



Highlights of [GAO-04-380](#), a report to the Ranking Minority Member, Committee on Commerce, Science, and Transportation, U.S. Senate

Why GAO Did This Study

The Coast Guard's Deepwater program, the largest acquisition program in its history, involves modernizing or replacing ships, aircraft, and communications equipment. The Coast Guard awarded the Deepwater contract to Integrated Coast Guard Systems (ICGS) in June 2002. The Coast Guard estimates the program will cost \$17 billion over a 30-year period. ICGS is a system integrator, with responsibility for identifying and delivering an integrated system of assets to meet the Coast Guard's missions.

GAO was asked to assess whether the Coast Guard is effectively managing the Deepwater program and overseeing the contractor and to assess the implications of using the Deepwater contracting model on opportunities for competition.

What GAO Recommends

GAO recommends that the Secretary of Homeland Security direct the Commandant of the Coast Guard to take a number of actions to improve Deepwater management and contractor oversight. The Department of Homeland Security forwarded GAO the Coast Guard's written comments on a draft of this report. The Coast Guard welcomed GAO's observations and concurred with GAO's recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-04-380.

To view the full product, including the scope and methodology, click on the link above. For more information, contact William T. Woods at (202) 512-4841 or woodsw@gao.gov.

CONTRACT MANAGEMENT

Coast Guard's Deepwater Program Needs Increased Attention to Management and Contractor Oversight

What GAO Found

Over a year and a half into the Deepwater contract, the key components needed to manage the program and oversee the system integrator's performance have not been effectively implemented. Integrated product teams, the Coast Guard's primary tool for overseeing the system integrator, have struggled to effectively collaborate and accomplish their missions. They have been hampered by changing membership, understaffing, insufficient training, and inadequate communication among members. In addition, the Coast Guard has not adequately addressed the frequent turnover of personnel in the program and the transition from existing to Deepwater assets.

The Coast Guard's assessment of the system integrator's performance in the first year of the contract lacked rigor. For example, comments from the technical specialist responsible for monitoring the design and delivery of ships were not included in the evaluation scores. Further, the factors that formed the basis for the award fee determination were unsupported by quantifiable metrics. Despite documented problems in schedule, performance, cost control, and contract administration, ICGS received a rating of 87 percent, resulting in an award fee of \$4.0 million of the maximum \$4.6 million annual award fee.

Further, the Coast Guard has not yet begun to measure the system integrator's performance on the three overarching goals of the Deepwater program—operational effectiveness, total ownership cost, and customer satisfaction. Its original plan of measuring progress on an annual basis has slipped, and Coast Guard officials have not projected a time frame for when they will be able to hold the contractor accountable for progress against these goals. This information will be essential to the Coast Guard's decision about whether to extend ICGS's contract after the first 5 years.

Competition is critical to controlling costs in the Deepwater program and a guiding principle of Department of Homeland Security acquisitions. Concerns about the Coast Guard's ability to rely on competition as a means to control future costs contributed to GAO's description of the Deepwater program in 2001 as "risky." Three years later, the Coast Guard has neither measured the extent of competition among suppliers of Deepwater assets nor held the system integrator accountable for taking steps to achieve competition. Deepwater's acquisition structure is such that the two first-tier subcontractors have sole responsibility for determining whether to hold competitions for assets or to provide these assets themselves. The Coast Guard has taken a hands-off approach to "make or buy" decisions made at the subcontractor level. As a result, questions remain about whether the government will be able to control costs.