June 2007

DEFENSE ACQUISITIONS

Role of Lead Systems Integrator on Future Combat Systems Program Poses Oversight Challenges

GAO Accountability · Integrity · Reliability

Highlights

Highlights of GAO-07-380, a report to congressional committees

Why GAO Did This Study

The Army's Future Combat Systems (FCS) program features multiple new systems linked by a first-of-a-kind information network. The Army contracted with a lead systems integrator (LSI) for FCS that could serve in a more expansive role than a typical prime contractor would. In response to a congressional mandate, this report addresses (1) why the Army decided to employ an LSI for the FCS program; (2) the nature of the LSI's working relationship with the Army; and (3) how FCS contract fees, provisions, and incentives work.

In conducting its work, GAO reviewed extensive program documentation and held discussions with key officials at DOD and throughout the FCS program.

What GAO Recommends

GAO recommends that the Secretary of Defense take steps to strengthen oversight of the FCS program and assess whether the experience of the LSI on FCS has broader implications for DOD acquisition management. DOD concurred with GAO's recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-380.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Paul L. Francis at (202) 512-4841 or francisp@gao.gov.

What GAO Found

In 2003, the Army contracted with an LSI for FCS because of the program's ambitious goals and the Army's belief that it did not have the capacity to manage the program. The original timeframe for FCS's development was a shorter time frame than for an individual weapon system program, let alone a complex systems-of-systems program with a high number of immature technologies at program start. The Army realized that its compartmentalized workforce did not lend itself to the kind of crosscutting work that the FCS program would demand. The Army workforce also did not have the expertise needed to develop the FCS information network or enough people to support the program had it been organized into separate program offices. In contracting with the Boeing Company as LSI, the Army believed it found a management partner who could define and develop FCS and reach across the Army's organizations. Boeing subcontracted with another company, Science Applications International Corporation, to assist with its responsibilities as LSI.

The working relationship between the LSI and the Army is complex. The LSI is a traditional contractor in terms of developing a product for its customer, the Army, but also serves like a partner to the Army in management of the FCS program. In its management role, the LSI makes decisions collaboratively with the Army. An advantage of this arrangement is that the LSI and Army can maintain flexibility when dealing with shifting priorities. However, that relationship may pose significant risks to the Army's ability to provide oversight over the long term. The Office of the Secretary of Defense is in a position to provide this oversight but thus far has allowed the Army to depart significantly from best practices and the Office's own policy for weapon system acquisitions. For example, the Office of the Secretary of Defense has also allowed the Army to use its own cost estimates rather than independent—and significantly higher—cost estimates when submitting budget requests. The Army's experience with the LSI on the FCS program may provide the Office of the Secretary of Defense insights on broader acquisition management issues.

The Army has structured the FCS contract consistent with its desire to incentivize development efforts. The definitized cost-reimbursable research and development contract valued at $17.5 billion contains up to a 15 percent total fixed/incentive fee, or about $2.3 billion. As with many research and development contracts, the FCS contract obligates the contractor to put forth its best efforts, but does not assure successful outcomes. Assuming that critical design review is completed in 2011, the Army will have paid the LSI over 80 percent to cover the contract costs, plus a possible 80 percent of its fee or profit. GAO has previously reported that most cost growth in DOD weapon system programs occurs after critical design review. Therefore, it is possible for the LSI to have garnered most of its payouts in costs and fees early next decade, even if despite its best efforts, the FCS capability ends up falling far short of the Army's goals. The Army notes that its fee structure is intended to encourage good performance early in the program.