

STATEMENT

OF

ADMIRAL JAMES S. GRACEY
Commandant, U. S. Coast Guard

Hearing before the

House Committee on Merchant Marine and Fisheries
Subcommittee on Coast Guard and Navigation

JULY 25, 1984

GOOD MORNING MR. CHAIRMAN. I AM PLEASED TO BE HERE TO TESTIFY ABOUT THE COAST GUARD'S PROCUREMENT POLICIES AND PRACTICES. ACCOMPANYING ME ARE MY CHIEF OF STAFF, REAR ADMIRAL DONALD THOMPSON AND THE COMPTROLLER, REAR ADMIRAL WILLIAM KOZLOVSKY. AS COMMANDANT, I AM CHARGED BY LAW TO OPERATE THE COAST GUARD IN AN ECONOMICAL, COST-CONSCIOUS AND RESPONSIBLE MANNER. IN THAT EFFORT I AM GUIDED BY THE PROCUREMENT POLICIES OF THE EXECUTIVE BRANCH AND THE LAWS OF THE LEGISLATIVE BRANCH. BOTH OF THESE BRANCHES FUNCTION MUCH AS BOARDS OF DIRECTORS DO FOR PRIVATE CONCERNS. THE DIRECTIONS I GET FROM MY DIRECTORS IN THE PROCUREMENT AREA FOCUS ON THREE MAJOR THINGS: ECONOMY OF GOVERNMENT, FAIRNESS OF COMPETITION AND SOCIETAL CONCERNS. OVERALL, I BELIEVE THAT WE ARE DOING WELL IN MEETING THOSE REQUIREMENTS IN THE CONDUCT OF COAST GUARD BUSINESS, ALTHOUGH RECOGNIZING THAT SOMETIMES THEY CONFLICT AND MUST BE BALANCED AGAINST EACH OTHER.

ON THE MATTER OF ECONOMY OF OPERATIONS I COULD REPORT MANY SUCCESS STORIES. ONE WAS OUR CREATIVE AND AGGRESSIVE PURCHASE OF THREE SURFACE EFFECTS SHIPS IN JUST SIX MONTHS FROM THE TIME THAT MONEY WAS APPROPRIATED. ANOTHER WAS OUR REPLACEMENT OF A C-130 AIRPLANE LOST ON AN OPERATIONAL MISSION IN 1982. BECAUSE OF THE QUICK REACTION OF OUR PROCUREMENT STAFF WE WERE ABLE TO BUY A NEW PLANE IN ONLY SIX WEEKS AT A SAVINGS TO THE TAXPAYER OF OVER \$3 MILLION. SIMILARLY, IN 1983 WE BOUGHT NEW SOLID-STATE LORAN C TRANSMITTERS IN A DIFFICULT SOLE SOURCE NEGOTIATION FOR \$18 MILLION LESS THAN THE CONTRACTOR HAD INITIALLY PROPOSED.

MANY OF OUR EFFORTS TO INSURE FULL AND FAIR COMPETITION AND TO RECOGNIZE SOCIETAL CONCERNS HAVE FOCUSED ON INCLUDING BOTH SMALL AND MINORITY BUSINESSES IN THE GOVERNMENT PROCUREMENT PROCESS. THE COAST GUARD IS A LEADER IN THE DEPARTMENT OF TRANSPORTATION IN BOTH OF THESE EFFORTS.

FOR EXAMPLE, BAY CITY MARINE, A MINORITY SHIPYARD IN TACOMA, WASHINGTON, WILL BE CHRISTENING THE SEVENTH OF OUR 140 FOOT ICEBREAKING TUGS IN SEPTEMBER 1984. TO MY KNOWLEDGE THIS IS THE FIRST UNITED STATES NAVAL VESSEL EVER BUILT BY A MINORITY CONTRACTOR. IN APRIL OF LAST YEAR, WE AWARDED A \$780,000 CONTRACT TO AN HISPANIC FIRM IN HARRISBURG, PENNSYLVANIA, FOR UNLIGHTED ICE BUOYS. THESE ARE BUT TWO EXAMPLES FROM A SUCCESSFUL PROGRAM OF WHICH I AM PROUD.

AS AN EXAMPLE OF OUR WORK TO ENHANCE SMALL BUSINESSES WE HAVE DEMONSTRATED A HIGH REGARD FOR SMALL SHIP REPAIR YARDS. IN THE PACIFIC NORTHWEST SMALL BUSINESS SET ASIDES ARE USED FOR ALL YARD AVAILABILITIES FOR MEDIUM ENDURANCE CUTTERS AND BUOY TENDERS. THROUGHOUT THE COAST GUARD APPROXIMATELY ONE-THIRD OF ALL SHIP REPAIR FUNDS ARE SPENT IN SMALL BUSINESS YARDS. THE WPB PATROL BOAT PROCUREMENT WAS ALSO AWARDED AS A SMALL BUSINESSES SET ASIDE. WE ARE ALSO COMMITTED TO MAKING THE MID-LIFE MAINTENANCE AVAILABILITY WORK ON THE "B" CLASS 210 FOOT MEDIUM ENDURANCE CUTTERS A SMALL BUSINESS SET ASIDE.

I HAVE INCLUDED A TABLE WHICH DETAILS THE SCOPE OF OUR MAJOR PROCUREMENTS IN TERMS OF NUMBERS OF CONTRACTS AND AWARD DOLLAR LEVELS SINCE 1977.

TABLE ONE
MAJOR COAST GUARD PROCUREMENTS

<u>FISCAL YEAR</u>	<u>AWARDS GREATER THAN</u>		
	<u>\$100K</u>	<u>\$ 1M</u>	<u>\$10M</u>
1977.....	223	20	4
1978.....	189	15	1
1979.....	87	40	0
1980.....	293	27	3
1981.....	300	20	5
1982.....	282	26	5
1983.....	302	47	3
1984(PARTIAL).....	167	18	2

WHILE THIS TABLE SHOWS THAT OUR PROCUREMENTS ARE RELATIVELY SMALL BY SOME STANDARDS, THEY OFTEN OCCUR IN INDUSTRIES WHERE PRODUCTION CAPACITY EXCEEDS DEMAND. THIS IS PARTICULARLY TRUE IN CAPITAL PLANT PROCUREMENTS, SUCH AS REPAIRS OR PURCHASES OF SHIPS, AIRCRAFT AND BOATS. THESE ITEMS ARE EXPENSIVE. THE INDUSTRIES ARE EXTREMELY COMPETITIVE. NOR DOES THE COMPETITION STOP WHEN THE CONTRACT IS AWARDED. OUR RECENT EXPERIENCE IS THAT IT VERY OFTEN CONTINUES INTO THE GENERAL ACCOUNTING OFFICE OR IN THE COURTROOM. OVERALL, THOUGH, OUR RECORD IN RESPONSE TO CHALLENGES FROM DISAPPOINTED BIDDERS HAS BEEN EXCELLENT. THE GAO HAS DECIDED 3 PROTEST CASES AGAINST THE COAST GUARD OUT OF 43 SINCE JUNE 1981. IN CASES WHERE OUR PROCEDURES HAVE BEEN CHALLENGED IN COURT IN RECENT YEARS WE HAVE BEEN UPHELD IN ALL BUT TWO AWARDS. ONE OF THOSE TWO WAS THE WPB PATROL BOAT PROCUREMENT WHICH IS CURRENTLY BEING LITIGATED IN THE FEDERAL DISTRICT COURT AND CLAIMS COURT OF THE U.S. ALTHOUGH DISAPPOINTED BY THAT COURT DECISION, I THINK THAT THE WPB PROCUREMENT ILLUSTRATES SOME OF THE DIFFICULTIES WE FACE IN COMPLEX MAJOR PROCUREMENT. TO PROVIDE A BETTER OVERVIEW OF THAT PROCESS, MR. CHAIRMAN, LET ME BRIEFLY TRACE THROUGH THE STEPS OF THAT PROCUREMENT. A COPY OF THE TIME LINE DIAGRAM TO WHICH I WILL ADDRESS MYSELF IS ATTACHED TO MY STATEMENT.

OUR NEXT MAJOR SHIP REPAIR CONTRACT WILL BE ON THE 378 FOOT HAMILTON CLASS OF HIGH ENDURANCE CUTTERS. WE CALL IT THE FLEET REHABILITATION AND MODERNIZATION PROGRAM OR FRAM. I KNOW THIS COMMITTEE IS FAMILIAR WITH THE PROJECT, AS IT IS THE SUBJECT OF GUIDANCE FROM BOTH HOUSES OF CONGRESS. I HAVE PREPARED A TIME LINE FOR THE FRAM PROJECT FOR YOUR INFORMATION. AS OF 16 JULY 1984, ALL TECHNICAL AND COST PROPOSALS HAVE BEEN RECEIVED. DURING THE NEXT FIVE MONTHS, WE WILL EVALUATE EACH OF THE PROPOSALS RECEIVED. AFTER THAT WE WILL SEEK CLARIFICATION OF THE PROPOSALS, CONDUCT AUDITS, AND NEGOTIATE WITH THOSE IN THE COMPETITIVE RANGE. THEN WE WILL RECEIVE THEIR "BEST AND FINAL" OFFERS. OUR GOAL IS TO AWARD THE FRAM CONTRACT BY 1 JUNE OF 1985, IF THIS PROCUREMENT STRATEGY IS NOT DISRUPTED.

FROM THOSE TWO PROJECTS ALONE ONE CANNOT HELP BUT BE IMPRESSED BY THE COMPLEXITY OF THE FEDERAL PROCUREMENT SYSTEM. NOT ONLY IS IT BOUNDED BY EXTENSIVE LAWS AND REGULATIONS, IT IS MANPOWER-INTENSIVE AND EXTREMELY TIME CONSUMING. YOU WILL NOTE FROM TABLE TWO THAT WE HAVE INCREASED THE NUMBER OF PEOPLE IN OUR PROCUREMENT STAFF, AS WELL AS THEIR TRAINING, TO IMPROVE OUR ABILITY TO HANDLE COMPLEX PROCUREMENTS.

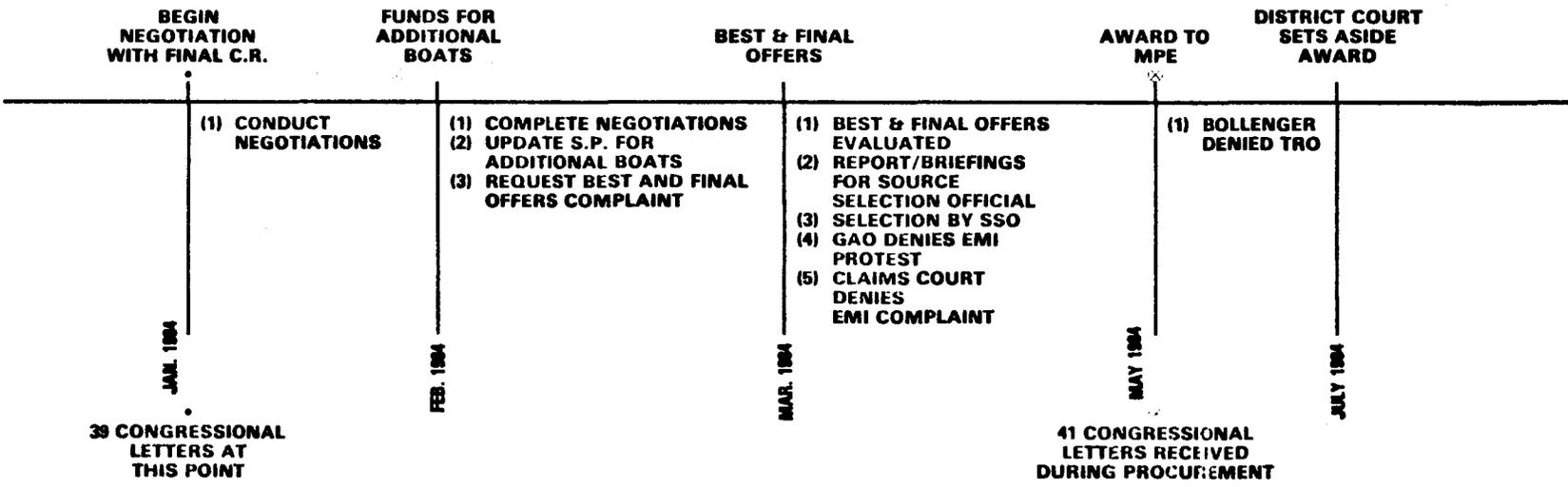
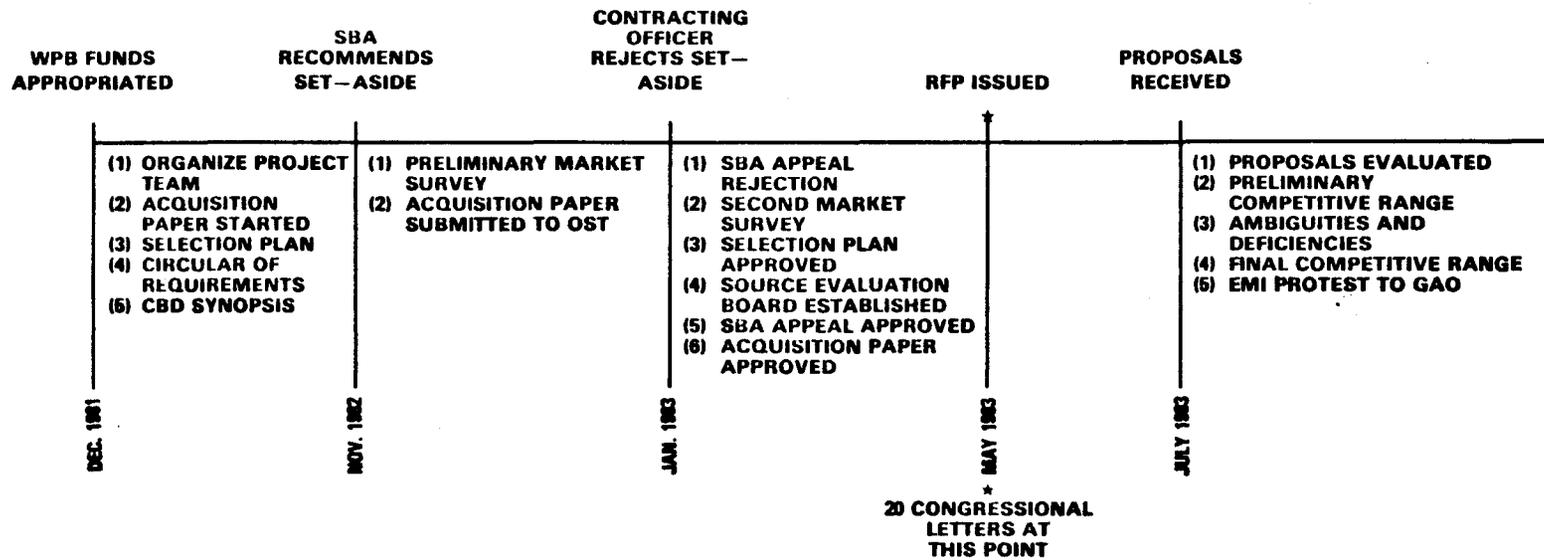
TABLE TWO
COAST GUARD HEADQUARTERS PROCUREMENT PERSONNEL

<u>AS OF END OF FISCAL YEAR</u>	<u>NO. OF PERSONNEL (CIVILIAN AND MILITARY)</u>
1978	75
1979	76
1980	74
1981	76
1982	102
PRESENT	102

WE CONTINUALLY LOOK AT WAYS TO ENHANCE AND STREAMLINE OUR INTERNAL PROCUREMENT PROCESS. FOR EXAMPLE, WE WORKED WITH THE DEPARTMENT'S PROCUREMENT STAFF TO HAVE THE ADDITIONAL PROCUREMENT AUTHORITY, CONSISTENT WITH THE FEDERAL ACQUISITION REGULATIONS, DELEGATED TO SOME OF OUR FIELD OFFICES. ALSO, BY AUTOMATING OUR SMALL PURCHASE PROCEDURES IN HEADQUARTERS, WE HAVE REALIZED ABOUT A 20% SAVINGS IN PROCESSING TIME. CURRENTLY WE ARE IMPLEMENTING ADDITIONAL AUTOMATED SYSTEMS WHICH WILL IMPROVE THE PROCUREMENT PROCESS AT HEADQUARTERS.

OVERALL, I THINK WE HAVE DONE WELL IN MANAGING OUR PROCUREMENT PROCESS. I RECOGNIZE THE CONTINUED INTEREST AND CONCERN OF THE CONGRESS IN THIS AREA. WE ALWAYS HAVE AND WILL CONTINUE TO SUPPORT, BOTH IN SPIRIT AND IN PRACTICE, YOUR EFFORTS TO IMPROVE THE PROCUREMENT PROCESS.

MR. CHAIRMAN, I WOULD BE PLEASED TO ANSWER THE COMMITTEE'S QUESTIONS.



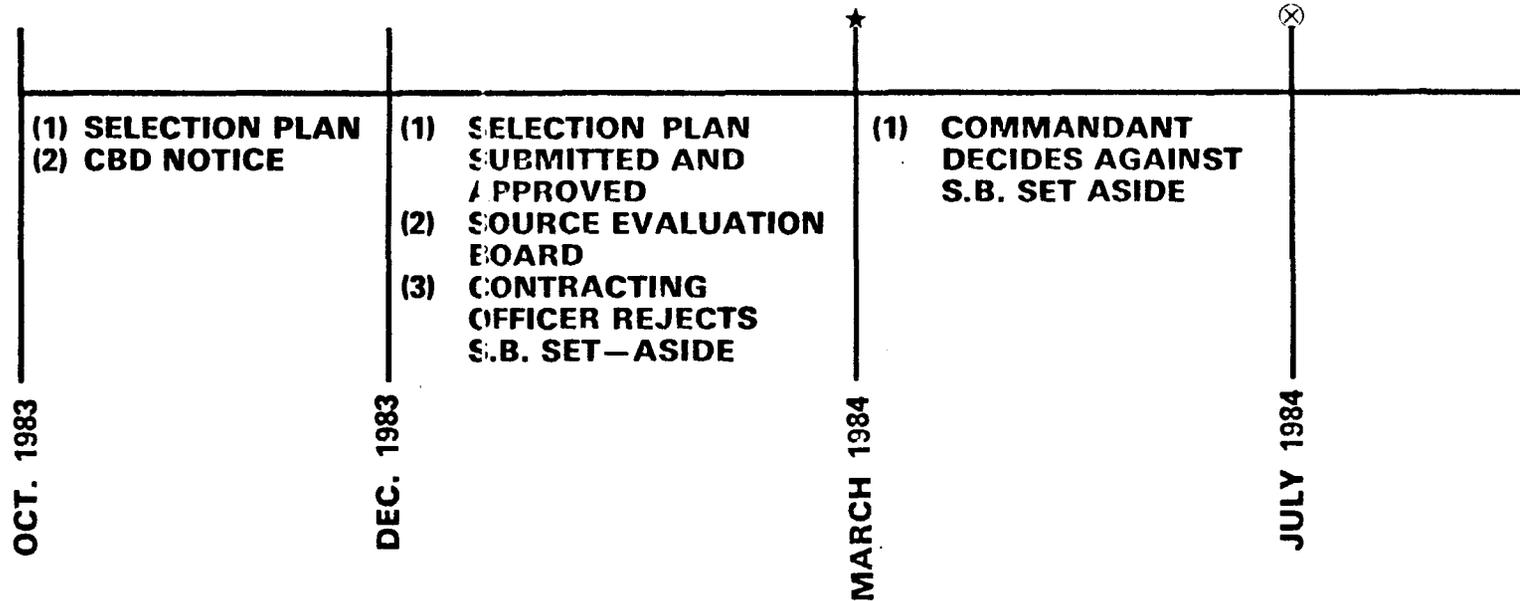
WPB PROCUREMENT

**SPECIFICATIONS
COMPLETED**

**SBA RECOMMENDS
SET-ASIDE**

**RFP
ISSUED**

**PROPOSALS
RECEIVED**



OCT. 1983

DEC. 1983

MARCH 1984

JULY 1984

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**20 CONGRESSIONAL
LETTERS TO DATE**

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**45 CONGRESSIONAL
LETTERS TO DATE**

FRAM PROCUREMENT