United States Coast Guard Instituted Controls for the Offshore Patrol Cutter
Extraordinary Relief Request, But Guidance Could Be Improved
July 26, 2023

MEMORANDUM FOR: Randolph D. Alles  
Senior Official Performing the Duties of the Under Secretary for Management  
Department of Homeland Security

The Honorable Admiral Linda L. Fagan  
Commandant  
United States Coast Guard

FROM: Joseph V. Cuffari, Ph.D.  
Inspector General

SUBJECT: United States Coast Guard Instituted Controls for the Offshore Patrol Cutter Extraordinary Relief Request, But Guidance Could Be Improved

For your action is our final report, United States Coast Guard Instituted Controls for the Offshore Patrol Cutter Extraordinary Relief Request, But Guidance Could Be Improved. We incorporated the formal comments provided by your office.

The report contains one recommendation aimed at improving the Department of Homeland Security’s guidance for the extraordinary relief process. Your office concurred with our recommendation. Based on information provided in your response to the draft report, we consider the recommendation open and resolved. Once your office has fully implemented the recommendation, please submit a formal closeout letter to us within 30 days so that we may close the recommendation. The memorandum should be accompanied by evidence of completion of agreed-upon corrective actions. Please send your response or closure request to oigauditsfollowup@oig.dhs.gov.

Consistent with our responsibility under the Inspector General Act, we will provide copies of our report to congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Please contact me with questions, or your staff may contact Kristen Bernard, Acting Deputy Inspector General for Audits, at (202) 981-6000.

Attachment
United States Coast Guard Instituted Controls for the Offshore Patrol Cutter Extraordinary Relief Request, But Guidance Could Be Improved

What We Found

Coast Guard instituted controls for P.L. 85-804 extraordinary relief. Specifically, Coast Guard hired a senior review team for an independent status review of the Offshore Patrol Cutter (OPC) program and commissioned independent reviews of the contractor’s business systems. After receiving the contractor’s request for extraordinary relief, Coast Guard created P.L. 85-804 review and re-compete teams to review the contractor’s cost and schedule relief request. In addition, to cover the operational gaps while the contractor built the OPCs, Coast Guard created a service program to extend the useful life of its 270-foot Medium Endurance Cutters.

After schedule delays due to damage to the contractor’s facilities from Hurricane Michael, Coast Guard determined there were just two clear and distinct paths that would allow the OPC program to effectively reset and move forward with a probability of success: either extraordinary contractual relief under P.L. 85-804 or re-procurement after terminating the contract based on the contractor’s design. In October 2019, the Department of Homeland Security granted the contractor up to $659 million in extraordinary relief and required Coast Guard to decrease the OPC contract delivery from nine to up to four OPCs. Coast Guard and DHS could improve their extraordinary relief guidance by including steps for personnel to follow when processing requests for extraordinary relief pursuant to P.L. 85-804.

DHS Response

DHS concurred with our recommendation. Appendix A contains DHS’ management response in its entirety.

For Further Information:
Contact our Office of Public Affairs at (202) 981-6000, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov
Background

The mission of the United States Coast Guard (Coast Guard) is to ensure our Nation’s maritime safety, security, and stewardship. The Offshore Patrol Cutter (OPC) is intended to provide a capability bridge between the National Security Cutter, which patrols the open ocean in the most demanding maritime environments, and the Fast Response Cutter, which serves closer to shore. OPCs will replace the Coast Guard’s 270-foot and 210-foot legacy Medium Endurance Cutters (MEC), which according to the Coast Guard, are becoming increasingly expensive to maintain and operate.

On September 15, 2016, Coast Guard awarded a fixed-price incentive contract¹ with an initial obligation amount of $110.29 million to continue the detail design and construction of the first nine OPCs, with a potential value of $2.38 billion if Coast Guard exercised all contract options. In October 2018, a few days after Coast Guard exercised the option² to begin construction of OPC 1, Hurricane Michael — a category 5 storm — made landfall in Panama City, Florida, and caused extensive damage to the contractor’s facilities. On March 29, 2019, and again on May 31, 2019, the contractor notified Coast Guard that there would be an impact to the OPC contract schedule, and it would need additional cost relief before the end of the calendar year.

On June 30, 2019, the contractor submitted a $740.3 million cost increase and schedule delay request to Coast Guard. The contractor also made several requests to multiple entities³ for additional funding before the Department authorized $659 million in P.L. 85-804 funds on October 10, 2019.⁴ According to the Federal Acquisition Regulation [FAR 50.101-1(a)], “P.L. 85-804 empowers the President to authorize agencies exercising functions in connection with the national defense to enter into, amend, and modify contracts without regard to other provisions of law related to making, performing, or modifying contracts, whenever the President considers that such an action would facilitate the national defense.” Executive Order 10789 authorizes the authority conferred by P.L. 85-804 to the head of the agency.

¹ A fixed-price incentive contract is a fixed-price contract that provides for adjusting profit and establishing the final contract price by application of a formula based on the relationship of total final negotiated cost to total target cost. The final price is subject to a price ceiling, negotiated at the outset. 48 C.F.R. § 16.403(a).
² According to Federal Acquisition Regulation (FAR) 2.101, Definitions., “Option means a unilateral right in a contract by which, for a specified time, the Government may elect to purchase additional supplies or services called for by the contract or may elect to extend the term of the contract.”
³ The contractor submitted funding requests to the State of Florida and local governmental agencies, Congress, and Coast Guard.
Figure 1 depicts the series of events surrounding the P.L. 85-804 relief the Department of Homeland Security granted the contractor, which occurred in 2018 and 2019. The figure also shows the Defense Contract Audit Agency (DCAA) and Defense Contract Management Agency (DCMA) reviews that Coast Guard requested of the contractor’s business systems.

**Figure 1. Events Before and After P.L. 85-804 Relief**

- **October 19th**: DHS Acting Secretary granted P.L. 85-804 relief
- **November 8th**: DCAA Audit Published
- **June**: Contractor provided corrective actions for EVMS
- **June 30th**: Contractor submitted $740M request
- **March 29th**: DCAA Audit Requested
- **May 29th**: Contractor reported schedule impacts
- **September 28th**: Construction of OPC 1 began
- **April 29th**: Contractor submitted $132M estimate to Congress for cost only impacts of OPC Hulls 1-3
- **October 15th**: DCMA identified EVMS* deficiencies
- **2018**
- **2019**


*Earned Value Management System (EVMS)

**Controls Coast Guard Implemented Before and After Hurricane Michael**

Prior to the 2018 hurricane, Coast Guard hired a senior review team (SRT) to conduct a brief independent status review of the OPC program. The SRT specifically focused its review on the Government’s cost estimating and how the cost estimate related to the cost of constructing the lead OPC. The SRT, comprising mainly consultants with various Federal Government contracting and shipbuilding expertise, concluded that the contractor could build the OPC. The SRT’s main issue was that the Government’s December 2017 cost estimate projected the cost of constructing the lead cutter would exceed the contract ceiling price. The SRT did not believe the Government’s cost estimate supported a favorable responsibility determination, which would signify the end of the OPC contract.
Coast Guard also had independent reviews performed to determine the effectiveness and suitability of the contractor’s business systems:

- Non-compliant Earned Value Management System (EVMS) – In April 2017, prior to Hurricane Michael and construction of OPC 1, Coast Guard requested that DCMA conduct a compliance review of the contractor’s EVMS.⁵ DCMA reported six material deficiencies with the contractor’s EVMS data in its October 12, 2018 report.⁶ DCMA determined that the contractor’s EVMS “could not provide reliable and accurate data.” DCMA recommended Coast Guard formally disapprove the contractor’s EVMS until the material deficiencies were resolved. The contractor agreed with DCMA’s report findings on September 19, 2018, and on March 26, 2019, Coast Guard issued a corrective action plan request. The contractor submitted corrective action plans in June and July 2019 and hired additional staff with EVMS experience.

- Non-compliant accounting system – In May 2015, according to a Coast Guard document, DCAA determined that the contractor’s accounting system was acceptable for Coast Guard to award the phase II contract, with fixed-price-incentive and cost-reimbursable line items. However, following a May 2019 request from Coast Guard, DCAA reported 15 material non-compliances and found the contractor’s accounting system non-compliant with the Defense Federal Acquisition Regulation Supplement.⁷

- External agency advisement – From July 2019 to October 2019, Coast Guard engaged the Department of the Navy’s Naval Sea Systems Command – Cost Engineering and Industrial Analysis group (NAVSEA) to assist in advising the contract adjustment board (CAB)⁸ with updated estimates for cost relief. According to the U.S. Government Accountability Office (GAO), the CAB found the contractor’s request for extraordinary relief to be underestimated, citing concerns such as the CAB’s inability to validate the accuracy of the shipbuilder’s cost models and significantly underestimated labor hours. As a result, the CAB used NAVSEA’s cost models to develop a conservative estimate, which was the basis for determining the maximum amount of relief necessary.⁹

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⁵ EVMS is a required project management tool for major acquisitions used by a contractor to manage its cost, schedule, and performance.
⁸ The CAB is made up of Department and Coast Guard personnel. The CAB recommended courses of action that the Secretary of Homeland Security could take in response to the contractor’s June 30, 2019, request for extraordinary relief.
⁹ GAO-21-9, Opportunities Exist to Reduce Risk for the Offshore Patrol Cutter Program, October 2020.
In January 2020, OIG received a hotline complaint alleging the contractor underbid and mismanaged the contract and intended to recoup an $80 million loss from the P.L. 85-804 extraordinary relief funding. We initiated our audit focusing on the extent to which Coast Guard monitored the contractor performance results associated with cost and schedule relief granted under P.L. 85-804, for the OPC program. In August 2021, Congress requested GAO look at the OPC program, including cost and schedule commitments. As a result, we narrowed our audit scope and focused on the extent to which Coast Guard had controls in place to recommend the use of P.L. 85-804 extraordinary relief.

On June 30, 2022, Coast Guard awarded a new OPC contract to a different shipbuilder for up to 11 OPCs in the initial award amount of $208.26 million. The decision to award a new contract negated further monetary losses. The new contract has a potential value of $3.33 billion if Coast Guard exercises all contract options.

As of April 2023, Coast Guard issued 89 modifications and obligated nearly $1.55 billion for the OPC contract. Coast Guard awarded 8 of the 89 modifications for P.L. 85-804 relief, which include more than $414 million of the $659 million the Department granted. Coast Guard anticipates delivery of the first OPC in the third quarter of fiscal year 2023.

**Results of Audit**

**Coast Guard Instituted Controls for P.L. 85-804 Extraordinary Relief**

When Coast Guard received the contractor’s June 30, 2019 request, and prior to the contractor pursuing relief, Coast Guard took steps to perform due diligence related to the contractor’s performance. Specifically, Coast Guard chartered a P.L. 85-804 review team and a re-compete team to review the contractor’s submission and determine an alternate course of action if the Department did not grant relief. See Appendix B for the roles and responsibilities of Coast Guard’s P.L. 85-804 review charter teams.

However, in providing recommended actions the Department could take regarding extraordinary relief, Coast Guard did not take notice of key indicators resulting from the independent reviews, namely, the contractor’s non-compliant EVMS and non-compliant accounting system. The contractor agreed with the EVMS deficiencies DCMA reported, but still used the flawed data when submitting relief requests. GAO also identified issues with
NAVSEA’s analysis and determined that NAVSEA did not complete critical analysis.10

Coast Guard had a plan that accounted for delays in delivery by extending the useful life of the aging MECs while the contractor built the OPCs. In planning the OPC acquisition, Coast Guard included a 10-year service life extension plan11 for 6 of its 13 270-foot MECs, as part of the original OPC transition schedule. An alternative option considered by Coast Guard included servicing all 13 ships if there was a 5–7-year delay. DHS approved the service life extension program for at least 6 of the 270-foot MECs in July 2019. In a November 2019 letter to Coast Guard, the House Committee on Transportation and Infrastructure advocated Coast Guard look at alternative methods to acquire new mission capabilities, and for more than a decade the Committee repeatedly urged Coast Guard to undertake a ship life extension program for the MECs.12 However, Coast Guard deferred initiating an MEC service life extension program due to limited funding in its Procurement, Construction, and Improvement account, which would partially offset the loss of MEC capability as those cutters reach the end of their service life.

Although Coast Guard deferred initiating the plan, as of July 2022, according to Coast Guard, maintenance to extend the life of the first 270-foot MEC will be completed in 2024 and all six will be serviced by 2028. Coast Guard has also planned for unforeseen delays by including an option in its plan to extend the service life of all 13 of its 270-foot MECs, if needed.

Coast Guard Determined There Were No Other Timely Viable Options

According to the Federal Acquisition Regulation (FAR 50.101-2(a)(2)), the authority conferred by P.L. 85-804 may not be relied upon when other adequate legal authority exists within the agency. We reviewed numerous Coast Guard documents in which Coast Guard identified P.L. 85-804 extraordinary relief as the first course of action for the OPC contractor, but according to the Coast Guard’s Re-Compete and Alternatives Analysis reports, the Department and Coast Guard considered multiple options. Some options were Coast Guard issuing an indefinite-delivery, indefinite-quantity contract vehicle with three task orders; shortening or eliminating industry studies; and altering the original OPC contract. According to these reports, the options were “band-aids” or had unacceptable cost and schedule risk.

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10 GAO-21-9, Opportunities Exist to Reduce Risk for the Offshore Patrol Cutter Program, October 2020.
11 The service life extension program addresses specific systems and major maintenance to extend the service life of the vessel beyond the original design service life.
Coast Guard ultimately determined there were no other timely viable options to deliver the OPCs, and there were just two clear and distinct paths that would allow the OPC program to effectively reset post-hurricane and move forward with a probability of success: either extraordinary contractual relief under P.L. 85-804 or termination and re-procurement based on the contractor’s design. On October 10, 2019, DHS granted the contractor up to $659 million in extraordinary relief and required Coast Guard to decrease the OPC contract delivery from nine to up to four OPCs.

DHS’ and Coast Guard’s Extraordinary Relief Guidance is Missing Implementing Procedures

The Department’s Homeland Security Acquisition Manual (manual), dated October 2009, provides some policies regarding extraordinary contractual actions, including extraordinary relief under P.L. 85-804. Specifically, according to the manual, approval or denial authority on extraordinary relief is maintained at the Secretary level. Also, according to the manual, “Generally, it is DHS policy not to authorize indemnification to contractors or subcontractors against unusually hazardous or nuclear risk.”

The Coast Guard Acquisition Procedures (procedures) dated March 2014, designate which office processes extraordinary relief cases. Specifically, according to the procedures, “The Office of Procurement Law (Commandant (CG-0949)) is the Contracting Officer’s designated representative for processing adjustments.” The procedures also include requirements for the contracting officer to transmit a contractor’s request for adjustment and the Commandant (CG-0949) to compile facts and evidence and process cases, as specified in FAR 50.103-3, FAR 50.103-4, and FAR 50.103-5, respectively. The FAR, in turn, provides requirements for what should be included, at a minimum, in contractor requests; what should be requested from the contractor as support; and for investigations to establish facts needed to decide a case.

Although DHS and Coast Guard guidance provides overarching policy, defines some roles, and instructs staff to follow the FAR, neither the Department’s nor Coast Guard’s guidance provide personnel with specific implementing procedures to ensure compliance with the FAR when a contractor requests extraordinary relief under P.L. 85-804.

Recommendation

Recommendation 1: We recommend the Department of Homeland Security Under Secretary for Management update or create departmental policy for components to follow when a contractor requests extraordinary relief under Public Law 85-804.
Management Comments and OIG Analysis

DHS concurred with our report recommendation. Appendix A contains a copy of DHS’ response in its entirety. DHS also provided technical comments to our draft report, which we incorporated as appropriate. A summary of DHS’ response and our analysis follows.

**DHS Response to Recommendation 1:** Concur. The DHS Office of the Chief Procurement Officer will review existing policy and procedures related to contractor requests for extraordinary relief under P.L. 85-804 to identify areas requiring clarification and supplemental guidance. Once this review is complete, the Office of the Chief Procurement Officer will incorporate any supplemental policy and procedures into the Homeland Security Acquisition Manual, which establishes uniform acquisition policy and procedures applicable across the Department. Estimated completion date: June 28, 2024.

**OIG Analysis:** We consider DHS’ actions responsive to the recommendation. The recommendation will remain resolved and open until DHS provides documentation to support the corrective action has been implemented.

**Objective, Scope, and Methodology**


In January 2020, OIG received a hotline complaint alleging the OPC contractor underbid and mismanaged the contract and intended to recoup an $80 million loss from the P.L. 85-804 extraordinary relief funding. In January 2021, we initiated our audit and focused on the extent to which Coast Guard monitored the contractor performance results associated with cost and schedule relief granted under P.L. 85-804, for the OPC program. However, in August 2021, Congress also requested that GAO look at the OPC program, including cost and schedule commitments. As a result of the GAO congressional request, we narrowed our audit scope and revised our audit objective to determine the extent to which Coast Guard had controls in place to recommend the use of P.L. 85-804 extraordinary relief.

The scope of our audit included the base OPC contract (HSCG23-14-C-APC002), signed on February 11, 2014, and contract modifications awarded through February 2023, for which the Department awarded P.L. 85-804 funds. We also reviewed departmental reports; Coast Guard assessments, memorandums, and reports; and documents created by the contractor. To answer our objective, we conducted interviews with officials from the Department’s Office of the Chief Procurement Officer, Office of the Chief
Financial Officer, and Program Accountability and Risk Management Office. We also interviewed individuals from Coast Guard’s program offices and contracting office, as well as individuals responsible for contract awards. We obtained and reviewed previous DHS OIG and GAO reports, congressional reports and letters, executive orders, Federal regulations, DHS policies, Coast Guard acquisition guidance, and contract documentation. Due to the COVID-19 pandemic, we received documents and conducted all interviews virtually.

We identified control weaknesses in the control environment, risk assessment, and control activities internal control components. We assessed Coast Guard’s control structure, policies, procedures, and practices applicable to acquisitions. Our assessment would not necessarily disclose all material weaknesses in this control structure. However, it disclosed an implementation gap in the Department and Coast Guard guidance. We discussed these gaps in the body of this report.

We used the Federal Procurement Data System – Next Generation (FPDS-NG) to verify and validate the completeness and accuracy of the contract data. Federal regulation mandates that all Federal agencies report data on contract actions in FPDS-NG. This data is verified and validated by the Department’s Chief Procurement Officer and the Chief Acquisition Officer. In March 2023, we ran an FPDS-NG query for Coast Guard’s contract and its modifications, which ranged from February 2014 through February 2023. There are 10 modifications that were not in FPDS-NG. We also reconciled this data against Coast Guard-provided data. Although we used the data extracted from FPDS-NG, we did not materially rely on it to support our findings, conclusions, or recommendations in this report.

We conducted this performance audit between January 2021 and June 2023 pursuant to the Inspector General Act of 1978, as amended, and 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.

**DHS OIG’s Access to DHS Information**

During this audit, DHS and Coast Guard provided timely responses to DHS OIG’s requests for information and did not delay or deny access to information we requested.
Appendix A
DHS Comments to the Draft Report

June 26, 2023

MEMORANDUM FOR: Joseph V. Cuffari, Ph.D.
Inspector General

FROM: Jim H. Crumpacker, CIA, CFE
Director
Departmental GAO-OIG Liaison Office

SUBJECT: Management’s Response to OIG Draft Report: “Coast Guard Instituted Controls for the Offshore Patrol Cutter Extraordinary Relief Request, But Guidance Could Be Improved” (Project No. 21-012-AUD-USCG)

Thank you for the opportunity to comment on this draft report. The U.S. Department of Homeland Security (DHS or the Department) appreciates the work of the Office of the Inspector General (OIG) in planning and conducting its review and issuing this report.

DHS leadership is pleased to note OIG’s positive recognition of controls the U.S. Coast Guard instituted after receiving a contractor’s Offshore Patrol Cutter’s (OPC) extraordinary relief request, such as hiring a Senior Review Team for an independent status review of the OPC program, and commissioning independent reviews of the contractor’s business systems. OIG also noted that the Coast Guard created a service program to extend the useful life of its 270-foot Medium Endurance Cutters. DHS remains committed to strengthening acquisition policy and guidance, where appropriate.

The draft report contained one recommendation, with which the Department concurs. Enclosed find our detailed response for this recommendation. DHS previously submitted technical comments addressing several accuracy, contextual, and other issues under a separate cover for OIG’s consideration.

Again, thank you for the opportunity to review and comment on this draft report. Please feel free to contact me if you have any questions. We look forward to working with you again in the future.

Enclosure
Enclosure: Management Response to Recommendation Contained in 22-012-AUD-USCG

OIG recommended that the Under Secretary of Management for DHS:

**Recommendation 1:** Update or create departmental policy for components to follow when a contractor requests extraordinary relief under P.L. 85-804 [Public Law 85-804, “Extraordinary Relief”].

**Response:** Concur. The DHS Office of the Chief Procurement Officer (OCPO) will review existing policy and procedures related to contractor requests for extraordinary relief under P.L. 85-804 to identify areas requiring clarification and supplemental guidance. Once this review is complete, OCPO will incorporate any supplemental policy and procedures into the Homeland Security Acquisition Manual\(^1\), which establishes uniform acquisition policy and procedures applicable across the Department. Estimated Completion Date: June 28, 2024.

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\(^1\) [https://www.dhs.gov/homeland-security-acquisition-manual](https://www.dhs.gov/homeland-security-acquisition-manual)
# Appendix B

## Coast Guard P.L. 85-804 Review Charter Teams’ Roles and Responsibilities

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<th>P.L. 85-804 Review Charter Teams</th>
<th>Roles &amp; Responsibilities</th>
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<tr>
<td><strong>Quick Look Team</strong></td>
<td>Performs an initial assessment of the P.L. 85-804 package to ensure the contractor provided the information required by Federal Acquisition Regulation (FAR) 50.103-3, 4.</td>
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| **Program Assessment Team**      | Reviews the submission for cost, schedule, and performance factors to make a producibility determination of the contractor’s ability to produce up to nine OPCs.  
*The Government Cost Estimate Subgroup assesses how realistic the contractor’s cost proposal is based on the updated NAVSEA cost estimate.  
**The Operational Subgroup also determines whether the contractor’s request for contract adjustment is considered essential to the national defense. |
| **Business Assessment Team**     | Reviews the financial deliverables to determine the viability of the contractor to continue to execute government and commercial contracts, as well as the criticality of the request to meet the national defense industrial base definition. |
| **Senior Review Team**          | Provides comments on Senior Review team artifacts and analysis and provides the Coast Guard Acquisition Directorate leadership their overall recommendations during each phase of the review process. |

Source: DHS OIG-created from *Coast Guard Enclosure 3 – 85-804 Review Charter*
Appendix C
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