



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

JAN 26 1977

The Honorable Robert J. Blackwell
Assistant Secretary for Maritime
Affairs
Department of Commerce

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Dear Mr. Blackwell:

2 During April 1976 we initiated a survey of the Maritime Admin- 279
istration's (MarAd) ship sales program. Our objective was to evaluate
MarAd's effectiveness in disposing of surplus Government vessels.
Included in our survey was an examination of the progress being made
to implement the recommendations contained in a December 1975 Depart-
ment of Commerce Office of Audits report on selected ship sales
activities. To assist us in this effort we reviewed the workpapers
prepared by the internal auditors and then proceeded to update the
status of their recommendations. These recommendations were made after
the internal auditors had reviewed the policies, plans and procedures
being applied under the ship sales program and were aimed at strength-
ening the management and control of the program. Results of this
segment of our survey are discussed in this letter.

Our survey disclosed that MarAd had not adequately implemented the
recommendations made by the Office of Audits. We believe the recommen-
dation concerning on-site vessel appraisals should be formally adopted as
part of the vessel sales procedures and that funds be made available to
implement these procedures. We believe two other recommendations con-
cerning (1) the development of criteria used to determine the lowest
acceptable price, and (2) the establishment of written policies and
procedures for the sale of ships should be further implemented. The
details of these matters are discussed in the following paragraphs.

ON-SITE APPRAISALS SHOULD BE ROUTINELY
USED TO ESTABLISH VESSEL WEIGHT

The internal auditors stated that MarAd did not conduct on-site
vessel appraisals to establish the estimated weight of the vessels being
sold for scrapping or nontransportation use. Since weight is an

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important factor in establishing the fair market value of the vessels, the auditors recommended that on-site appraisals be routinely made. Such appraisals would both strengthen the bid evaluation process and, in certain instances, increase the sales revenue received by the Government.

In response to this recommendation, MarAd retained a vessel appraisal firm, at a cost of about \$250 per vessel, to determine on a test basis the approximate weight of four vessels in the National Defense Reserve Fleet. Three of these appraisals revealed that the approximate vessel weights were greater than those which would have been used by MarAd to establish a lowest acceptable price, a minimum price beneath which MarAd will not sell a vessel. In one of the three cases, MarAd's estimated vessel weight was understated by 598 long tons, or about 10 percent of total vessel tonnage. This discrepancy would have resulted in MarAd offering this vessel for sale with its lowest acceptable price being understated by about 10 percent, and could have resulted in lost revenue to the Government of as much as \$21,000 if the vessel had actually been sold.

The fourth appraisal indicated MarAd's original estimated vessel weight was overstated by 479 long tons. If this vessel had been offered for sale using the overstated estimated weight, the lowest acceptable price, which is computed, in part, by multiplying the estimated vessel weight times domestic scrap prices, would have been priced above what bidders would have been willing to bid. Consequently, the vessel would undoubtedly have been reoffered with a reduced lowest acceptable price in order for MarAd to dispose of the vessel. This would have entailed additional administrative costs for MarAd and for those firms bidding on the vessel.

We believe that the evaluation of bids should be based on the best available estimate of vessel tonnage, especially for those vessels having extensive modifications over their lifetime, such as military conversions. The Government and vessel purchasers both stand to benefit from the establishment of competitive procedures which ensure as accurate and fair bid evaluation criteria as practicable. We believe that on-site appraisals would help to provide such criteria and, in addition, increase ship sales revenue.

The Director, Office of Domestic Shipping (ODS), concurs that such appraisals are beneficial. However, he has taken the position that they should only be performed on a selective basis. In a July 22, 1976, memo to the Director, Office of Budget and Program Analysis, the Director,

ODS requested \$10,000 for appraisals and stated, in part, "Based on the findings of the four previously surveyed ships, it is estimated that the ultimate return to the Government, through higher ship sales receipts, will more than offset the cost incurred." We were informed that because of the nonavailability of funds, the request had not been approved. However, the request has been given a high priority, and if funds do become available, the request will receive serious consideration.

Recommendation to the Assistant Secretary

Prudent and responsible management dictates that the evaluation of bids be based on the best available estimate of vessel tonnage for all vessels sold. Since independent on-site appraisals would provide better estimates of vessel weight, at little additional cost, than the estimates currently used, we recommend that on-site appraisals be formally adopted as part of the vessel sales procedures and that funds be allocated to implement these procedures as soon as practicable. Also, funds for this purpose should be included in future years' budget requests.

NEED TO ESTABLISH LOWEST ACCEPTABLE PRICE IN SALES INVITATION

In the past, GAO has expressed concern over MarAd's high bid rejection rate and, for the purpose of enhancing the integrity of the competitive bidding system, has recommended that MarAd vessel sales invitations should contain the minimum or lowest acceptable price at which ships will be sold. Such a practice, as stated in our decision, 54 Comp. Gen. 830 (1975), 75-1 CPD 204, would make bidders aware of the basis on which their bids would be evaluated and ultimately enhance competition. In the decision cited, we stated that:

"* * * In this way a prospective bidder will know in advance whether submission of a bid at a given price will be more than a useless gesture. At the same time, the strong competition which can be expected will tend to insure bids in excess of the minimum * * *."

The Director, ODS, stated that MarAd was considering a proposal to try this concept on a selective basis. While performing our current survey, we found that between June 9, 1975, and June 8, 1976, MarAd advertised 12 sales invitations for the sale of 79 surplus vessels. None of these invitations included a lowest acceptable price. Moreover, we noted that the Department's internal auditors had, in their December 1975 audit report, commented on the fact that MarAd had only partially developed the criteria to be used in arriving at lowest acceptable price determinations. The auditors recommended that the development of criteria be completed and that it be used to inform potential bidders of the lowest acceptable price approach used by MarAd.

In implementing this audit recommendation, MarAd has identified the factors used in setting the lowest acceptable price and has recently begun to list these factors in its sales invitations. However, MarAd has not developed any written procedures explaining how these factors are used to determine the lowest acceptable price and, as mentioned above, has not included such prices in its sales invitations.

Recently, GAO in a reconsideration of its above mentioned decision stated that since there is no statutory requirement for publishing the lowest acceptable price, and since there are other more basic questions concerning MarAd's procedures for determining this price, it was not appropriate for GAO to insist that MarAd disclose its lowest acceptable prices in sales invitations. The GAO decision further points out that it is unlikely that the pre-bid disclosure of the minimum price acceptable to MarAd would cure the problem, but rather that the heart of the controversy concerns the reasonableness of MarAd's determination of the minimum acceptable price. (Underscoring supplied.)

As indicated above, this report points out that MarAd has not developed any written procedures explaining how its factors are used to determine the lowest acceptable price. We believe accordingly, to enhance the integrity of the competitive bidding system and to promote competition, MarAd should publish the lowest acceptable prices in its sales invitations after first firmly establishing reasonable and adequate procedures for determining minimum prices.

Recommendation to the Assistant Secretary

In the absence of any written procedures it is unclear to us how MarAd ensures that lowest acceptable prices are established on a consistent basis. We believe specific written procedures for determining the lowest acceptable price are necessary for effective management of the program and would greatly reduce bidders' concern as to how such prices are arrived at. We recommend that MarAd develop and issue procedures for determining the lowest acceptable price. Once these procedures are developed and issued, MarAd should include the lowest acceptable price in its sales invitations.

NEED TO FORMALIZE POLICIES AND PROCEDURES PERTAINING TO SHIP SALES ACTIVITIES

The internal auditors, in their December 1975 report, also observed that the Office of Domestic Shipping did not have adequate written guidelines for carrying out ship sales activities. Further, the written policies and procedures which did exist had not been consolidated into a single basic guide and reference document. The internal auditors pointed out that such a document would be desirable, among other reasons, to assure that policies and procedures were uniformly applied and to provide more effective management control over operating activities.

Accordingly, the auditors recommended that MarAd develop and consolidate written policies and procedures for:

- selecting specific vessels to be sold;
- preparing and disseminating invitations for bids;
- receiving, recording and evaluating bids; and
- awarding and monitoring sales contracts.

ODS, in response to this recommendation, developed a manual which contains some of the more basic policies and procedures governing ship sales activities. We have reviewed the manual and, while it is a step in the right direction, we believe that some pertinent policies and procedures, such as the procedures for determining lowest acceptable prices, have not been included. Therefore, we do not believe that the current manual is adequate as a tool for effective management.

Recommendation to the Assistant Secretary

In addition to the benefits identified by the internal auditors, the preparation of formal policies and procedures might assist in reducing the high rate of bidders' complaints and protests that ODS has historically experienced, and consequently, ODS's administrative burden. Accordingly, we recommend that ODS revise the manual to include, in adequate detail, all of the pertinent aspects of the ship sales program. To assist ODS in this effort, we recommend that ODS consult with MarAd's Office of Management and Organization, whose responsibilities include preparing internal management manuals.

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Thank you for the cooperation given our representatives. Please let us know of any action you take on the matters discussed in this report.

Sincerely yours,


John Landicho
Associate Director .