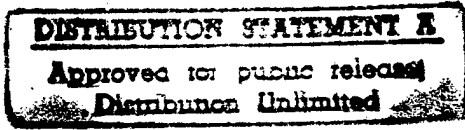


National Security and
International Affairs Division

B-277117

June 3, 1997

The Honorable Norman D. Dicks
House of Representatives



Subject: Navy's Evaluation Process in Ship Donation

Dear Mr. Dicks:

On August 21, 1996, the Secretary of the Navy announced his decision to donate the USS Missouri, a ship of historical significance, to the USS Missouri Memorial Association in Hawaii. At your request, we reviewed the facts surrounding the donation process. Specifically, we obtained information on the (1) process of applying for the ship, (2) evaluation criteria and weighting used to evaluate the applications, and (3) use of the criteria and weighting in the selection process. On May 22, 1997, we briefed you on the results of our work, which is summarized below. Additional details on our results are contained in the enclosed briefing charts.

BACKGROUND

The Secretary of the Navy has legal authority (10 U.S.C. 7306) to transfer title of ships no longer needed for the Navy's purposes to not-for-profit entities and others. However, the law requires that (1) such a donation be made at no cost to the government, (2) the recipient must maintain the ship, and (3) Congress be allowed 60 days to review the Secretary's decision.

The Navy's ship donation process is designed to help the Secretary determine whether those seeking a donation of a ship meet the Navy's minimum requirements for financial and technical capabilities. In the past, with one exception, only one application was received for each of 43 donations and the qualified applicant received the donation. However, for the USS Missouri, the Navy received five applications.

RESULTS IN BRIEF

The Navy began the donation process for the USS Missouri in the same manner as prior donations, by requesting financial and technical information from the applicants and working with applicants to help ensure that their applications

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would satisfy the Navy's financial and technical requirements. Subsequently, the Navy decided that, with respect to the USS Missouri, additional evaluation criteria, "historical significance" and "public affairs benefits to the Navy," were needed to assist the Secretary in making the donation decision among four of five applicants that met the Navy's financial and technical requirements. This was the first time such additional criteria were used in any donation selection process.

While the Navy's donation process appears to have been impartially applied, and all applicants were provided the same information on the additional criteria at the same time, the Navy did not do a good job in communicating its additional requirements to the applicants. Specifically, applicants were not told (1) what the relative importance of the evaluation criteria was in the process (the added criteria actually represented 75 percent of the donation award weight), (2) what the added evaluation criteria meant, or (3) how well already submitted applications met the added criteria (a procedure routinely used in the financial and technical evaluation process). These factors are particularly important because the Navy's evaluation teams were told to base their scoring only on the information contained in the applications. As a result, to varying degrees, the evaluation teams found all applications lacking in information when measured against the added criteria. According to some applicants, had they known that the additional criteria carried so much weight, they would have revised their applications.

As a result of our review, we are preparing a separate report to the Secretary of the Navy recommending changes to the Navy's donation procedures to better handle future situations where there may be multiple applicants.

AGENCY COMMENTS

The Department of Defense reviewed a draft of this report and provided oral comments. It concurred with our report.

SCOPE AND METHODOLOGY

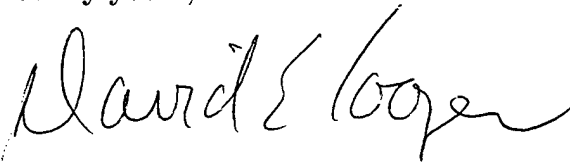
To obtain information for this report, we interviewed officials and reviewed files at the Naval Sea Systems Command, the Naval Historical Center, the Office of Chief of Naval Information, and the Office of the Deputy Assistant Secretary of the Navy for Ship Programs. We also interviewed representatives of four of the top five applicants; the fifth applicant has disbanded.

We conducted our review during April and May 1997 in accordance with generally accepted government auditing standards.

As arranged with your office, we plan no further distribution of this report until 1 day after its issuance. At that time, we will send copies of this report to the Secretary of Defense; the Secretary of the Navy; the Director, Office of Management and Budget; and other interested congressional committees and members. We will also make copies available to others upon request.

Please contact me at (202) 512-4587 if you or your staff have any questions concerning this report. Major contributors to this report were Charles W. Thompson and John P. Ting.

Sincerely yours,

A handwritten signature in cursive script that reads "David E. Cooper". The signature is written in dark ink and is positioned above the typed name and title.

David E. Cooper
Associate Director
Defense Acquisitions Issues

Enclosure

GAO Background

- 10 U.S.C. 7306 confers authority on Secretary of Navy to transfer ships stricken from Naval Vessel Register to, among others, any not-for-profit entity.
 - Statute requires that transfer be made at no cost to the government, transferee maintain ship in conditions satisfactory to Navy, a notice be sent to Congress, and 60 days of continuous session of Congress have expired from notice date.
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GAO Past Ship Donations

- 43 past donations. All but one involved single applicant. Navy procedures require evaluation to determine if an applicant has financial and technical capabilities to move and sustain ship. Navy practice is to work with applicants to attain acceptable applications.
 - 1992:USS Lexington had three applicants. Navy scored and ranked applicants' financial and technical capabilities. Since one applicant was clearly above the rest, no additional criteria used as a tiebreaker.
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GAO Unique Circumstances Surrounding
USS Missouri

- USS Missouri is a ship of historical significance and commands considerable congressional and public interest.
 - Instruments of Japanese surrender signed aboard the ship on September 2, 1945, ending World War II.
 - USS Missouri stricken from Naval Vessel Register in January 1995, but donation status held in abeyance until March 1996 due to conflicting legislative language.
-

GAO Guidance to Applicants

- Navy's initial guidance to applicants directed at meeting minimum financial and technical requirements. These dealt with
 - funding needed to move and support the ship,
 - mooring design to maintain the ship,
 - environmental requirements,
 - towing plan to move ship to its permanent location,
 - continuing maintenance plan outlining how the ship will be maintained in the future, and
 - continuous security plan.
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GAO Five Applications for USS Missouri
(Date of Application in Parenthesis)

- Honolulu, Hawaii
 - USS Missouri Memorial Association (Mar. 1995)
 - Bremerton, Washington
 - Save the Missouri Committee (Oct. 1995)
 - Long Beach, California
 - Battleship Missouri Foundation (Dec. 1995)
 - San Francisco, California
 - USS Missouri Allied Forces Memorial (Oct. 1995)
 - San Francisco Operation Missouri (Mar. 1996)
-

GAO Evaluation Criteria Added

- As applications were received, Navy conducted financial and technical reviews and requested clarification or additional information.
 - With four applicants meeting Navy's financial and technical requirements and given the historical significance of the ship, the Navy concluded there was a need for additional criteria in making an award.
 - In May 1996, the Navy added "historical significance" and "public benefits to the Navy" to evaluation criteria.
 - The Navy also assigned 50-percent weight to public benefits, 25 percent to historical significance, and 25 percent to financial and technical capabilities.
-

GAO Applicants Notified of Added
Evaluation Criteria

- On June 5, 1996, each of the five applicants was notified for the first time that "In addition to the financial and technical information that you have provided..., your application will also be evaluated in terms of its overall public benefit to the Navy and the historical significance associated with each location (to include the manner in which the ship will be used as a naval museum or memorial)." Notification was made in writing (fax), with telephone confirmation.
 - A June 21, 1996, deadline for submitting additional information was provided in the letter.
-

GAO June 5th Notification A Major Source of Discontent Among Applicants

- No applicant told of specific or relative evaluation weightings, meaning of added criteria, or how well previously submitted applications met the added criteria.
 - Two applicants said that had they known that the historical and public benefits criteria carried 75 percent of the weight, they would have devoted much more attention to them in their applications.
 - They also stated they had to guess the meaning of the term "public benefits to the Navy". One took it to mean "benefits to the Navy personnel". The other took it to mean "benefits to US. citizens". As it turned out, the Navy was looking for "benefits to Navy as an institution".
-

GAO No Clarification Was Requested

- None of the applicants requested clarification of the June 5 letter or expressed concern about the additional requirements at the time. All responded to the letter.
 - According to two applicants, the brevity of the notification to them of the additional criteria, as well as the short time frame to respond relative to the more extensive and protracted previous discussions on the financial/technical criteria, gave them the mistaken impression that the financial/technical criteria carried the most weight and that these additional requirements were not that significant.
-

GAO Navy Conducts Evaluation

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- In June/July 1996, Navy evaluation teams scored and ranked applications based on (1) financial and technical capabilities, (2) historical significance, and (3) public benefits to the Navy.
 - Navy review group and higher level management essentially accepted evaluation teams' results.
 - Aug 21, 1996, the Secretary of Navy announced Hawaii as winner.
-

GAO Three Evaluation Teams To Review Applications

- Public Affairs Benefits: Performed by the Naval Office of Information
 - Historical Significance: Performed by the Naval Historical Center
 - Financial and Technical: Performed by Naval Sea Systems Command
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GAO Comments on Evaluation

- The Navy's evaluation teams for historical significance and public affairs benefit had difficulty applying the criteria to the applications.
 - According to the historical evaluation team, "None of the applications were very strong on the historical or curatorial aspects of the donation... ." The evaluator recommended "...if possible, that each group be requested to provide more details on this matter."
 - This team also commented that "no presentation includes any historical site discussion; all simply make brief reference(s) to history." Historical site discussion carried the most weight among the historical significance criteria. All applications received "low" evaluation results.
 - The Navy's Information Office told us it could not evaluate applications based on the initially established public affairs benefits subcriteria. As a result, the team revised the evaluation subcriteria to better fit the applications.
-

GAO Overall Evaluation Results (Highest Score Given Full Percentage Weight)

	Public affairs (50%)	Historical significance (25%)	Financial/ technical (25%)	Total
Pearl Harbor	.50	.25	.25	1.0
Bremerton	.39	.23 ^a	.25	.87^a
San Francisco	.41	.12	.20	.73
Long Beach	.37	.11	.17	.65

a The Navy made a mathematical error. The correct score should be .24 and the total .88.

GAO Public Affairs Scores (Highest Possible Points: 10)

Subcriteria (Weight)	Pearl Harbor	Bremerton	San Francisco	Long Beach
Message (0.5)	10	8	7	6
Guest Projections (0.3)	10	7	8	6
Demographics (0.2)	6	5	8	10

GAO Public Affairs--Weighted Scores (Raw Score Times Weight)

	Pearl Harbor	Bremerton	San Francisco	Long Beach
Message	5	4	3.5	3
Guest projections	3	2.1	2.4	1.8
Demographics	1.2	1	1.6	2
Total	9.2	7.1	7.5	6.8
Weighted score^a	.50	.39	.41	.37

a Highest score given full weight; remainder given proportionate weight.

GAO Historical Significance Scores (Highest Possible Points: 10)

Subcriteria (Weight)	Pearl Harbor	Bremerton	San Francisco	Long Beach
Association of ship with site (0.2)	2	9	2	4
Relationship of site With Navy (0.5)	3	1	1	1
Museum aspects (0.3)	10	8	5	3

GAO Historical Significance--Weighted
Scores (Raw Scores Times Weight)

	Pearl Harbor	Bremerton	San Francisco	Long Beach
Association of ship with site	0.4	1.8	0.4	0.8
Relationship of site with Navy	1.5	0.5	0.5	0.5
Museum aspects	3.0	2.4	1.5	0.9
Total	5.1 ^a	4.7	2.4	2.2
Weighted score^c	.25	.23^b	.12	.11

a The Navy made an addition error. The total should be 4.9.

b As a result of the addition error, the weighted score should be .24.

c Highest score given full weight; remainder given proportionate weight.

GAO Financial/Technical Scores (Highest Possible Points: 10)

Subcriteria (Weight)	Pearl Harbor	Bremerton	San Francisco	Long Beach
Acquisition costs	10	10	5	7
Sources of income	9	10	8	6
Operating/support costs	10	9	8	8
Cash flow analysis	6	5	5	5
Average Financial (.50)	8.75	8.5	6.5	6.5
Towing plan acceptability	Yes	Yes	Yes	Yes
Mooring plan	9	9	8	5
Ship maintenance plan	9	9	7	6
Environmental	8	9	8	5
Average Technical (.50)	8.67	9	7.67	5.33
Total weighted score (avg fin+avg tech)/2	8.7	8.8	7.0	5.9

GAO Recap of Key Events

- January 1995: USS Missouri stricken from the Naval Vessel Register.
 - March 1995 to March 1996: Five applications received requesting donation of ship. Applications focused on meeting Navy financial and technical requirements.
 - February 1996 to May 1996: Navy developed evaluation methodology and weighting scheme and adds historical significance and public benefits to Navy as criteria. SECNAV approved evaluation methodology and criteria on May 3, 1996.
 - March 1996 to May 1996: Navy conducted preliminary financial and technical reviews and forwarded questions to applicants for clarification or additional information.
 - June 3, 1996: Navy completed financial and technical assessment. Four of the five applicants met minimum requirements to advance to phase II scoring and ranking.
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GAO Recap of Key Events

- June 5, 1996: Navy notified applicants by letter of added criteria and asked for additional information by June 21.
 - June 14-21, 1996: Applicants responded to June 5 request.
 - June-July 1996: NAVSEA scored applications on financial/technical requirements, Naval Historical Center scored applications on historical significance, and Naval Office of Information scored applications on public benefits to Navy.
 - July 18-30, 1996: Evaluation teams briefed results to Navy review panel, and ASN(RDA). All essentially concurred with teams' results.
 - August 1, 1996: SECNAV briefed on evaluation results.
 - August 21, 1996: SECNAV announced Hawaii as winner.
 - September 1996: Navy debriefed applicants on results and weighting scheme.
-

GAO Conclusion

- The Navy's ship donation process is designed to provide the Secretary of the Navy with applicants that satisfies the Navy's requirements for financial and technical capabilities. In the past, with one exception, only one application was received for each of 43 donations, and the qualified applicant received the donation.
 - The Navy began the donation process for the USS Missouri in the same manner as prior donations, requesting financial and technical information from the applicants and working with them to make their applications satisfy the Navy's financial and technical requirements. Subsequently, the Navy decided that, with respect to the USS Missouri, additional criteria were needed to assist the Secretary in making the donation decision among four of five applicants that met the Navy's financial and technical requirements.
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GAO Conclusion

- While the Navy's donation process appears to have been impartially applied, the Navy did not do a good job in communicating its additional requirements to the applicants. Specifically, applicants were not told (1) what the relative importance of the evaluation criteria was in the process (the added criteria represented 75 percent of the donation award weight), (2) what the added evaluation criteria meant, and (3) how well already submitted applications met the added criteria (a procedure routinely used in the financial and technical evaluation process). Communication is particularly important because the Navy's evaluation teams were told to base their scoring only on the information contained in the applications.
 - As a result, Navy evaluation teams found the applications lacking in information when measured against the added criteria. According to some applicants, had they known that the additional criteria carried so much weight, they would have improved their applications
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