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REPORT OF THE COMPTROLLER GENERAL OF THE UNITED STATES

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Improprieties In The Sale Of Alaska Railroad Surplus Scrap Metal

Departments of Transportation and Commerce
General Services Administration

A 1973 sale of Alaska Railroad scrap iron to a foreign buyer was handled improperly. The sale was based on a defective invitation for bids, the sales contract was apparently not awarded to the high bidder because the bids were not evaluated properly, and the Railroad's request for an export license for the scrap iron was incomplete and misleading.

The General Services Administration and the Departments of Commerce and Transportation, while not agreeing completely with GAO's conclusions, have adopted new procedures which should preclude repetition of the errors occurring in this sale.

LCD-75-206

FEB. 17, 1976

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-180935

The Honorable Henry M. Jackson
United States Senate

Dear Senator Jackson:

This is our report on the 1973 sale of Alaska Railroad scrap iron to a foreign buyer. We made this review pursuant to your March 21, 1974, request which resulted from an unsuccessful bidder's concern over the propriety of the sale.

In accordance with instructions from your office, we provided a draft of this report to, and obtained official comments from, the General Services Administration and the Departments of Commerce and Transportation. In our draft report we proposed that certain procedural changes be made by two of these agencies in connection with future sales. In commenting on the draft report, the involved agencies indicated that our proposals had been adopted. Therefore, the report contains no recommendations. Copies of the agencies' comments are in the report.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

Contents

ABBREVIATIONS

ARR	Alaska Railroad
C.I.F.	cost, insurance, freight
F.O.B.	free on board
GAO	General Accounting Office
GSA	General Services Administration
IFB	invitation for bids

COMPTROLLER GENERAL'S
REPORT TO THE HONORABLE
HENRY M. JACKSON
UNITED STATES SENATE

IMPROPRIETIES IN THE SALE
OF ALASKA RAILROAD
SURPLUS SCRAP METAL
Departments of Transportation
and Commerce
General Services Administration

D I G E S T

At Senator Jackson's request, GAO examined the 1973 sale of 14,000 metric tons of Alaska Railroad surplus scrap metal by the General Services Administration. This request was based on an unsuccessful bidder's concern over the propriety of the sale.

On July 2, 1973, the Administration offered for sale approximately 14,000 metric tons of surplus scrap metal under five alternative bidding methods, with different combinations of either the Railroad or the purchaser paying for preparing and shipping the scrap.

On September 20, 1973, the Administration awarded the contract to Nan Kwang Steel & Iron Company, Ltd., under a bid alternative requiring the Railroad to prepare the scrap and ship it to a foreign destination. Before the award the Railroad had obtained an export license under a hardship exception to the July 2, 1973, Office of Export Administration restriction on foreign scrap sales in excess of 500 tons.

In May 1974 about 9,700 of the 14,000 metric tons were shipped to South Korea. In August 1974 shipment of the remaining 4,300 metric tons to Nan Kwang was blocked when the Office of Export Administration denied the Railroad's request for an export license covering this material. The Railroad then requested GSA to solicit new bids on the undelivered scrap metal and it was sold domestically in March 1975.

GAO's review of the solicitation and evaluation of bids and the award of the sales contract to Nan Kwang showed the following major improprieties:

--The invitation for bids was defective because it did not require the bidders under two of the alternatives to specify the destination to which the Railroad was to ship the scrap metal. The Administration knew the invitation was defective before it was issued but failed to correct it. (See p. 3.)

--The shipping, preparation, and insurance cost estimates used in evaluating the bids under the different alternatives were not realistic. (See p. 7.)

Although GAO was unable to determine the precise cost estimates that should have been used in the Railroad's bid evaluation, on the basis of (1) ship brokers' estimates of what reasonable shipping costs would have been in 1973 and (2) the Railroad's March 1973 cost estimates for preparing the scrap with its own personnel, Nan Kwang was apparently not the true high bidder. (See p. 12.)

GAO also found that:

--The Administration relied on the Railroad to analyze the bids and did not verify the questionable cost estimates used by the Railroad. (See p. 12.)

--The Railroad's initial request for a license to export iron and steel scrap on a hardship basis was incomplete and misleading. The Office of Export Administration relied upon these misleading statements in granting the license. (See pp. 19 and 22.)

--The Railroad reported that expenses on this sale exceeded revenue realized as of August 1, 1974, by $20,000. However, about $95,000 of the expenses already incurred were attributable to the undelivered scrap metal. (See p. 24.)

GAO believes that the individuals involved in this sale exercised less than prudent judgment and inappropriately relied on assertions of other parties. (See p. 14)

The Administration has agreed with GAO's proposal that in the future the Administrator of General Services, when handling sales of surplus property for other agencies, should:

--Stress the need for a thorough review for legal completeness of invitations for bids prepared by other agencies before issuing the invitations.

--Require firm written estimates for any cost factors used in the bid evaluation.

--Require Administration regional offices to independently verify the accuracy of any bid evaluation prepared by another agency when there is reason to believe that inaccurate cost estimates were used in the evaluation. (See p. 14.)

5 The Department of Commerce has agreed with GAO's proposal that, in cases involving large quantities of material, the Secretary of Commerce should require the Director of the Office of Export Administration to request documentary support for and attempt to verify major statements of fact contained in requests for export licenses. (See p. 22.) 74

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CHAPTER 1

INTRODUCTION

The Alaska Railroad (ARR) is a Government owned and operated bureau of the Department of Transportation's Federal Railroad Administration. Its principal track extends about 500 miles from Seward to Fairbanks, Alaska.

ARR is financed through a revolving fund. Operating expenses, track and equipment maintenance, and capital improvements are to be paid from railroad revenue. However, at various times in its history, ARR has received congressional appropriations for operating expenses, capital replacements, and earthquake recovery costs.

The Secretary of Transportation has ruled that ARR, as part of the Department of Transportation, is subject to the requirements of the Federal Property Management Regulations and Federal Procurement Regulations. The Federal Property Management Requlations require the sale of surplus property to be conducted through the General Services Administration (GSA).

At various times in 1972 and 1973, GSA offered for sale scrap metal that had been accumulated by ARR but awarded no contracts because no acceptable bids were received. To obtain higher bids, the Chief Counsel of ARR formally requested GSA on June 25, 1973, to offer for sale as scrap approximately 11 locomotives, 430 railroad cars, and 2,000 tons of other miscellaneous scrap, under five alternative methods for bidding, with combinations of either ARR or the purchaser paying for preparing the scrap and shipping it to the destination specified by the purchaser.

The invitation for bids (IFB) for this estimated 13,000 to 14,000 metric tons of scrap was sent out to potential bidders by the GSA Anchorage sales office on July 2, 1973. Twenty-three bids were received from 10 firms that bid on 1 or more of the 5 options; the bids were opened in Anchorage on July 25, 1973.

On August 14, 1973, the ARR Chief Counsel sent to GSA's region 10 an analysis of the bids which showed that the high bidder was Nan Kwang Steel & Iron Co., Ltd., of Taiwan. The Nan Kwang bid of $93.30 per metric ton for the scrap metal required that ARR prepare the scrap metal and ship it to Taiwan. On the basis of the ARR bid analysis, this bid would produce a net return of $51.01 per metric ton after preparation and shipping.

GSA subsequently accepted this bid analysis. However, before the contract could be awarded to Nan Kwang, ARR had to obtain a license from the Department of Commerce's Office of Export Administration to export the scrap on a hardship basis, since on July 2, 1973, a restriction had been placed on all overseas scrap shipments in excess of 500 tons. After ARR obtained the export license, GSA awarded the sale to Nan Kwang on September 20, 1973.

ARR had trouble obtaining a ship to transport the scrap to Taiwan because of the shortage of ships due to the 197? U.S. wheat sales to Russia and China and the subsequent fuel shortage. However, on January 22, 1974, ARR was able to charter a vessel for $560,000. The ARR bid analysis included $200,000 as the estimated cost of chartering a ship.

In view of the higher-than-expected shipping costs, ARR contacted Nan Kwang, and on February 8, 1974, Nan Kwang agreed to revise its bid offer to $111.30 per metric ton to help offset the higher shipping costs to expedite shipment. This was an increase of $18 per metric ton, or $252,000 for 14,000 tons of scrap.

The chartered vessel arrived in Seward on March 30, 1974, and stevedores began loading the scrap. During the loading, various disputes arose between the ship's master and ARR concerning the nature of the cargo and the methods being used to load it. At one point loading was stopped for 7 days because of a dispute over whether the size and weight of the scrap being loaded violated the charter agreement and was causing damage to the ship.

The loading was completed on April 29, 1974, and the vessel sailed for South Korea instead of Taiwan at the request of the purchasers. This change of destination was approved by the Office of Export Administration after the ship left Seward. The vessel carried 9,686 metric tons of the scrap. Approximately 4,300 metric tons were left in Seward because the vessel lacked space to carry it.

On July 12, 1974, ARR applied for an export license to deliver the remaining scrap to Nan Kwang; however, on July 18, 1974, the Office of Export Administration denied the application. ARR officials said they had requested GSA to solicit new bids on the remaining scrap metal.

CHAPTER 2

IMPROPRIETIES IN THE SOLICITATION,

EVALUATION, AND AWARD

Our review of the solicitation and evaluation of bids and the award of the sales contract to Nan Kwang revealed the following major improprieties:

--The IFB was defective because it did not expressly require the bidders under two of the alternatives to specify the destination to which ARR was to ship the scrap metal. GSA knew of this defect before the IFB was issued but failed to correct it.

--GSA should not have requested bidders to provide destination points after bid opening.

--ARR's shipping, preparation, and insurance cost estimates used to evaluate the bids under the different alternatives were not realistic.

--GSA relied on ARR to evaluate the bids and did not verify the cost estimates used.

Although we were unable to determine the precise cost estimates that should have been used in the bid evaluation, Nan Kwang was apparently not the high bidder.

BID INVITATION DID NOT EXPRESSLY REQUIRE SPECIFICATION OF DESTINATION POINTS

The IFB (10(A)-DPS-74-6) for the sale of approximately 13,000 to 14,000 metric tons of railroad rolling stock (scrap metal) was issued by GSA on July 2, 1973. The scrap metal offered for sale consisted of about 11 locomotives, 430 railroad cars, and 2,000 tons of miscellaneous scrap. The IFB provided for the following five alternative methods of bidding.

1. F.O.B. (free on board) ARR cars, Seward Dock, Seward, Alaska. Purchaser to cut and prepare scrap if railroad cars are to be scrapped by purchaser.

2. F.O.B. ARR cars, Seward Dock, Seward, Alaska. ARR to prepare scrap if the cars or other scrap are to be prepared. Scrap will be prepared in lifts not to exceed 20 tons.

3. As is Seward or Whittier, Alaska.

4. C.I.F. (cost, insurance, freight) port of destination but not to include ship's demurrage at destination. Scrap to be prepared by ARR in lifts not to exceed 20 tons and in a form allowing compact loading aboard ship.

5. C.I.F. destination, but not to include ship's demurrage at destination. Purchaser to prepare the scrap in lifts not to exceed 20 tons and in a form allowing compact loading aboard ship.

Under F.O.B. alternatives, the purchaser would pay all transportation costs from the Seward Dock; under C.I.F. alternatives, ARR would pay all transportation costs to the destination specified by the purchaser. Therefore, designation of bidders' destination points under C.I.F. alternatives was essential for a proper evaluation of all bids, since this information was necessary to determine the transportation costs to be incurred by the Government.

To be considered for award, a bid must comply in all material respects to the terms and conditions of the IFB (that is, be responsive to the invitation). Thus, to insure full and free competition, as required by Federal regulations, it is fundamental that IFBs must be complete as to all essential requirements and specify precisely what bidders are required to submit to be deemed responsive.

The IFB did not expressly require bidders to designate the point or port of destination if they submitted bids under C.I.F. alternatives. Therefore, in our opinion, the IFB was defective. Bidders should not have to speculate at the risk of being held nonresponsive as to what the invitation requires them to submit; what may be obvious to one bidder may be confusing to another.

Officials of ARR and GSA admitted that this was an oversight on their part and that the destination points should have been requested in the IFB.

GSA developed the special terms in the IFB to meet the specifications of ARR officials. The IFB was reviewed by GSA region 10 officials, including legal counsel, before being forwarded on July 2, 1973, to the GSA Anchorage sales office for issuance.

The GSA regional counsel, in reviewing the IFB before it was issued, recognized the problem created by the lack of a requirement that bids under alternatives 4 and 5 should designate destination points but did not correct it. He said he believed that if bidders had protested the IFB before the bid opening, the IFB would have been amended.

GSA headquarters officials involved in the sale said they relied on their regional officials to properly conduct such sales.

We question the GSA regional counsel's allowing the IFB to be issued, knowing that it was defective. The addition of a requirement in the IFB prior to its issuance for the designation of destination points under alternatives 4 and 5 would have been a comparatively simple task. In contrast, the issuance of a formal amendment after the IFB's issuance but before bid opening would have required a great deal more time and expense. Federal regulations require that an IFB amendment be sent to each concern to which the IFB had been furnished and that it contain appropriate information to correct the IFB and instructions to bidders for acknowledging receipt of the amendment. Further, the bidders must be given a reasonable opportunity to review the amended IFB and adjust their bids, if necessary.

GSA REQUESTED ESSENTIAL DESTINATION POINTS AFTER BID OPENING

Twenty-three bids were submitted by 10 firms that bid on 1 or more of the 5 options. (See app. I.) However, opening of the bids on July 25, 1973, showed that four of the six bidders on alternatives 4 and 5 did not specify the destination to which ARR would be required to ship the scrap metal because they were not specifically required to do so in the IFB.

According to the regional counsel, the chief of the regional sales branch discussed with him the idea of calling the bidders who did not indicate destinations on their C.I.F. bids to obtain that information. He said that he did not question the propriety of the branch chief's action. GSA, therefore, asked those bidders who did not indicate a destination to do so. Two bidders, American Asian Imports and R. A. Davenny & Associates, told GSA their destinations; the other two, United Steel & Metals Corporation and Dulien Steel, Inc., did not.

Because a destination was not specified, GSA tentatively ruled that these two bids were nonresponsive. On July 27, 1973, it told these bidders that their bids would not be considered unless this information was furnished by August 1.

On July 31, 1973, these bidders told GSA that they would not furnish their port of destination. United Steel & Metals stated:

> "We cannot give you the specific information that you have requested in your letter and we positively protest your statement that our bid will not be considered unless this information is given to you. Our bid was totally responsive to the bid call in every respect. It was not requested on the bid call that a Port of Destination be given, and therefore, we declare that your attitude of not considering our bid is completely arbitrary and, if our bid is not considered, we positively protest award to anyone and demand that a new call for bids be made."

United Steel & Metals never provided GSA with its intended port of destination. GSA did not, however, reject any of the bids which did not list destinations. Instead, all bids were evaluated and United Steel & Metals was designated as the high bidder under alternative 5 on the basis that the transportation cost to whatever destination it might have chosen would not have varied greatly from the cost of shipping to Taiwan, Nan Kwang's indicated destination.

We question GSA's actions in requesting four bidders to submit their intended destination points after bid opening. To allow bidders to submit essential bid information after a bid opening is not permissible. To do so could give them an unfair competitive advantage by permitting them to determine, after observing the bids of their competitors, whether to submit the necessary information and possibly qualify for award or to refrain from submitting it and assure rejection of their bids.

GSA either believed that the IFB required specification of destinations for alternatives 4 and 5, or it did not. Several GSA officials told us they believed any reasonable bidder should have known that a destination was required. Conversely, the fact that GSA gave bidders the opportunity to provide destinations after bid opening indicates that it may have doubted that the IFB required destinations.

As said earlier, the IFB did not expressly require destinations. However, if GSA believed that the IFB required destinations, to be consistent with that belief it should have rejected the four bids which did not indicate destinations (a bid which does not conform to the material requirements of an IFB must be rejected as nonresponsive). If it was not convinced that the IFB required destinations, it should have canceled the IFB and readvertised the sale, when four bidders failed to submit destinations. In either case, GSA should not have requested bidders to submit essential bid information after the bid opening.

DEFECTIVE COST ESTIMATES
USED IN BID EVALUATION

On August 14, 1973, ARR determined the following high bidders on each alternative.

Alternative:

1--Alaska Orient Trading Co., at $27.77 per metric ton.

2--Joseph Simon & Sons, Inc., at $36.28 per metric ton.

3--United Steel & Metals Corp., at $3.79 per metric ton.

4--Nan Kwang Steel & Iron Co., Ltd., at $93.30 per metric ton.

5--United Steel & Metals Corp., at $67.79 per metric ton.

Since ARR was required under alternatives 2, 4, and 5 to pay for certain costs incident to the sale, ARR used the following estimated costs to evaluate the high bid under each alternative.

--Preparation--$12.00 per metric ton
--Stevedoring--$15.00 per metric ton
--Shipping--$14.29 per metric ton
--Insurance--$1.00 per metric ton

The schedule below portrays the ARR bid analysis using the estimated costs.

	Alternatives				
	1	2	3	4	5
	F.O.B. Seward, purchaser prepare	F.O.B. Seward, ARR prepare	As is	C.I.F., ARR prepare	C.I.F., purchaser prepare
High bid:					
Alaska Orient Trading Co.	$27.77				
Joseph Simon & Sons, Inc.		$36.28			
United Steel & Metals Corp.			$3.79		
Nan Kwang Steel & Iron Co., Ltd.				$93.30	
United Steel & Metals Corp.					$67.79
Less costs to be paid by ARR:					
Shipping	-	-	-	14.29	14.29
Preparation	-	12.00	-	12.00	-
Stevedoring	-	-	-	15.00	15.00
Insurance	-	-	-	1.00	1.00
Total	-	12.00	-	42.29	30.29
Bids on comparable basis	$27.77	$24.28	$3.79	$51.01	$37.50

ARR determined on the basis of this type of analysis that Nan Kwang was the high bidder. GSA accepted the ARR analysis and awarded the contract to Nan Kwang on September 20, 1973.

Since the cost factors used in the ARR bid evaluation had a considerable effect on the bid prices submitted under alternatives 2, 4, and 5 but no effect on those offered under alternatives 1 and 3, it was essential for ARR to estimate as accurately as possible the costs to prepare, stevedore, ship, and insure the scrap metal. Prior GAO decisions have established that evaluation factors should be as clear and precise as possible. Uncertain or speculative factors may not be used for evaluating bids.

ARR had no written documentation to support the stevedoring, shipping, and insurance cost estimates used in its evaluation of the bids, and the estimates for insurance and shipping were erroneous. Also, a $12 per ton bid for preparing the scrap was used in evaluating the bids. However, before awarding the contract, ARR decided to prepare the scrap itself at an estimated cost of $17 per ton.

Shipping costs

ARR's Chief Counsel said the estimated shipping cost of $14.29 per metric ton was based on an ARR shipment of scrap to Taiwan in November 1972 and on estimates from ship brokers that a ship could be obtained to move 14,000 metric tons of scrap from Alaska to Taiwan for about $150,000 to $200,000. The Chief Counsel could neither remember the ship brokers that had provided the estimates nor provide any documentation to support the estimates.

The ARR 1972 shipment of scrap to Taiwan was made at a cost of $15.53 per metric ton. Between January and August 1973, shipping costs for scrap from the continental United States increased almost 100 percent, and ship brokers predicted further increases. We were unable to identify any actual scrap shipments from Alaska to Asia during the period in which the bids were analyzed (July through September 20, 1973). Ship charters for scrap shipments from the continental United States to Asia, however, were ranging from $28 to $32 per metric ton. The fact that shipping costs had risen and were continuing to rise was common knowledge in the shipping industry, and this information was readily available to agencies such as ARR and GSA.

There were no established shipping rates from Alaska to Asia for the period July through September 1973. However, two major ship brokers advised us that shipping costs would have been higher from Alaska than from the continental United States because Alaska is not on the normal shipping routes and is outside the standard insurance warrantee limits. They also indicated that between August and September 1973 a shipment of 13,000 to 14,000 metric tons would have ranged from $45 to $50 per metric ton had the scrap metal been stowed at 55 cubic feet per metric ton on the vessel.

Normally, in the shipment of 14,000 metric tons of scrap, a whole ship would be chartered at a fixed cost and the cost per ton would depend on how many cubic feet of space were required for each ton of scrap. For example, if a vessel with a capacity of 630,000 cubic feet was chartered for $600,000 and 14,000 metric tons were loaded, the stowage factor would be 45 cubic feet per metric ton at a cost of $43 per metric ton. However, if only 10,000 metric tons could be loaded on board, the stowage factor would increase to 63 cubic feet per metric ton with a corresponding increase in the per-metric-ton shipping cost to $60 because fewer metric tons would be on the vessel.

The ARR Chief Counsel indicated that, at the time of bid evaluation, he expected the scrap to be stowed at 50 to 60 cubic feet per metric ton. Several scrap metal firms told us that 50 to 55 cubic feet per metric ton would be a good stow for uncompressed scrap metal.

Preparation costs

According to ARR's Chief Counsel, the $12 per-metric-ton preparation cost was based on an unsolicited bid received from a firm interested in this work but not in purchasing the scrap metal. The Chief Counsel also stated that a comparison of the bids on alternatives 1 and 2 showed that the two bidders who submitted bids on both alternatives allowed $2 and $13 for preparation.

However, although the bids had been evaluated on the basis of contracting out the preparation, ARR decided to prepare the scrap itself. The Chief Counsel stated that at the time he made the bid evaluation he believed that the preparation would be done by an outside firm.

ARR officials said they did not know if any cost analysis had been made to determine if the preparation could be done for less than $12 per metric ton by ARR personnel, nor could they remember when the decision was made to prepare the scrap in-house or who made it.

The decision to prepare the scrap in-house was apparently made before the award of the contract on September 20, 1973. On September 10, ARR established a separate cost account for charging expenses of ARR employees already engaged in handling, cutting, sorting, and loading scrap material being sold in this sale. The first salary charges to this account were made on September 17.

Also, in March 1973 ARR's mechanical branch prepared and sent to the Chief Counsel the estimated labor and material costs to burn out the wood and insulation in the railroad cars, cut up the cars into scrap, and load the scrap into gondola cars. These cost estimates were by type of car and had not been projected to the total number of cars to be offered for sale. Our projections of these estimates to the total number of cars offered for sale showed that it would cost about $22.49 per metric ton for

ARR to burn the wood or insulation out of or to steam clean the cars, cut the cars into scrap, and load the scrap in gondola cars for movement to Seward. Of this total, the estimated cost of burning out or steam cleaning the cars and labor involved in cutting them up totaled $17.09. The remainder of $5.40 represented the estimated cost of oxygen and acetylene required in the preparation and the labor involved in loading the scrap into the gondola cars.

The IFB stated that if the purchaser was to prepare the scrap, ARR would bear the expenses of acetylene and oxygen used and the cost of loading the scrap and transporting it to the port. Consequently, the $5.40 per metric ton cost of providing these materials and services would be incurred by ARR whether it or the purchaser prepared the scrap. Therefore, the $17.09 portion of the total estimated preparation cost would be incurred only if ARR prepared the scrap.

Insurance costs

The ARR Chief Counsel said he based the $1-per-metric-ton estimate for cargo insurance on an insurance cost of $2.50 per metric ton for a scrap shipment in 1972, which he then reduced because he thought that figure was too high. He believed that ARR had been overcharged on the earlier shipment.

The insurance agent who actually obtained the insurance for the ARR 1974 shipment disclosed that in July or August 1973 insurance on a 14,000 metric ton shipment of scrap from Seward to Taiwan would cost between 12.8 and 17.5 cents per metric ton, depending on whether it was shipped in summer or winter.

Stevedoring

According to ARR's Chief Counsel, the estimated stevedoring cost of $15 per metric ton was obtained orally from the Seward dock agent and the Northern Stevedoring & Handling Corporation in Seward.

The vice president of Northern Stevedoring & Handling told us his firm had loaded another scrap shipment for ARR at $14.85 per metric ton in 1973 and that an estimate of $15 per metric ton for a shipment in the fall of 1973 was valid.

ARR BID EVALUATION ESTIMATES SHOULD HAVE BEEN VERIFIED

The ARR bid evaluation was referred to GSA region 10 for review. A GSA region 10 official served as contracting officer on the scrap sale and made the contract award; however, he relied on ARR to analyze and evaluate the bids and did not verify the cost estimates used. The contracting officer did not question the validity of the $14.29-per-metric-ton shipping cost used by ARR even though he had reviewed a GSA transportation specialist's informal analysis of the bids which showed that shipping from Seward to Taiwan would cost $39.46 per metric ton, including stevedoring. GSA's cost, when reduced by $15 to allow for stevedoring, exceeded ARR's estimated cost by about $10.

According to GSA regional officials, ARR's bid evaluation was not formally verified because (1) ARR was in a better position to determine the costs it would incur in selling the scrap and (2) GSA normally relied on the holding agency to evaluate the bids. GSA officials also stated that, when the GSA transportation cost estimate did not agree with the ARR estimate, they assumed that ARR had better information.

GSA headquarters officials also said that it is not unusual for the regional offices to rely on the holding agency to evaluate the bids when they have the expertise but that most evaluations are made by GSA.

OUR EVALUATION OF BIDS RECEIVED

Although we were unable to determine the precise cost estimates that should have been used in ARR's August 1973 bid evaluation, we believe the following cost estimates could have been available in 1973 and would have provided a more realistic basis for evaluating the bids.

	Cost per metric ton	Source of estimate
Preparation	$17.00	ARR March 1973 estimate
Stevedoring	15.00	Cost used by ARR
Insurance	.175	Insurance broker
Shipping	45.00	Ship broker's estimate based on 55 cubic feet per ton stowage

The following analysis of the bids based on these estimates shows that the high bidder would have been Alaska Orient Trading Company.

	Alternatives				
	1	2	3	4	5
	F.O.B. Seward, purchaser prepare	F.O.B. Seward, ARR prepare	As is	C.I.F., ARR prepare	C.I.F., purchaser prepare
High bid:					
Alaska Orient Trading Co.	$27.77				
Joseph Simon & Sons, Inc.		$36.28			
United Steel & Metals Corp.			$3.79		
Nan Kwang Steel & Iron Co., Ltd.				$93.30	
No high bid on alternative 5					(a)
Less costs to be paid by ARR:					
Shipping	-	-	-	45.00	-
Preparation	(b)	b/ 17.00	-	b/ 17.00	-
Stevedoring	-	-	-	15.00	-
Insurance	-	-	-	.175	-
Total	-	17.00	-	77.175	-
Bids on comparable basis	$27.77	$19.28	$3.79	$16.125	-

a/No high bidder is shown for alternative 5 because no bidders on this alternative furnished a destination.

b/Excludes costs of about $5.40 that would be incurred by ARR whether the purchaser or ARR prepared the scrap. (See p. 11.)

CONCLUSIONS

The IFB was defective because it did not expressly require submission of destination points under two alternatives even though they were essential to properly evaluate all bids. Moreover, using unsupported and unrealistic cost estimates in evaluating the bids appears to have resulted in the award being made to other than the high bidder.

We believe GSA should have

--corrected the IFB prior to its issuance to specifically require bidders under alternatives 4 and 5 to designate destination points,

--not requested bidders to submit essential bid information after bid opening, and

--required submission of documentary support for and verified the cost estimates used in the ARR bid evaluation.

The manner in which this sale was handled shows that individuals involved exercised less than prudent judgment and inapproriately relied on assertions of other parties.

AGENCY COMMENTS AND OUR EVALUATION

In a draft of this report which was provided to GSA and the Department of Transportation for comment, we proposed that the Administrator of General Services, when handling sales of surplus property for other agencies:

--Stress the need for a thorough review for legal completeness of IFBs prepared by other agencies before issuing them.

--Require firm written estimates for any cost factors used in bid evaluations made by other agencies.

--Require GSA regional offices to independently verify the accuracy of any bid evaluation prepared by another agency when there is reason to believe that inaccurate cost estimates were used in the evaluation.

Comments received from GSA and the Department, and our evaluation thereof, are discussed below.

General Services Administration

By letter dated May 7, 1975 (see app. V), the Deputy Administrator provided GSA's comments on our draft report. GSA said it agreed with our proposals and had already taken action to make them part of its operating procedures.

Although agreeing that the IFB was deficient in failing to require submission of destinations under C.I.F. bid alternatives, GSA contended that the deficiency was so obvious that it was unreasonable for knowledgeable bidders to fail to furnish destinations when the bids were submitted. GSA

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and the Department admitted that consulting other bidders who had not furnished destinations could have been prejudicial to Nan Kwang. However, they claimed that since destinations submitted by other bidders after the bid opening did not dislodge Nan Kwang from its position as the high bidder, no prejudice actually resulted.

If the IFB had been corrected before its issuance, GSA would not have felt the need to request essential bid information after the bid opening from some bidders, thereby risking prejudice. Also, GSA should not have made the request under any circumstances. We recognize that evaluation of those bids which had not originally indicated destinations did not cause GSA to change Nan Kwang's position as the high bidder and, therefore, its proceeding with the award is understandable under the circumstances. However, as we have pointed out, GSA's belief that Nan Kwang was the high bidder, which we do not endorse, resulted from its reliance on a defective bid analysis made by ARR.

Similar errors should not occur in the future since GSA has revised its procedures to provide for a thorough review of IFBs prepared by other agencies for legal completeness.

GSA said its reliance on ARR's cost estimates was not unreasonable. GSA stated that it was not familiar with this type of sale, the sale involved considerations not normally encountered, ARR was the only Federal agency that had prepared such a large volume of scrap, and ARR would have had a vital interest in furnishing accurate cost estimates because it was to receive the proceeds of the sale.

GSA stated that it attempted to verify ARR's estimated shipping rate in evaluating the bids and obtained a rate of $39.46 per ton, which included a stevedoring cost of $15. GSA stated that the $10 difference between this rate and ARR's rate was considerable, but the use of either rate left Nan Kwang as high bidder. GSA questioned whether the estimated shipping cost that we cited was available at the time the bids were evaluated.

GSA was ultimately responsible for the bid evaluation. Because of its unfamiliarity with this type of sale and the large amount of material and abnormal considerations involved, GSA should have exercised special care to insure that the bids were properly evaluated, instead of relying on ARR. This should have included requiring documentary support for ARR's cost estimates and independent verification of those estimates. When it noted what was admittedly a considerable difference in the shipping cost estimates, GSA should have investigated further. Had this been done, we believe GSA would have discovered that ARR's shipping rate was inaccurate. We particularly reject GSA's contention that the transportation rate of $45 to $50 that we cited was not available at the time the bids were evaluated. As stated previously, the large increase in shipping costs since the 1972 shipment was common knowledge. Two major ship brokers told us that information available during August and September 1973 showed that a reasonable estimate of the cost of shipping scrap iron from Seward to Taiwan would have been $45 to $50 per ton. One broker said the $14.29 cost used by ARR was "* * * a ridiculous and absurd figure."

Despite its belief that it acted reasonably in this instance, GSA acknowledged that it should have independently verified ARR's cost estimates. GSA also assured us that on future sales it will verify cost estimates whenever possible.

Department of Transportation

The Department was given an opportunity to review and comment on a draft of this report. By letter dated April 7, 1975, (see app. IV), the Assistant Secretary for Administration provided the Department's comments.

The Department agreed that specification of destinations on C.I.F. bid alternatives was essential for proper evaluation of the bids and that failure to require destinations was an undesirable practice which may have confused some bidders. In connection with future scrap sales by ARR, the Department said it would assure that destinations were correct and were specified.

The Department said that during our review we had more knowledge of shipping costs than ARR had in 1973 when it evaluated the bids. It stated that ARR's reliance on the cost of its 1972 scrap shipment, combined with current advice from ship brokers, was reasonable and produced realistic cost information. However, the Department said that written estimates of shipping costs would be obtained in the future.

The impression that the Department's comment gives is that our criticism of the estimated shipping costs used in the bid evaluation is based on hindsight. As stated earlier in connection with a similar GSA comment, this is not the case. In any event the Department's intention to obtain written estimates in the future should assure the use of more realistic costs.

The Department disagreed with our conclusion that Nan Kwang was apparently not the high bidder. According to the Department, ARR incurred costs, not considered in ARR's 1973 bid evaluation, of $30.02 per metric ton in collecting the scrap and moving it to Seward. It contends that had these costs been considered, the bid evaluation would have shown acceptance of Alaska Orient Trading Company's $27.77 bid on alternative 1 resulting in a net loss to ARR of $2.25 per ton while Nan Kwang's $93.30 bid on alternative 4 would have produced a profit of $20.99. In addition, the Department said that a bid evaluation which considered these costs and preparation, stevedoring, insurance, and shipping cost factors more in line with those we cited would have shown the price actually paid by Nan Kwang, $111.30, as producing a profit of $4.11 per ton. Based on this analysis, the Department believes Nan Kwang was the high bidder.

The Department's implication that these collection and transportation costs have a bearing on determining the high bid is misleading. These costs were not accounted for in the scrap sales accounts reflected in chapter 4 of this report. We were told by ARR's Chief Counsel and General Manager that collection of scrap and its movement to Seward are considered part of normal railroad operations and that the related costs should not be charged against revenues derived from the sale of the scrap.

In addition, the Department's contention that consideration of these collection and transportation costs in its 1973 bid evaluation would have shown Nan Kwang's bid on alternative 4, producing a net profit to the Government of $20.99, is faulty for another reason. The Department assumes that the preparation, insurance, and shipping cost factors used in the original evaluation were [illegible] d We have demonstrated that these factors were not val[illegible] The Department's inclusion of these additional costs [illegible] evaluation using higher preparation, insurance, a[illegible]ing cost factors to show that Nan Kwang's final $111[illegible]ice would have produced a profit to the Government of [illegible] per ton is also misleading because it ignores the fact that at the time the bids were evaluated Nan Kwang's offer was $93.30 per ton. At that time there was no reason to believe that Nan Kwang or any other bidder might have been willing to increase its bid at a later date.

In summary, the additional costs of collecting the scrap and transporting it to Seward, which were unknown at the time of our review but have now been estimated at

$30.02 per ton by the Department, would have been incurred regardless of whether or not there had been a scrap sale and consequently should not be a consideration in evaluating the bids. Also, even if ther [illegible] ts were a consideration, they would not have influer [illegible] e relative standing of any of the bidders. Furth [illegible] of Nan Kwang's final price of $111.30 is inappropriate [illegible] it was unavailable at the time of the bid award. Th[illegible]efore, the Department has not presented an acceptable argument to change our conclusion that Nan Kwang was appare[illegible]ly not the high bidder.

CHAPTER 3

THE APPLICATION FOR AN EXPORT LICENSE

The Office of Export Administration granted ARR a hardship export license because ARR said that (1) the highest domestic bid would have resulted in a net loss to ARR and (2) a shipment to Asia would have allowed the scrap to reach the world steel market in 1973. Neither of these reasons was valid, and ARR's request for a hardship license to export the scrap iron was incomplete and misleading.

THE EXPORT LICENSE REQUIREMENT

Executive Order No. 11533 of June 4, 1970, delegated to the Secretary of Commerce the power, authority, and discretion conferred upon the President by the Export Administration Act of 1969 (83 stat. 841, Public Law 91-184). This act authorizes the President to control exports of U.S. commodities and technical data to all foreign destinations for reasons of national security, foreign policy, or conditions of short supply.

On July 2, 1973, the Secretary of Commerce announced that, to assure that domestic supplies of ferrous scrap would be adequate to meet the needs of U.S. industry, a license requirement was being imposed for all exports of ferrous scrap. The Secretary also announced that licenses for exports against orders for 500 short tons or more would not be granted for orders accepted after July 1, 1973.

The Office of Export Administration (formerly the Office of Export Control) is responsible for implementing export controls. On July 10, 1973, the Office of Export Control announced an amendment to part 377 of the Export Control Regulations (15 C.F.R. part 377), which concerns short supply controls and covers the Ferrous Scrap Export Licensing System for 1973. The amendment, section 377.5, provided that:

> "A U.S. exporter who believes the provisions of this Part 377 work a unique hardship on his operations may file a request for an exception to or waiver of any of its provisions. * * * The letter should explain in full the circumstances that the exporter believes justify the exception or waiver."

The Chairman of the Office of Export Administration's Hardship Committee said that one of the principal considerations in granting an exception is what will happen to the material. If the material will simply lay on the ground and not be used unless an exception is granted, it is likely that it will be granted. However, he said that an exception would not be granted simply because someone could make a greater profit by shipping overseas than by selling domestically.

Between July 2, 1973, and December 31, 1973, the Office of Export Administration granted hardship exceptions involving 82,307 short tons. The exception granted to ARR represented nearly 20 percent of this total.

THE ARR HARDSHIP REQUEST

On August 7, 1973, the ARR Chief Counsel sent a hardship request to the Office of Export Administration for an export license for iron and steel scrap. The request included a history of the accumulation of the scrap and the low domestic bids received in previous attempts to sell the scrap and explained the circumstances justifying the hardship request. The request stated the following with regard to selling the scrap at a profit on the domestic market:

> "Since the scrap market price has increased we have readvertised the equipment to be scrapped, and now have an apparent high bid which would make it economically feasible to prepare the scrap for shipment and dispose of the same. However, this is dependent upon shipment of the scrap to Taiwan.
>
> "The bids received clearly indicate that it is still not economically feasible to ship the materials to the continental United States, and no bid received indicated otherwise. No bidders specified in their bids a U.S. port at the time of the bid opening. The only ports specified were in Taiwan and those bids, in our opinion, which are valid, specified as a condition of the purchase that it is subject to securing an export license."
>
> * * * * *
>
> "The General Services Administration has not awarded the contract, and we are not doing so pending advice that the scrap can be exported, since it is our analysis that the only bid prices received which are economically

feasible are in fact for export to Taiwan. It is our opinion that all bids will have to be rejected if the scrap cannot be exported."

On August 16, 1973, the Office of Export Administration verbally requested further information, including a history of each of the high bidders. In response, the ARR Chief Counsel furnished the amounts of the high bids received on each of the alternatives with the comment that these bids "have been determined by the Alaska Railroad to be so uneconomical that the Railroad will object to any award of the bids."

QUESTIONABLE BASIS FOR GRANTING ARR EXPORT LICENSE

According to the Chairman of the Hardship Committee, ARR was granted a license for export of the scrap because ARR documents showed that selling the scrap on the domestic market was not economically feasible and ARR had said that the highest domestic bid would have resulted in a net loss of $40 per metric ton, indicating that the scrap was of no use to the domestic economy. The Chairman also said that ARR's statement that exportation of the scrap to Asia would allow it to reach the world market in 1973 greatly influenced the decision to grant the license.

However, bids received for this sale suggested that it may have been economically feasible to sell all the material on the domestic market rather than exporting it to Taiwan. For example, the ARR bid analysis showed that the high bids under alternatives 1 and 2, neither of which required the railroad to export the scrap, would have had a net return of $27.77 and $24.28 per metric ton, respectively. The high bidder under alternative 1 placed no restriction on the bid, while its bid under alternative 4 was subject to its securing an export license. The bidder confirmed to us that its bid under alternative 1 was based on a U.S. destination.

In addition, several bidders specified in their bids a U.S. destination at the time of bid opening, and their bids were not subject to securing an export license. For example, one of these bids specified Ballard, Washington. Of the 23 bids received, only 8 specified or implied that securing an export license was a condition of purchase.

Furthermore, we could obtain no support for the ARR claim that the highest domestic bid would have resulted in a net loss of $40 per metric ton.

Regarding ARR's August 1973 statements on being able to deliver the scrap to Asia in 1973, the ARR official in charge of the scrap preparation said that he and his staff had estimated that the scrap preparation would require 6 months. Since the scrap preparation did not begin until September 1973, the scrap could not have been shipped until March 1974.

CONCLUSIONS

The information submitted by ARR to the Office of Export Administration was incomplete and misleading. Because it acted on the basis of the misleading information, the Office was not aware that it was issuing an export license which did not comply with its licensing criteria. This demonstrates a need for the Office to verify major statements of fact contained in requests for such licenses.

AGENCY COMMENTS AND OUR EVALUATION

In our draft report we proposed that, in cases involving large quantities of material, the Secretary of Commerce require the Director of the Office of Export Administration to request documentary support for and attempt to verify major statements of fact contained in hardship requests for export licenses.

By letter dated April 16, 1975 (see app. III), the Assistant Secretary for Domestic and International Business informed us that the Department of Commerce had no fundamental disagreement with our conclusions dealing with that Department. He stated that the Department had made changes to improve its procedures for considering hardship applications for export licenses since the summer of 1973. According to the Assistant Secretary, these improvements include (1) requiring additional documentary evidence in support of all hardship applications involving significant quantities of material, (2) more frequent independent verification of major statements of fact crucial to establishing an asserted hardship, and (3) promulgation in September 1974 of regulations containing specific criteria for hardship licensing and a new appeals procedure.

We believe that the changes made by the Department are responsive to our proposals and should improve the Department's hardship licensing procedures.

The Department of Transportation, in commenting on a draft of our report, (see app. IV), contended that ARR's representation to the Office of Export Administration that the highest domestic bid would have resulted in a net loss was a true and correct statement. Apparently this contention is based on its claim that the cost of collecting the scrap and moving it to Seward, estimated at $30.02 per metric ton, exceeded the Alaska Orient Trading Company's $27.77 bid under alternative 1. This estimate of $30.02 was not available at the time application for the export license was made. Furthermore, as discussed in chapter 2, these costs would have been incurred whether or not the scrap had been sold and therefore had no bearing on the profitability of the sale. Therefore, we do not accept the Department's contention.

The Department also took the position that ARR's representation to the Office of Export Administration that shipment of the scrap to Asia would have allowed the scrap to reach the world steel market in 1973 was ARR's honest expectation at the time that it was made. The Department said that, when the matter was originally discussed in mid-summer 1973, ARR anticipated that the scrap could be prepared in about 2 months and that the delay of the shipment was caused by events beyond ARR's control.

As discussed earlier we were told by the official in charge of the preparation that he had estimated, at the time the preparation began, that 6 months would be required. Therefore, the belief in mid-summer 1973 that the work could be completed in 2 months appears to have been overly optimistic. While it may have been the honest expectation of certain ARR officials it was not the most knowledgeable estimate.

CHAPTER 4

NET RETURN TO THE GOVERNMENT

ON SCRAP SALE AS AWARDED

As of August 1, 1974, the ARR expenses on this sale exceeded its revenue by about $20,000. However, about $95,000 of the preparation expenses already incurred were attributable to the undelivered scrap metal remaining in Seward. The following schedule shows the revenue and the expenses at the time of our review.

Expenses paid:		
Preparation	$327,330.48	
Stevedoring	154,710.45	
Insurance	2,154.77	
Shipping	613,418.51	
Total		$1,097,614.21
Revenue		1,078,061.31
Difference		$ 19,552.90

The above costs do not include the costs of collecting the scrap and transporting it to Seward because, as discussed in chapter 2, ARR considers these normal operating costs which would be incurred whether the scrap was sold or not. However, we did identify other types of costs that were involved in the sale which were not accounted for under the scrap sale accounts and for which we were unable to assign a value. These included (1) the costs for the time that ARR officials spent on the scrap sale, (2) the travel cost of ARR officials while involved in business connected with the scrap sale, and (3) costs incurred by GSA in the scrap sale.

During our discussion of these matters with ARR officials, the Chief Counsel and the Seward dock agent said that the scrap preparation costs recorded in ARR cost accounts were overstated because in some cases the ARR scrap preparation crews charged the scrap accounts while working on other assignments. The comptroller and chief accountant of ARR, however, stated that, although the costs in the scrap preparation accounts may have been affected by human errors, they believed any such variances to be insignificant.

The Chief Counsel also said that additional income will be realized from a $524,924 claim he has made against the shipping company involved in the scrap shipment for the ship master's interference in the loading and unloading of the scrap. On the other hand, according to shipping company officials, they plan to submit claims to ARR for about $132,000 in ship demurrage costs and for $13,000 to $15,000 in damages to the ship during loading and unloading of the scrap metal. They also said that a $10,932.70 claim had been submitted to ARR for ship deviation costs.

AGENCY COMMENTS AND OUR EVALUATION

The Department of Transportation did not comment specifically on our presentation of revenues and related costs of the sale to Nan Kwang; however, comments of ARR officials obtained during our review are included above.

In commenting on our draft report, GSA stated a more proper presentation of the revenues and expenses would be as follows:

Proceeds to date from 9,686 metric tons	$1,078,061.31
Estimated proceeds on remaining 4,314 metric tons sold at $51.45 per metric ton on March 12, 1975	221,955.30
Total	1,300,016.61
Less total costs paid on 14,000 metric tons	1,097,614.21
Net proceeds	202,402.40
Add claim against carrier for breach of contract	524,924.00
Total	$ 727,326.40

We believe GSA's presentation may be overly optimistic because it assumes collection of the claim against the carrier for breach of contract and ignores the shipping company's demurrage, damage, and deviation claims. In addition, GSA's presentation includes revenues from the sale of the remaining scrap, which took place after we had completed our review. We have not verified these revenues or attempted to determine what additional expenses might have been incurred by the Government in connection with this second sale.

CHAPTER 5

SCOPE OF REVIEW

We reviewed records concerning the ARR scrap sale and interviewed officials of ARR; GSA's Anchorage, Alaska, sales office; GSA region 10, Auburn, Washington; GSA headquarters; and the Office of Export Administration, Department of Commerce.

We also discussed the scrap sale with officials of the Federal Railroad Administration, Department of Transportation; the stevedoring firm that loaded the scrap; shipping firms that shipped the scrap; and the complainant, the president of United Steel & Metals Corporation.

We discussed scrap metal preparation and shipping with officials of various scrap metal and shipping firms and with the executive director of the Institute of Scrap Iron and Steel.

BIDS RECEIVED

	Alternatives 1	2	3	4	5	Other bids
American Asian Imports, Littleton, Colo.				$81.28 (dest. San Francisco, furnished after bid opening)		
United Steel & Metals Corp., Seattle, Wash.	$19.79	$21.79	$3.79	$81.79 (dest. unknown)	$67.79 (dest. foreign) $37.39 (dest. domestic)	
Dulien Steel, Inc., Seattle, Wash.	$11.75	$25.00		$75.00 (dest. unknown	$55.00 (dest. unknown	
General Metals Tacoma, Wash.		$20.67				$40.67 (F.O.B. ARR car Tacoma, Washington)
R. A. Davenny & Assoc., Anchorage, Alaska		$35.75		$77.50 (dest. Korea, furnished after bid opening)		
Purdy Co. of Washington, Bellevue, Wash.	$23.54					

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BIDS RECEIVED

	Alternatives 1	2	3	4	5	Other bids
Joseph Simon & Sons, Tacoma, Wash.		$36.28				$47.21 (F.O.B. ARR car, Ballard, Washington)
Nan Kwang Steel & Iron, Taiwan	$27.11			$93.30 (dest. Taiwan)		
Alaska Orient Trading Co., Anchorage, Alaska	$27.77			$92.50 (dest. Taiwan)		
Stano Steel & Metal Co. Anchorage, Alaska	$19.20					

UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Administration
Washington, D.C. 20230

April 18, 1975

Mr. Victor L. Lowe
Director
General Government Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Lowe:

This is in reply to your letter of February 21, 1975, requesting comments on the draft report entitled "Improprieties in the Sale of Alaska Railroad Surplus Scrap Metal."

We have reviewed the attached comments of the Assistant Secretary for Domestic and International Business and believe they are responsive to the matters discussed in the report.

Sincerely yours,

Guy ~~W.~~ Chamberlin, Jr.
~~Acting~~ Assistant Secretary
for Administration

Attachment

UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Domestic
and International Business
Washington, D.C. 20230

APR 16 1975

Mr. Victor L. Lowe
U.S. General Accounting Office
GAO Bldg. - Room 3866
441 "G" St. N.W.
Washington, D.C. 20548

Dear Mr. Lowe:

We appreciate the opportunity to comment on the draft report entitled "Improprieties in the Sale of Alaska Railroad Surplus Scrap Metal". Insofar as the report deals with matters concerning this Department, we have no fundamental disagreement with its conclusions. We will defer to the Alaska Railroad and the General Services Administration, however, on those aspects of the draft report that relate to their actions.

The Hardship License to export 15,400 short tons of ferrous scrap granted to the Alaska Railroad on August 27, 1973, was issued on the basis of written representations of the applicant that there was no use for the scrap in the State of Alaska and it was not economically feasible to ship it to the continental United States, and on the understanding that, if an export license were forthcoming, the scrap could be prepared and shipped pursuant to one of the bids under the GSA tender prior to the end of October 1973. It was also this Department's understanding that, given the weather conditions in Alaska and the time involved in readvertising the sale, making a new tender and approving new bids thereunder would assure that the scrap would not reach any market, domestic or foreign, until sometime in 1974, at which time there might no longer be a general shortage of ferrous scrap.

Before approving the license, the Department determined through independent inquiries that the sole scrap consumer in Alaska was one small foundry with fewer than 10 employees and no conceivable need for this quantity of scrap. We further asked for and obtained from the applicant a copy of the GSA tender, of the bid relating to the application for an export license, and a description of the high bid under each of the five alternatives specified in the tender. Examination of all material submitted by the applicant persuaded this Department that the scrap could not be economically disposed of within the United States, and the requested license was accordingly issued.

As part of our continuing review of the procedures for consideration of hardship applications submitted with respect to short supply programs, we have made certain adjustments to improve the hardship licensing system since the summer of 1973. For example: (1) additional documentary evidence is now required in support of all hardship applications involving significant quantities of material; (2) verification through independent means of all major statements of fact crucial to the establishment of an asserted hardship is now more frequent; and (3) we promulgated regulations continuing specific criteria for hardship licensing and a new appeals procedure on September 25, 1974 in Export Administration Bulletin No. 125. [See GAO note 1.]

[See GAO note 2.]

Sincerely,

Tilton H. Dobbin

Tilton H. Dobbin
Assistant Secretary for
Domestic and International Business

GAO notes: 1 The Department of Commerce informed us that the word "continuing" is a typographical error; the proper word is "containing."

2 The deleted comments relate to matters omitted from or modified in this report.

OFFICE OF THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

ASSISTANT SECRETARY
FOR ADMINISTRATION

April 7, 1975

Mr. Henry Eschwege
Director
Resources and Economic Development
Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

This is in response to your letter dated February 21, 1975, requesting comments on the General Accounting Office (GAO) report on its inquiry into the propriety of the sale of Alaska Railroad surplus scrap metal. GAO concluded that the individuals involved in the accomplishment of this sale exercised less than prudent judgment and inappropriately relied on assertions of other parties.

As demonstrated in the enclosed Department of Transportation position statement, we believe that the Railroad personnel had, to the best of their knowledge, taken all due steps to protect the interest of the Government. That the estimates ultimately may prove wrong, we cannot deny; however, we believe that the Railroad acted in a prudent manner on the best information available at the time the bids were evaluated.

I have enclosed two copies of the Department's reply.

Sincerely,

William S. Heffelfinger

Enclosure
(2 copies)

DEPARTMENT OF TRANSPORTATION REPLY

TO

GAO DRAFT REPORT OF FEBRUARY 21, 1975

ON

IMPROPRIETIES IN THE SALE OF ALASKA RAILROAD SURPLUS SCRAP METAL

SUMMARY OF GAO FINDINGS AND RECOMMENDATIONS

The General Accounting Office (GAO) draft report examines the sale of 14,000 metric tons of Alaska Railroad (ARR) surplus scrap during 1973. The findings addressed to the Department were:

- The invitation for bids did not require the bidders under two of the alternatives to specify the destination to which the ARR was required to ship the scrap metal.

- The shipping cost estimates used in evaluating the bids under the different alternatives were not realistic.

- ~~The~~ initial request of ARR for a license to export iron and steel scrap on a hardship basis was incomplete and misleading.

- The high bidder did not receive the award.

POSITION DEPARTMENT OF TRANSPORTATION

[p. 11]

1. Destination Points, Page 2, et. al. The report concludes that the Invitation for Bid lacked a requirement for specifying a destination point for the scrap and that this caused the bidders difficulty. While such an action is undoubtedly an undesirable practice and some bidders may have been confused by it, we see no reason to believe that it caused any prejudice to the bid action. It is true that the destination was essential for a proper evaluation of bids, but in this instance there was no prejudice to any firm. Had a firm which had bid a lower per ton price come in after bid opening and furnished a destination closer to Anchorage, and thus made that firm bid high, we would agree that this would have resulted in possible prejudice. Had a firm which had bid a higher per ton price come in after bid opening and furnished a destination further from Anchorage and thus made the firm not high, we would again agree that there was a possibility of prejudice. Neither case occurred here. The apparent relative standing of the bidders was not upset by the destinations furnished, whether before or after the submission of bids and the report does not allege that any such prejudice occurred. In future scrap sales by ARR, we will take care to assure that the destination points are correct and are specified.

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[See GAO note 1, p. 3]

2. Shipping Costs, et. al., Page 2, 9. The report concludes that the shipping, preparation and insurance costs used in evaluation of the bids were unrealistic. In particular it speaks to Alternative 4 and the cost of shipping to Asia, which cost was higher than estimated. The estimates for the cost of shipping were based in large part on a shipment of scrap by the Railroad to Taiwan in 1972 at a cost of $14.53 per metric ton. The report states that GAO was unable to identify any similar shipments during the period of July - September 1973, and that there are no established shipping rates from Alaska to Asia. However, when the study was undertaken by GAO in 1974, both GAO and the Railroad had greater knowledge of the cost of shipping; however, in mid-1973 when the bids were evaluated, reliance by the Railroad of the cost of 1972 scrap shipping costs, combined with recent advice of ship brokers, seems to have been reasonable and as realistic cost information as could have been obtained. While we disagree with the report's conclusion, we again will take steps to avoid a repetition of such events by obtaining written estimates of shipping costs.

[See GAO note 1, p. 12, 13]

3. Higher Bidder Not Chosen, Page 2, 18, 19. The report states that the award to Han Kwang Steel and Iron Company, Ltd., was improper in that they were not the highest bidder at $93.30 per metric ton, and alleges that the Alaska Orient Trading Company was in fact the true high bidder at $27.77 per metric ton, the difference occurring in the miscalculated shipping costs. When a reasonable cost of $30.02 per metric ton to the Railroad for assembling the scrap for sale and moving it to Seward are added as shown below, the $27.77 per metric ton figure would have resulted in a net loss to the ARR if the Alaska Orient bid had been accepted.

ARR Costs of Scrap Sales

	Metric Ton
-- Removing equipment from rail	$ 2.20
-- Carloading	14.05
-- Transportation from Matanuska to Seward	12.13
-- Switching	1.64
TOTAL	$30.02

The report does not assign any of these costs in any of its alternatives. [See GAO note 2.] If the original costs for shipping had held up, this would have meant a net profit to ARR of $20.99 per ton as shown in Attachment 1. This was the judgement made by ARR at the time, based on the most reasonable estimates available. In fact, the bid was raised by negotiation to the ultimate sale price of $111.30 per ton. Even using the GAO costs of $45.00 a ton for shipping, the balance is in favor of the government by $4.11 per ton. Therefore, we believe that the proper high bidder was chosen.

[pp. 11, 20, 21]

4. Representations of the ARR to the Export Administration in Support of Request for Export License, Page 3, 30, 31. The draft report states that the license was granted on the basis of statements by the ARR that (1) the highest domestic bid would have resulted in a net loss to the ARR; and (2) a shipment to Asia would have allow the scrap to reach the world steel market in 1973. The report suggests that these representations were incomplete and misleading.

We have demonstrated that an award to Alaska Orient would have resulted in a net loss to the ARR. Our position is that the first representation referred to above is a true and correct statement in all respects. Further, the bids of Joseph Simon & Sons, and General Metals were unresponsive to the invitation and were not considered. With respect to the timing of the shipment, when the matter was originally discussed in mid-summer 1973, ARR anticipated that the scrap could have been prepared in about two months, and the material loaded and shipped late in 1973. However, because of delays in granting the license, environmental considerations in burning out wood and other materials from the scrap metal,difficulties with the ship charter, preparation of the scrap did not commence when expected. The onsetting climatic conditions late in the year resulted in the preparation process taking longer than originally anticipated. The ship charter difficulties resulted in a delay in loading the scrap and the ultimate departure. The point is, that when the representations as to the timing of the sale were made, these were the honest expectations of the ARR. Subsequent events, beyond the control of the ARR resulted in the delay of the shipment.

In conclusion, we think that our comments have demonstrated that ARR, up to the awarding of the bid, had to the best of their knowledge, taken all due steps to protect the interest of the government. That the estimates ultimately may prove wrong we cannot deny; however, we believe that ARR acted in a prudent manner on the best information available at the time the bids were evaluated.

Immediate steps will be taken to revise our procedures to avoid errors as discussed above.

Sincerely,

Asaph H. Hall

ASAPH H. HALL

Attachments

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ALTERNATE BID PRICES

ARR SALE OF SCRAP

Cost per Metric Ton	Alaska Orient Alt.	Nan Kwang ARR 1972 Costs Alt. 4	Nan Kwang Adjusted Costs Alt. 4
1. Shipping	- 0 -	$14,29 1/	$45.00 2/
2. Preparation	- 0 -	12.00	17.00
3. Stevedoring	- 0 -	15.00	15.00
4. Insurance	- 0 -	1.00	.175
TOTAL COSTS	- 0 -	42.29	77.175
ARR Transportation Costs	30.02	30.02	30.02
TOTAL COSTS	30.02	72.31	107.195
Actual Bid Price	27.77	93.30	111.30
Projected Profit	-2.25	+20.99	+ 4.105

1/ Based on 1972 shipping costs

[p. 9]
2/ Based on GAO shipping costs, Page 15

GAO notes: 1 Numbers in brackets are page numbers in this final report.

2 The deleted comments relate to matters omitted from or modified in this report.

UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION
WASHINGTON, DC 20405

APPENDIX V

MAY 7 1975

Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
Washington, D.C. 20548

Dear Mr. Staats:

This is in reply to your letter of February 21, 1975, enclosing copies of your draft report on the sale of Alaska Railroad scrap metal.

We have carefully reviewed this report and our comments are enclosed.

Sincerely,

Dwight Ink

Dwight A. Ink
Deputy Administrator

Enclosure

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GSA Comments on GAO Report on Sale of Alaska Railroad Scrap Metal

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We are in agreement with your recommendations which appear on pages 4 and 36 of the GAO draft report. We have already taken action to insure these are made part of our operating procedures, as these relate to our sales of surplus personal property.

We agree that the invitation for bids was deficient, since the IFB failed to specify that destination be identified in some instances. Yet, Nan Kwang Steel & Iron Company did note it, and did provide destination information. This deficiency was so obvious that it was unreasonable for knowledgeable bidders to fail to note the deficiency and to cure such deficiency by furnishing a destination when bids were submitted.

The possibility existed that a bidder could control his relative standing by furnishing a destination that would have resulted in displacing Nan Kwang. However, we submit that the contracting officer's action was of a harmless nature. The high bidder under Alternative 4 was Nan Kwang with a bid of $93.30. The second high bidder was Alaska Orient Trading Company with a bid of $92.50. Both Nan Kwang and Alaska Orient Trading Company indicated that their destination was Taiwan.

Consulting other bidders who had not furnished destinations, could have brought possible prejudice to Nan Kwang. However, the retrospective results shows that Nan Kwang was the high bidder under Alternative 4 (considering the destinations furnished by the other bidders).

Your report indicates that United Steel and Metals Corporation (United) submitted a bid of $81.79 with a "destination unknown" under Alternative 4. It is important to note, that United, in a telephone conversation on July 25, 1973, with the contracting officer, indicated that the destination would be "Taiwan, Japan, or Australia," and since United could not be sure of which destination, it would check and call back. United, subsequent to this conversation, refused to furnish a destination. We speculate that such refusal occurred because United somehow sensed it was neither the high bidder nor would it be.

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Whether United intended to ship to the continental United States, or to a foreign port, its bid on Alternative 4 could be only higher than Nan Kwang's (net return to the United States), if transportation costs to a destination it might have designated would be substantially less than the transportation costs to Taiwan. United bid on each of the five alternatives, and there is no doubt that its bid on Alternative 4 was for shipment to a destination outside of Alaska.

GSA, Office of Transportation in Auburn, indicated a freight and stevedoring rate of $39 46 to Formosa and freight and stevedoring of $37.70 to Seattle. Both costs included stevedoring. Our conclusion is that regardless whether United was shipping to the United States or to a foreign port, the relative difference would have been small and that certainly the immediate $11.50 difference between Nan Kwang's bid and United's bid would unalter Nan Kwang's position as the high bidder.

While we fully recognize that the integrity of the bidding system must be maintained so that the bidder will expect to be treated fairly so that the United States will receive the benefit of full and free competition, and while we have taken the action necessary to preclude the recurrence of technical deficiencies noted by GAO, we believe that the GAO report should reflect that in this case there was no prejudice to either the United States, other unsuccessful bidders, and Nan Kwang.

With respect to the question of independent verification by GSA, we did attempt to verify the estimated cost of transportation used in the evaluation of bids. GSA Transportation Services Division, Region 10, obtained a freight rate of $39.46 from American Mail Line which included stevedoring of $15.00. The difference of about $10.00 between the Alaska Railroad rate of $14.29 and the GSA estimate of $24.46 is and was significant, but not considered essential since if you use $14.29 or $24.46, Nan Kwang remained the high bidder.

We do not believe it was unreasonable for GSA to rely on the cost estimates furnished by the Alaska Railroad. It was the only Federal Agency that had ever prepared such a large volume of scrap. This type of sale was a first for GSA. It involved considerations not normally encountered. In addition, Alaska Railroad would receive the proceeds from sale for their own use. Hence, we believe it was

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logical that the Alaska Railroad would have a vital interest in furnishing accurate cost estimates when they were to receive the total benefits from the sale. Yet, we must acknowledge that independent verification would have been appropriate. On any future sales, based upon this experience, we will verify estimates of costs wherever feasible.

[See GAO note 2.]

At the time the bids were being evaluated, [See GAO note 2.] the only two figures available within GSA were the $14.29 Alaska Railroad furnished rate and the GSA obtained rate of $24.46. The GSA rate of $24.46 was obtained by and through the Transportation Division of Federal Supply Service (Region 10) from American Mail Lines. The $39.46 figure in the GSA Region 10 memorandum included both freight and stevedoring to Formosa, from which $15.00 must be subtracted for the projected cost of stevedoring. The net figure is $24.46.

We recognize that "two major ship brokers" furnished to GAO a transportation rate ranging from $45.00 to $50.00; yet, your report indicates that shipments were being made for $28.00 per metric ton from the continental United States to Asia. It is our understanding that a transportation rate, where no published tariff rates exists, is a matter of negotiation between the shipper and the carrier.

GSA had no reason to doubt the American Mail Line rate of $39.46, less stevedoring of $15.00 or $24.46 per metric ton. We have no dispute that ocean transportation rates rose significantly as a result of the energy crisis and that the rates at the time the actual shipment occurred had risen substantially.

Since our evaluation clearly indicated that Nan Kwang was the high bidder based upon the evaluation factors then available, your suggestion of cancellation would have been detrimental to the high bidder, and more importantly, not in the best interest of the United States. GSA did not at that time have a transportation rate of $65.00 (including stevedoring) and its actions of some 16 months ago should not be judged by introducing into the evaluation of bids, now, a transportation rate, that was then unavailable. [See GAO note 1]

[See GAO note 2.]

[See GAO note 1]

We question the $65.00 per metric ton (including stevedoring) figure obtained by GAO. Considering the information generated by both Alaska Railroad and GSA ($29.29 per metric ton and $36.46 per metric ton respectively), we are concerned over the reasonableness of a current rate, when compared against rates obtained at the actual time of the sale. We believe it significant that the purchaser (Nan Kwang) increased the price it was willing to pay from $93.30 to $111.30 at the time of shipment. This we believe to be a significant indication that a very substantial and unusual change in transportation rates occurred during the period between the sale and the actual shipment of scrap.

The GAO report indicates proceeds of $1,078,061.31; costs of $1,097,614.21, resulting in a net loss of $19,552.90. We believe these figures are more properly presented as follows:

Proceeds to date from 9,686 metric tons	$1,078,061.31
Add estimated proceeds on remaining 4,314 metric tons to be sold on an "as-is-where-is" basis at $51.45* per metric ton	221,955.30
Total	$1,300,016.61

Less total costs paid on 14,000 metric tons	$1,097,614.21
Net proceeds	$ 202,402.40
Add claim against carrier for breach of contract	$ 524,924.00
Total actual and expected income	$ 727,326.40

*Price received at recent sale held March 12, 1975.

It is our opinion that the above data should be presented in any final report made by GAO. If, as Alaska Railroad expects, the Government is successful in its claim against the carrier, the total return to the Government would be $727,326.40.

[See GAO note 2.]

In summary, we feel your findings would neither displace Nan Kwang as the high bidder nor establish that GSA's actions were not in the best interests of the U.S. Government. We have, however, taken steps, as you have recommended, to strengthen our technical and procedural matters on sales of surplus personal property.

GAO notes: 1 Comprised of $50 shipping cost and $15 stevedoring cost, as shown in GAO draft report. In this final report GAO has used a more conservative figure of $45 for shipping.

2 The deleted comments relate to matters omitted from or modified in this report.