



**U.S. Department of the Interior  
Office of Inspector General**

## **AUDIT REPORT**

**PROPOSED CONTRACT NO. 8-07-30-L0470  
WITH DYNASIM FOR THE DESIGN,  
INSTALLATION, AND OPERATION OF A  
WATER EDUCATION THEATER  
AT HOOVER DAM,  
BUREAU OF RECLAMATION**

**REPORT NO. 99-I-308  
MARCH 1999**



# United States Department of the Interior

OFFICE OF INSPECTOR GENERAL  
Washington, D.C. 20240

MAR 22 1999

## AUDIT REPORT

### Memorandum

To: Commissioner, Bureau of Reclamation

From: Robert J. Williams *Robert J. Williams*  
Assistant Inspector General for Audits

Subject: Audit Report on Proposed Contract No. 8-07-30-L0470 With DynaSim for the Design, Installation, and Operation of a Water Education Theater at Hoover Dam, Bureau of Reclamation (No. 99-I-308)

## INTRODUCTION

This report presents the results of our review of the Bureau of Reclamation's proposed contract No. 8-07-30-L0470<sup>1</sup> with DynaSim, a limited liability corporation, to design, install, and operate a virtual reality motion simulation attraction as part of a water education theater for the historic exhibit building at Hoover Dam. The proposal was submitted to the Bureau's Lower Colorado Region and came to our attention during our audit (Assignment No. W-IN-BOR-003-98-R) of Bureau-managed concession contracts that was requested by the Bureau. Because the negotiation of the contract was nearing completion and, in our opinion, the contract was not in compliance with the Bureau's policies, directives, and standards for concessions management, we are reporting separately on our evaluation of the proposed contract. Accordingly, the objective of the review was to determine whether the planning and development of the proposed contract was in compliance with applicable Bureau requirements.

## BACKGROUND

The Reclamation Act of 1902 and subsequent statutes authorized the Bureau to construct, operate, and maintain an infrastructure of water storage and development facilities to reclaim arid and semiarid lands for agricultural uses in the West. In 1928, the Congress passed the Boulder Canyon Project Act, which authorized the construction of Hoover Dam on the Colorado River near Las Vegas, Nevada. Construction of the Dam was begun in 1931 and

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<sup>1</sup>The Bureau has termed this proposed contract a special-use permit.

completed in 1935. Since 1937, people have toured the Dam, the power plant, and the historic exhibit building which houses a model of a generating unit and a historic topographical map of the Colorado River Basin. In 1995, a new exhibit building was opened to the public, and the historic exhibit building was closed. The Bureau initiated studies to renovate the historic exhibit building but has not had the funds to complete the renovation. According to Lower Colorado Regional officials, between 1 million to 3 million people visit Hoover Dam each year.

In January 1997, the Bureau received an unsolicited proposal from DynaSim to install a virtual reality motion simulation attraction as part of a water education theater at Hoover Dam. In March 1998, DynaSim and Lower Colorado Regional personnel performed an assessment on various possible locations for a water education theater and concluded that the most suitable and cost-effective location for a theater would be the historic exhibit building. The DynaSim proposal included four major components: (1) relocation of the historic Colorado River Basin model from the historic exhibit building auditorium to a more accessible public location, such as the parking garage; (2) installation of a 20-seat virtual reality motion simulation attraction in the historic exhibit building auditorium; (3) development of other exhibits relating to Hoover Dam history, such as the restoration of a working generator; and (4) renovation of the building's structural, electrical, heating, and air conditioning systems to meet applicable fire and safety codes. In June 1998, DynaSim, without cost estimates, signed the Bureau-drafted proposed Contract No. 8-07-30-L0470 for the design, installation, and operation of the Water Education Theater and returned the contract to the Bureau for final review and signature. As of December 15, 1998, because of changes in contract language and inadequate financial information from DynaSim to Regional personnel, the Bureau had not ratified the proposed contract.

According to Bureau officials, Bureau-managed concessions were not covered by Bureauwide policies and standards prior to 1995. In 1995, the Bureau issued interim guidance for concessions management to its regional offices. On April 3, 1998, the Bureau published final policies (Section LND P02) and directives and standards (Section LND 04-01) in its Manual to assist Bureau officials in the planning and developing concession contracts that meet the needs of the public and protect natural and cultural resources.

## **SCOPE OF AUDIT**

We conducted our audit between August and November 1998. To accomplish our objective, we reviewed files and other documentation and interviewed Lower Colorado Region officials about planning and developing proposed Contract No 8-07-30-LO470. We also reviewed Bureau records and conducted interviews with Bureau officials at the Program Analysis Office in Lakewood, Colorado, and at the Hoover Dam Office.

Our audit was made, as applicable, in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances. Because of the limited scope of this review, we assessed the internal controls

only to the extent necessary to evaluate the actions taken by Bureau personnel in complying with the Bureau's concession policies, directives, and standards in planning and developing proposed Contract No. 8-07-30-LO470.<sup>2</sup> We identified internal control weaknesses related to the planning and development of the proposed contract, which are discussed in the Results of Audit section of this report. Our recommendations, if implemented, should correct the weaknesses identified.

We also reviewed the Departmental Report on Accountability for fiscal year 1997, which included information required by the Federal Managers' Financial Integrity Act, and the Bureau's annual assurance statement for fiscal year 1997 and determined that no material weaknesses directly related to the objective and scope of our audit were reported.

## **PRIOR AUDIT COVERAGE**

During the past 5 years, neither the Office of Inspector General nor the General Accounting Office has issued any reports on the Bureau's proposed contract.

## **RESULTS OF AUDIT**

We found that the Bureau of Reclamation's Lower Colorado Region did not plan and develop the proposed contract for the virtual reality motion simulation attraction at Hoover Dam in compliance with the Bureau's requirements for concessions management. Specifically, Bureau personnel had not (1) demonstrated that a new concession was needed by the public, (2) determined that the concession operation was economically viable, or (3) developed a request for proposal to allow other interested parties to participate in bidding for the new concession. In addition, the proposed contract did not include required standard contract provisions, such as those establishing the operations and maintenance responsibilities of the concessioner and those authorizing unilateral fee increases by the Bureau. Sections LND PO2 (policies) and LND 04-O 1 (directives and standards) of the Bureau Manual provide policies, directives, and standards to ensure that concession contracts meet public needs and protect natural and cultural resources and the Government's financial interests. However, because this guidance was not followed, there was little assurance that the proposed contract was in the best interest of the Federal Government.

Manual Section LND P02, 3.C, states, "Commercial facilities and services will be planned and developed through a resource management planning and public involvement process." According to Bureau officials, this policy was established to ensure that new concession operations meet the needs of the public while protecting the cultural resource. However, Bureau personnel had not adequately demonstrated that the concession operation was needed by the public. Although the Marketing and New Products Manager at Hoover Dam told us that a visitor survey on the proposed Water Education Theater had been conducted, we did

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<sup>2</sup>According to Lower Colorado Regional officials, the Bureau of Reclamation's Unsolicited Proposal Handbook was used to initially review and process DynaSim's proposal.

not find documentation to support that the public was adequately involved in the Bureau's determination. We believe that the Bureau should ensure that a water education theater meets the needs of the visiting public.

Manual Section LND 04-O 1,3.C, states, "An economic feasibility study, including the determination of the economic viability of the concession operation, will be completed." According to Bureau officials, Section LND 04-O 1 (directives and standards) was established to ensure that the concession operation was economically viable. In that regard, an economic feasibility study would establish the financial potential of the concession contract and set the proper franchise fee and length of the contract. However, we found that the Bureau had not completed an economic feasibility study or adequately studied the economic viability of the proposed concession operation.

Manual Section LND P02, 3. E, states, "Reclamation will ensure competition in the awarding of concession contracts." Manual Section LND 04-01, 4. B states that a request for proposal should be issued "to actively solicit and invite offers from interested parties." Bureau officials told us that this policy was adopted to help ensure that new concessions operations provide the highest quality recreational activities to enhance visitor enjoyment. However, we found that Regional Office personnel had not developed a request for proposal which would foster expanded competition. Instead, Regional Office personnel reviewed and processed DynaSim's proposal under the Bureau's Unsolicited Proposal Handbook. The Marketing and New Products Manager at the Hoover Dam told us that a request for proposal was not prepared because of a lack of staffing and financial resources. However, without competition, the Bureau did not have full assurance that the Government's financial and program interests were protected

Manual Section LND 04-O 1,4.D(3), states, "To the extent practicable, standard concessions contract or amendment language will be used to ensure compliance with all applicable laws, rules, executive orders, regulations, and Reclamation Concessions Management Policy." However, we found that the Lower Colorado Region had not incorporated a significant portion of the Bureau's standard concession contract language into proposed Contract No, 8-07-30-L0470 as follows:

- There was no operating plan to identify information such as (1) the physical location, including detailed maps, of the concession's location; (2) the number of employees; (3) the visitor and employee security and fire protection requirements; and (4) the concessioner requirements for preparing financial and management reports.

- There was no maintenance plan. Although Section 19 of the contract addressed maintenance responsibilities in a general manner, it did not provide detailed procedures for maintaining and repairing the historic exhibit building at Hoover Dam and did not cover such activities as ( 1) painting interior and exterior surfaces; (3) maintaining and repairing heating, air conditioning, electrical, and fire protection systems; and (3) inspecting facilities.

- The authority of the Bureau to unilaterally increase the fee and the right of the concessioner to appeal the fee increase by demonstrating that the increase would cause financial harm were not specified. Instead, the contract stated that the fee charged for the use of Hoover Dam's historic exhibit building could be adjusted only upon agreement by both the concessioner and the Bureau. In our opinion, fee increases should be specified before a contract has been finalized. We believe that the Bureau's standard contract language more appropriately protects the interest of the Government and the concessioner.

We concluded that managers at the Lower Colorado Region had not complied with existing policies, directives, and standards and that Bureau officials had not developed detailed procedures to assist employees in implementing the Bureau's current policies, directives, and standards. However, because we are reporting at this time on only the planning and development of this proposed contract, we are deferring a recommendation to develop detailed procedures until we complete our overall review of the Bureau's concessions management activities.

## **Recommendations**

We recommend that the Commissioner, Bureau of Reclamation, require that Lower Colorado Region officials:

1. Suspend negotiations with DynaSim
2. Ensure that all concessions policies (LND P02) and concessions directives and standards (LND 04-01) are complied with in any subsequent actions to acquire a water education theater at Hoover Dam.

## **Bureau of Reclamation Response and Office of Inspector General Reply**

In the February 8, 1999, response (Appendix 1), to the draft report from the Commissioner, Bureau of Reclamation, the Bureau concurred with the two recommendations. Based on the response, we consider the recommendations resolved and implemented.

Since the recommendations are considered resolved and implemented, no further response to this report is required (see Appendix 2).

The legislation, as amended, creating the Office of Inspector General requires semiannual reporting to the Congress on all audit reports issued, the monetary impact of audit findings, actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

We appreciate the assistance of Bureau personnel in the conduct of our audit.



## United States Department of the Interior

BUREAU OF RECLAMATION

Washington, D.C. 20240

IN REPLY REFER TO:

D-5010

FEB - 8 1999

## MEMORANDUM

To: Office of the Inspector General  
Attention: Assistant Inspector General for Audits

From: Eluid L. Martinez  
Commissioner

Subject: Draft Audit Report on "Proposed Contract No. 8-07-30-LD470 With DynaSim For The Design, Installation, And Operation of a Water Education Theater At Hoover Dam, Bureau Of Reclamation," Assignment No. W-IN-BOR-003-98(A)-R

The Bureau of Reclamation (Reclamation) offers the following comments in response to the recommendations in the subject report:

We recommend that the Commissioner, Bureau of Reclamation, require that Lower Colorado Regional officials:

Recommendation 1:

Suspend negotiations with DynaSim.

Response

Concur. By February 28, 1999, the **Lower** Colorado Dams Facilities Office **will**, through official correspondence, terminate negotiations **with** DynaSim as of the date of receipt. The responsible official is the Area Manager, Lower Colorado Dams Facilities Office.

Recommendation 2:

Ensure that all concessions policy (LND P02) and concessions directives and standards (LND 04-01) are complied within any subsequent actions to acquire a Water Education Theater at Hoover Dam.

Response:

Concur. Lower Colorado Dams Facilities officials will follow concessions policy, directives and standards in subsequent actions to acquire additional visitor services at Hoover Dam. The responsible official is the Area Manager, Lower Colorado Dams Facilities Office.

cc: Assistant Secretary - Water and Science, Attention: Carla Burzyk

**STATUS OF AUDIT REPORT RECOMMENDATIONS**

| <u>Finding/Recommendation<br/>Reference</u> | <u>Status</u> | <u>Action Required</u>         |
|---|---------------|--------------------------------|
| 1 and 2                                     | Implemented.  | No further action is required. |

**ILLEGAL OR WASTEFUL ACTIVITIES  
SHOULD BE REPORTED TO  
THE OFFICE OF INSPECTOR GENERAL**

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