



February 2014

MARITIME ADMINISTRATION

Ship Disposal Program Needs Improved Communications and Updated Strategic Plan

Why GAO Did This Study

Timely and proper disposal of obsolete ships in the National Defense Reserve Fleet—older ships designated for use in national emergencies—is critical to protecting the environment. Because these ships often contain hazardous materials, members of Congress and others have raised issues about the environmental concerns. As part of the Department of Transportation, MARAD's Ship Disposal Program serves as the federal government's agent for competing and awarding contracts for recycling the ships' materials. Congress has required MARAD's ship disposal program to award ship recycling contracts to qualified ship recycling facilities on the basis of best value. The Coast Guard and Maritime Transportation Act of 2012 mandated that GAO review MARAD's source selection procedures and practices used to award ship recycling contracts.

In this report, GAO assessed MARAD's (1) source selection process; (2) communication strategy with ship recycling contractors; and (3) long-term ship disposal strategy. To complete this work, GAO reviewed and analyzed documentation on MARAD's qualification process, source selection procedures, and strategies; and interviewed MARAD and all of its qualified ship recycling contractors.

What GAO Recommends

GAO is recommending that the Department of Transportation improve its communication strategy and update its strategic plan. The Department agreed with the facts but did not take a position on our recommendations.

View [GAO-14-223](#). For more information, contact Marie A. Mak at (202) 512-4841 or makm@gao.gov

MARITIME ADMINISTRATION

Ship Disposal Program Needs Improved Communications and Updated Strategic Plan

What GAO Found

The Maritime Administration (MARAD) uses a two-step source selection process, first by qualifying contractors and then awarding contracts for ship recycling services based on best value, consistent with the Federal Acquisition Regulation (FAR). In the first step, MARAD qualifies contractors' ship recycling facilities. The qualification process involves evaluating ship recycling facilities' proposals based on multiple criteria, including how a facility plans to dismantle ships and the extent to which the contractor—including its ability to meet local, state, and federal regulations—supports that effort. For the second step, MARAD awards ship recycling contracts for specific ships using a best value source selection process. The best value source selection process allows the government to accept an offer other than the best-priced offer, considering both price and non-price factors, that provides the greatest overall benefit to the government. MARAD considers three evaluation criteria—price, schedule and capacity, and past performance.

MARAD has made some efforts over the last year to clarify certain elements of its source selection process; however, MARAD could strengthen its communication strategy with its contractors. All of the qualified contractors GAO spoke with were confused about MARAD's source selection process—including how MARAD uses past performance to evaluate contractors' offers. MARAD has made an effort to clarify its past performance criterion by further explaining what is considered in its most recent solicitation. However other concerns remain. For example, some contractors expressed concern as to whether changes to their facility were approved by MARAD. GAO's standards for internal controls state that management should ensure adequate means of communicating with external stakeholders that may have a significant impact on the agency achieving its goals. Improving its communication strategy with its contractors could help MARAD maximize the transparency of its source selection process.

In 2006, MARAD issued a comprehensive management plan, or strategic plan, that outlined short- and long-term strategies for the disposal of MARAD's obsolete ships; however several key elements are now outdated or no longer applicable. According to program officials, MARAD was required to provide regular reports to Congress for several years, the last of which was in March 2011, on the progress made to address the backlog of obsolete ships. However, these reports did not provide the strategic short- and long-term direction for the program. Further, they indicated that the principles of the plan remain relevant; but the 2006 strategy does not take into account current market conditions, goals, and external risks. For example, concerns about maintaining the supplier base are not addressed in the plan. MARAD wants to maintain a supplier base to ensure competition for future ship recycling contracts, but has not fully considered risks and options to address this pending issue. Competition is a cornerstone in federal contracting and a critical tool for achieving the best return on the government's investment. An updated strategic plan that reflects the current external environment and risks could better position MARAD to identify future challenges and opportunities to help ensure the long-term participation and competition of the industrial base for ship disposal.

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February 12, 2014

Congressional Committees

As part of the Department of Transportation, the Maritime Administration's (MARAD) Ship Disposal Program serves as the federal government's agent for competing and awarding contracts for disposal of obsolete ships in the National Defense Reserve Fleet (NDRF) and some of those from other federal agencies weighing 1,500 gross tons or more.¹ Many of these ships contain hazardous materials such as asbestos, lead, polychlorinated biphenyls, and residual oils and fuels. MARAD must comply with certain federal statutes that affect ship disposal including those related to the handling of pollutants and hazardous waste. However, members of Congress and environmental groups have raised issues about the potential environmental hazards—such as costly oil spills or other environmental threats—posed by these ships and the need for the timely and proper disposal of them to protect the environment. MARAD's disposal prioritization is based on ship material condition and a "worst first" disposal policy for obsolete ships in the NDRF. From fiscal year 2001 through fiscal year 2013, 197 ships have been removed from MARAD's fleets for disposal. As of October 2013, 27 obsolete ships remain in the fleet, while about three to five additional ships are declared obsolete each year.

MARAD can dispose of obsolete ships through sales recycling contracts—in which the government sells the ship to the contractor and the contractor dismantles the ship and sells the scrap for profit. Prior to 2000, MARAD sold ships to the contractor with the highest price for the ship. By the late 1990s, the market price for scrap metal decreased, which contributed to a decline in contractors' interest in purchasing ships. As a result, MARAD experienced a backlog of obsolete ships for disposal. Beginning in fiscal year 2001, Congress expanded MARAD's ship disposal authority to include the option to pay for recycling services through contracts for services—through which the government pays the

¹Established in 1946, the National Defense Reserve Fleet serves as a reserve that could be activated to meet shipping requirements during national emergencies. The fleet contains some older ships that have been designated for disposal (referred to as non-retention ships). In this report, we refer to non-retention ships as obsolete ships.

contractor to dismantle and dispose of the ship's material.² Congress has also required MARAD, for both sales contracts and contracts for services, to select awardees on the basis of best value, consistent with the Federal Acquisition Regulation (FAR), considering, among other things, least cost to the government, timeliness, worker safety, and environmental concerns. When awarding these contracts on the basis of best value, MARAD selects a contractor's offer that, in the government's estimation, provides the greatest overall benefit in response to the requirement, considering both price and non-price factors.³ At times, this may result in an award that is not the best price.⁴ MARAD started using best value source selection procedures for ship recycling contracts beginning in 2002.

The Coast Guard and Maritime Transportation Act of 2012 mandated that GAO conduct an assessment of the source selection procedures and practices used to award MARAD's NDRF ship recycling contracts, including MARAD's processes, procedures, and practices for the qualification of ship recycling facilities, determining whether MARAD's contract source selection procedures and practices are consistent with the law and best practices associated with making source selection decisions, as well as any other aspect we deem appropriate to review.⁵ This report assesses MARAD's (1) source selection process; (2) communication strategy with ship recycling contractors; and (3) long-term ship disposal strategy.

To determine MARAD's source selection process for ship recycling, including facility qualification and best value process for contract awards, and the extent to which MARAD communicates that process with contractors, we identified and reviewed federal laws and regulations

²Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001, Pub. L. No. 106-398, § 3502 (2000). For the purposes of this report, we generally refer to sales contracts and contracts for services as recycling contracts.

³An agency can obtain best value by using certain source selection approaches. MARAD specifically uses a tradeoff process which permits tradeoffs among cost or price and non-cost factors and allows the Government to accept other than the best priced offer. FAR § 15.101. See FAR § 2.101 for the definition of best value.

⁴For the purposes of this report, when we use the term "best price" we mean an award of a sales contract to the highest priced offer, or an award of a contract for services to the lowest priced offer.

⁵Pub. L. No. 112-213, § 415.

associated with MARAD's source selection processes, including FAR regulations on simplified acquisition procedures and best value determinations, and compared these to MARAD's processes. We reviewed and analyzed the cognizant facility qualification documents, including the proposals submitted to MARAD. Further, to identify how MARAD made best value determinations, we identified and reviewed a random, non-representative sample of source selection documents from fiscal year 2010 through fiscal year 2013 to identify the steps and analysis conducted by MARAD to select a contractor for award. We selected contracts awarded from fiscal year 2010 to 2013 to include both sales contracts and contracts for services in our sample. We interviewed MARAD Ship Disposal Program officials responsible for source selection and all six qualified contractors and one contractor going through qualification to determine the facility qualification process and how MARAD communicates with contractors.⁶ We also compared MARAD's communication strategy to criteria in *Standards for Internal Control in the Federal Government* related to effective communications.⁷

To assess MARAD's long-term disposal strategy, we reviewed MARAD's documentation related to its ship disposal strategies. We reviewed *Standards for Internal Control in the Federal Government* related to strategic planning, and assessed MARAD's actions against these standards. We also interviewed MARAD officials to identify MARAD's program goals and long term strategies related to ship disposal.

We conducted this performance audit from May 2013 to February 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

MARAD's Office of Ship Operations maintains the NDRF as a reserve of ships for defense and national emergencies. When ships are no longer

⁶Two of the contractors we interviewed no longer have a qualified facility.

⁷GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C. Nov. 1999).

considered useful for defense or aid missions, the Office of Ship Disposal, which reports to the Associate Administrator for National Security, arranges for their responsible disposal. NDRF ships are located at three sites: the James River Reserve Fleet at Fort Eustis, Virginia; the Beaumont Reserve Fleet in Beaumont, Texas; and the Suisun Bay Reserve Fleet at Benicia, California. In addition, as established in a Memorandum of Agreement with the Navy in 2011, MARAD disposes of certain non-combatant ships from the Naval Inactive Ship Maintenance Facilities in Pearl Harbor, Hawaii and in Philadelphia, Pennsylvania. Naval Inactive Ship Maintenance Facilities are used to hold decommissioned U.S. Navy and auxiliary ships pending determination of their disposal.

MARAD's Ship Disposal Program's mission is to dispose of obsolete NDRF ships through the most expedient, best value, and environmentally safe disposal methods. The program's approach is to remove all ships that present the highest risk to the environment as soon as possible, and to have disposal alternatives and the necessary funding in place to ensure that obsolete ships can be disposed of at a faster rate than ships in the NDRF are designated as obsolete. MARAD's Ship Disposal Program is authorized to consider alternative ship disposal methods in addition to recycling obsolete NDRF ships, including, for example, artificial reefing and donation. MARAD has made limited use of these methods because of a number of environmental, financial, and legal barriers. According to MARAD, recycling is the most expedient, environmentally sound, and cost-effective method of disposal available.

After MARAD determines that a ship is ready for recycling, it first offers the ship for sale to qualified contractors through sales contracts. If it receives no offers to purchase the ship, MARAD will then procure services to dispose of the ship through a contract for services—in which the government pays the contractor to recycle the ship's material. When acquiring services through a contract, MARAD uses simplified acquisition procedures, as defined in the FAR, which allow for simplified processes to award contracts under a certain dollar threshold.⁸ MARAD is generally not required to follow the procedures delineated in the FAR when awarding

⁸Specifically, MARAD uses the Commercial Item Test Program, FAR Subpart 13.5. This generally authorizes the use of simplified procedures for the acquisition of services in amounts under \$6.5M, including options, if the contracting officer reasonably expects that offers will include only commercial items.

sales contracts because the government is not acquiring supplies or services with appropriated funds. However, MARAD officials explained that because they are required to adhere to the FAR when awarding contracts for services, to be consistent, they adopted similar procedures for sales contracts.

In the past two years, MARAD has disposed of the ships exclusively through domestic recycling using sales contracts. See appendix II for more information on the ship disposal options used since 2001. In its most recent announcement in November 2013, however, three ships were announced as ready for recycling and MARAD received no sales offers. As a result, MARAD plans to procure the services to recycle the ships through contracts for services. MARAD officials explained that, while they cannot know all the factors the contractors considered when deciding whether or not to submit a sales offer on a ship, the specific ships in this announcement may not have looked profitable to the contractors for a variety of reasons. One ship was tested and proven to have polychlorinated biphenyls, which must be removed through a very costly process before the steel can be sold to recyclers. The other two ships were small, and MARAD officials noted that contractors may have estimated that the costs of towing the ship to the facility plus the labor were not likely to be recovered in the sale of the steel.

MARAD's Two-Step Source Selection Process Uses A Best Value Process Consistent with the Federal Acquisition Regulation

Since 2005, MARAD has been using a two-step source selection process for ship recycling. The first step is to qualify the facilities of ship recycling contractors that respond to MARAD's solicitation for ship disposal, thereby creating a pool of qualified facilities for contracts for either sales or services. In this step, MARAD determines if a ship recycling facility is qualified by evaluating the facility against multiple criteria as outlined in the solicitation. The second step is to award ship recycling contracts for specific ships to qualified contractors. Qualified contractors submit offers in response to MARAD's announcements—which inform the contractors about the location, names, and work to be completed on multiple ships available for recycling. MARAD then evaluates the offers and determines which offer is the best value for the government, consistent with the FAR, using price and non-price factors such as schedule, capacity, and past performance.

MARAD's Qualification Process Is Based on Multiple Criteria and Varies in the Time It Takes to Complete

The first step for a contractor interested in having their facility qualified is to submit a proposal in response to MARAD's solicitation. MARAD's process for determining if a ship recycling facility is qualified consists of evaluating the facility's proposal against multiple criteria as outlined in MARAD's solicitation for ship disposal. These criteria include considering how a contractor plans to dismantle ships and the extent that the site is capable to support that effort. Beginning in 2005, MARAD began using an open solicitation process—in which interested vendors can respond at any time as opposed to by a specific date.⁹ Periodically, MARAD will update and reissue the solicitation, as it did in fiscal year 2009 and again in fiscal year 2014. When the solicitation was updated in fiscal year 2014, previously-qualified facilities needed to re-qualify based on any new criteria incorporated into the updated solicitation.

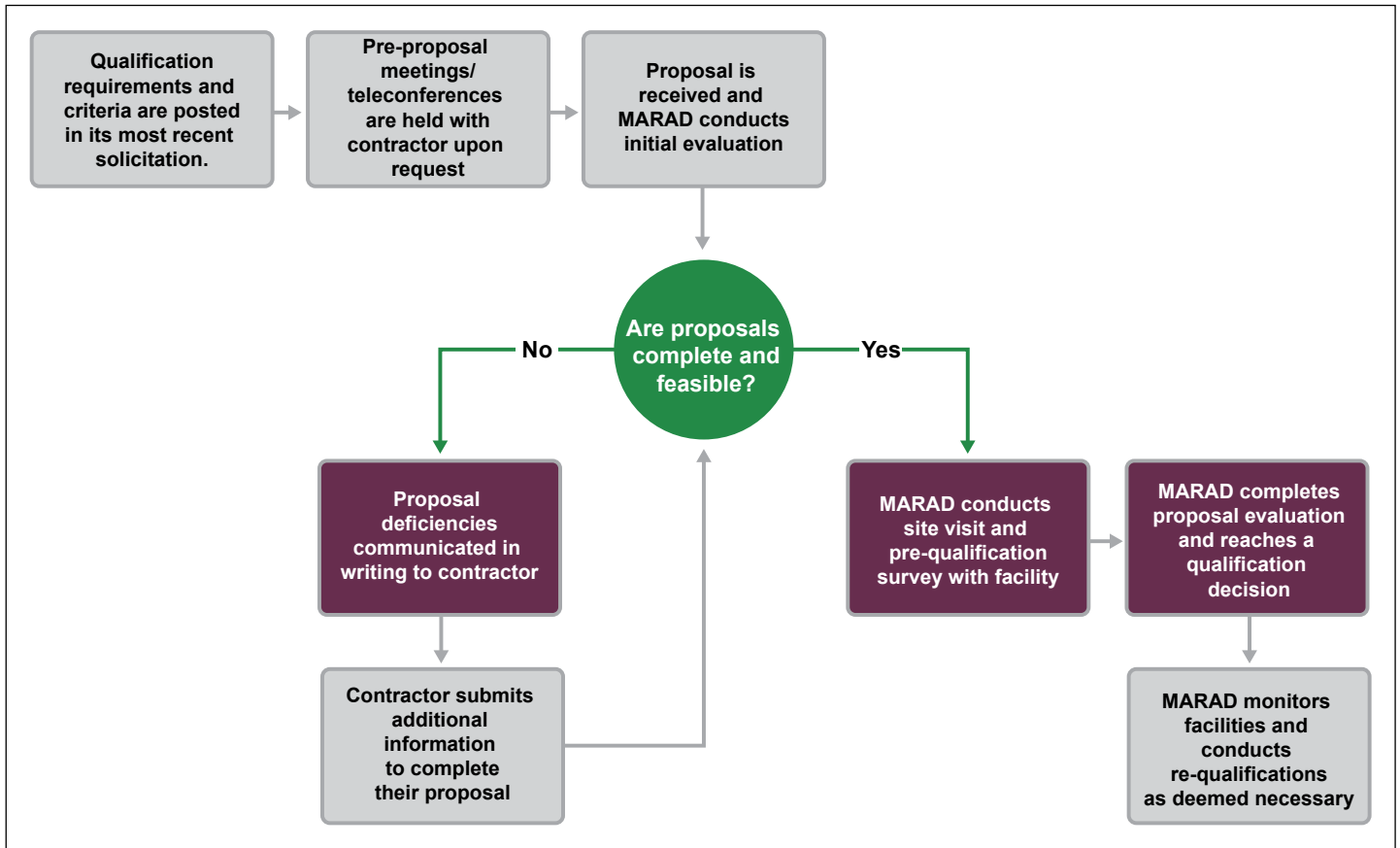
Once the interested recycling contractor submits a proposal, MARAD follows the steps indicated in figure 1 to determine if the ship recycling facility is qualified.

⁹Prior to 2005, MARAD used Program Research and Development Announcements (PDRA) to award ship disposal contracts. In 2005, we reported that MARAD's use of PDRA was inappropriate because PDRA are intended to be used to acquire research or development services. See GAO, *Maritime Administration: Improved Program Management Needed to Address Timely Disposal of Obsolete Ships*, [GAO-05-264](#), (Washington, D.C.: Mar. 7, 2005).

Figure 1: MARAD's Qualification Process of Ship Disposal Facilities

Interactive Graphic

Rollover the the green circle and purple boxes for more information. See appendix III for the non-interactive, printer-friendly version.



Source: GAO analysis of MARAD information.

MARAD reviews the proposal—including a technical compliance plan that addresses performance capability and ability to comply with all applicable local, state, and federal environmental, safety, and health laws and regulations—for completeness in its initial evaluation. Once MARAD determines that the proposal is complete, it begins evaluating the proposal against multiple criteria including:

- feasibility and likelihood of success of the engineering, technical, and management approach for disposal of obsolete ships and associated risks;
- productivity of the proposed approach including schedule and cost assessments;
- type and sufficiency of proposed methods, processes, and procedures; and
- depth, relevance, and currency of requisite experience of the facility.

The length of the qualification process—which has been as short as a few months or as long as five years—varies for several reasons. One reason for the variation, according to MARAD officials, is that the initial proposals are rarely complete. This part of the process is iterative and MARAD officials stated that they work closely with individual contractors to obtain the necessary information to enable the completion of the evaluation process. In its fiscal year 2014 solicitation, MARAD's stated goal is to complete the initial evaluation of proposals within eight weeks from the date the proposals are submitted. This timeline, according to officials, is based on the availability of MARAD's resources. However, MARAD officials noted that the contractor's responsiveness to requests for additional explanation or information is out of their control and can impact their ability to move forward with the qualification process. In some cases, a contractor may opt to not continue with the qualification process.

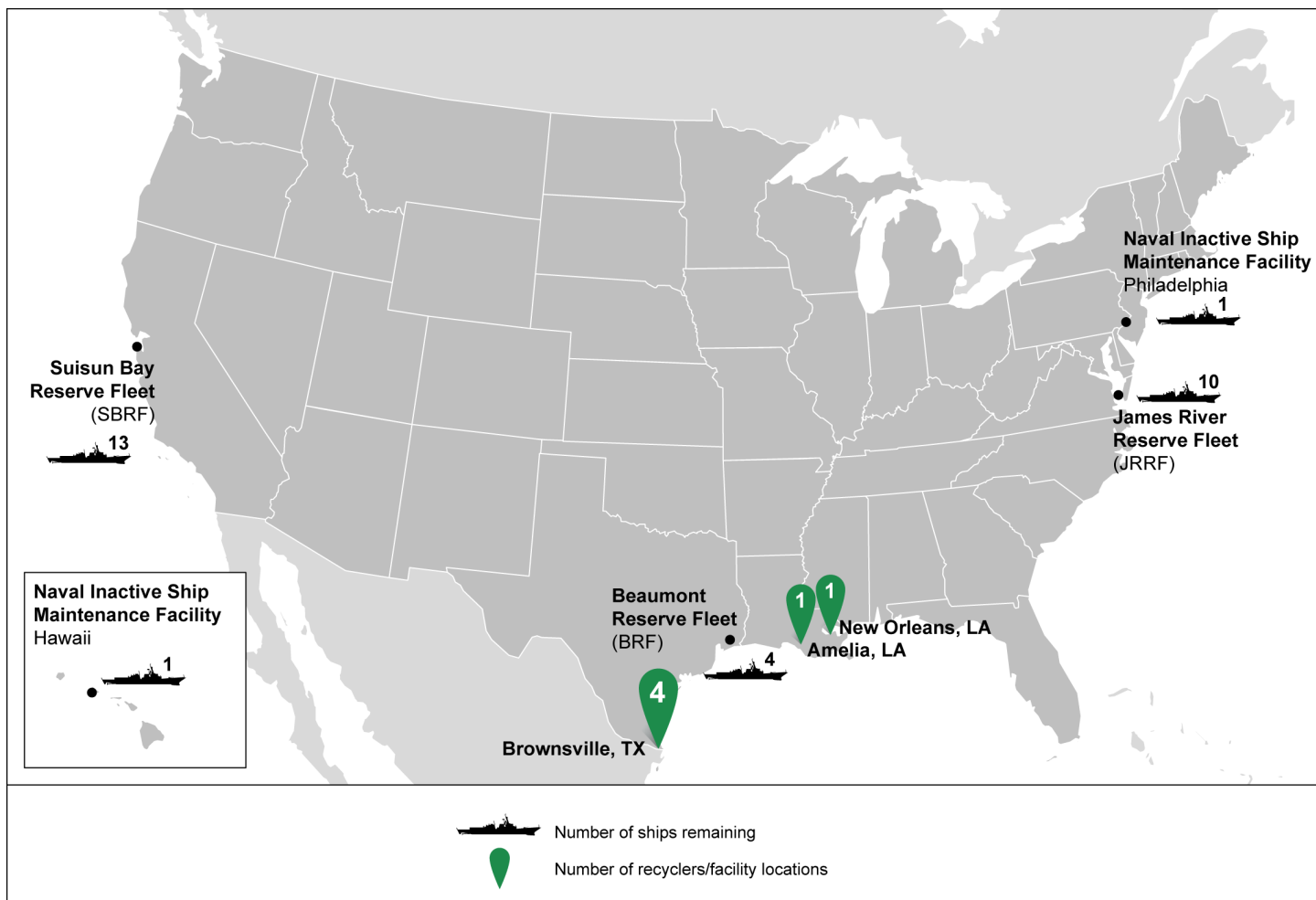
Another reason for the different timetables for qualification, according to MARAD officials, is that each facility is unique and faces individual challenges. MARAD officials explained that it is incumbent upon the contractor to identify all of the local, state, and federal laws and regulations that apply to ship recycling for the location where the facility is located, and to comply with those laws. For example, a facility in California took over five years to qualify because, according to MARAD officials, it had to address strict state and local environmental laws and regulations and experienced significant delays in obtaining necessary

permits from state environmental regulators. Further, the proposed location had not been used for many years, and MARAD needed additional assurances to ensure qualification criteria were met.¹⁰ When a new process is introduced by a ship recycling facility, qualification may take more time. For instance, a contractor recently proposed a new method for ship recycling that involves dismantling the ship while afloat. MARAD considers the procedures for maintaining the stability of the ship; environmental abatement of hazardous materials, such as asbestos and paint disposal; worker safety; and health considerations under this new approach before making a qualification decision.

As shown in figure 2, MARAD currently has six qualified recycling facilities, represented by four contractors, in two states: Louisiana and Texas. As of October 2013, there were 27 MARAD and two Navy-owned ships awaiting disposal.

¹⁰This facility is no longer qualified. According to MARAD, the contractor decided not to respond to the fiscal year 2014 solicitation to remain a qualified facility and to instead focus on other business opportunities.

Figure 2: Locations of National Defense Reserve Fleets and Number of Ships, Naval Inactive Ship Maintenance Facilities and Number of Ships, and Qualified Facilities as of October 2013



Source: GAO analysis of MARAD information.

After a facility is deemed qualified, MARAD conducts regular oversight, to include bi-weekly teleconferences and quarterly visits to the facilities. During its visits, MARAD checks the facility's compliance processes and issues deficiency notices if corrective action is needed. In addition, MARAD conducts oversight of the environmental protection and worker safety procedures for the facility. If there is a deficiency found, MARAD refers the issue to the appropriate federal agency, such as the Environmental Protection Agency or Occupational Safety and Health Administration. Further, through its announcement process, MARAD requires existing qualified contractors to report changes made to their

ship recycling facilities. These changes could range from a minor change to one part of its recycling process, such as a change in paint removal process, or a significant change such as when a facility is changing ownership.

MARAD's Best Value Process for Source Selection of Its Ship Recycling Contracts is Consistent with the Federal Acquisition Regulation

After becoming qualified, a contractor's facility is eligible to compete for ship recycling contracts, and does so by providing offers in response to MARAD's announcements on specific ships. Approximately three to four announcements are issued per year, with three to six ships offered per announcement. MARAD's announcement includes the location and names of the ships that MARAD would like recycled, and the work to be accomplished for each ship. According to MARAD officials, including multiple ships in each announcement optimizes competition and minimizes costs.

To decide which facility should receive contracts for the ships in the announcement, MARAD uses a source selection process to determine which offer provides the best value to the government. This process allows the government to accept an offer other than the best priced offer, considering both price and non-price factors. MARAD uses the following three evaluation criteria to determine which offers provide the best value for the government:

- price,
- schedule and capacity, and
- past performance.

Because it is using simplified acquisition procedures, MARAD is not required to disclose the relative importance assigned to each evaluation factor.¹¹ For example, MARAD is not required to state in the announcement whether price is more, less, or equal in importance to past performance.

Although not required to state the relative importance of the evaluation criteria, MARAD's source selection process generally addresses the criteria in a specific order. Initially, MARAD ranks contractors' sales offers

¹¹FAR §13.106-1(a)(2) allows the agency not to specify the relative order of importance of the evaluation factors. Under negotiated contracting processes, agencies are required to provide a relative order of importance of the evaluation criteria.

on individual ships by highest to lowest price, then by shortest to longest schedule. MARAD then determines a competitive range—in other words, a subset of all the offers that represents the most highly rated offers. Once the competitive range is determined, MARAD requests multi-ship recycling schedules from contractors with competitive offers on more than one ship to gain insight into what the schedule would be if the facility wins more than one ship in the announcement. For example, if a contractor made offers on two ships that were determined to be in the competitive range, MARAD would ask the contractor to provide a revised schedule showing how many days it would take the contractor's facility to recycle both ships. MARAD then reviews capacity at each facility in the competitive range. Capacity, according to MARAD, refers to the facility's ability to take possession of and actively work on the ship(s) at its facility, which reflects current and future ship recycling work from all sources at the recycling facility. Finally, MARAD considers past performance, which can include timeliness on past contracts, a change in management, or the amount of time since the facility last recycled a MARAD ship. Figure 3 describes in more detail the steps MARAD uses in its best value source selection for ship recycling contracts.¹²

¹²To determine that MARAD's process is consistent with the FAR, we considered the general processes that we observed in our review of selected contract awards and discussed these with MARAD. We did not consider how this process is applied in the context of a specific solicitation or contract award. Consequently, this determination does not represent a decision by GAO's bid protest function.

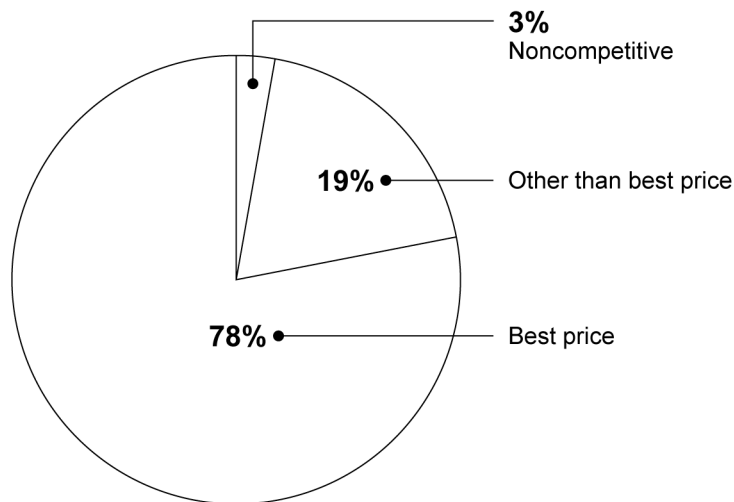
Figure 3: Maritime Administration's (MARAD) Source Selection Process for Sales Contracts for Ship Recycling, Fiscal Year 2013



Source: GAO analysis of MARAD information.

As indicated in figure 4, most contracts were awarded to the contractor with the best price offer.

Figure 4: Percentage of the Maritime Administration's (MARAD) Ship Recycling Contracts Awarded to the Best Price Offer, Other than Best Price Offer, and Non-Competitively, Fiscal Years 2009 through 2013



Source: GAO analysis of MARAD information.

For fiscal year 2009 through fiscal year 2013, about 78 percent of MARAD's contract awards for ship recycling, including both sales contracts and contracts for services, were awarded to the contractor that offered the best price. Half of all contracts were awarded to the contractor that offered both the best price and shortest schedule. Another 19 percent of the awardees were selected based on factors other than the best price, and 3 percent were awarded non-competitively, which means these awards were not subject to MARAD's typical source selection process. For example, one contract was awarded non-competitively because it was in the best interest of the government to support an increased industrial base of ship recycling facilities on the west coast.

MARAD Has Taken Steps to Clarify Its Source Selection Process, but Could Strengthen Its Communication Strategy

MARAD has made some efforts over the last year to clarify certain parts of its source selection process; however, during our review, contractors told us that they do not fully understand how it works. Almost all of the contractors were unsure as to how MARAD determines best value under sales contracts. Most of the contractors told us that they did not always understand why they lost a ship recycling contract. Three contractors noted it was particularly confusing when they offered the best price with what they believed to be a reasonable schedule compared to other contractors, yet still lost the contract. A couple admitted that there were instances where they did not understand why they won a contract.

One consistent source of confusion was that they did not know how MARAD values past performance when awarding contracts for ship recycling—both in how past performance affected the chance to be awarded a future contract and in what factors were considered. For example, they did not know if environmental infractions or late performance on previous contracts played a role in the ability to win future MARAD ship recycling contracts. MARAD, for its part, explained to us that past performance has rarely affected a contractor's ability to win a contract for one ship in an announcement, but has had a greater affect when MARAD considers the award of more than one ship to the contractor. In addition, in our review of contract documentation, we found several instances where MARAD considered past performance in combination with capacity. For example, a contractor may have had schedule delays on prior ships which were then exacerbated when the contractor was managing the recycling schedule for multiple ships. How MARAD considers the multiple factors when making a best value award varies depending on the specific circumstances of the procurement. As a result, the basis for each award may be unique, which may contribute to the contractor's confusion on how MARAD is making these decisions. To clarify past performance, in the fiscal year 2014 solicitation, MARAD has elaborated on what will be evaluated within the past performance criterion—stating that it includes the contractor's history of reasonable and cooperative behavior, record of integrity, and business relationships with the customer. Although a positive step, lack of communication with contractors regarding effects of their past performance, if any, on their future offers remains a source of confusion.

Further, MARAD recently improved its contractor debriefing process by adding two more narrative sections to its pre-debriefing form, one on capacity and one on best value. Under the simplified acquisition process, if a contractor requests information on an award that was based on factors other than price alone, MARAD is to provide a brief explanation of

the basis for the contract award decision. Although not required to do so, about two years ago, MARAD decided to offer more formal debriefings to convey this information. The debriefings are intended to help contractors understand how their offer compared to the winning offer and to help improve offers for the next time. Once a facility contractor requests a debriefing, MARAD creates a pre-debriefing report that compares the contractor's offer—price and schedule—to the successful contractor's price and schedule. The pre-debriefing report is then sent to the requesting contractor with an invitation to participate in a debriefing meeting. MARAD told us that all contractors have been informed of the availability, upon request, of debriefing after a contract award. However, according to MARAD, after the last four ship recycling announcements, only three of the six contractors that bid on the ships asked for a debriefing.

These three contractors stated that MARAD's debriefing process did not help them understand why they lost the contract or how MARAD considered price and non-price factors in its best value determinations. MARAD revised the debriefing form to include the additional narrative sections; however, it has not informed contractors of this change. Contractors may not be aware that the additional information is available unless they request a debriefing. MARAD officials told us that they plan to inform contractors of the new debriefing form through an amendment to the solicitation. If MARAD communicates the additions to the debriefing form in an open and transparent way, facility contractors may seek to obtain information in order to improve their offers for the next announcement, which ultimately could lead to better results for the government.

Contractors that we spoke with also expressed confusion about other parts of MARAD's source selection process, including its qualification process. For example, four contractors said that they notified MARAD of a change to an element of their recycling process at a facility, and that MARAD acknowledged receipt of the notification but did not indicate whether the change was approved or not approved. These contractors were confused about whether certain changes made would affect their eligibility to compete for a contract. In one instance, a contractor told us they informed MARAD about newly-installed ship cutting pads and some dredging they had completed at their facility, but they heard no response from MARAD. According to the contractor, a MARAD official only recognized the changes during a site visit to the facility.

In response to these concerns, MARAD officials explained that they are always available to hear questions from contractors should any questions arise, and contractors should feel comfortable contacting them with any questions. *Standards for Internal Control in the Federal Government* state that management should ensure there are adequate means of communicating with external stakeholders that may have a significant impact on the agency achieving its goals.¹³ Although MARAD has improved some aspects of communication with facility contractors, it could strengthen its communication strategy. For example, one method to improve communication could involve an annual industry day or conference where all contractors can ask questions and request clarification on any part of MARAD's source selection process or other aspects of ship disposal resulting in all contractors hearing the same responses at the same time. Regular individual meetings might also be scheduled with contractors where their specific concerns are discussed. Improving its communication strategy with its contractors could help MARAD maximize the transparency of its source selection process.

MARAD's Strategic Plan Does Not Reflect Current Conditions

In our 2005 report, we found MARAD had not developed a comprehensive management approach that could address the myriad of environmental, legal, and regulatory challenges that the program faces. As a result, we recommended that it develop a comprehensive approach to manage its ship disposal program.¹⁴ In 2006, MARAD issued a comprehensive management plan, or strategic plan, which outlined short and long-term strategies for the disposal of the agency's obsolete ships; however, several key elements are outdated or no longer applicable. The plan stated that MARAD will annually assess and report on its progress and all factors affecting the program, and if necessary, revise the short- and long-term strategy and implementation plan. Since then, however, it has not updated its plan, because, according to program officials, the principles of the plan remain relevant. MARAD was required, however, to provide regular reports to Congress for several years, the last of which was in March 2011. The reports provided information on the progress made to address the backlog, and other activities accomplished since the

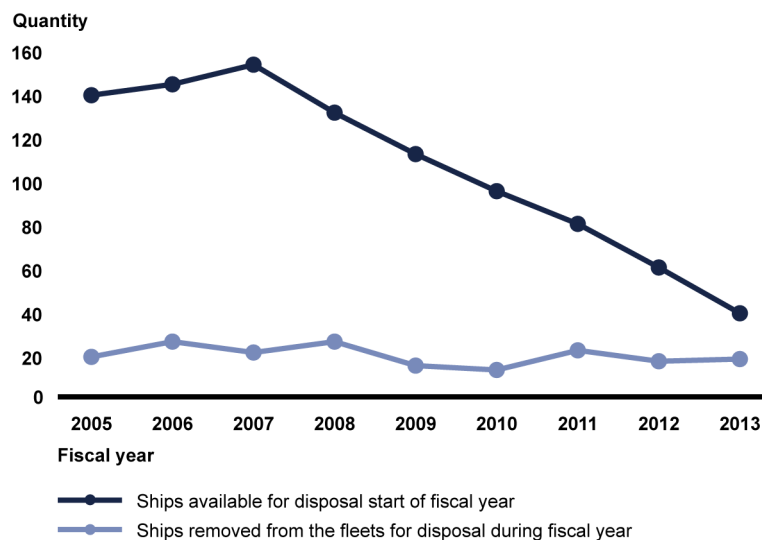
¹³ [GAO/AIMD-00-21.3.1](#).

¹⁴ [GAO-05-264](#).

last report, but did not provide the strategic short- and long-term direction for the program.¹⁵

The 2006 strategy does not take into account current market conditions, goals, and external risks. For example, one of MARAD's stated goals was to eliminate the backlog of high priority ships that accumulated in the 1990s. MARAD officials we spoke with acknowledge that the backlog has been addressed and they are now focused on maintaining a steady stream of ships entering the NDRF to be removed from the fleet for disposal. As shown in figure 5, from fiscal years 2005 through 2013, 168 ships were removed from the fleet in preparation for disposal. MARAD has 27 NDRF and 2 Navy ships for disposal at the start of fiscal year 2014 and about three to five obsolete ships will be added to its inventory during fiscal year 2014. Further, MARAD's target is to remove 12 ships for disposal in fiscal year 2014.

Figure 5: Number of Ships in Fleet that were Available for Disposal at the Start of the Fiscal Year and Removed from the Fleet during the Fiscal Year, Fiscal Years 2005 through 2013



Source: GAO analysis of MARAD information.

¹⁵In 2011, Congress amended the reporting requirement to simply require MARAD to provide briefings upon request. National Defense Authorization Act for Fiscal Year 2012, Pub. L. No. 112-81, § 3504 (2011).

The 2006 plan also discusses options for ship disposal that are no longer applicable.

- The plan points to available domestic recycling facilities located along the East and Gulf Coasts; however, as of October 2013, the East Coast facility is no longer considered a qualified facility.
- The plan notes that one of the critical factors that will impact MARAD's goals for ship disposal is making foreign recycling a viable disposal option in 2006 and beyond. Foreign recycling is not an option because the Duncan Hunter National Defense Authorization Act for Fiscal Year 2009 generally prohibited sales to foreign facilities, unless, among other things, no domestic capacity is available.¹⁶
- The plan describes sales contracts as an option that is of occasional interest and not considered a trend that can be relied upon. MARAD has experienced a trend of sales contracts starting in fiscal year 2011. (See appendix II)

Further, MARAD officials expressed concern about maintaining the supplier base to help ensure adequate competition among contractors as the number of ships available for disposal decreases, a concern that is not addressed in the 2006 plan. Competition is a cornerstone of federal contracting and a critical tool for achieving the best return on the government's investment. Achieving effective competition, in which the government receives more than one offer in response to a solicitation, has been a focus of other agencies, such as the Office of Management and Budget and Department of Defense, because of its noted benefits to the government, including the ability to consider alternative solutions in a reasoned and structured manner.

MARAD officials also expressed concerns about the potential effect on the capacity of three of their qualified facilities that were recently awarded Navy contracts to recycle three large aircraft carriers. According to them, one aircraft carrier is approximately equivalent to eight MARAD ships, and they are concerned that this will reduce the capacity of these facilities which will in turn reduce their availability to compete on future MARAD announcements. *Standards for Internal Control in the Federal Government* call for identifying risks to the agency arising from external and internal factors, and developing a thorough analysis of the possible

¹⁶Pub. L. No. 110-417, § 3502 (2008).

effect of the risks and an approach for risk management.¹⁷ In addition to updating the current goals and ship disposal options available, MARAD can use the plan to assess future risks and strategies to address internal and external factors, such as supplier base. For example, MARAD has a fiscal year 2011 Memorandum of Agreement with the U.S. Navy to dispose of certain non-combatant ships, a fiscal year 2013 Letter of Agreement with the General Services Administration to disposed of certain federally-owned excess ships, and a Memorandum of Agreement with the U.S. Coast Guard to dispose of certain excess cutters, none of which are included in the 2006 plan. An updated strategic plan that reflects the current external environment and risks could better position MARAD to identify challenges and opportunities confronting the future management of the ship disposal program, including maintaining long-term participation in and competition within the industrial base for ship disposal.

Conclusions

Over the last decade, MARAD's ship disposal program has made ample progress disposing of obsolete ships, effectively eliminating the past backlog. MARAD's current process for making source selection decisions is consistent with the FAR's procedures and processes for simplified acquisitions and determining best value. However, MARAD could improve its information sharing with its qualified contractors to be more transparent. Ship recycling contractors have been concerned whether changes in their facility and processes are being approved by MARAD. Contractors were also uncertain about how best value determinations are made. MARAD, on the other hand, believes it is always available to discuss concerns and relies on the contractors to reach out and ask for clarification. Until MARAD improves its communication strategy with contractors, it is not maximizing transparency in its efforts. Moreover, an updated strategic plan or new strategic plan reflecting the current external environment and risks could help MARAD improve its ship disposal program.

Recommendations for Executive Action

To enhance MARAD's transparency in its source selection processes or other aspects of ship disposal and strategic direction for its efforts, we

¹⁷[GAO/AIMD-00-21.3.1](#).

recommend that the Secretary of Transportation direct the MARAD Administrator to take the following two actions:

- Improve MARAD's communication strategy, such as by holding an annual industry day or annual meetings with qualified contractors, to transparently communicate information to qualified contractors and to respond to their questions; and
- Update MARAD's 2006 comprehensive management plan, i.e. strategic plan, or create a new strategic plan to reflect its current goals, external factors affecting the disposal program, and future risks and strategies based on those goals and factors, and periodically update this plan.

Agency Comments and Our Evaluation

We provided a draft of this report to DOT for review and comment. DOT did not take a position on our recommendations, but generally agreed with the facts presented. DOT provided technical comments, which we incorporated as appropriate

We are sending copies of this report to the Secretary of Transportation and appropriate committees. In addition, the report will also be available at no charge on our website at <http://www.gao.gov>.

If you or your staff have questions about this report, please contact me at (202)-512-4841 or makm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix IV.



Marie A. Mak
Acting Director
Acquisition and Sourcing Management Team

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The Honorable Mike Thompson
House of Representatives

Appendix I: Objectives, Scope and Methodology

The Coast Guard and Maritime Transportation Act of 2012 mandated that GAO conduct an assessment of the source selection procedures and practices used to award the Maritime Administration's (MARAD) ship recycling contracts, including the process, procedures and practices used for qualification of ship disposal facilities, whether MARAD's contract source selection procedures and practices are consistent with the law, and best practices associated with making source selection decisions, as well as any other aspect we deem appropriate to review. This report assesses MARAD's (1) source selection process; (2) communication strategy with ship disposal facility contractors; and (3) long-term ship disposal strategy.

To assess MARAD's source selection process—including facility qualification and best value determination—and its communication strategy, we reviewed federal laws and regulations, guidance, and other documentation associated with the agency's source selection procedures, including simplified acquisition procedures and how best value determinations are addressed in the Federal Acquisition Regulation (FAR). We compared MARAD's procedures to those in the FAR, as applicable. We analyzed its solicitations for fiscal years 2005, 2009, and 2014 that describe the facility qualification process, which represent all the solicitations issued since the agency stopped using Program Research and Development Announcements in 2005. We also reviewed examples of correspondence between MARAD and facilities, specific ship announcements, and required reports and briefings for Congress and other communications with contractor facilities, such as debriefing forms, and recent bid protests related to facility qualification and source selection procedures. We compared MARAD's communication strategy to criteria in *Standards for Internal Control in the Federal Government* related to effective communications.¹ In addition, we reviewed facility qualification documents, e.g. the facilities' submitted general technical plans, MARAD's letters of concern to contractors, and the notification of results from the evaluation of technical plans to determine the length of time it took to become qualified and how monitoring by MARAD was conducted. To identify how MARAD determined best value during the source selection process, we identified and reviewed a random non-representative sample of source selection documents for fiscal year 2010

¹GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C. Nov. 1999).

through 2013, e.g., sales announcements for 18 obsolete ships, facility proposals and MARAD notification memorandums, and contracts, to determine the steps and analysis MARAD uses to select a contractor through a best value process. We selected contracts awarded from fiscal year 2010 to 2013 to include both sales contracts and contracts for services in our sample.

We also interviewed MARAD Ship Disposal Program officials and six contractors representing all seven qualified facilities at the time of our review to determine the processes that are used to select and award contracts. We also interviewed one contractor with one facility going through the qualification process at the time of our review. Through interviews with these officials, we determined (1) how the qualification process was applied for facilities to become technically acceptable and qualified; (2) how MARAD monitors a facility's qualification status and any changes to the facility; (3) the process for source selection, including how best value determinations are made for specific ship announcements for disposal; (4) how MARAD communicates its source selection process with contractors; and (5) challenges identified by facilities or MARAD relating to the award of ship disposal contracts.

MARAD's pool of qualified ship disposal facilities at the time of GAO review included:²

1. All Star Metals, LLC
2. Mare Island Shipyard, LLC (formerly Allied Defense Recycling, LLC)
3. Bay Bridge Texas, LLC (undergoing qualification)
4. BB Metals Enterprises, Inc.
5. Esco Marine, Inc.
6. International Shipbreaking Ltd.

² Mare Island Shipyard in Vallejo, Calif. and BB Metals Enterprise, Inc. in Baltimore, Md. are no longer qualified. Both facilities chose not to submit new general technical proposals as required under the new ship disposal solicitation. International Shipbreaking Ltd. and Southern Recycling, LLC are owned by the same contractor. Also, according to MARAD officials, since the time of our review, one additional facility owned by this contractor became qualified. To summarize, as of December 2013, there were six qualified facilities owned by four contractors.

7. Marine Metals, Inc.

8. Southern Recycling, LLC

To assess MARAD's long-term strategy for its ship disposal program, we reviewed its current strategy—the fiscal year 2006 Comprehensive Management Plan for the Disposal of MARAD Non-Retention Vessels. In reviewing MARAD's most recent strategy, we identified its decision making framework and its schedule and milestones for ship disposal, which included planning up through fiscal year 2007. We reviewed *Standards for Internal Control in the Federal Government* related to strategic planning, and assessed MARAD's actions against these standards. We also reviewed MARAD's agreements with other agencies to dispose of their obsolete ships, e.g., its memorandums of agreement with the U.S. Navy, General Services Administration, and U.S. Coast Guard to dispose of certain ships. We also obtained data from MARAD about the number of obsolete ships on hand and removed for disposal through MARAD's Ship Disposal Program for fiscal years' 2005 through 2013. We spoke with MARAD officials and facility contractors to identify concerns related to MARAD's strategy, including supplier base concerns for the ship recycling industry, and how it communicates its future ship disposal plans with qualified facilities.

We conducted this performance audit from May 2013 to February 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Maritime Administration’s Ship Disposal Options

The Maritime Administration’s (MARAD) available ship disposal options include: domestic recycling, artificial reefing, deep-water sinking (called SINKEX), donations, and sale for reuse.

- **Domestic recycling**—MARAD sells the ships to qualified contractors or purchases recycling services from these contractors.
- **Artificial reefing**—MARAD accepts applications from coastal states, U.S. territories and possessions, and foreign governments for use of obsolete NDRF ships as offshore reefs for the conservation of marine life.
- **SINKEX**—Navy and MARAD jointly operate ship disposal projects through the Navy’s sink at-sea live-fire training exercises (SINKEX Program).
- **Ship donations**—MARAD may convey obsolete NDRF ships to a non-profit organization, state, commonwealth, or U.S. possession for ship reutilization including historic restoration of ships as memorials and museums, and the operational restoration of ships to support non-profit humanitarian missions.
- **Sale for reuse**—MARAD sells ships to another buyer for reuse.

Figure 6: Number of Ships the Maritime Administration (MARAD) Removed from the Fleet for Disposal, by Type, Fiscal Years 2001 through 2013

Type of disposal	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Totals
	Fiscal year													
Recycling (fee for service)	3	4	2	13	17	19	12	9	9	10	13			111
Recycling (sales)	1	2		2	1	5	3	15	5		8	16	17	75
Reefing	1						2			1				4
SINKEX						1				1				2
Donation	1							1						2
Sale for reuse							3							3
Totals	6	6	2	15	18	25	20	25	14	12	21	16	17	197

Source: GAO analysis of MARAD information.

Appendix III: Maritime Administration’s Process for Qualifying Ship Disposal Facilities

Table 1 presents the information in figure 1 in a non-interactive format.

Table 1: Maritime Administration’s (MARAD) Qualification Process of Ship Disposal Facilities	
Step in qualification process	Information presented in step (interactive format)
Green circle: Are proposals complete and feasible?	MARAD conducts an initial evaluation to determine if the proposal is complete, meaning it complies with the solicitation requirements and contains enough information to undergo evaluation. According to MARAD officials, most initial proposals are rarely complete and require iterative back and forth communication with the contractor to obtain sufficient information. Once complete, MARAD determines whether the proposal is feasible for further evaluation. Once proposal is considered feasible, MARAD will schedule a pre-qualification site visit.
Purple box 1: Proposal deficiencies communicated in writing to contractor	MARAD requires facilities to demonstrate their ship disposal capability based on several criteria. Evaluation criteria of proposals include: feasibility and likelihood of success of engineering/technical/management approach for disposal of obsolete ships and associated risks; productivity of proposed approach, including schedule/cost; type and sufficiency of proposed methods, processes, and procedures; depth, relevance, and currency of requisite experience. According to MARAD officials, qualification criteria have not changed since 2005.
Purple box 2: MARAD conducts site visit and pre-qualification survey with facility	MARAD conducts a pre-qualification survey during the facility site visit to verify the proposal’s information—such as the facility infrastructure, capacity, and the hazardous material and recycling processes capability—and to evaluate the contractor’s stated capabilities. As part of the pre-qualification survey, MARAD assesses the following areas relevant to the submitted proposal: (1) the feasibility of the engineering, technical, and management approach to conduct ship recycling activities, including the risks associated with the proposed approach; (2) the productivity of the proposed ship recycling approach, including the reasonableness of the performance schedule; (3) the type and sufficiency of proposed methods, processes and procedures for environmental abatement of hazardous materials, worker safety and health considerations proposed, and compliance with applicable laws; and (4) the depth, relevance and currency of requisite experience with the complete disposal of obsolete ships. As part of the assessment of experience, MARAD meets with the facility owners, management team, and major subcontractors.
Purple box 3: MARAD completes proposal evaluation and reaches a qualification decision	A qualification determination is reached by MARAD in one of three possible categories: <ul style="list-style-type: none"> Technically unacceptable: no further consideration, but contractor can reapply with a new proposal; Technically unacceptable: but susceptible to being made technically acceptable (TUSTA): MARAD informs contractor of deficiencies; or Technically acceptable: contractor is included in the pool of qualified facilities.

Source: GAO analysis of MARAD information.

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the contact named above Tatiana Winger, Assistant Director; Suzanne Sterling, and Alyssa Weir made contributions to this report.

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