



UNITED STATES GENERAL ACCOUNTING OFFICE  
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The Honorable Robert J. Blackwell  
Assistant Secretary for Maritime  
Affairs  
Department of Commerce



Dear Mr. Blackwell:

During April 1976 we initiated a survey of the Maritime Administration's (MARAD) ship sales program. Our objectives were to evaluate MARAD's effectiveness in disposing of surplus Government-owned vessels. Included in our survey was an examination of the program's ability to implement the recommendations contained in a February 1975 report of the General Accounting Office of audits report on selected ship sales activities. To assist us in this effort we reviewed the materials prepared by the Office of Maritime Affairs and the program's operating procedures of their operations. The survey was designed to determine the actual effectiveness of the program in disposing of surplus vessels being applied to the ship sales program. The results of the survey and the findings and conclusions of the program are discussed in the report of our survey are discussed in the following:

Our survey disclosed that MARAD had established a number of conditions which could be used to determine the effectiveness of the ship sales program. The survey also disclosed that part of the conditions were not being applied to the ship sales program. In light of these conditions, we believe that there are a number of concerns concerning (1) the establishment of criteria used to determine the most acceptable price, and (2) the establishment of written policies and procedures for the sale of ships should be further implemented. The details of these matters are discussed in the following:

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The internal auditors stated that MARAD did not contact with the vessel appraisers to establish the estimated weight of the vessel being sold for recycling or other disposition. Since weight is an

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

In response to this recommendation, B&W retained a vessel appraiser to conduct an audit of \$20 per vessel, to determine on a case-by-case basis the weight of four vessels in the National Defense Inventory. Through these appraisals revealed that the approximate weight of each vessel was greater than the amount which had been used by B&W to establish a least acceptable price, a minimum price beneath which the vessel will not be sold. In one of the three cases, B&W's least acceptable price was established by 100 long tons, or about 100,000 pounds, of vessel weight. This discrepancy could have resulted in the vessel being sold with its least acceptable price being established by 100,000 pounds, and could have resulted in lost revenue to the Government of as much as \$150,000 if the vessel had actually been sold.

The fourth vessel is the B&W's original estimated vessel weight was 100,000 pounds, or 100 long tons. If this vessel had been offered for sale with its least acceptable price established by 100,000 pounds, the least acceptable price could have been established by 100,000 pounds, or 100 long tons, and the vessel could have been sold with its least acceptable price being established by 100,000 pounds, or 100 long tons. This discrepancy could have resulted in lost revenue to the Government of as much as \$150,000 if the vessel had actually been sold.

The fifth vessel is the B&W's original estimated vessel weight was 100,000 pounds, or 100 long tons. If this vessel had been offered for sale with its least acceptable price established by 100,000 pounds, the least acceptable price could have been established by 100,000 pounds, or 100 long tons, and the vessel could have been sold with its least acceptable price being established by 100,000 pounds, or 100 long tons. This discrepancy could have resulted in lost revenue to the Government of as much as \$150,000 if the vessel had actually been sold.

The Director, Office of Public Shipping (OPS), concurs that such appraisals are needed. However, he has taken the position that they should only be used to determine relative bids. On July 22, 1976, OPS advised the Director, Office of Management Programs, the Director,

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

Recommendation to the Assistant Secretary

Prudent and responsible management dictates that the evaluation of bids be based on the best available estimates for the weight of all vessels sold. Since independent on-site appraisals are not provided for all estimates of vessel weight, at little additional cost, the procedures currently used, we recommend that on-site appraisals be formally adopted as part of the vessel sales procedures and that the necessary funds to implement these procedures as soon as practicable be included in the budget for this purpose should be included in future years' budgets.

#### NEED TO ESTABLISH LOWEST ACCEPTABLE PRICE IN SALES INVITATION

In the past, OS has expressed concern over the high rejection rate and, for the purpose of arbitrating a competitive bidding system, has recommended that the invitation of bids contain the date and time of sale of each ship, with a date, such as 54 C.F.R. 60 (1975), 75 F.R. 10000, as the basis on which their bids could be evaluated in competition. In the decision cited, we stated:

"\* \* \* In this way a prospective bidder is given the opportunity to make a bid, whether submission of a bid at a given time is a useful gesture. At the same time, the bidder is not required to submit a bid which is a mere gesture, in excess of the minimum." \* \* \*

The Director, OS, stated that MarAd was to try this concept on a selective basis. This survey, we found that between June 9, 1975, and August 1, 1975, OS advertised 12 sales invitations for the sale of vessels. None of these invitations included a lowest acceptable price. However, we noted that the Department's Internal Auditor's 1975 audit report, contained on the face thereof, developed the criteria to be used in arriving at the lowest acceptable price determinations. The auditors recommended that this report be completed and that it be used to inform the Department of the lowest acceptable price approach used by MarAd.

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

Recently, CDO in a reconsideration of its above mentioned decision stated that since there is no statutory requirement for publishing the lowest acceptable price, and since there are other more basic questions concerning World's procedures for determining this price, it was not appropriate for CDO to insist that World disclose its lowest acceptable price in sales invitations. The CDO decision further points out that it is not World's prohibition of the disclosure of the minimum price acceptable to World which caused the problem, but rather that the heart of the controversy concerns the more basic issues of World's determination of the minimum acceptable price. (Understanding supplied.)

As indicated above, this report points out that World has not developed any written procedures explaining how its factors are used to determine the lowest acceptable price. We believe accordingly, to enhance the integrity of the competitive bidding system and to provide consistency, World should publish the lowest acceptable price in its sales invitations without the necessity of publishing reasonable and adequate procedures for determining such prices.

#### Recommendation of the Board of Directors

In the above mentioned written procedures it is unclear how World determines that its lowest acceptable prices are established in a reasonable basis. World's procedures for determining the lowest acceptable price are not clearly set forth in any part of the procedures and accordingly, it is not clear how World's prices are established. The Board of Directors should develop procedures for determining the lowest acceptable price in its sales invitations. In addition, World should publish its lowest acceptable price in its sales invitations.

#### World's Financial Statements - 1975-1976

The Internal Affairs, in their December 1976 report, also stated that the office of outside shipping did not have adequate internal guidelines for carrying out shipping activities. Further, the written policies and procedures which did exist had not been consolidated into a single file and were not clearly defined. The Internal Affairs stated that the shipping office was not clearly defined, and that the shipping office should be clearly defined and uniformly applied and to provide more effective management control over operating activities.

Accordingly, the auditors recommend that P&G develop and consolidate written policies and procedures for:

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

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

#### Recommendation to the Assistant Secretary

In addition to the deficiencies identified by the internal audit, the preparation of formal policies and procedures is a key element in reducing the high volume of bid requests, particularly those that are historically unresponsive, and in ensuring that the bid process is efficient. Specifically, we recommend that the Assistant Secretary, in consultation with the Office of the Inspector General, take the following actions to address the deficiencies identified in the internal audit: (1) consult with the Office of the Inspector General regarding the responsibilities included in preparing internal control documents;

Thank you for the cooperation given in the audit. If you have any questions, let us know. If you have any comments on the audit findings, please let us know.

Sincerely,  
John L. ...

*John L. ...*  
John L. ...  
Assistant Secretary