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Report to the Assistant Secretary of the Army for Financial Management and Comptroller

August 1996

# ENVIRONMENTAL CLEANUP

# Cash Management Practices at Rocky Mountain Arsenal

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National Security and
International Affairs Division

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August 16, 1996

The Honorable Helen T. McCoy
Assistant Secretary of the Army for
Financial Management and Comptroller

Dear Ms. Secretary:

This report discusses cash management practices associated with environmental cleanup costs at the Rocky Mountain Arsenal. The Army and Shell Oil Company share these costs under a formula set forth in a 1989 settlement agreement and the associated financial manual.[1] We noted weaknesses in Army cash management practices permitted by the settlement agreement as we reviewed the cost and schedule of the arsenal's cleanup at the request of the Chairman, Subcommittee on National Security, International Affairs, and Criminal Justice, House Committee on Government Reform and Oversight.[2] This report discusses the frequency of billing, the time permitted for payment, and the method of payment.

## Results in Brief

The settlement agreement between the Army and Shell Oil Company does not provide for timely or efficient collection of what is expected to exceed $500 million in cleanup costs from Shell. When the government does not collect receivables in a timely manner, it loses the opportunity to invest these funds until needed for federal purposes. Since the 1989 settlement agreement with Shell, cash management practices have cost the government more than a million dollars. We noted three weaknesses in the cash management practices followed at the arsenal that contribute to this cost.

First, the Army bills Shell quarterly, rather than monthly, as is usual business practice. This extended billing cycle alone has cost the government about half a million dollars. The settlement agreement calls for quarterly billing. However, Army officials said that it does so only because their accounting systems were not able to process disbursements on a monthly basis at the time the agreement was signed in early 1989.

[1]The arsenal's financial manual, which outlines the financial management practices to be used by Shell and the Army, was incorporated into the settlement agreement.

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

Since late 1989 or early 1990, the Army has had the capability to bill Shell on a monthly basis.

Second, the payment cycle allows 90 days—rather than the 60 days called for in the settlement agreement—to document cost claims, prepare a quarterly statement, and pay the amount due. The 30-day extension has cost the government over half a million dollars since 1989.

Finally, the Army and Shell exchange payments through the mail rather than electronically, which further delays access to the funds. Nine of the 10 checks we reviewed were deposited after the due date, including 1 for about $12 million. The government loses the use of the money in the interim between the payment's due date and deposit—an interval of as long as 10 days. The associated cost from the delayed deposits in these nine cases—which represent about a third of the total number of checks—exceeded $22,000 in lost interest. Although payment by mail is specified by the settlement agreement, the Army and Shell have the capability to set up electronic transactions.

## Background

The Army manufactured chemical weapons and conventional munitions at the Rocky Mountain Arsenal, near Denver, Colorado, from the 1940s into the 1960s. The Army destroyed weapons there into the early 1980s. Shell Oil Company leased a portion of the arsenal from 1952 to 1987 to produce herbicides and pesticides. In July 1987, the Environmental Protection Agency placed the Rocky Mountain Arsenal on its list of the nation's most heavily contaminated sites—the National Priorities List. Under the settlement agreement and the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) of 1980 as amended,[3] the Army and Shell Oil Company are both responsible for the extensive soil and groundwater contamination at the Rocky Mountain Arsenal.

According to the terms of the settlement agreement, Shell's portion of the shared cleanup costs is expected to be about $500 million, and the government's share about $1.6 billion, toward the estimated $2.1 billion cleanup.[4] In essence, the Army and Shell each incurs costs for cleanup activities as they proceed; then quarterly, the two entities reconcile which

[3]CERCLA created the framework for cleaning up the nation's most dangerous hazardous waste sites. CERCLA imposes liability for cleanup on a variety of potentially responsible parties, including facility owners, operators, and others who generated hazardous substances.

[4]The $500 million only includes Shell's portion of shared costs. Shell is also responsible for paying to remove contamination caused solely by Shell.

costs belong to which entity and bill one another accordingly. In most of the quarters since 1989, Shell has owed the Army.

Numerous laws and related federal regulations dictate prompt recording, collection, and deposit of receivables.[5] The objective of these laws and regulations is to improve funds availability and the efficiency and effectiveness with which funds are transferred. Commonly accepted business principles also require efficient cash management practices—based on the same "time value of money" concept.

## Quarterly Rather Than Monthly Billing

Despite commonly accepted management practices that call for timely billing to maximize cost recovery, the Army and Shell exchange bills on a quarterly basis as specified in the settlement agreement. The consequent loss from the delayed recovery has in some cases been considerable; Shell owes the Army, on average, about $4 million per quarter, but has owed as much as $12 million for one quarter.

According to Shell officials, the quarterly cycle represents a compromise negotiated by the parties in 1988/1989. Shell had proposed monthly billing—consistent with its commercial practice, the Army had proposed annual billing, and through negotiation the two parties settled on quarterly billing. According to Army officials, the arsenal's financial manual specifies a quarterly billing cycle because the arsenal did not have the capacity to process disbursement documents on a monthly basis until after the agreement was executed. The financial manual could have been amended to take advantage of this new capacity, but it was not. Currently, the Army is processing bills monthly and retaining them for quarterly submission to Shell.

We estimate that the government has incurred about $500,000 in additional interest costs since 1989 because the Army billed Shell on a quarterly rather than a monthly basis.[6] According to Army officials, a change to monthly billing could be accomplished without any additional costs to the government. According to Shell officials, monthly billing is preferable, and the only cost to Shell would be lost interest on the extended use of those funds.

[5] 31 U.S.C. ch. 33; 31 Code of Federal Regulations Part 206; Department of Defense Financial Management Regulation, vol. 10, ch. 18; and the GAO Policy and Procedures Manual for Guidance of Federal Agencies, title 4, ch. 9.

[6] We calculated the government's lost income opportunity by assuming an average interest rate of 5 percent over the period 1989 to 1996.

## Payment Cycle Allows 30 Extra Days

The Army and Shell are taking 30 days longer than the 60 days allowed by the settlement agreement to exchange quarterly payments. Under the agreement, payments are due 60 days[7] after the end of each quarter in order to give both parties time to document and exchange cost claims, prepare quarterly statements, and remit payments. In practice, however, payments are not made until 90 days after the quarter closes.

The extra 30 days occurs because the 3-month periods used for billing purposes and accounting purposes do not match. According to the financial manual, the quarters are to begin on January 1, April 1, July 1, and October 1. The cost information supporting the quarterly statements, however, comes from an accounting period that is 1 month behind; that is, the quarters for which costs are captured begin on December 1, March 1, June 1, and September 1. Thus, the payment due dates shown on each quarterly billing statement are 90 days after the end of the quarter for which costs have been presented.

We estimate the extra 30 days in each billing period cost the government approximately $500,000 in additional interest costs since 1989.[8] According to Army officials, the 30 extra days are allowed at the front end of the payment cycle to facilitate data collection requirements. In effect, they allow 30 days to elapse before starting the clock on the 60-day process outlined in the financial manual. Shell officials said that billing has always been delayed an additional 30 days to accommodate Shell's accounting system. Shell needed the additional time to close its books and present a cost claim to the Army for incurred cleanup costs.

When asked if they could comply with the 60 days called for in the financial manual, rather than the 90 days currently allowed, Shell officials expressed concern about whether this would allow sufficient time to process the quarterly statement. They agreed, however, that if the quarterly billing cycle were replaced by a monthly cycle, the processing and payment functions could probably be accomplished within the 60 days. According to an Army official, time can be trimmed from the data collection, claims, and billing functions. However, he believes that the Army and Shell would want to revisit the time frames allotted to each function by the financial manual. For example, the parties may want to allow more time for preparation and less for billing.

[7]The financial manual allows 20 business days to prepare the quarterly billing statement and another 30 calendar days for payment; according to Army officials, this works out to be about 60 calendar days.

[8]We used the same method discussed in footnote 6 to calculate the government's lost income opportunity.

According to an Army official, a change from a 90-day payment process to a 60-day payment process could be accomplished without any additional cost to the government. According to Shell officials, the only cost to Shell would be lost interest on the extended use of those funds.

## Payment by Mail Delays Collection

Under the terms of the 1989 settlement agreement, the party that owes more at the end of the quarter is to send the remittance to the other party by mail. Mail remittance has remained the sole payment transfer mechanism for both parties throughout the agreement. However, remitting these payments electronically, rather than by mail, would expedite deposits of Shell's payments to the U.S. Treasury. This is significant because in 25 of the 29 quarters that payments were transferred, Shell has owed money to the Army.

Shell mails its payments from Houston, Texas, to the Army Finance and Accounting Center in Indianapolis, Indiana. According to Army officials, the Army has received all of Shell's payments on or before the due date. However, in the interval between the payment's due date and its processing (i.e., deposit) date, the government is losing the use of the funds. Nine of the 10 checks we examined were deposited after the due date. For these nine checks, the interim between the due date and the processing date ranged from 1 to 10 days.

We could calculate only a portion of the lost interest arising from the interval between the payment due date and the processing date because we were unable to obtain the processing date for 15 of the 25 payments from Shell to the Army. Further, we identified the deposit date for only 10 of the more recent payments—those made between March 1992 and December 1995. These 10 payments ranged from about $1 million to $12 million. The aggregate cost to the government for the nine checks processed after the due date was more than $22,000.[9]

Both Army and Shell officials agreed that electronic payment makes good financial management sense. Among the advantages cited were that electronic funds transfers cost less to use, accelerate the availability of funds to the receiving party, improve internal controls through greater security and reliability, reduce remittance processing time, and lessen paper and postage requirements.

[9]We used the same method discussed in footnote 6 to calculate the government's lost income opportunity.

In fact, Shell Oil Company is already making electronic payments to another federal entity. According to an official of the Department of the Interior's Minerals Management Service, Shell makes some royalty payments by electronic funds transfer. The Minerals Management Service requires that all payers whose aggregate royalty payment obligation totals $10,000 or more must make payment by electronic funds transfer.

To accomplish electronic funds transfers for the Rocky Mountain Arsenal, the Army must approve a "deviation" from standard cash management practices and then work with the Department of the Treasury to set up an account. According to Defense and Treasury officials, the cost and time frame for establishing the electronic process would be minimal.

## Recommendations

We recommend that the Assistant Secretary of the Army (Financial Management & Comptroller) instruct the program manager at Rocky Mountain Arsenal to work with Shell to amend the financial manual accompanying the settlement agreement to achieve the following:

- bill monthly rather than quarterly,
- eliminate the extra 30 days currently allowed for the payment cycle, and
- establish networks to exchange payments by way of electronic funds transfer, rather than by mail.

## Agency Comments

We obtained official oral comments on a draft of this report from the Department of Defense's designated spokesperson in the office of the Deputy Under Secretary of Defense for Environmental Security stating that the Department concurs with the information in the report and intends to implement its three recommendations.

## Scope and Methodology

We reviewed applicable laws, regulations, and documents such as the settlement agreement, the financial manual governing transactions between the Army and Shell, quarterly statements and supporting documentation, and records of Shell's payments. We interviewed officials from the U.S. Army located at the arsenal and at the Army Environmental Center in Aberdeen, Maryland; the Defense Finance and Accounting Service in Washington, D.C., and its centers in Columbus, Ohio, and Indianapolis, Indiana; the U.S. Treasury Department in Washington, D.C.; and Shell Oil Company, both at the arsenal and at the corporate headquarters in Houston, Texas.

We did our work between June 1995 and June 1996 in accordance with generally accepted government auditing standards.

We would appreciate your advising us, within 30 days, of the actions you are taking in response to our recommendations. We are sending copies of this report to the Chairman, Subcommittee on National Security, International Affairs, and Criminal Justice, House Committee on Government Reform and Oversight, and to the Secretary of Defense.

Please contact me at (303) 572-7317 if you or your staff have any questions. Major contributors to this report are listed in appendix I.

Sincerely yours,

Thomas J. Brew
Regional Manager, Denver

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