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REPORT BY THE U.S.

General Accounting Office

Award Of A Navy Contract To Overhaul The U.S.S. Henry B. Wilson (DDG-7)

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In March 1982, the Navy awarded a contract to overhaul a San Diego-based ship in Portland, Oregon. The award was made to the contractor who had the highest estimated cost proposal of four competing shipyards. GAO found that the Navy decided that evaluation criteria other than cost were more important in this award and that the winning shipyard's offer was rated superior by a selection panel over the other offers.

Moreover, the selection of the geographical area of the solicitation was a departure from the Navy's policy of repairing ships in their home ports. A joint decision by the Secretary of the Navy and other high-ranking Navy officials, made prior to the initiation of the solicitation process, to solicit the award on a coastwide rather than a home port basis was responsible for not following the Navy's home port repair policy.



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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

PROCUREMENT, LOGISTICS,
AND READINESS DIVISION

B-210040

The Honorable Bill Lowery
House of Representatives

Dear Mr. Lowery:

In an April 2, 1982, letter, co-signed by former Congressman Clair Burgener, you requested us to review the Navy's contract decision to repair the San Diego based U.S.S. Henry B. Wilson (DDG-7) in Portland, Oregon. (See app. II.) Your two major concerns were that the award was made to a contractor whose cost proposal was \$15 million higher than the lowest proposal and that the award contravened the Navy's home port repair policy.

We conducted our review primarily at the Naval Sea Systems Command (NAVSEA), the acquisition and contracting activity in Washington D.C., and its field offices. Additional work was done at the Office of the Secretary of the Navy, various offices of the Chief of Naval Operations, and the Chief of Naval Material. The review was made in accordance with generally accepted government audit standards.

We reviewed the documentation in the contract records and the rationale for the decision. We also reviewed the proposals submitted to NAVSEA, reports of the source selection panel and the approving authority, procedures used in the source selection process, and correspondence from Pacific Fleet activities.

We interviewed officials who were involved in planning the acquisition, selecting the contract type, making the coastwide solicitation decision, preparing the overhaul work package specifications, and reviewing the contract decision. We also interviewed officials from the Office of Chief of Naval Operations to obtain information about the home port repair policy, crew morale, and other aspects associated with the decision to repair a ship away from its home port.

CONTRACT AWARD DECISION

We found that the Navy had decided, as it had on numerous other overhaul solicitations, that evaluation criteria other than cost were more important in assessing potential offerors' ability to successfully perform this particular overhaul. It was especially concerned with seeking ontime completion of a technically complex ship overhaul to insure that fleet operating schedules were maintained. The Navy decided to accept the higher cost proposal because a source selection panel had determined it was technically superior and more realistic cost-wise.

It was the judgment of the panel and the approving authority that, despite the higher cost, the fleet readiness would be better served. In this regard, we found nothing to show that the Navy's actions in this matter exceeded the discretions available to the agency.

Our review also disclosed that the assignment of a low rank and weighting factor to cost in the Wilson overhaul source selection was a logical outgrowth of the decision to award a cost-plus-fixed-fee type contract. The records show that the Navy chose this type of contract because of cost uncertainties created by a total lack of cost history for DDG-class ships and an inability to predict total scope of work prior to the overhaul.

COASTWIDE SOLICITATION DECISION

The Navy said that when the battleship, U.S.S. New Jersey, reactivation work at the Long Beach Naval Shipyard necessitated the relocation of scheduled overhauls of four ships (one of which was the Wilson) to the private sector, the Secretary of the Navy and other Navy officials decided to solicit this work on a coastwide basis. This decision was responsible for the Navy not following its home port repair policy. The basis for this decision was a need to strengthen and support the ship repair industrial base.

During our review, contracting officials advised that the unavailability, prior to the solicitation announcement, of the only large Navy-owned drydock that is used by private shipyards in the San Diego home port area was a factor in the overhaul solicitation area decision. Without access to this drydock, the adequate competition criterion of at least two responsible offerors could not be met. However, in commenting on this report, the Department of Defense (DOD) stated that, notwithstanding any comments to the contrary by contracting officials, the unavailability of the drydock was not an issue. The Secretary of the Navy's decision, made 9 months earlier, caused the drydock availability to be an irrelevant factor in determining the overhaul solicitation area for the Wilson.

HOME PORT REPAIR POLICY

Regarding the home port repair policy, the Navy said that since the origin of the policy in 1970, it has attempted to overhaul as many ships as possible in their home ports. However, because of insufficient shipyard capacity, an average of only 46 percent of overhauls have been accomplished in home ports. The Navy attributes this to nonexpansion of shipyard capacity by the private sector to accomplish the workload in the home ports. A recent change (July 1982) in the home port repair policy could, in our opinion, significantly alter the home port repair situation and result in a greater geographical dispersion of some of the overhaul work that previously would have remained in the home port areas, if certain conditions were met.

DOD disagreed that there has been a change in this policy and contends that the July 1982 clarification will have minimal impact on the number of home port overhauls. Nevertheless, DOD recognizes emerging trends and concerns that could alter this position. These include the necessity for strategic dispersal of the proposed, larger Navy; the requirement of a large industrial base to support it; and the recognition that current work assignments must consider the future needs and protect the industrial base as it now exists, or it would rapidly disappear as the Navy accomplished the "few" overhauls of existing ships in or near their home ports.

CONSIDERATION OF RELOCATION COSTS

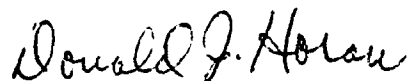
Our review disclosed that personnel and dependent relocation costs and foreseeable costs were not considered, nor were crew morale and retention considered in the evaluation of the offerors' proposals in the Wilson award process. The Defense Acquisition Regulation (DAR) recognizes that foreseeable costs may be among the factors to be considered in making an award.

We believe that foreseeable costs, including relocation expenditures, should be considered in contract awards on coast-wide solicitations to equitably reflect the full potential costs to the Government associated with each proposal. Therefore, we recommend that the Secretary of the Navy direct the Chief of Naval Material to promulgate instructions and guidelines for contracting activities governing the consideration of foreseeable and relocation costs in the source selection process. DOD commented that guidelines and instructions should not be promulgated until a thorough review is accomplished, and it stated that the Navy will undertake such a review.

The Navy has reviewed and commented on this report. Official comments (see app. III) were submitted through DOD. These comments and suggested changes are reflected and addressed throughout the report. Appendix I contains our detailed response to your specific questions and other matters noted during our review.

As arranged with your Office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 14 days from the date of this report. At that time, we will send copies to the Secretaries of Defense and Navy, and make copies available to others upon request.

Sincerely yours,

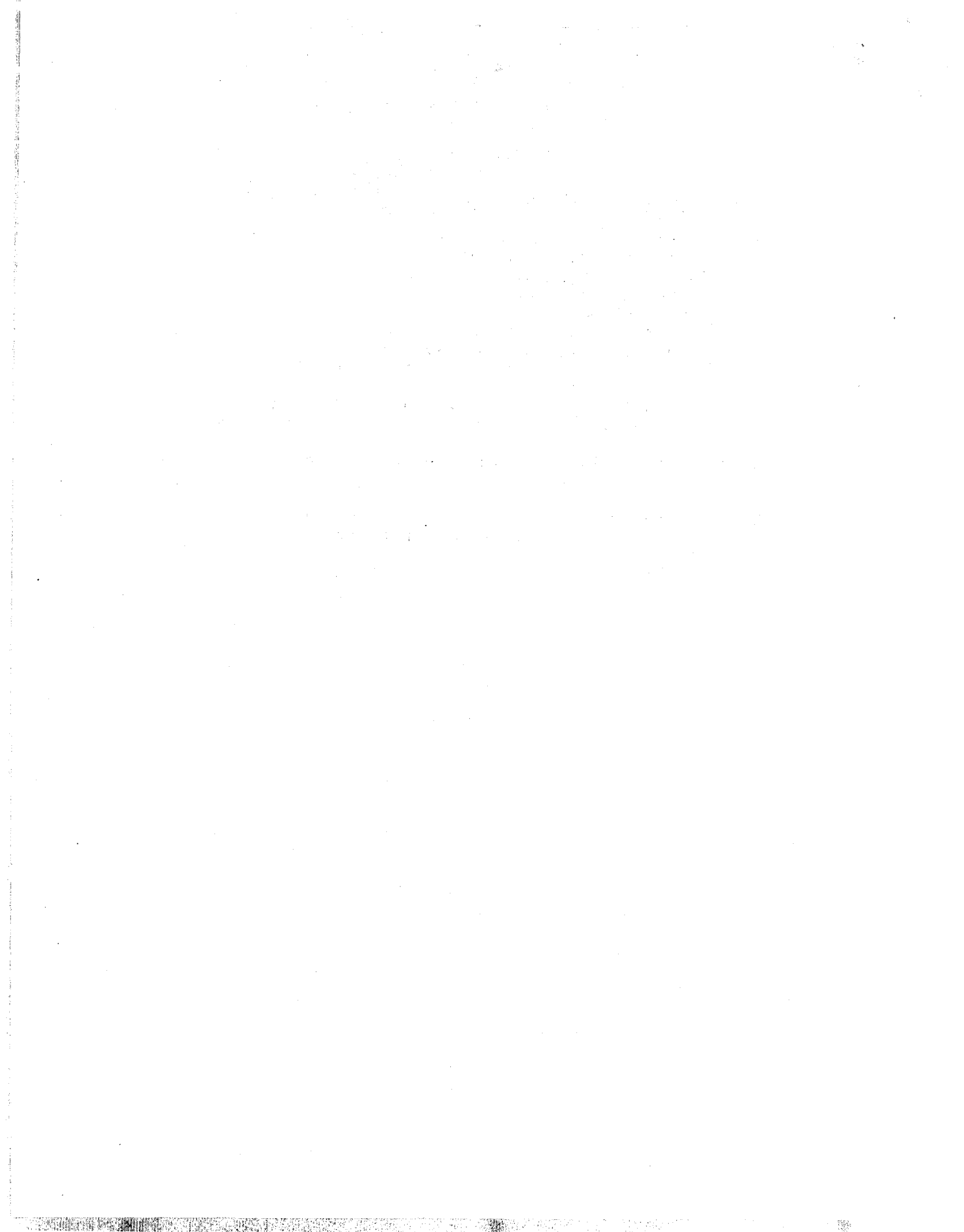


Donald J. Horan
Director



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U.S.S. HENRY B. WILSON OVERHAUL CONTRACT AWARD:ISSUES AND QUESTIONSBACKGROUND

The contract for the regular overhaul of the U.S.S. Henry B. Wilson (DDG-7) was the first one awarded by the Navy for that class vessel to a west coast private shipyard. Initially, the Wilson was to be overhauled at the naval shipyard, Long Beach, California. The location was changed to the private sector, west coast area, as a result of the Navy's decision to modernize the U.S.S. New Jersey (BB-62) at the Long Beach Naval Shipyard.

The Wilson overhaul was competed with a NAVSEA head-quarter's originated procurement request, a request for proposal (RFP) procurement approach, the use of formal source selection procedures, and a cost-type contract.

SOURCE SELECTION PROCESS

Until recently, the Navy relied upon the traditional formally advertised invitation for bid (IFB) approach in selecting contractors to perform ship overhauls. With this approach, contract award is made to the responsive and responsible contractor submitting the low bid. In prior periods, less complex ships were overhauled in private shipyards, while the more complex ships were overhauled in the public Navy yards. Because of the increasingly complex ships being overhauled in the private sector and the use of multiship contracting, NAVSEA determined in late 1980 that a more sophisticated approach was required. Accordingly, the formal source selection process, which has been used on major weapon systems, was introduced to surface ship overhaul contracting.

Under formal source selection, contractors are required to submit comprehensive technical proposals together with a cost estimate to a source evaluation panel or board headed by a chairman for review. The establishment of this panel is to ensure objectivity in the process. After the panel's review, the chairman presents the results of the deliberations and the scoring of the proposals to the source selection advisory council that probes the rationale for the panel's scoring to ensure that each score is fully substantiated. After detailed probing and discussion, the council determines which contractor should be recommended for selection to a source selection authority (SSA). The SSA is a headquarters flag officer who makes the final source selection.

On the Wilson overhaul, the Navy modified this process by eliminating the second tier source selection advisory council review. The source selection panel submitted its recommendations directly to the SSA for approval and final selection.

CONTRACT AWARD DECISION

Questions asked by Congressman Lowery relating to the contract award decision are:

"What criteria did the Navy follow in evaluating contract bids for the U.S.S. Wilson?"

"Were these criterion weighted proportionately or were they given a descending order of importance in the overall decision?"

"If a descending order is used, what priority is cost given in making the final award?"

"Whether or not these criteria are weighted, is the 65%-83% higher bid price by the U.S.S Wilson contract awardee justified in this situation?"

"We understand that project cost is usually given the lowest priority of all selection criteria. In light of current fiscal constraints, is this a proper and prudent method in which to award multi-million dollar contracts?"

Criteria, weights, and priorities

On the Wilson award, a source selection plan (SSP) served as the governing document in providing the administrative guidance, basic organization, and assignment of responsibilities for the evaluation and the source selection process. It was approved by the SSA on January 28, 1982.

Section 7.0 of the SSP for the Wilson contract set forth the following proposal evaluation categories (criteria) listed in descending order:

- Management capability.
- Technical approach.
- Resource availability.
- Experience.
- Cost.

These criteria and their subcategories or elements (also listed in order of decreasing importance) provided the structural criteria for the evaluation. The proposals were evaluated in terms of the offerors' potential ability to manage the program, their technical competence, the resources available to them, their experience and performance, and their proposed costs.

Section 8.0 of the SSP contained specific criteria within the above proposal evaluation categories. These criteria focused on those elements critical to selecting the best source. The criteria were communicated to prospective offerors in sections L and M of the solicitation (N00024-82-8503) issued on December 22, 1981. All contractors submitting proposals in accordance with the solicitation were evaluated in accordance with the SSP.

A source selection team called the Contract Award Review Panel (CARP), consisting of personnel representing the cognizant functional and technical areas, evaluated the proposals and produced a summary of facts called the recommendation for award. During the evaluation, each evaluator assigned a numerical score to each element. The numerical score represented the evaluator's judgment on the merits of the specific element covered after a detailed analysis. The ratings were supported with written facts citing strengths, weaknesses, and risks of the evaluated proposal.

Final scores were obtained by averaging the evaluators' score on each element and a weighted element score was arrived at by applying a weighting factor. The sum of the weighted scores produced a final proposal score.

After evaluating and scoring the proposals and completing the overall summary for each proposal, the CARP prepared and forwarded a recommendation of award along with its findings and a recommendation to the SSA. The SSA, in this procurement, was the Deputy Commander, Surface Combatant Ships (NAVSEA 93).

As previously stated, the evaluation criteria and elements were listed in descending importance. Management capability and technical approach represented over half the total weighted percentage. Cost was assigned the lowest priority and weight among the five proposal criteria and was evaluated from two standpoints: realism and cost to the Government.

In accordance with instructions in the solicitation, each offeror submitted not only a total estimated cost proposal, but a detailed cost breakdown with supporting data for 22 high relative dollar value alterations. The Cost Realism Team (CRT) of the CARP established a reasonable range of cost estimates by comparing the proposed costs of these alterations with the Government estimate and/or by utilizing historical data when available. In addition to the 22 work items, 6 additional items were randomly selected for analysis.

For each proposal, the CRT performed an independent technical analysis and review of the hours, rates, and material costs on these 28 items. The analysis was designed to result in an objective measure of the cost realism contained in each proposal and to calculate the projected cost to the Government.

Each offeror's proposed costs for the 28 items were then adjusted based on the engineering judgment of the CRT members,

and a cost realism raw score was determined. Northwest Marine Iron Works' (NMIW) proposal scored highest on cost realism.

The cost to the Government of each proposal was indicated by the total projected cost estimate. This estimate was arrived at in a way in which the lowest projected cost proposal was considered most favorable and all others considered less favorable by an amount proportionate to the amount the proposal was higher than the lowest projected cost proposal. On cost to the Government, National Steel & Shipbuilding (NASSCO) scored highest. The cost realism and the cost to the Government scores were then added together to determine the cost category score. In this regard, NASSCO received the highest cost category score.

The CARP determined that a recommendation of award to Northwest Marine Iron Works, without any discussions, should be prepared and submitted to the SSA for approval. This decision was based mainly on the overall superiority of the NMIW proposal. NMIW was judged best in 21 of 29 evaluation factors and tied for best in one other. It was evaluated as superior overall in management, resources, and experience categories. Although it was second in the technical category, the CARP noted that NMIW was extremely close and was superior in the more significant technical subcategories. NMIW was rated highly in the experience category because it had more extensive experience on surface combatant ships.

Whether the considerably higher cost offer by the awardee was justified becomes a moot question under the circumstances. This applies because (1) evaluation criteria other than cost were considerably more important to the Navy in its assessment of the offerors' proposals, (2) the awardee was rated superior in most of these criteria, and (3) cost was a decidedly low evaluation factor. Moreover, the Navy considered the awardee's cost proposal to be the most realistic among the offers.

As to whether cost should have a low priority, we have always held that selection of evaluation criteria and the relative weight assigned to them are primarily for consideration by the contracting agency, and we will not substitute our judgment for that of the agency unless the agency's actions in establishing such criteria and weights are arbitrary or not reasonably supported by the facts.

The RFP clearly listed the evaluation criteria in descending order of importance. The Navy decided that evaluation criteria other than cost were more important in assessing potential offerors' ability to successfully perform this particular overhaul. It was especially concerned with seeking ontime completion of a technically complex ship to insure that fleet operating schedules were maintained. The Navy decided to accept the higher cost proposal because a source selection panel had determined it was technically superior and more realistic cost-wise.

It was the judgment of the panel and the approving authority that, despite the higher cost, the fleet readiness would be better served. In this regard, there is nothing improper or imprudent in an agency awarding a contract to other than the lowest cost offeror when technical considerations are more important to the agency's needs.

It should be noted, however, the assignment of a low rank and weighting factor to cost is a logical outgrowth of the Navy's decision to award a cost-plus-fixed-fee (CPFF) contract for the Wilson overhaul. The Business Clearance in the Wilson contract record cited cost uncertainties created by both the total lack of cost history for private sector DDG overhaul efforts and the inability to predict total scope of work through work package definition prior to the overhaul as necessitating the use of a cost-reimbursement type contract. (In this regard, however, we noted that there had been a prior private sector DDG overhaul (see p. 15).

Under a CPFF contract, the contractor submits an estimate of the cost it expects to incur and the fee it is seeking (usually a percentage of the estimated cost). The contract, as awarded, does not bind the contractor to actually perform the contract at the estimated cost. In this type of contract, the Government assumes the risk by agreeing to reimburse the contractor for all allowable, allocable, and reasonable costs incurred. A ceiling is established which the contractor may not exceed without prior approval or subsequent satisfaction of the contracting officer. Completion of the contract work within the cost ceiling, however, is not required. Thus, when the contractor reaches the cost ceiling, it may stop work and await further instructions from the contracting officer.

CPFF contracts are used when costs cannot be accurately estimated in advance and when any fixed-price offer would have to be large enough to cover contingencies. It is designed to resist estimates that would include substantial increases in wages and material costs. Such contracts offer the contractor no real incentive to control costs.

Thus, it can be seen that the use of a CPFF contract is an admission that estimated costs are not likely to be an accurate forecast of actual costs. On this basis, we believe the Navy's source selection procedure that placed a low value on cost as a selection criterion was appropriate recognition of its validity.

For comparison purposes, we reviewed the role of cost in the source selection criteria on 10 overhauls, including the Wilson. The 10 overhaul source selections occurred from the period December 1980 through March 1982. We found that cost either was the lowest ranked item or was tied for the lowest position in the five assigned criteria. The weights assigned to cost were relatively consistent.

On the Wilson award, the criteria, their descending order, and the weights assigned to them appear consistent with other SSPs. In fact, the Wilson overhaul had the identical criteria, order, and weights of a preceding overhaul.

COASTWIDE SOLICITATION DECISION

Congressman Lowery's questions relating to the Navy's decision to solicit the Wilson on a coastwide basis are:

"How did the Navy's Home Port Policy influence this decision?"

"Since three California firms responded to the Navy's RFP on the U.S.S. Wilson, was not adequate competition present to preclude an Oregon firm from winning the award, particularly in light of Home Port Policy?"

Influencing factors in the coastwide decision

Although assigned to the San Diego home port, as a major combatant, the Wilson was scheduled originally to be overhauled at the Naval Shipyard, Long Beach, California. The reactivation and modernization of the U.S.S. New Jersey (BB-62) at the Long Beach Naval Shipyard resulted in the transfers of four scheduled overhauls from that shipyard. The Wilson was one of the ships transferred.

Ordinarily, when a ship is assigned to the private sector for overhaul, criteria specifying the geographic area from which offers will be solicited are provided in OPNAV Instruction 4700.7. The applicable criteria, at the time of the Wilson private sector overhaul decision, required that:

"Regular Overhauls of ships and service craft having crews attached should be accomplished in the homeport area (i.e., approximately 50 mile radius) when adequate competition is available. When adequate competition is not available in the specific homeport area, the bidding shall be extended to approximately 200 miles to assure adequate competition. If adequate competition is still not available, the area is expanded, to include the coast wide area of the ship's home port * * *."

During our review, contracting officials told us that the unavailability of the San Diego Naval Station drydock was a factor in the coastwide decision and dictated solicitation beyond the home port area. The number of overhauls that can be done on large ships is limited by the availability of this large drydock, which is the only one of this size in the San Diego area. It is made available by the Navy to all private contractors for overhauls, but its use is scheduled up to 3 years in advance. Without access to this drydock, contracting officials said that the adequate competition criterion of at least two responsible offerors in the San Diego area could not be met.

NAVSEA letters of procurement interest sent to prospective offerors on November 27, 1981, announced that the San Diego drydock would not be available for this overhaul. The RFP dated December 22, 1981, restated this fact.

On December 29, 1981, contracting officials were notified that the San Diego graving dock would be made available for the Wilson overhaul. The record indicates that the drydock's schedule was altered, at the request of the Commander, Naval Surface Forces, Pacific (SURFPAC), to accommodate the Wilson. Until that time, only one San Diego shipyard was planning to submit a proposal for the overhaul by modifying its own drydock to conform to the Wilson's size requirements. (Contracting officials said that the contemplated modification presented a risky situation and that the Navy could not favorably consider this development.) However, the sudden availability of the San Diego drydock, 1 week after the RFP date, allowed all San Diego shipyards to respond to the solicitation.

Initially, it appeared that SURFPAC's ability to influence the availability of the drydock suggested that this action probably could have been taken earlier. In its comments, however, DOD stated that, at that time, the San Diego drydock was leased by the Navy to the San Diego Unified Port District. The Port District, in turn, had contracted the operation and maintenance of the drydock to Southwest Marine, Inc. of San Diego. Therefore, although the Navy retained scheduling responsibility, the control of the drydock by Southwest Marine, through its contract, gave this contractor primary influence over the drydock's availability. While SURFPAC requested reconsideration of its availability, the primary influence on the reconsideration decision was Southwest Marine, the operator of the drydock.

DOD further stated that the Navy, recognizing that the situation as it had evolved was inappropriate, subsequently terminated its lease with the Port District (which, in turn, terminated its contract with Southwest Marine). According to DOD, the Navy now directly operates and maintains the drydock.

Secretary of the Navy's decision to
not follow the home port repair policy

Contrary to the above, we found that actions at the Secretariat level were responsible for not following the home port repair policy in the Wilson award. The decision to solicit on a coastwide basis was made much earlier and dictated the direction of subsequent events.

The contract records indicated that when the decision was made to reactivate the New Jersey at Long Beach, other events appeared to have taken place that directly affected the Wilson situation. We subsequently learned that, in late June 1981, the

Secretary of the Navy and other high Navy officials jointly decided that those ships relocated to the private sector would be solicited on a coastwide basis.

According to information provided by the Office of the Assistant Secretary of the Navy for Shipbuilding and Logistics, the reactivation of New Jersey in the Long Beach Naval Shipyard created a workload imbalance. This necessitated the movement of four destroyer/frigate type ships from the public yard to the private sector. In consideration of this necessity, coupled with the general state of the repair industrial base existing along the entire U.S. west coast, the Secretary of the Navy, Assistant Secretary for Shipbuilding and Logistics, Chief of Naval Operations, and Chief of Naval Material decided that all four ships would be solicited coastwide.

DOD, in commenting on this report, confirmed the significance of the Secretary's decision. DOD said that, notwithstanding any comments to the contrary by contracting officials, the unavailability of the drydock was not an issue. The decision made 9 months earlier caused the drydock availability to be an irrelevant factor in determining the overhaul solicitation area for the Wilson.

Adequate competition present in California to preclude coastwide solicitation

If the Navy would have followed its home port policy in soliciting for the Wilson overhaul, the three California firms that submitted proposals would appear to meet the requirements for adequate competition. Therefore, the award could have been awarded competitively on an extended area basis within California.

Adequate price competition is defined in DAR 3-807.7 as being at least two responsible offerors who (1) can satisfy the requirements, (2) independently contend for a contract to be awarded to the responsible offeror submitting the lowest evaluated price, and (3) submit priced offers responsive to the expressed requirements of the solicitation.

On the Wilson overhaul, formal advertising was not used because adequate specifications were not available. Negotiated contract awards require at least two responsible offerors to be considered competitive.

The Navy maintains that the San Diego shipyards had no previous experience with DDG class or other surface combatant overhauls and that restricting the award to the home port area would have entailed considerable risk. Nevertheless, the Navy solicited proposals from these firms.

Interviews with SUPSHIP San Diego officials in our other work indicated, however, that the San Diego shipyards are

capable of doing work on surface combatant ships. These officials said that the Navy tries to do as many overhauls and Selected Restricted Availabilities (SRA) in the home port as feasible. They believed that the San Diego shipyards can meet all the necessary work requirements and that although none of the shipyards have the capability to overhaul combat systems, this type of work can be subcontracted to firms experienced with the combat systems. SUPSHIP officials did not believe there would be any problems in getting the work accomplished. They also said that the Navy was satisfied with work that a San Diego shipyard did on FF-1052 class combatant ships about 1 or 2 years ago.

HOME PORT POLICY

Questions relating to the home port policy posed by Congressman Lowery are:

"According to a GAO Report in 1976, the Navy's policy is to assign a ship to be repaired within its home port area. How did this policy evolve and what changes have occurred since 1976?"

"The Navy's Home Port Policy has encouraged shipyards, within close proximity to large naval operations, to substantially increase capital improvements in anticipation of increased demand. Does the Navy consider this aspect of its policy when awarding repair contracts?"

"If a primary reason for a Home Port Policy is to reduce family relocation costs and other attendant expenditures relating to the transfer, why are such costs not factored in to all non-home port bids?"

"An important motivating factor behind implementation of Home Port is maintaining crew morale. How is crew morale factored-in to a contract award? Was crew morale considered in the U.S.S. Wilson award and, if so, what were the findings?"

"Does a decision to repair a ship away from home impact the retention of experienced officers and enlisted personnel? If so, is this factor properly weighed during contract selection?"

Origin and evolution of the homeport repair policy

The home port repair policy originated in the early 1970s. At that time, the Chief of Naval Operations was concerned with low retention of enlisted personnel. The primary reason for Navy personnel leaving the service was family separation. Among the initiatives to address this problem was a directive to

overhaul a ship in its home port, although this was not always possible since most public and private shipyards were not within the major home port area.

Since then, a number of factors have emerged to contribute to a situation where there were fewer Navy ships to overhaul and fewer private shipyard capabilities. For example, over the past decade, the size of the Navy has significantly decreased, from about 900 to 450 ships; other factors include time between overhauls on remaining ships increased, and overhaul time was lengthened due to more complex ships entering the fleet. Less work from a smaller Navy and a simultaneously decreasing Merchant Marine produced strong competition from remaining private shipyards for the available work.

According to a Navy official, during this period, the Navy made every attempt to overhaul as many ships as possible in their home ports. But there was not enough shipyard capacity (facilities and staff/skills) to do all the Navy overhauls in the home port. In this regard, Navy statistics indicated an average of about 46 percent of the overhauls were accomplished in the home port between fiscal years 1970 and 1982.

The home port repair policy was reaffirmed and amplified in 1974 in Chief of Naval Operations Instruction (OPNAVINST) 4700.7E. This instruction stated that the private sector overhaul solicitations would be restricted to the home port if there was adequate competition. This policy remained in effect until 1982. Despite this policy, Navy officials told us that contractors have not built facilities in the home port areas to expand their capacity or to increase competition. Since 1974, the percentage of ships overhauled in home port has remained at 45 percent.

During the past decade, the Navy also witnessed the disappearance of a national asset as skilled shipbuilding/repair capability workers went to other industries. According to Navy officials, there was concern about the effect on the industrial base and its ability to support a national mobilization effort to meet the requirement for a near-term expansion of the Navy. They believed something had to be done.

Recent changes in home port overhaul assignments

On July 19, 1982, as a first step to improving the industrial base, the Navy issued OPNAV NOTICE 4700. Although called a clarification, OPNAV NOTICE 4700, in effect, significantly changed the home port repair policy in existence since the early 1970s. The most significant change dictated that at least one-third of the regular overhauls of ships and service craft having crews attached should be reserved for the home port area. The balance is to be competed coastwide. In addition, the clarification calls for increased use of acquisition strategies other than the traditional formal advertising.

According to the Navy, the clarification guarantees shipyards a chance to bid on about two-thirds of the overhauls and affords shipyards firm planning information. Most of the shipyards would have been able to bid on the overhauls anyway, since there would not have been enough capacity/competition in the home port to do otherwise.

The Navy believes that this policy guarantees the crews of one-third of the ships a home port overhaul, moves toward guaranteeing a strong ship repair industrial base, insures strong competition, removes political pressures from the work assignment effort, and makes this procedure more predictable and business-like. The following factors were considered in the new work assignment policy:

- The number of ships have decreased while operational commitments have increased, making operational tempo higher and causing more family separations.
- Ships are more complex and take longer to overhaul.
- Time between overhauls has been increased to increase ship availability. This has resulted in fewer overhauls.
- Family separation decreases retention and out-of-home port overhauls increase separation.
- Long overhauls decrease effective force levels.
- A good overhaul is necessary to restore readiness to each ship overhauled.
- The Merchant Marine is smaller, affording less work to private yards.
- There is not enough work available to keep all required shipyards operating at prudent capacity.
- In most cases, shipyard overhaul is the only shore duty and family life that some sailors have for 3 to 4 years.
- The Navy is short 20,000 petty officers.

DOD, in its comments, disagreed that there has been a change in the home port policy and contends that the July 1982 clarification will have minimal impact on the number of home port overhauls. DOD said that the floor of one-third annual overhauls in home port is consistent with historical actual experience.

In this regard, as our review has shown, Navy statistics indicate an average of 46 percent (or almost one-half) of the overhauls were accomplished in home ports between fiscal years 1970 and 1982, under a repair policy that required this work to be done in the home port if certain conditions were met. Under

the clarification, home port shipyards will now have to successfully compete coastwide to exceed a reserved floor of only 33 percent.

Capital improvements/facilities aspect

As indicated, the Navy advised us that contractors had not previously built facilities in the home port areas to expand their capacity or to increase competition in order to do all intended overhauls. The statistics on overhauls seem to support this point. Navy data implies that if substantial capital improvements had been made in shipyard capacity, then the percentages of overhauls made in the home ports would have been higher.

The aspect of sufficient existing capacity, therefore, appears to have been a consideration in home port overhaul assignments over the past decade. Under the overhaul policy in effect at that time, if the facilities were available, then the solicitation in all likelihood was presumably restricted to the home port area, if all other assignment factors were met.

In its comments, DOD emphasized that the San Diego area is not encouraging as far as contractors' improving their ship-building/repair facilities. Only one shipyard has any appreciable industrial facilities and even that one does not include a drydock large enough to accommodate many of the ships expected to be overhauled. The other contractors must use Navy facilities, including both the Navy's pier space and the Navy's single drydock in the area. DOD noted that some firms have indicated an interest in making capital improvements and expansions, which the Navy would welcome.

Family relocation and other attendant overhaul costs

According to Navy contracting officials, the Navy does not consider family relocation costs in its evaluation of cost proposals. On the other hand, DAR 2-407.1, referring to formally advertised awards, states that "award shall be made * * * to that responsible bidder whose bid * * * will be most advantageous to the Government, price and other factors considered * * *." The Navy's "Ship Repair Contracting Manual" identifies foreseeable costs among the factors that must be considered in addition to the bid prices in making an award. Such costs, although not included in the job order price, must be borne by the Government in the event of award to a particular contractor. They include fuel, pilot, escort, and berthing and messing of ship-based personnel. Although the cited DAR reference pertains to formally advertised awards, the Navy's Repair Manual requires that "whenever applicable, however, foreseeable costs must be assessed under both formally advertised and competitively negotiated procurements." Foreseeable costs were not assessed or

applied to the cost proposals involved in the Wilson situation. We believe that nonconsideration of foreseeable costs results in an inequitable evaluation of contractor bids and fails to reflect potential costs to the Government.

Although the DAR is not specific on consideration of relocation costs, such as personnel and dependent transfers, in our opinion, these costs are also foreseeable and could, in some cases, be substantial. In the Wilson solicitation, some of the offerors were located more than 1,000 miles from the ship's home port.

In commenting on our report, DOD stated that the Navy does not factor family relocation costs into its evaluation of cost proposals because crews' attitudes about a home port change are personal and not always predictable at the time a contract overhaul is being planned. The Navy said the overhaul location, its duration, economics of the move, number/ages of dependents, housing market, and Navy housing status are but a few of the unpredictable in a coastwide solicitation area award. DOD stated that on the Wilson overhaul, less than one-third of the crew moved their families to Portland, Oregon. In summary, it believes that relocation costs appear to be small relative to the industrial cost of the overhaul.

DOD also stated that when NAVSEA began using cost contracts for specific surface ship overhauls in 1981, it concluded that foreseeable costs were inappropriate for cost contracts. NAVSEA believed that, among other reasons, foreseeable costs were deemed to be only a small portion of the costs of the overhaul itself and, therefore, not likely to influence contractor selection. However, DOD advised that, as a result of our work, the Navy is currently studying this issue and intends to develop plans for the consideration of foreseeable costs.

Crew morale factor

The purpose of the home port policy is to maintain crew morale by having the ships repaired within commuting distances of the crews' families. The policy restricted the solicitation area for ship overhauls. Crew morale, therefore, is an implicit factor in the assignment of a ship for overhaul to its home port area. However, once the decision is made about the solicitation area, the home port policy and crew morale are no longer considered in the contracting award process. According to contracting officials, crew morale is not specifically factored in any contract award and was not considered in the Wilson award.

This does not mean that the Navy ignores this factor after the solicitation area decision. The Navy recognizes the problems associated with transferring crews from the home port area and does everything possible to alleviate the hardships of

the affected crews. OPNAV INSTRUCTION 3111.14U provides a systematic procedure for obtaining complete information from the fleet and cognizant commanders to support the proposed change within the operating forces. Among the actions taken are informing the crew of the proposed change in a timely manner, assisting crewmembers with dependents on housing matters, providing entitlements and compensation for moving dependents and household goods, and assuring that the gaining activity has adequate facilities to accommodate the recreational and welfare demands of the crew.

Retention factor

We asked appropriate Navy personnel for information or studies on retention associated with ship overhauls not done at a home port. They informed us that no formal studies on this subject had been completed. However, they said that an analysis of the impact of overhauls on retention had been made in August 1981. The analysis showed no significant difference in retention of personnel for ships that had been overhauled at or away from the home port. Consequently, this issue is not a factor in contract awards. In this regard, we found no consideration of the issue in the Wilson contract award.

Family separation, although an integral part of Navy life, was listed as the primary concern by officers and enlisted personnel separating from the Navy. It can logically be assumed that any action that would increase family separation would be detrimental to retention.

The Navy analysis pointed out that in ship overhauls, certain factors, however, must be considered which could mask any potential negative retention impact. Such factors include:

- Overhaul periods continue to count as sea duty for rotation purposes. Therefore, overhauls may be perceived as preferable to an extended deployment away from the home port.
- Funded travel is authorized to the ship's home port on the 31st, 91st, and 151st day of the overhaul period. This funded travel is authorized when a ship elects not to change home port for overhaul and is overhauled at a location other than home port. This lessens the impact of a perceived long separation.
- Family separation allowance is paid to qualifying crewmembers to partially offset the added costs to the family associated with absence of the sponsor.
- Personnel may elect to use a Guaranteed Assignment Retention Detailing reenlistment in order to be detached from the ship during overhaul. This would increase unit retention statistics.

Regarding the Wilson overhaul retention experience, DOD commented that it appears there was no adverse impact on the crew of the Wilson as a result of overhauling out of home port. The ship's second term reenlistments rose higher than Navy-wide trends after entering overhaul.

SHIP REPAIR INDUSTRIAL BASE CONSIDERATIONS IN OVERHAUL CONTRACT AWARDS

We found no reference in the contract documentation that would indicate that maintaining as many operational shipyards as possible was a consideration in the Wilson award. However, information obtained from the Assistant Secretary of the Navy for Shipbuilding and Logistics indicates that the state of the west coast repair industrial base was a primary factor in the Secretary of the Navy's decision to solicit coastwide. This was confirmed by DOD in its comments on this report.

Moreover, according to DOD, industrial base considerations were partially responsible for the July 1982 change to the home port repair policy. Although home port shipyards will be allowed to compete for regular overhauls on a coastwide basis, only one-third of the overhauls will be reserved for the home port area. This change, according to a Navy official, goes a long way toward guaranteeing that the Nation will be able to retain a strong ship repair industrial base.

We believe this change could result in a greater geographical dispersion of some of the overhaul work that, under the previous home port repair policy, would have remained in the home port if certain conditions were met. DOD, in its comments, recognized emerging trends and concerns that could alter this situation. These include the necessity for strategic dispersal of the proposed, larger Navy; the requirement of a large industrial base to support it; and the recognition that current work assignments must consider the future needs and protect the industrial base as it now exists, or it would rapidly disappear as the Navy accomplished the "few" overhauls of existing ships in or near their home ports.

PREVIOUS DDG OVERHAUL AND ITS RELATION TO THE WILSON OVERHAUL

As stated previously, cost uncertainties created by both the total lack of cost history for private sector DDG overhaul efforts and the inability to predict total scope of work prior to the overhaul necessitated the use of a cost-reimbursement type contract for the Wilson overhaul. We found, however, that the Wilson was not the first overhaul done in the private sector on a DDG-class ship. From August 1979 to August 1980, Bath Iron Works (BIW) Corporation, under a sole-source contract, overhauled, altered, and repaired the U.S.S. Conyngham (DDG-17).

Our inquiries disclosed that the Wilson overhaul planning activities did not use the specifications developed on the Conyngham overhaul. It seemed logical to expect that previous experience be used to benefit the Navy on the Wilson overhaul. For example, purchased specifications should be of considerable use in preparing a complete work specification package. Complete specifications could result in selecting a contract type that provides the contractor an incentive to control its costs.

DOD, in its comments, concurred that subsequent use of the specifications should occur if the ships involved had sufficient commonality. However, according to information provided, the circumstances of the Conyngham overhaul precluded subsequent use of the specifications on the Wilson overhaul. DOD said that, while the Conyngham and the Wilson have the same general mission, the Conyngham specifications were not used because the Wilson, being one of the first eight ships in the DDG-2 class, is a Forrest Sherman class hull. Therefore, the Wilson specifications are related to the DD-931 class rather than to the later ships in the DDG-2 class. In fact, the Wilson was built as the DD-957. In overhaul planning, the hull governs the specifications to be used. The decision not to use the Conyngham specifications on the Wilson overhaul, DOD said, was a proper one.

Furthermore, DOD said the Conyngham overhaul was unique; it was a one-time congressionally directed test on decrewing a ship during its overhaul. The contractor, in addition to doing the required repairs normally done during a regular overhaul, performed the routine work normally done by the ship's crew during the overhaul. According to DOD, the contractor, faced with unknowns and limited funds, did an outstanding job of planning and executing the overhaul.

We recognize DOD's explanation for non-use of the Conyngham specifications in the Wilson overhaul planning. Moreover, our review of the Navy's "Post Overhaul Analysis Report" on the Conyngham overhaul confirmed that the effort was relatively successful, since sea trial results were described as outstanding.

Our review disclosed that the ship was the first of the DDG class to be overhauled in a private yard with a contractor's specifications. In this regard, the Post Overhaul Analysis Report stated that the contractor's conversion of the Navy's work package to work specifications appears to have been completely satisfactory. Although not appropriate for the Wilson overhaul, this indicates that the Conyngham overhaul specifications are data that could benefit the Navy on future private yard overhauls of that class of ship.

POSSIBILITY OF COST GROWTH ON THE WILSON OVERHAUL

There are indications that the final contract cost to overhaul the Wilson could be significantly more than the award estimate. This could occur, in part, because of the significant number of man-days--18,000--for which the offerors did not have work specifications in order to prepare estimates. The potential for growth and the above reason were initially expressed by SUPSHIP Boston, the planning SUPSHIP, in a March 10, 1982, letter, just 5 days before contract award. SUPSHIP Boston advised that it was conceivable that this situation could affect the number of change orders to the contract.

Also, messages from SUPSHIP Seattle, the administering SUPSHIP, near the start of the overhaul, outlined a number of funding and other problems that could affect the overhaul. An April 2, 1982, message on predicted end costs stated that estimated change orders could total about \$6.7 million. A May 11, 1982, message to NAVSEA listed a number of potential problems that appear to have been caused by a lack of adequate funding resources and/or delayed decisionmaking. In that message, SUPSHIP Seattle emphasized that since all cost risk associated with cost-plus-fixed-fee is assumed by the Government, all problems which plague overhaul executions take on much greater cost and schedule significance than in any other contracting environment. The SUPSHIP stated that had requested funding been provided by May 1, 1982, resolution of some of the listed problems would have occurred prior to the ship's arrival.

SUPSHIP Seattle pointed out that an overhaul of this complexity and size, which must be accomplished within an inelastic time frame, requires a management environment characterized by rapid decisionmaking. The SUPSHIP further stated that continuation of current environment of partial and/or delayed decision making by the authorizing and funding agency tends to ensure not only an unsuccessful overhaul, but also cost overruns of a potentially large magnitude.

DOD disagreed with our observations on cost growth. It stated that our report implies criticism of the Navy decision not to provide SUPSHIP Seattle \$6.7 million in April 1982 (prior to the overhaul start) for change orders. In this regard, the Navy determined that change order funding of that magnitude was not required at that time. DOD said the Wilson overhaul is now more than half complete; it is good quality and is on or ahead of schedule. According to DOD, only normal cost growth is expected.

Our observations were not intended as a criticism of the non-funding decision, but rather to point out (1) the predicted change order cost growth, (2) some of the initial overhaul administrative problems that could affect contract costs, and (3) the concern of the administering activity about the significance of these problems in a cost-plus-fixed-fee contract environment.

DOD does not deny that cost growth of this magnitude could occur, only that funding for it, in that amount, and at that time was not required. DOD did say that normal cost growth is expected. Although we did not determine what constitutes normal cost growth, it should be noted that NAVSEA, in an April 8, 1982, letter to the Chief of Naval Operations, stated that SUPSHIP Seattle's predicted end costs were based, in part, on its previous experience.

Subsequent to the receipt of DOD comments, we asked the Navy about the number of change orders to the contract. As of February 14, 1983, change order modifications totaled more than \$11.3 million. The Navy considers the Wilson's current overhaul cost of \$44.3 million reasonable and proper for a ship in its condition and being overhauled for the first time in the private sector in an area of high labor costs. The Navy also said that some additional growth can be expected before the overhaul is completed. It is also expected that the Wilson will receive an excellent overhaul considerably ahead of schedule.

BILL LOWERY
 61ST DISTRICT CALIFORNIA

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CONGRESS OF THE UNITED STATES
 HOUSE OF REPRESENTATIVES

April 2, 1982

Mr. Charles A. Bowsheer
 Comptroller General of the United
 States
 General Accounting Office
 441 G Street, N.W.
 Washington, D. C. 20548

Dear Mr. Bowsheer:

A recent decision by the Navy to repair the San Diego-based USS Henry B. Wilson (DDG-7) in Portland, Oregon, is producing substantial and justifiable public controversy. Two separate San Diego shipyards, with under-utilized capacity, submitted bids more than \$10 million below the selected contractor. Subsequent justifications by the Navy have proven to be of questionable validity, thus fueling the dissention.

Briefly, on December 10, 1981, the Department of the Navy, Naval Sea Systems Command (NAVSEA), issued a request for proposal to West Coast shipyards for the Overhaul, Alteration, and Modernization of the USS Wilson. Four shipyards submitted Cost Plus Fixed Fee proposals: Southwest Marine, Inc. (San Diego), Northwest Marine Ironworks (Portland), National Steel & Shipbuilding Co. (San Diego), and Todd Shipyards Corporation (San Pedro). On March 15, 1982, Northwest Marine was awarded the contract for \$33 million.

We are deeply disturbed by this decision in two important respects: First, Northwest Marine's bid exceeded Southwest Marine's by some \$13 million and was higher than NASSCO's by \$15 million, and second, this decision directly contravenes the Navy's own Home Port Policy.

Clearly, an objective review is needed to effectively resolve this matter. The USS Wilson award raises serious questions about the Navy's repair-contracting practices for private shipyards and

Mr. Charles A. Bowsher
April 2, 1982
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implementation of its Home Port Policy. In these times of fiscal austerity, when American taxpayers are being told to expect less Federal support for education, job training, and retirement assistance, no department can afford to ignore the paramount importance of lowest project cost--not even the Navy.

To date, the Navy has not offered satisfactory rationale for its decision to overhaul the USS Wilson in Portland. Initially, the Navy cited costly fraudulent practices in past San Diego ship repair contracts, but we subsequently learned that neither Southwest Marine nor NASSCO were parties to such allegations. Then the Navy asserted that insufficient drydock space was available in San Diego and, likewise, we now know this is not the case. Now we are told the decision was actually based on differences in technical and managerial capabilities, experience and facilities.

Consequently, this situation leads us to respectfully request a full GAO review and study of the following three areas and corresponding questions:

1. USS Henry B. Wilson Contract Award.

- a. What criteria did the Navy follow in evaluating contract bids for the USS Wilson?
- b. Were these criterion weighted proportionately or were they given a descending order of importance in the overall decision?
- c. If a descending order is used, what priority is cost given in making the final award?
- d. Whether or not these criteria are weighted, is the 65%-83% higher bid price by the USS Wilson contract awardee justified in this situation?
- e. How did the Navy's Home Port Policy influence this decision?
- f. If a primary reason for a Home Port Policy is the reduce family relocation costs and other attendant expenditures relating to the transfer, why are such costs not factored-in to all non-home port bids?

2. NAVSEA's Basis for Selection Criteria in General.

- a. We understand that project cost is usually given the lowest priority of all selection criteria. In light of current fiscal constraints, is this a proper and prudent method in which to award multi-million dollar contracts?

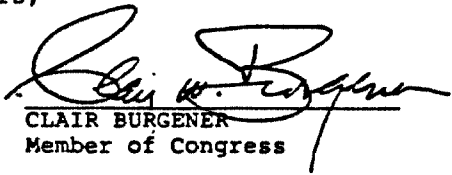
Mr. Charles A. Bowsher
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- b. If the Navy is to reach its goal of becoming a 600-ship fleet, then it must have the related goal of assuring the existence of sufficient ship repair facilities to service its growing demands. To what extent are contract award criteria affected by this inherent policy to maintain as many operational shipyards as possible?
3. Home Port Policy.
- a. According to a GAO Report in 1976, the Navy's policy is to assign a ship to be repaired within its home port area, how did this policy evolve and what changes have occurred since 1976?
- b. The Navy's Home Port Policy has encouraged shipyards, within close proximity to large naval operations, to substantially increase capital improvements in anticipation of increased demand. Does the Navy consider this aspect of its policy when awarding repair contracts?
- c. An important motivating factor behind implementation of Home Port Policy is maintaining crew morale. How is crew morale factored-in to a contract award? Was crew morale considered in the USS Wilson award and, if so, what were the findings?
- d. Does a decision to repair a ship away from home impact the retention of experienced officers and enlisted personnel? If so, is this factor properly weighed during contract selection?
- e. Since three California firms responded to the Navy's RFP on the USS Wilson, was not adequate competition present to preclude an Oregon firm from winning the award, particularly in light of Home Port Policy?

The fiscal implications of this decision by the Navy are of great significance. The Department of Defense must ensure cost effective contracting to maximize our efforts in restoring American military readiness. We urge this review on that basis and look forward to your timely report.

Sincerely yours,


BILL LOWERY
Member of Congress


CLAIR BURGNER
Member of Congress



RESEARCH AND
ENGINEERING

OFFICE OF THE UNDER SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

3 FEB 1983

Mr. Donald J. Horan
Director, Procurement, Logistics
and Readiness Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Horan:

This is in reply to your letter to the Secretary of Defense on your draft report, "Issues and Questions Regarding the Award of a Navy Contract to Overhaul the USS Henry B. Wilson (DDG-7)," dated November 29, 1982, OSD Case #6143, GAO Code No. 942163.

Detailed comments to your proposed findings, conclusions and recommendations are contained in Enclosure 1. Enclosure 2 contains suggested technical corrections. As you will note, there are some concerns with the draft report.

Your interest in bringing these matters to our attention is appreciated.

Sincerely,

A handwritten signature in black ink that reads "Jim Wade".

James P. Wade, Jr.
Principal Deputy Under Secretary of
Defense for Research & Engineering

Enclosures
As stated

GAO UNNUMBERED DRAFT REPORT - DATED NOVEMBER 29, 1982
(GAO CODE NO. 942163) OSD CASE NO. 6143

DOD RESPONSE TO REPORT'S
FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

* * * *

FINDINGS

FINDING A: Contract Evaluation Criteria: Cost Not Primary Factor. GAO found the Navy had decided (as it had on numerous other overhaul solicitations) that evaluation criteria other than cost were more important in assessing potential offerors' ability to successfully perform the WILSON overhaul--i.e., that the Navy was primarily concerned with seeking on-time completion of a technically complex ship in order to insure that fleet operating schedules could be maintained. GAO reported that to accomplish its objectives the Navy was willing to pay a premium for what its source-selection panel decided was a superior proposal because it believed that the fleet readiness would be better served. (Note: In connection with this Finding GAO also noted (1) that as to whether cost should have a low priority, it (GAO) had always held that selection of evaluation factors and the relative weight assigned to them are primarily for consideration by the contracting agency, (2) that it (GAO) would not substitute its judgement for that of the agency unless the agency's actions in establishing evaluation factors and their weights were arbitrary or not reasonably supported by the facts and (3) that there is nothing improper or imprudent in an agency awarding a contract to other than the low cost offeror when technical considerations are highly important to the agency's needs.) (p. 1, Letter -p. 7, Enclosure; GAO Draft Report)

COMMENT: DoD partially concurs. DoD concurs that the acquisition strategy employed by the Navy is consistent with its assessment of its needs and the procurement environment. DoD nonconcurrs with the implication that the Navy's decision to assign lesser importance to the cost proposal element could have been meaningfully different when elsewhere in the draft report (p. 7) GAO correctly notes "...the assignment of a low rank and weighting factor to cost is logical outgrowth of the determination by the Navy to award a cost-plus-fixed-fee (CPFF) contract for the WILSON overhaul." Also, use of source-selection procedures in the award of a cost-plus-fixed-fee contract does not equate to "paying a premium" for the contracted work. The use of the word "premium" would imply on the part of the Navy a disregard for cost, when exactly the reverse is

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true. The Navy desired a successful and timely completion at reasonable cost. [See pp. 1-2 of letter and pp. 4-5.]

FINDING B: Coast-wide Solicitation Decision:

Unavailability of the San Diego Naval Station Drydock Was An Influencing Factor. GAO found (1) that the reactivation of the USS NEW JERSEY and its scheduled modernization at the Long Beach Naval Shipyard resulted in transfer of several scheduled overhauls from that shipyard, including the HENRY B. WILSON, (2) that at the time the WILSON was displaced and assigned to a private sector overhaul the San Diego Naval Station drydock, owned by the Navy but made available to all private contractors in the San Diego area, was not available (the NAVSEA letters of procurement interest sent to prospective offerors on November 27, 1981 announced this unavailability as well as the RFP dated December 22, 1981), (3) that the unavailability of the drydock limited competition in the San Diego area, (4) that this unavailability of the drydock was an important factor in the decision by contracting officials to open the overhaul procurement coast-wide--in effect, it dictated a solicitation beyond the homeport area, and (5) that on December 29, 1981, after the decision to go coast-wide was made and one week following the RFP, contracting officials were advised that the San Diego graving dock would now be made available for the overhaul indicating it probably could have been determined available prior to the coast-wide decision. (GAO noted, apparently at the request of the Commander, Naval Surface Forces, Pacific (SURFPAC), that the drydock schedule was altered to accommodate the WILSON.) (pp. 1-2, Letter - pp. 9-14, Enclosure; GAO Draft Report)

COMMENT: DoD concurs with (1) and (2); partially concurs with (3) and (5); and nonconcurrs with (4).

- (1) DoD concurs that modernizing the NEW JERSEY at the Long Beach Naval Shipyard resulted in transfer of several scheduled overhauls from that shipyard, including the WILSON.
- (2) DoD concurs that the San Diego Naval Station drydock was initially unavailable.
- (3) DoD concurs that unavailability of the drydock initially limited competition in the San Diego area since all but one of the private contractors would require its use to handle the overhaul of the WILSON. Inasmuch as the drydock did become available a short time after the procurement was announced, however, DoD nonconcurrs that competition for the WILSON overhaul was actually affected. [See pp. 6 and 7.]

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- (4) DoD nonconcurrs that the unavailability of the drydock was a factor in the decision to open the WILSON overhaul procurement coast-wide. Notwithstanding any comments to the contrary that may have been made by contracting officials during the course of the GAO review, this was not an issue. As GAO indicated on Page 12 of the draft report, contract records indicated that a SECNAV decision made in June 1981 (nine months prior to the WILSON overhaul) to bid four ships coast-wide caused the drydock availability to be an irrelevant factor in determining the overhaul solicitation area for the WILSON. Whether or not the drydock had initially been indicated as available, it would not have changed the decision to procure the WILSON overhaul on a coast-wide basis. In this instance it had been determined that the need to strengthen and support the ship repair industrial base was the primary concern. [See p. 2 of letter and pp. 6-8.]
- (5) DoD partially concurs. DoD concurs that shortly after the RFP for the WILSON overhaul was announced, contracting officials were advised that the San Diego drydock would be available. DoD does not, however concur with the implication that this availability was controlled by the Navy. This was not the case at the time of the WILSON procurement. At that time, the San Diego drydock was leased by the Navy to the San Diego Unified Port District which, in turn, had contracted the operation and maintenance of the drydock to Southwest Marine Incorporated of San Diego, one of the San Diego Master Ship Repair Contract holders and a potential bidder in the case of the WILSON. Therefore, although the Navy retained scheduling responsibility, the control of the drydock by Southwest Marine, Incorporated through its operations and maintenance contract, gave to this contractor the primary influence over the availability of the dry dock. While COMNAVSURFPAC may have requested reconsideration of its availability, the primary influence on the reconsideration decision continued to be Southwest Marine Incorporated, the operator of the drydock. Recognizing that the situation as it had evolved was inappropriate, the Navy subsequently terminated its lease with the San Diego Unified Port District (which in turn terminated the Port's contract with Southwest Marine, Incorporated). The Navy now directly operates and maintains the drydock. [See p. 7.]

FINDING C: Homeport Policy: Recent Change. GAO noted that the homeport area repair policy originated in the early 1970's because of a concern over low retention of enlisted personnel, that this homeport repair policy was re-affirmed and amplified in 1974 in OPNAVINST 4700.7E which stated that private sector overhaul solicitations would be

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restricted to homeport if there was adequate competition available there (with the result that about 45% of the overhauls were accomplished in the homeport between fiscal years 1970 and 1982). GAO found (1) that despite this policy contractors did not build facilities in the homeport area to improve their capacity or to increase competition, (2) that in the past decade skilled shipbuilding/repair capability workers have moved to other industries causing Navy concern about the adequacy of the industrial base and its ability to support a national mobilization effort to meet the requirement for a near-term expansion of the Navy, and (3) that this concern resulted in the July 19, 1982 OPNAV NOTICE 4700. GAO further found that although called a clarifying notice, in effect it significantly changed the homeport policy in existence since the early 1970's--the most significant change directing that at least one-third of the regular overhauls of ships and service craft having crews attached should be reserved for the homeport area with the balance competed coast-wide. (pp. 1-2, Letter-pp. 15-22, Enclosure; GAO Draft Report)

COMMENT: DoD concurs with (1) and (2) and nonconcurr with (3).

- (1) DoD concurs that the San Diego area is not encouraging as far as contractors improving their shipbuilding/repair facilities. Only one shipyard has any appreciable industrial facilities and even that one does not include a drydock large enough to accommodate many of the ships expected to be overhauled. The other repair and overhaul contractors must use Navy facilities, including both Navy pier space and the Navy's single drydock in the area. (Some firms have indicated an interest in making capital improvements and expansions, which the Navy would welcome.)
- (2) DoD concurs that there has been a loss of skilled shipbuilding and repair workers to other industries and that this is of concern to the Navy in efforts to maintain an adequate industrial base to meet its shipbuilding/repair needs.
- (3) DoD nonconcurr that there has been a change relative to homeporting ships for repairs. The Navy's "overhaul assignment policy," which applied to the WILSON procurement, is structured to ensure a balance among three essential ingredients: welfare and morale of crews, maintenance of an adequate, dispersed industrial base and enough competition to get a good job at a reasonable price. It has always been impossible to overhaul all ships in their homeport area since such shipyard capacity does not exist. Many of the public and private shipyards are not

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located within major homeport areas. The floor of one-third annual overhauls in homeport is consistent with historic actual experience and thus ensures that operational commitments and crew considerations will be protected. Homeport shipyards can exceed this floor through competition, which should be perceived as both fair and consistent with the Navy overhaul policy. When the current Administration took office, one of its early actions included revision of the "Carter Budget" and other internal Navy plans to build the much needed "600 ship Navy." Very early it was recognized that the larger Navy would require a large industrial base both to build and support the 600 ship Navy. Further, it was recognized that subsequent strategic dispersal would also be necessary. It was apparent to all that current work assignments must consider the future needs and protect the industrial base as it now exists or it would rapidly disappear as we accomplished the "few" overhauls of existing ships in or near their homeports. (Note: It appears there was no adverse impact on the crew of the WILSON as a result of overhauling out of homeport since after entering overhaul her second term reenlistments rose higher than Navy-wide trends.) [See p. 3 of letter and pp. 9-12 and 13-15.]

FINDING D: Cost Impact of Family Relocation and Other Attendant Overhaul Costs. Despite the fact that in making an award, the Navy's "Ship Repair Contracting Manual" identifies "foreseeable costs" among the factors that must be considered in addition to the bid price, GAO found (1) it is not a Navy practice to factor family relocation costs into their evaluation of cost proposals even though these are costs outside the contract price which must be borne by the Government and (2) that in connection with the overhaul contract for the WILSON, foreseeable costs were never assessed or applied to the cost proposals of each contractor involved in the solicitation. (pp. 19, Enclosure; GAO Draft Report)

COMMENT: DoD concurs with (1) and (2).

- (1) DoD concurs that the Navy does not factor family relocation costs into their evaluation of cost proposals. Crews' attitudes about a homeport change are very personal and not always predictable at the time a contract overhaul is being planned. The overhaul location, duration of overhaul, economics of the move, number/ages of dependents, housing market and Navy housing status are but a few of the unpredictables in a commercial coast-wide solicitation /award. Generally a family will elect not to sell their house or lose Navy housing status or take children out of school for the relatively short 9 to 12 month overhaul period. On the WILSON less than

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one-third of the crew moved their families to Portland. In short, relocation costs appear to be small relative to the cost of the industrial overhaul.

- (2) DoD concurs that in connection with the overhaul contract for the WILSON, foreseeable costs were never assessed or applied to the cost proposals of each contractor involved in the solicitation. When the Naval Sea Systems Command began utilizing cost contracts for specific surface ship overhauls in 1981, it was concluded that foreseeable costs were inappropriate for cost contracts. As stated above, crews' attitudes about a homeport change are very personal and not always predictable. Again, the overhaul location, duration of overhaul, economies of the move, number/ages of dependents, housing market and Navy housing status are but a few of the unpredictables in a commercial coast-wide solicitation/award. Further, the foreseeable costs were deemed to be only a small portion of the costs of the overhaul itself and therefore not likely to influence contractor selection. Accordingly, unlike contracts awarded under the aegis of the Master Ship Repair Manual, which is designed exclusively for fixed price contracts, no cost contract for a surface ship overhaul award by NAVSEA since 1981 has embodied foreseeable costs. In light of the GAO recommendation to include such costs in future coast-wide solicitations (See RECOMMENDATION 2), the Navy is currently studying this issue and intends to develop plans for the consideration of foreseeable costs.

FINDING E: CONYNGHAM Overhaul vs. WILSON Overhaul. GAO found that the USS CONYNGHAM--a ship in the same class as the WILSON--was overhauled during the period August 1979-August 1980 and could have provided adequate data to allow the Navy to benefit from this experience in the WILSON overhaul, i.e., more definitive specifications. GAO further found that because of inadequate planning and administration, and a lack of foresight, this opportunity was missed. (pp. 1-2, Letter--pp. 24-28, Enclosure; GAO Draft Report)

COMMENT: DoD nonconcur. While the CONYNGHAM and WILSON have the same general mission, the CONYNGHAM specifications were not used because the WILSON (DDG 7), being one of the first eight ships in the DDG 2 Class, is a FORREST SHERMAN hull and therefore her specifications are related to the DD 931 Class rather than the later DDG Class. In fact, the WILSON was built as the DD 957. Accordingly, the

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Supervisor of Shipbuilding in Boston elected to use the more appropriate DD 931/945 specifications. Further, the CONYNGHAM overhaul was unique; it was a one-time experiment in decrewing a ship during overhaul based on a GAO recommendation to the Congress that the Navy's personnel were not needed on ships in overhaul and could be better utilized on other fleet ships or assigned to Shore Intermediate Maintenance Activities (SIMA). The Appropriation Act for FY 79 directed that the experiment be conducted in FY 79. Faced with that Congressional directive and inadequate planning time, the Navy turned to a highly capable yard to help plan and execute the experiment. Facing the unknowns with limited funds the contractor did an outstanding job planning and executing the overhaul. [See pp. 15-16.]

FINDING F: Possibility of Cost Growth on the WILSON Overhaul: SUPSHIP Seattle Request For Additional Funding. GAO found that near the start of the WILSON overhaul SUPSHIP Seattle, the administering SUPSHIP, outlined a new base of funding and other problems that could have an impact on the overhaul. GAO further found that in April 1982 SUPSHIP Seattle predicted end costs of estimated change orders at about \$6.7 million and in May 1982 discussed readiness to start the overhaul, listing a number of potential problems that appear were caused by a lack of adequate funding resources and/or delayed decision making. GAO reported that at that time SUPSHIP Seattle stated continuation of the then current environment and/or delayed decision making on the part of the authorizing and funding agency (assumed to be the non-funding of the additional \$6.7 million) tended to ensure not only an unsuccessful overhaul, but also a cost overrun of a potentially large magnitude. (pp. 23-24, Enclosure; GAO Draft Report)

COMMENT: DoD nonconcur. The GAO report implies criticism of the Navy decision not to provide SUPSHIP Seattle \$6.7M in April 1982 (prior to overhaul start) for change orders. The Navy determined that change order funding of that magnitude was not required at that time. The WILSON overhaul is now more than half complete; it is good quality, on or ahead of schedule and only normal growth to accomplish change orders is expected. [See pp. 17-18.]

CONCLUSIONS

CONCLUSION 1: GAO concluded that the ability of the COMNAVSURFPAC to influence the availability of the Navy's drydock suggests that this action probably could have been taken earlier. (p. 11, Enclosure, GAO Draft Report)

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COMMENT: DoD nonconcur. While the COMNAVSURFPAC may have requested that availability of the drydock be reviewed, control of the drydock rested with the operator of the drydock, Southwest Marine, Incorporated, a private contractor. (See FINDING B) [See p. 7.]

CONCLUSION 2: GAO concluded that unavailability of the drydock before the RFP date was influential in the coast-wide solicitation decision. (p. 11, Enclosure; GAO Draft Report)

COMMENT: DoD nonconcur. The nonavailability of the drydock was not a factor in the Navy's decision to procure the WILSON overhaul on a coast-wide basis. The coast-wide decision was the result of an earlier SECNAV decision. (See FINDING B) [See p. 2 of letter and pp. 6-8.]

CONCLUSION 3: GAO concluded that subsequent availability of the San Diego drydock would seem to have required the Navy to follow its homeport repair policy and restrict the WILSON overhaul to the San Diego area. (p. 11, Enclosure; GAO Draft Report)

COMMENT: DoD concur. Since the nonavailability of the drydock was not a factor in the Navy's decision to procure the WILSON overhaul on a coast-wide basis, its subsequent availability did not require reconsideration of the coast-wide decision. (See FINDING B) [See p. 2 of letter and pp. 6-8.]

CONCLUSION 4: GAO concluded that the recent policy change contained in OPNAV NOTICE 4700 could significantly alter the homeport repair situation and result in a greater geographical dispersion of some of the overhaul work that previously would have remained in the homeport area. (p. 17, Enclosure; GAO Draft Report)

COMMENT: DoD nonconcur. The recent policy clarification (i. e., that at least one-third of regular overhauls will be conducted in the homeport area and the balance to bid coast-wide) will have minimal impact on the number of homeport overhauls. It should be noted that coast-wide solicitations will include the homeport area as did the WILSON's. This clarification goes a long way toward ensuring survivability of the nation's industrial ship repair base. (See FINDING C)[See pp. 2-3 of letter and pp. 9-12.]

CONCLUSION 5: GAO concluded that on coast-wide solicitations, foreseeable costs, including relocation expenditures, should be considered in contract awards to equitably reflect the full potential costs to the

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Government associated with each proposal. (p. 3, Letter-p. 17, Enclosure; GAO Draft Report)

COMMENT: DoD partially concurs. DoD concurs that foreseeable costs may be considered in contract awards. DoD does not concur that relocation costs present a significant cost--even if they could be reasonably estimated. Crews' attitudes about a homeport change are very personal and not predictable at the time a contract overhaul is being planned. The overhaul location, duration of overhaul, economics of a move, numbers/ages of dependents, housing market and Navy housing status are but a few of the unpredictables in a coast-wide solicitation /award. The Navy is currently studying this issue and intends to develop plans for the consideration of foreseeable costs. [See pp. 12-13.]

CONCLUSION 6: GAO concluded that it is logical to expect that specifications purchased on a first-time complex ship overhaul should be of considerable use on subsequent overhauls. (p. 3, Letter; GAO Draft Report)

COMMENT: DoD concurs if the ships have sufficient commonality. In the case of the CONYNGHAM and WILSON, however, this was not the case. While the WILSON and CONYNGHAM have the same general mission, they have different hulls and the hull governs the specifications to be used. The WILSON is one of the first eight ships in the DDG 2 Class and is therefore similar to the DD 931 Class. In fact, WILSON was built as the DD 957. The WILSON specifications are different from the CONYNGHAM (DDG 17). The Supervisor of Shipbuilding in Boston used the more appropriate specifications on the WILSON (i.e., DD931/945). (See FINDING E) [See pp. 15-16.]

RECOMMENDATIONS

RECOMMENDATION 1: GAO recommends that the Naval Sea Systems Command (NAVSEA) investigate and determine why the specifications obtained from the private sector overhaul on a similar type ship (CONYNGHAM) could not have been used on the WILSON overhaul. (p. 3, Letter; GAO Draft Report) [See GAO note on p. 33.]

COMMENT: DoD nonconcur. It is DoD's position that because the CONYINGHAM and WILSON had different hulls, the decision not to use the CONYNGHAM specifications for the WILSON overhaul was a proper one. (See FINDING E and CONCLUSION 6.)

RECOMMENDATION 2: GAO recommended that the Navy (NAVSEA) promulgate guidelines and instructions for contracting

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activities governing the consideration of foreseeable and relocation costs in the source selection process for ship overhauls. (pp. 3-4, Letter; GAO Draft Report)

COMMENT: DoD partially concurs. It is DoD's position that guidelines and instructions should not be promulgated until such time as a thorough review is accomplished. The Navy will undertake such a review which should be completed by July 1, 1983. [See p. 3 of letter and pp. 12 and 13.]

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GAO UNNUMBERED DRAFT REPORT - DATED NOVEMBER 29, 1982
(GAO CODE NO. 942163) OSD CASE NO. 6163

DOD SUGGESTED TECHNICAL CORRECTIONS

Draft letter to Representative Lowery and Burgener, page 3, last paragraph, second sentence: Correct sentence to read:

"The Defense Acquisition Regulation (DAR) recognizes that foreseeable costs may be among the factors to be considered in making an award."

Draft report, pages 5 and 6, percentage weights and cost category scores: Recommend that percentage weights (page 5) not be published. Each source selection is a separate and distinct procurement with the weights determined separately for each procurement. (For instance, weights for complex and noncomplex ships may vary.) Publishing the weights may lead the shipbuilding and repair industry to assume that similar weights will be used on forthcoming procurements. Such an assumption could have an impact on a future proposal by a contractor placing improper emphasis upon various categories. It is also recommended that the actual scores garnered by contractors on their cost proposals (page 6) not be published. It would seem that comparative statements would accomplish the same objective without causing the contractors concerned public notoriety by their performance on that portion of the competition.

Draft report, bottom of page 13: Correct DAR reference to "3-807.7."

Draft report, middle of page 19: The cited DAR reference pertains to awards made as a result of formal advertising.

GAO note: We received and evaluated additional information from DOD relative to the Navy's investigation of the Conyngham/Wilson specification situation. Based on this evaluation, the recommendation has been dropped from the final report.





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