



Department of Homeland Security Office of Inspector General

U.S. Coast Guard's Plan to Improve Deepwater Accountability

(Letter Report)





Homeland
Security

May 29, 2009

MEMORANDUM FOR: The Honorable Admiral Thad W. Allen
Commandant
United States Coast Guard

FROM: *Richard L. Skinner*
Richard L. Skinner
Inspector General

SUBJECT: *Letter Report: U.S. Coast Guard's Plans to Improve
Deepwater Accountability (OIG-09-75)*

In response to a congressional request, we initiated a review of the U.S. Coast Guard's plans to hold Integrated Coast Guard Systems, the prime contractor for the Integrated Deepwater System Program (Deepwater), accountable for problems associated with the acquisition of five assets: the National Security Cutter, the 110'/123' Patrol Boat, the Fast Response Cutter, the Short-Range Prosecutor, and the Vertical-Takeoff-and-Landing Unmanned Aerial Vehicle.

The Coast Guard plans to recoup funds from acquisitions of the 110'/123' Patrol Boat and the Short-Range Prosecutor, whose design and performance did not meet minimum Deepwater contract and mission requirements. Problems with those two acquisitions included structural design flaws and installation of nonconforming communications equipment. The Coast Guard will not seek to recoup funds related to acquisitions of the National Security Cutter, Fast Response Cutter, and Vertical-Takeoff-and-Landing Unmanned Aerial Vehicle. In the case of the National Security Cutter, the Coast Guard chose to renegotiate the contract to reach terms more favorable to the U.S. government for proceeding with the acquisition. The contractor met the terms of the Fast Response Cutter contract, but the design of the asset did not meet the Coast Guard's mission requirements. The Coast Guard canceled the Vertical-Takeoff-and-Landing Unmanned Aerial Vehicle acquisition because the asset lacked technical maturity and because cost estimates exceeded available funding.

Should you have any questions, please call me, or your staff may contact Anne L. Richards, Assistant Inspector General for Audits, at (202) 254-4100.

Background

In June 2002, the Coast Guard awarded Integrated Coast Guard Systems an initial 5-year base term contract to serve as the Deepwater systems integrator. The Coast Guard has since invested more than \$1.8 billion to acquire the following five assets to help accomplish the Deepwater mission:

- \$1.6 billion for the National Security Cutter, the flagship of the U.S. Coast Guard's Deepwater cutter fleet, capable of executing the most challenging maritime security, drug and migrant interdiction, and search and rescue missions.
- \$87 million for the 110'/123' Patrol Boat Modernization Project, which involved lengthening the boats to accommodate the launching of the new Short-Range Prosecutor from the stern rather than over the side, and modernizing them through extensive superstructure improvements and advanced electronics, communication, and navigation systems.
- \$40 million for the design of the Fast Response Cutter, intended to replace the Coast Guard's 110'/123' Patrol Boat fleet with cutters of greater operational endurance.
- \$3 million for the Short Range Prosecutor, a rigid-hull inflatable small boat designed for use aboard the 123' Patrol Boat, the Fast Response Cutter, the National Security Cutter, and other Deepwater surface assets.
- \$93 million for the Vertical-Takeoff-and-Landing Unmanned Aerial Vehicle, with outstanding obligations totaling \$11 million, of which some will be deobligated as part of the contract closeout procedure. This asset was intended to enable the Coast Guard to surveil, detect, classify, and identify targets of interest operating beyond the visual range of the new and legacy flight deck-equipped cutters.

Because of problems encountered in their development, construction, and testing phases, these acquisitions were canceled, modified, or accelerated, in some instances creating or increasing gaps in the Coast Guard's operational capacity to accomplish its offshore missions. The Coast Guard was left to determine what funds, if any, it could recoup from the contractor for the unsuccessful acquisition efforts.

Review Results

The Coast Guard plans to recoup funds from efforts to acquire two of the five Deepwater assets—the 110'/123' Patrol Boat and the Short-Range Prosecutor—whose design and performance did not meet minimum Deepwater contract and mission requirements.

Problems with these assets included structural design flaws and installation of nonconforming communications equipment.

Specifically, shortly after the delivery of the first 123' Patrol Boat in March 2004, the Coast Guard discovered deformation and cracks in the hull. Similar structural problems were subsequently reported on the other seven 123' Patrol Boats. In November 2006, the Coast Guard announced that it would suspend operations of all eight 123' patrol boats pending assessment of the problem and how best to address it. In 2007, the Coast Guard revoked acceptance of the eight existing 123' Patrol Boats and canceled other planned acquisitions. The Coast Guard now intends to recoup an estimated \$96 million in damages from the contractor for the structural problems with the eight 110'/123' Patrol Boats.

The Coast Guard plans to pursue recoupment for all communications equipment deficiencies on the Short-Range Prosecutor. The maximum recoupment is estimated to be \$26,000 per Short-Range Prosecutor. As of March 2009, two of the Short-Range Prosecutors had been modified and are in use: One is deployed aboard National Security Cutter-1, the CGC *Bertholf*, and the other is at the Project Resident Office Gulf Coast in Pascagoula, Mississippi, for as-needed testing. The remaining six Short-Range Prosecutors are in storage at the Coast Guard Yard in Baltimore, Maryland. There are plans to modify three of these six vessels for use aboard National Security Cutter-2, the CGC *Waesche*, in 2009.

The Coast Guard will not seek recoupment for issues related to the following three Deepwater assets, which also experienced technical and structural problems even though the contract terms were met:

National Security Cutter: The Coast Guard identified structural changes to address design issues associated with the first two National Security Cutters. If left uncorrected, these issues could result in fatigue cracks, significantly increased maintenance costs, and reduced service life. Structural changes to National Security Cutters 1 and 2 will be made after delivery. The Coast Guard also renegotiated the contracts for the first two National Security Cutters and thus resolved outstanding contracting actions estimated at \$300 million, added incentives for the contractor to control costs, and aligned the contracts more closely with U.S. Navy best shipbuilding practices. For National Security Cutters 3 to 8, design modifications have been identified for completion during the production phase.

Fast Response Cutter: Given the development risks involved, the Coast Guard canceled acquisition of the Fast Response Cutter. According to the Coast Guard, the cutter design satisfied contract terms but did not meet Deepwater mission needs. Based on independent assessments conducted in March 2006, the composite hull weight and propulsion plant capacity were not consistent with inservice patrol boats of comparable length, speed, and range. As an alternative, the Coast Guard has initiated a dual strategy involving production of steel hull

cutters and postponed acquisition of composite hull cutters until their development risk is significantly reduced.

Vertical-Takeoff-and-Landing Unmanned Aerial Vehicle: In June 2007, the Coast Guard terminated this acquisition before receiving any operational aircraft. The contractor met the terms of the contract through critical design review and initiation of the systems development phase. The Coast Guard canceled the acquisition because the asset lacked technical maturity and because cost estimates exceeded available funding.

The Coast Guard continues its efforts to recoup funds for the 110'/123' Patrol Boat Modernization Program and the Short-Range Prosecutor. It is moving forward with the production of National Security Cutters under a contract that it has determined to be more favorable to the U.S. government. Finally, in light of the cancellation of the Fast Response Cutter acquisition, the Coast Guard is pursuing an alternative cutter to meet its unique mission requirements.

Appendix A
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