

The potential for a conflict of interest exists since the Project Office Manager who is employed by the University of Alaska participates in development, selection, approval, and monitoring of the University of Alaska research efforts. Prudent management practices require a greater separation of responsibilities. The present arrangement, at best, gives the appearance of a lack of adequate control over the University's contracts with OCSEAP, and could lessen the public's confidence in Government.

## POSSIBLE UNFAIR COMPETITIVE ADVANTAGE

The University of Alaska is receiving direct payment for a portion of its overhead costs through funding of a coordination office. This results in an unfair competitive advantage over other potential research organizations because the overhead rate has been reduced.

The University of Alaska contracts with OCSEAP to conduct extensive environmental research in Alaska. The various costs center within the University involved in OCSEAP research include the:

—Institute of Marine Science,

—Arctic Environmental Information and Data Center,

—Department of Biological Science,

—Department of Geology, and

—Geophysical Institute.

On contracts other than with OCSEAP, each cost center charges its own overhead rate. For example, the Geophysical Institute's overhead rate is normally 60 percent and the Institute of Marine Science rate is 90 percent of salary costs. When the separate coordination office was established by the University and directly funded by OCSEAP, the University agreed that all cost centers as well as the coordination office would charge the same fixed rate for overhead of 50 percent to offset the cost of the coordination office.

Since the beginning of the Alaska program, OCSEAP has authorized the following amounts to directly fund the University of Alaska coordination office.

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| Fiscal year 1975 | $319,000 |
| Fiscal year 1976 | 115,400 |
| Fiscal year 1977 | 134,400 |
| Fiscal year 1978 | 135,000 |

If the coordination office is performing functions which would otherwise have been included as overhead in the various cost centers, each cost center has an unfair competitive advantage. They are able to bid on work using an unusually low overhead rate while still receiving the benefits of the separately funded coordination office. We believe the separate funding of the coordination office should be reconsidered because of the competitive advantage it may provide to the University of Alaska.

We would appreciate your comments and information on actions taken on the above matters.

Sincerely,

William D. Martin, Jr.

William D. Martin, Jr.
Regional Manager

cc: Administrator, National Oceanic and Atmospheric Administration
Director, Bureau of Land Management