United States General Accounting Office

GAO

Report to Secretary of Navy

August 1997

NAVAL SHIP DONATION

Existing Procedures Inadequate for the Use of Additional Evaluation Criteria

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GAO

United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

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August 15, 1997

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The Honorable John F. Dalton
The Secretary of the Navy

Dear Mr. Secretary:

On August 21, 1996, you announced your decision to donate the USS Missouri, a ship of historical significance, to the USS Missouri Memorial Association in Hawaii. At the request of Congressman Norman Dicks, 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 June 3, 1997, we reported our results to Congressman Dicks.[1] The purpose of this letter is to quickly summarize our findings and to recommend ways to improve the process for any future ship donation.

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 maintain the ship, and (3) Congress be allowed 60 days to review the Secretary's decision.

The Navy's ship donation evaluation process is designed to help the Secretary of the Navy determine whether those seeking a donation of a ship meet the Navy's requirements for financial and technical capabilities. The overall purpose of the ship donation program is to promote the public interest in the defense of the nation and to commemorate historic deeds performed by naval ships. In the past, with one exception, only 1 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 would satisfy the Navy's financial and technical requirements. Subsequently, the Navy decided that, with respect

[1]USS Missouri: Navy's Evaluation Process in Ship Donation (GAO/NSIAD-97-171R, June 3, 1997).

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to the USS Missouri, additional evaluation criteria, "historical significance" and "public affairs benefits to the Navy," were needed to assist the Secretary of the Navy 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 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 were 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 that the applications had limited information that could be applied 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. What appears to have been an otherwise open process with clear communications and frequent interaction between the Navy and the applicants for the USS Missouri was not with respect to the additional two criteria .

The Secretary of Navy, by statute, has broad discretion in making ship donation decisions. The Navy's existing donation application procedures are designed for assessing applicants in terms of their financial and technical capabilities to move and sustain a vessel. When additional criteria beyond financial and technical requirements are used and applicants are asked to submit information to address them, as was the case with the USS Missouri, existing application procedures do not provide guidance on how the Navy should proceed. We believe that, had there been written procedures that required the Navy to communicate to the applicants the meaning and relative importance of the additional criteria and to work with applicants to address the additional criteria, the problems encountered in the USS Missouri case could have been avoided.

Recommendation

In the future, the Navy may again face situations where there are multiple applicants for a ship donation and may decide that additional criteria beyond the traditional financial and technical evaluation are necessary. Therefore, we recommend that the Secretary of the Navy establish written procedures to require that, whenever the Navy decides to ask applicants to submit information to address additional criteria, the Navy (1) communicate to applicants, at the earliest possible date, necessary information that, at a minimum, includes the criteria that will be used to evaluate the applications, the relative importance of the criteria in the final selection, and clear definitions of what the criteria mean and (2) work with applicants to increase the likelihood that applications will adequately address the additional criteria, as has been the Navy's practice in the financial and technical areas.

Agency Comments and Our Evaluation

In commenting on a draft of this report, the Navy took the position that there was already in place a process that maximizes both communication and flexibility. The Navy also stated that (1) it was important that the Navy have the flexibility to select the best approach for each donation and (2) whenever more than one application is received for the same ship, the Navy makes every effort to conduct an impartial and fair analysis of each application. The Navy also commented that a ship donation decision is not a procurement competition but felt that we were recommending procedures similar to those used for competitive procurements.

Our review of the process used for the USS Missouri indicated that the Navy (1) did not explain the meaning of the added criteria and their relative importance and (2) used two different approaches—the Navy appeared to have used an open approach with clear communications and frequent interactions with the applicants for the traditional financial and technical capability criteria, but did not use a similar approach for the two added criteria.

We are not recommending that ship donations be treated like competitive procurements. The intent of our recommendation is that the Navy commit itself, in its written procedures, to (1) explaining the meaning and relative importance of any added criteria for which it is requesting information from the applicants and (2) following the same approach for any added criteria that it uses for the traditional financial and technical capability criteria by working with the applicants to help ensure that their applications provide the level of details and specificity the Navy feels it needs. In an effort to ensure that readers of our final report will not

misconstrue our intent, we have modified the language but not the thrust of our recommendation.

The Navy's comments are reprinted in appendix I. The Navy also provided a technical suggestion which we have incorporated in the background section of this report.

Scope and Methodology

This report is based on information gathered for our June 3, 1997, report on the USS Missouri. To obtain information for that 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.

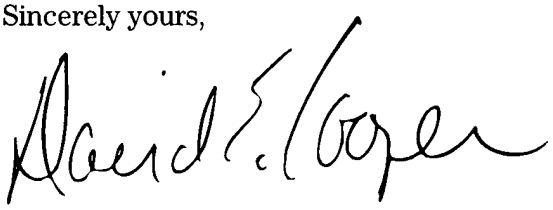
We conducted our review during April and May 1997 in accordance with generally accepted government auditing standards.

This report contains recommendations to you. The head of a federal agency is required under 31 U.S.C. 720 to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Reform and Oversight no later than 60 days after the date of the report. A written statement must also be submitted to the Senate and House Committees on Appropriations with an agency's first request for appropriations made more than 60 days after the date of this report.

We are sending copies of this report to appropriate congressional committees; the Secretary of Defense; and the Director, Office of Management and Budget. 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,



David E. Cooper
Associate Director, Defense Acquisitions Issues

Comments From the Department of the Navy

DEPARTMENT OF THE NAVY
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JUL 18 1997

Mr. Louis J. Rodrigues
Director, Defense Acquisitions Issues
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Rodrigues,

The Navy has reviewed the General Accounting Office (GAO) draft report, "SHIP DONATION PROGRAM: Navy's Evaluation Process in Ship Donation," dated June 11, 1997 (GAO Code 707267), OSD Case 1384. The Navy partially concurs with the draft report.

In its recommendations, the GAO suggests that the Navy develop procedures for the ship donation program similar to procedures used for competitive procurements to increase each applicant's opportunity to submit as complete an application as possible for the Navy's evaluation. It is the Navy position, however, that there is already in place a process that maximizes both communication and flexibility.

By statute, the Secretary of the Navy has discretion in making ship donation decisions. It is important that the Navy have the flexibility to select the best approach for each donation. Whenever more than one application is received for the same ship, the Navy makes every effort to conduct an impartial and fair analysis of each application.

The detailed Navy comments in response to the GAO recommendations are provided in the enclosure. The Navy appreciates the opportunity to comment on the GAO draft report.

Sincerely,

M. P. Sullivan
RADM, SC, USN
Principal Deputy

Attachment

GAO DRAFT REPORT DATED JUNE 11, 1997
(GAO CODE 707267) OSD CASE 1384

"SHIP DONATION PROGRAM: NAVY'S EVALUATION PROCESS IN SHIP DONATION"

NAVY COMMENTS TO
THE GAO DRAFT REPORT RECOMMENDATIONS

RECOMMENDATIONS: To provide applicants with the opportunity to submit as complete an application as possible and to provide the Navy's evaluation teams with the information they need to properly evaluate multiple applications against established criteria, the GAO recommended that the Secretary of the Navy establish procedures in two areas. First, the GAO recommended procedures to provide for communicating to applicants, at the earliest possible date, necessary information which, at a minimum, includes the criteria that will be used to evaluate the applications, the relative importance of the criteria in the final selection, and clear definitions of what the criteria would mean. Second, the GAO recommended that the Secretary of the Navy establish procedures to provide a process for working with applicants to increase the likelihood that applications will adequately address all criteria in a way that evaluation teams can score the applications, if deemed necessary. (pp. 2-3/GAO Draft Report)

NAVY RESPONSE: Partially concur. By statute, the Secretary of the Navy has discretion in making ship donation decisions. (10 U.S.C. § 7306.) The GAO report recommends developing procedures resembling those used in competitive procurements. The Navy's position is that there is already in place a process that maximizes both communication and flexibility. Discretion and flexibility are essential to adapting ship donation procedures to the particular circumstances. The Navy believes it needs the flexibility to select the best approach for each donation, building on the lessons learned from previous donations.

In the event that more than one application is received for the same ship, every effort is made to conduct an impartial and fair analysis of applications. However, a ship donation decision is not a procurement competition, as was noted by the Comptroller General in The USS Missouri Allied Forces Memorial, Inc., B-276459, April 17, 1997.

The Navy has already established a process to work with donation applicants to resolve the issues which arise during

the application process. Under the Navy's ship donation instruction, the Navy notifies applicants of the capabilities they must demonstrate, including towing, maintenance, environmental, and financial requirements. The ship donation process necessarily involves a great deal of negotiation and exchange of information between the Navy and the applicants.

The Navy agrees to continue to communicate to prospective applicants the areas the Navy will analyze to determine whether the applicant is eligible to receive a donated ship. In addition, the Navy agrees that it is important to communicate significant concerns at the earliest practicable date, and to notify all potential applicants of the requirements to receive and maintain a ship. The Navy will ensure that applicants are aware that application requirements and criteria may be discussed with the Navy for clarification up until the final deadline for information.

The Navy believes that it already has in place a process which includes working with applicants to increase the likelihood that viable applications are received. The Navy notes that typically applications for a ship are not scored. Finally, the Navy notes that unlike a competitive procurement, ship donations have as their purpose the promotion of the public interest and the commemoration of historic deeds, and the Navy must retain the necessary flexibility and discretion to accomplish this purpose.

ADDITIONAL TECHNICAL COMMENT

Page 1, paragraph 3. The draft report states that the Navy's ship donation process is designed to help the Secretary of the Navy determine whether those seeking a donation of a ship meet the Navy's requirement for financial and technical capabilities. While the Navy agrees that the process generally focuses on technical and financial aspects, especially in the event that there is only one applicant, the process also includes those considerations that are relevant to the overall purpose of the ship donation program, i.e., to promote the public interest in the defense of the nation and to commemorate historic deeds performed with, by, or against such ships. In the process of selecting the donee, this larger purpose is taken into account.

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