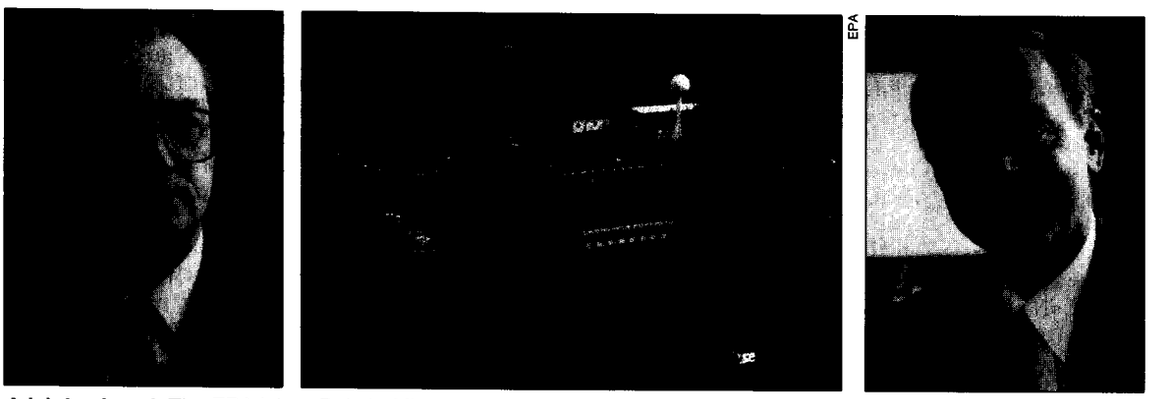
ENVIRONMENTAL RESEARCH

Contracting Practices at EPA Labs Go Under the Microscope

Despite decades of headline-generating revelations of federal agencies caught in overly cozy relationships with their contractors, John C. Martin, the inspector general of the Environmental Protection Agency (EPA), acknowledges that there still exists what he calls a "family" relationship between his agency and the dozens of firms that do more than a billion dollars of work for it each year. Martin should know: Under the scrutiny of watchdog Congressman John Dingell (D–MI), he is running an internal investigation that is teaching EPA officials and contractors just how uncomfortable family ties can be.



A lab besieged. The EPA lab at Duluth, Minnesota, and watchdogs John Martin *(left)* and Christian Holmes.

In March, Dingell launched a series of hearings on EPA contract management to prod the agency to reevaluate its family values. Martin had already begun his internal audit, and Dingell's hot breath has merely stepped up the pace. The process is reaching a climax, with eight of the 12 environmental research laboratories run by EPA's Office of Research and Development now or soon to be under the magnifying glass. And it's not just officials and executives who are feeling the heat. Scores of scientists doing contract work for one of the labs in question, in Duluth, Minnesota, have already lost their jobs, and key research projects, including EPA's reassessment of the health effects of dioxin, have been hampered. And scientists at other laboratories are braced for more.

The current turmoil at the agency can be traced to an especially heavy reliance on outside contractors that began in the early 1980s when the Reagan Administration started to lean on its departments and agencies to contract out as much work as possible. That incentive, combined with the torrent of environmental legislation in recent years, has led the EPA to increase its spending on contracts from $358 million in 1980 to $1.2 billion in 1992.

And where government contracts grow, government watchdogs follow. As early as 1982, Dingell requested a report from the General Accounting Office (GAO) that, when finally issued in 1985, wound up criticizing EPA for failing to monitor contractors' activities adequately. In the years that followed, though, things didn't get any better. "We're finding cases in which red flags were waving, but were ignored," says a Dingell staffer. So last fall, the GAO followed up with another investigation, which concluded that EPA still exerted little control over contractor costs.

Such embarrassments had spurred Martin to build up his own audit staff at EPA's Office of the Inspector General (OIG) over the past 3 years. But the last straw for Martin came in March, when the GAO investigation disclosed that a Superfund cleanup firm had spent contract money on such unallowable indirect costs as alcoholic beverages, tickets to professional sporting events for its clients, and a rent-a-clown for a company picnic. Soon afterward, Martin testified before Dingell's committee that he had begun examining "many of EPA's activities in depth."

Now his scrutiny has fallen on EPA's environmental research laboratories, which rely heavily on outside contractors to perform studies of everything from new cleanup technologies for Superfund sites, such as microbes that eat toxic waste, to scientific issues crucial to environmental policy, such as the effects of dioxin on rainbow trout. And staffers and contract personnel are nervous. After all, the review that was released last month of EPA's laboratory in Duluth, Minnesota, which conducts research in aquatic toxicology and freshwater ecology, slammed the laboratory hard for the way it and its overseers in the agency's Cincinnati Contracts Management Division awarded contracts for toxicological support work to McLean, Virginia-based AScI Corp.

The OIG went on to charge that the relationship of Kaye Jacobs, the wife of Duluth lab director Gilman Veith, with AScI "created the reasonable appearance of a conflict of interest." Jacobs served as an unpaid "registered agent" for AScI before the firm competed for and received an EPA contract in 1989; 2 days later, investigators charge, Jacobs became a salaried, part-time lawyer at AScI. OIG investigators also faulted Cincinnati officials who oversee Duluth contracts for failing to identify the potential conflict of interest.

Cincinnati officials declined to be interviewed for this article. But in a written statement, Veith, who was reassigned to a research position in March, has denied that his actions constituted a conflict of interest, contending that his wife's part-time services were limited to "non-EPA" work. Veith's lawyer says that Jacobs worked on Air Force contracts, and Veith's statement adds that his role in overseeing the AScI contract at the Duluth laboratory "was known to and discussed with agency ethics officials." Indeed, a letter obtained by *Science* indicates that EPA's Office of General Counsel approved Jacobs' employment at AScI.

But after reviewing a draft report of the audit, EPA officials decided not to renew three of AScI's contracts at Duluth, which expired on 30 June, putting 66 AScI scientists out of work. Another 14 analytical chemists under a second AScI contract are scheduled to be laid off in September. The upshot is that "a number of projects will be delayed, slowed down, or terminated," says Richard Hedke, associate director for research at the Duluth laboratory.

The program that will suffer most, Hedke predicts, will be the laboratory's work on dioxin, which is part of EPA's long-running effort to reassess the health effects of dioxin. EPA officials estimate the dioxin reassessment will be delayed by about a year. Also likely to suffer are studies of Great Lakes wetlands, lake sediment, and the relation of fish populations to water temperature and flow. "Reports and manuscripts lie unfinished, experiments in progress have been terminated, samples remain unanalyzed, data have not been evaluated, and Ph.D.-level

scientists are now feeding laboratory fish," wrote ASCI research biologist Joseph Tietge in a statement prepared for a Dingell hearing last month. Meanwhile, says one of the EPA scientists in Duluth, "morale is very low because people aren't able to proceed with their work."

The same may be in store for other EPA labs. Currently the OIG plans to release a report on the lab in Athens, Georgia, around October, and one on the Narragansett, Rhode Island, lab early next year, says Ed Morahan, executive assistant to the inspector general. And OIG investigators are gearing up for audits of the labs in Corvallis, Oregon, Gulf Breeze, Florida, and three labs in Research Triangle Park, North Carolina. Erich W. Bretthauer, an assistant administrator at EPA and chief of EPA research, says he "doesn't have any reason to believe" that the auditors will turn up any problems as serious as the alleged problems at Duluth, but a Dingell staffer isn't so sure. "We're afraid they're going to find more," she says.

Officials at the laboratories being audited are bracing themselves for a rough few months. Even before the auditors render a verdict, the process will result in "abnormally long delays in completing some research projects," predicts Bob Swank, director of research at the Athens laboratory, which conducts research on such things as ecological risk assessment and artificial-intelligence systems for predicting chemical reactivity. "We're all sort of looking over our shoulders," adds John Menzer, director of the Gulf Breeze laboratory, which specializes in ecotoxicology and microbial ecology.

Even before the reports are out, EPA is moving to tighten its contract management. Earlier this month, an EPA task force issued a set of recommendations on how the agency should go about doing this. "We'll be phasing out, scaling down, and canceling contracts to a greater extent than we've done in years," says Christian Holmes, the agency's chief financial officer and an assistant administrator. Already, EPA has canceled one contract with Falls Church, Virginia-based Computer Sciences Corp. and revised another, as a first step toward what Holmes call "changing the basic culture at EPA."

Outside investigators aren't impressed. A GAO official pointed out in testimony before Dingell earlier this month that this isn't the first time that EPA has devised initiatives to deal with its contracting problems, and the agency has "repeatedly failed" to correct them. Holmes insists that EPA is serious this time. But he has a lot of convincing to do. Dingell and other watchdogs are already gearing up to judge whether Holmes and Martin have succeeded in severing—or only temporarily untangling—EPA's family ties with the contracting community.

–Richard Stone

RESEARCH FUNDING

HHS Starts Audit of Grant Fund Use

It's a researcher's nightmare, although it starts innocuously enough. Dr. X gets a grant from the National Institutes of Health (NIH), and although it's less than requested, Dr. X is delighted and begins buying equipment and hiring staff. Then comes an ominous knock on the lab door and in walks an auditor from the Department of Health and Human Services (HHS) who has found out that Dr. X used the grant to buy a refrigerator that the grant's peer-review panel decided wasn't necessary. And so the auditor orders workers to haul away the refrigerator.

True, this scenario sounds farfetched, but a version of it could come to pass pending the outcome of a nationwide survey of institutions receiving NIH grants that is just getting under way. The audit's goal is to see just how often investigators buy equipment peer-review panels say they don't need. A preliminary survey already conducted showed that such spending does occur, and HHS feels justified in going forward with an expanded audit. "We're spending a great deal of money on peer review," says Roy Wainscott, an audit manager for HHS. "If peers are the best people to say how money should be spent, then why should that be ignored and let the money be spent however the investigator wants?"

Nobody argues that there's anything illegal going on here. Wainscott readily admits that shifting funds from one account to another within a grant is perfectly legal, but he wonders if spending money on an unapproved item is in the best interests of the taxpayers. Although no one is prepared to say exactly what will happen if the audit shows the practice is widespread, possible outcomes include requiring extra justification for shifting money within a budget, or changing the rules to make such manipulations illegal.

Even though the practical consequences of the survey are still speculative, the audit is already raising hackles among NIH grant recipients and officials. "Before the Inspector General's office wastes a lot of money, they ought to talk about the attitude of NIH on flexibility," says David Blake, senior associate dean at Johns Hopkins University School of Medicine. His point is that for the past few years, NIH has been pushing to make it easier for institutions to shift money from one account to another inside a grant. For example, NIH participates in the Federal Demonstration Project, a grant administration system begun in the 1980s to reduce the paperwork previously needed to reprogram budgets. John Diggs, deputy director for extramural research, agrees that his agency has been trying to maintain flexibility in the way researchers may spend their awards. "It would be a terrible mistake to take that away," he says.

The audit plan's critics also say that it's based on a misconception about the meaning of peer recommendations in the grant approval process. Peer-review panels—known variously as Initial Review Groups (IRG) in NIH-speak or study sections in the scientific community's vernacular—are supposed to evaluate both the scientific merits of a research proposal and whether the budget requested for the grant is appropriate. More often than not, a panel will recommend a reduction in the direct cost of a grant, often by making specific suggestions of what to cut—such as approving money for two refrigerators when the grant application requests money for three.

But, says microbiologist Ken Roozen, now vice president for university affairs at the University of Alabama, Birmingham, and a former peer-review panel member, what the bean counters miss is that peer reviewers don't always have detailed information about the resources available to a researcher at his or her institution. Hence, says Roozen, their recommendations can't be irrevocable. "The specific allocation of funds has to be done by the principal investigator," says Roozen. "It's not an appropriate role for reviewers." Indeed, agrees Jerome Green, director of NIH's division of research grants. "If the award says 'thou shalt not buy a googolometer,' then the funds cannot be used for that purpose. Otherwise, the money in the award can be reprogrammed."

Defends flexibility. NIH deputy director John Diggs would retain ability to shift funds.

There is an ironic twist in all this. After arguing for years that funding choices should be based only on peer review, and not, for example, on political priorities, scientists now have to explain why they think following peer review recommendations could be taken too far. It will require some careful arguing for the scientific community to avoid being hoist on its own petard.

–Joseph Palca