Audit Report

OFFICE OF THE INSPECTOR GENERAL

DOD HOTLINE ALLEGATIONS REGARDING THE NAVAL SPECIAL WARFARE PATROL COASTAL SHIP AND RIGID INFLATABLE BOAT ACQUISITION PROGRAMS

Report No. 95-193 May 15, 1995

Department of Defense

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Acronyms

CNO	Chief of Naval Operations
COR	Circular of Requirements
NAVSEA	Naval Sea Systems Command
NDI	Nondevelopmental Item
NSWC	Naval Surface Warfare Center
PC	Patrol Coastal Ship
RIB	Rigid Inflatable Boat
USSOCOM	U.S. Special Operations Command

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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May 15, 1995

MEMORANDUM FOR COMMANDER IN CHIEF, U.S. SPECIAL OPERATIONS COMMAND
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)

SUBJECT: Audit Report on the DoD Hotline Allegations Regarding the Naval Special Warfare Patrol Coastal Ship and Rigid Inflatable Boat Acquisition Programs (Report No. 95-193)

We are providing this report for your review and comment. This report is the second of two reports on Defense Hotline allegations regarding three U.S. Special Operations Command programs. The report discusses the Naval Sea Systems Command's use of the nondevelopmental item acquisition approach to obtain vessels for the U.S. Special Operations Command.

The Commander, Naval Sea Systems Command, did not comment on a draft of this report. DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, we request comments on the unresolved recommendation by June 16, 1995.

If you have questions on this audit, please contact Mr. James L. Koloshey, Program Director, at (703) 604-8961 (DSN 664-8961) or Mr. Eddie J. Ward, Project Manager, at (703) 604-8967 (DSN 664-8967). Audit team members are listed inside the back cover. Appendix E lists the distribution of this report.

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Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 95-193 **May 15, 1995**
(Project No. 4AG-8013.01)

DoD Hotline Allegations Regarding the Naval Special Warfare Patrol Coastal Ship and the Rigid Inflatable Boat Acquisition Programs

Executive Summary

Introduction. The Patrol Coastal Ship and Rigid Inflatable Boat will provide the U.S. Special Operations Command with improved maritime mission capability. The Navy acquired these vessels initially using the nondevelopmental item acquisition approach and awarded firm fixed-price contracts totaling $140 million for the Patrol Coastal Ship and $7 million for the Rigid Inflatable Boat.

Objectives. Our objective was to determine the validity of five Hotline allegations concerning the Naval Special Warfare Patrol Coastal Ship and Rigid Inflatable Boat Acquisition Programs. We also reviewed the adequacy of management's implementation of the DoD Internal Management Control Program and applicable management controls.

Audit Results. Four of the five allegations were not substantiated (Appendix A). For the remaining allegation, we concluded that the Naval Sea Systems Command deviated from the nondevelopmental item acquisition approach without conducting necessary risk analyses to support the decision. Also, the Rigid Inflatable Boat Project Manager awarded a firm fixed-price contract for the boat using insufficiently validated technical data. As a result, the Patrol Coastal Ship has cost growth ranging from $53 million to $62 million over the initial cost of $140 million and the Rigid Inflatable Boat has cost growth of $3 million over the initial $7 million cost (Finding). No quantifiable monetary benefits will be realized from this audit (Appendix C). Use of data gathered from this audit will allow the Navy to avoid similar future problems.

Summary of Recommendation. We recommend that the Commander, Naval Sea Systems Command, properly document as lessons-learned the events that occurred in the Patrol Coastal Ship and Rigid Inflatable Boat Acquisition Programs and disseminate these lessons-learned to appropriate naval acquisition officials.

Management Comments. The Commander, Naval Sea Systems Command, did not comment on a draft of this report.

Audit Response. We request written comments by June 16, 1995.

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This report was prepared by the Acquisition Management Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.

Part I - Introduction

Background

The U.S. Special Operations Command (USSOCOM) and Naval Special Warfare Command maritime mission responsibilities include coastal patrol and interdiction and long- and medium-range insertion of special operations forces. The Naval Special Warfare Patrol Coastal Ship (PC) and the 10-Meter Rigid Inflatable Boat (RIB) are two vessels that support these missions. The Naval Sea Systems Command (NAVSEA) is responsible for the acquisition of both vessels. The two programs are managed by NAVSEA's Support Ships, Boats, and Crafts Program Office (formerly Combat Craft, Service Craft, and Amphibian Acquisition Program Office).

Patrol Coastal Ship. The PC's primary missions are coastal patrol and interdiction with a secondary mission of providing support to Naval special warfare and other special operations forces. A crew of 28 operates each PC and also provides support for an eight-member sea, air, and land commando team for a maximum of 10 days at sea. The 170-foot PC is to replace the aging 65-foot Mark III Patrol Boat and will be homeported at Naval Special Warfare units in Coronado, California, and Little Creek, Virginia. NAVSEA awarded a $140 million firm fixed-price contract on August 3, 1990, for 13 vessels. The PC is classified as an Acquisition Category III program.

As of December 1994, NAVSEA was evaluating the PC contractor's Request for Equitable Adjustment, which claimed $44 million in cost overruns resulting from the Navy's decision to change the PC's acquisition approach.

Rigid Inflatable Boat. The RIB is a versatile vessel that can operate at varied speeds in rough seas while providing tactical support of Naval special warfare missions. The RIB's primary missions are insertion and extraction of sea, air, and land commando teams, Army special operations forces, Marines, and others; resupply missions along coastal waters; and nighttime offshore maritime surveillance. The RIB will also be homeported at Naval Special Warfare units in Coronado, California, and Little Creek, Virginia. NAVSEA awarded a $7 million firm fixed-price contract on December 21, 1992, for 18 boats. The RIB is classified as an Acquisition Category IV-M program.

Objectives

This audit was performed in response to Hotline allegations involving three USSOCOM programs: the Mark V Special Operations Craft, the PC, and the RIB. This report addresses three allegations made against the PC and two allegations made against the RIB. Specifically for the PC, we determined whether the ship has a defendable mission, violates environmental laws when refueling at sea, and can effectively communicate with the regular Navy. For the RIB, we determined whether the boat was inadequately designed and whether funds were spent unnecessarily to repair design flaws. We also

evaluated applicable management controls related to these two programs. The Mark V Special Operations Craft is addressed in Report 95-160, "Department of Defense Hotline Allegations Regarding the Mark V Special Operations Craft," March 28, 1995.

Two of the three allegations concerning the PC were not substantiated. The third allegation concerning the PC's ability to effectively communicate with the regular Navy was substantiated but funding has been provided to correct the alleged deficiency. One of the two allegations regarding the RIB was valid and is being addressed in Part II of this report. A summary of the allegations and audit conclusions are in Appendix A.

Scope and Methodology

We reviewed USSOCOM and U.S. Navy operational requirements, acquisition planning, integrated support plans, system engineering data, contracts, and other acquisition documents related to the PC and the RIB. We reviewed documents dated from December 1988 through August 1994. We interviewed or contacted cognizant officials listed in Appendix D.

This economy and efficiency audit was performed from April through December 1994 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly included such tests of the management controls as were considered necessary. We did not rely on computer-processed data or statistical sampling to achieve the audit objective. Engineers from the Office of the Inspector General, DoD, assisted the audit by providing a technical assessment of selected functional areas of the RIB program management. A synopsis of the technical assessment is in Appendix B.

Management Control Program

We evaluated management controls over the design and review of technical data for the PC and RIB acquisition programs. We determined that the RIB Project Manager was not enforcing established procedures that provided for effective management over technical data development to ensure that data were verified, validated, and approved before being used in an acquisition. Monetary benefits attributed to correcting this management control weakness were not quantifiable as discussed in Appendix C.

Prior Audits and Other Reviews

Inspector General, DoD, Report 95-160, "Department of Defense Hotline Allegations Regarding The Mark V Special Operations Craft," March 28, 1995. The report concluded that the U.S. Special Operations Command did not adequately plan for Mark V facilities during the acquisition process. Specifically, the Program Office did not fully identify the necessary facilities for the storage, training, and maintenance of the craft.

Part II - Finding and Recommendation

Nondevelopmental Item Acquisition

NAVSEA deviated from the Nondevelopmental Item (NDI) acquisition approach initially used to procure the PC and the RIB for USSOCOM without adequately performing the necessary risk analyses to support the decisions. Also, the RIB Project Manager failed to follow established acquisition procedures that required adequate design reviews of technical data before including the data in an acquisition. This violation occurred because the Project Manager underestimated the risk associated with using Government-developed technical data. Consequently, NAVSEA will spend an additional $53 million to $62 million over the initial contract cost of $140 million to procure the PC and an additional $3 million over the initial contract cost of $7 million to procure the RIB.

Background

Nondevelopmental Item Acquisitions. Guidance for using the NDI acquisition approach is in the Office of the Assistant Secretary of Defense for Production and Logistics' handbook, "Buying NDI," October 1990. The handbook defines NDI as already developed hardware or software, able to fulfill operational requirements either "as is" or with modification, thereby minimizing or eliminating the need for costly, time-consuming, Government-sponsored research and development programs.

Risk Analyses. Project managers use risk analyses to assess the risk impact of major decisions related to the acquisition of a weapon system. DoD Instruction 5000.2, Part 5, Section B, "Defense Acquisition Management Policies and Procedures," February 23, 1991, recommends that a structured and documented risk assessment program be established and maintained for acquisition programs to aid in identifying and controlling performance, cost, and schedule risks.

Program Requirements. The operational requirements for the PC and the RIB originated in the Office of the Chief of Naval Operations (CNO), the office responsible for establishing Naval special operational requirements. Program management responsibilities for the two acquisition programs were delegated to NAVSEA.

Patrol Coastal Ship. In December 1988, CNO approved the Operational Requirements Letter for the Patrol Coastal Boat (later redesignated "Ship"). The letter established the minimum requirements for the craft and directed NAVSEA to use a competitive NDI acquisition approach to acquire the

craft. Based on the Operational Requirements Letter, NAVSEA developed a Circular of Requirements (COR) document for the PC that described the craft's mission, performance, and general design characteristics.

Rigid Inflatable Boat. In May 1989, the CNO approved a Non-Acquisition Program Definition Document for the RIB and directed NAVSEA to evaluate existing RIBs as potential NDI candidates. A Non-Acquisition Program Definition Document defines and gives direction to Advanced and Engineering Development programs that explore technologies or integrate systems not directly related to a procurement. The boat's performance and configuration requirements were to be determined based on existing craft in the commercial marketplace. USSOCOM approved the Operational Requirements Document in November 1991. The document became the basis for preparing the technical data package and, subsequently, the requirement document for the RIB contract.

Nondevelopmental Items Acquisition Strategy

Patrol Coastal Ship. At the start of the program, the CNO considered several alternatives as potential acquisition strategies for the PC. Three approaches considered were new development, modifying an existing 110-foot patrol craft currently in production for the U.S. Coast Guard, and NDI acquisition using existing patrol craft technology. The CNO rejected the new development approach because of cost and time required to develop a prototype design. The 110-foot patrol craft was also rejected since it did not meet all COR operational performance parameters. As a result, the PC Project Manager issued a Request for Proposal for contractors' proposed designs. The Request for Proposal included the COR and PC's Top Level Specification document, which describes the system specifications.

Based on contractors' responses to the Request for Proposal, the PC Project Manager accepted a contractor's proposed 170-foot craft and awarded a firm fixed-price contract to Bollinger Machine Shop and Shipyard, Lockport, Louisiana, in August 1990 valued at $140 million for 13 PCs using an NDI approach. The contract has increased by $18 million due to ship design changes.

In June 1991, almost a year after the PC contract award, the Secretary of the Navy approved CNO's recommendation that the PC be commissioned as a ship. The Navy decided to commission the PC because of its size and capability, as well as greater visibility and stature that accompany a named, commissioned vessel. Additionally, the Navy believed that a commissioned PC would result in increased command-at-sea opportunities.

After the Secretary of the Navy's decision, the Supervisor of Shipbuilding, Conversion, and Repair, U.S. Navy, New Orleans, Louisiana, imposed General Ships Specifications requirements on the PC contractor. General Ships Specifications are primarily used for new development and differ significantly from commercial specifications since General Ships Specifications describe the requirements for a combatant craft that best meets the Navy's needs. With the imposition of General Ships Specifications on the PC contractor, the PC evolved from an NDI to a developmental acquisition that contributed to the cost growth discussed later in this report.

Rigid Inflatable Boat. The RIB Project Manager initially evaluated four 30-foot boats as potential NDI candidates. Since none of the boats fully met the RIB's operational requirements, the Program Manager for Support Ships, Boats, and Crafts changed from the NDI strategy and directed the Naval Surface Warfare Center (NSWC), Suffolk, Virginia, to develop a technical data package for a 33-foot (10-meter) RIB. In December 1992, the RIB Project Manager awarded a firm fixed-price contract to Bollinger Machine Shop and Shipyard, valued at about $7 million to procure 18 RIBs. The contract was later increased by $3 million to cover design changes resulting primarily from the flawed technical data package.

Risk Management

Use of risk analysis techniques by program officials is essential during the acquisition process to support major program decisions. Risk analysis techniques provide management with the means to identify and control risks associated with such decisions. Execution of the risk management process includes identifying similar events that have occurred in related acquisitions and using these experiences as lessons-learned. Failure to conduct risk analyses in a timely manner to support major program decisions can result in additional costs to correct problems that could have been avoided. As such, appropriate risk analysis techniques should have been used to support the decision to change the acquisition approach for the PC and the RIB.

Patrol Coastal Ship. Although the Navy generally agreed that the effects of reclassifying the PC as a ship instead of a craft were unknown, the CNO did not attempt to determine the cost before making the commissioning recommendation to the Secretary of the Navy. Based on the commissioning decision, the issue of the PC meeting General Ships Specifications became a factor; however, the CNO believed the impact of commissioning the PC would be minimal since all General Ships Specifications were waived except for those related to ship safety or performance. Despite the limitations, the PC contractor was still required to make 74 specificationchanges to the Top Level Specification document to meet safety, damage control, test, and trials criteria requirements. These design changes contributed significantly to the PC cost growth.

Rigid Inflatable Boat. At the Milestone II decision, the RIB Project Manager assessed the overall program risk to be low based on the Program Office's experience with RIB technology, maximum use of NDI components in the 10-meter RIB, and the technical maturity of the program. Although the RIB Project Manager made maximum use of NDI subsystems, the actual integration of these subsystems had never been tested to determine whether the systems could achieve the desired result in a different configuration.

Government-Developed Technical Data

We reviewed the Patrol Coastal Ship and Rigid Inflatable Boat Program Offices' use of technical data in these acquisitions. No discrepancies were found with the Patrol Coastal Ship Program Office's use of contractor-developed technical data; however, weaknesses were noted in the RIB Program Office's internal procedures for preparing and using Government-developed technical information in contracts.

Technical Data Package. After rejecting four existing RIBs as potential NDI acquisition candidates, the RIB Project Manager directed NSWC to develop a technical data package for a 10-meter RIB. Although the specifications for the 10-meter RIB were based on commercial, proven, off-the-shelf subsystems and components, the integration of these subsystems and components into the deliverable boat exceeded existing vessels' design and performance capabilities. As a result, NSWC considered the 10-meter RIB as a new design.

The RIB Project Manager gave NSWC only 13 weeks to complete a technical data package that would normally take at least 28 weeks to complete. Based on this compressed schedule, NSWC omitted essential design reviews that are usually performed during the development of technical data packages. The NSWC technical data package, which contained the system specifications and drawings, was used in the RIB's Request for Proposal and subsequent firm fixed-price production contract for 18 boats.

Inspector General, DoD, Engineering Assessment. Engineers from the Office of the Inspector General, DoD, assessed NAVSEA's management of the technical data development process for the RIB program. Specifically, the team assessed the design, test, production, and management aspects related to technical data development and acquisition of the 10-meter RIB. The assessment found deficiencies in the RIB's program management of design analysis and technical risk assessment. A detailed summary of the engineering assessment is in Appendix B.

Program Impact

Increased Costs. The firm fixed-price PC contract was modified 87 times due to design changes that altered the program from an NDI concept. These modifications added $18 million to the cost of the vessel. Further, the PC contractor's Request for Equitable Adjustment could increase the cost by an additional $44 million; however, NAVSEA anticipates a final cost of about $35 million. Consequently, the cost to procure 13 PCs could increase by $53 million to $62 million over the initial cost of $140 million.

Design Deficiencies. Testing of the initial four RIBs delivered under the production contract disclosed significant design deficiencies in the craft. The deficiencies, attributed to flaws in the Government-developed technical data package, consisted of cracks in the deck, bent motor mounts, lack of performance speed, extremely wet deck, and weight of boat. NAVSEA is attempting to correct the design flaws. Required modifications have already increased the cost of the RIB program by $3 million or 43 percent, with 4 of the 18 boats delivered.

Conclusion

The Navy's initial decision to use the NDI acquisition strategies to acquire the PC and RIB vessels was proper and consistent with current DoD acquisition policies; however, the Program Managers' subsequent decisions to alter the approach should have been supported with adequate risk analyses to assess potential program schedule problems and cost impacts. We recognize that the CNO directed NAVSEA to commission the PC as a ship; however, an appropriate risk analysis would have disclosed the costs related to the decision. Also, the events that occurred in the acquisition process of these two programs constitute lessons-learned for the Navy that should be appropriately documented for the benefit of future programs.

Recommendation, Management Comments, and Audit Response

We recommend that the Commander, Naval Sea Systems Command, properly document as lessons-learned the events that occurred during the acquisition cycles of the Patrol Coastal Ship and Rigid Inflatable Boat Acquisition Programs and disseminate the lessons learned to appropriate Naval acquisition officials.

Managements Comments. The Commander, Naval Sea Systems Command, did not comment on a draft of this report.

Audit Response. We request written comments to the final report by June 16, 1995.

Part III - Additional Information

Appendix A. Summary of Allegations

Patrol Coastal Ship Program Allegations

Allegation 1. The ship was constructed without having a defendable mission.

Audit Results. This allegation was not substantiated. The Naval Special Warfare Command has a mission to provide coastal patrol and interdiction. The PC helps fulfill this mission requirement.

Allegation 2. The ship violates environmental laws when refueling at sea.

Audit Results. This allegation was not substantiated. The PC uses the Navy's astern refueling method, an acceptable method for refueling at sea. The PCs are equipped with the required refueling equipment and crew training to ensure proper and safe refueling.

Allegation 3. The ship has insufficient communications capability to communicate with the regular Navy.

Audit Results. The inadequacy of the PC's communication capability was a valid allegation; however, additional FY 1994 funding has provided for equipment upgrades.

Rigid Inflatable Boat Program Allegations

Allegation 4. The poor design of the boats tested resulted in propulsion train problems and cracks in the hull.

Audit Results. The audit substantiated this allegation. The boat was poorly designed before the award of the production contract for the 18 RIBs. The finding and recommendation discussed in Part II of this report address the boat's design problems.

Allegation 5. USSOCOM wasted funds to repair design flaws and correct what the manufacturer did.

Audit Results. The audit substantiated that USSOCOM spent additional funds to repair boat design flaws. The audit did not conclude that the funds were spent unnecessarily. The finding discussed in Part II of this report addresses this allegation.

Appendix B. Technical Assessment

Engineers from the Office of the Inspector General, DoD, conducted a technical assessment of NAVSEA's development and acquisition of the 10-meter RIB, including four program management functional areas. These areas, shown in the figure of this appendix, included design, test, production, and management. The four functional areas and their nine subelements were selected because they represented key program management functions that could impact the RIB Program's success. The figure represents a composite of the overall RIB program execution.

The color-code red in a functional area means significant discrepancies were identified that require management action and, if not corrected, will impact the Program's success. The color-code yellow means discrepancies, although not significant, that require management attention and, if not corrected, could impact the Program's success. The color-code green denotes that Program execution is acceptable. A summary of the engineers' assessment of each functional area follow.

Design. Within this functional area, engineering assessments were conducted of the subelements of design requirements, analysis, and reviews. The assessments found that system design requirements were specified, allocated, and generally understood by design engineers from NSWC who were responsible for designing the RIB. However, the designers had not analyzed many details sufficiently. As a result, a technical data package was prepared having many significant flaws and was used to procure the RIB. At the completion of the assessment, NAVSEA and the prime contractor were taking actions to correct the technical data package.

In the evaluation of design analysis, the assessment found that NAVSEA did not ensure sufficient design analyses were done during the design process. As a result, design engineers did not receive the benefits of design analyses. Due to inadequate design analyses, many critical failures occurred during testing that the designers did not anticipate.

Design reviews provide an overview of the current status of the design maturity. The assessment found that a Preliminary Design Review and a Critical Design Review were not required for this project. Although several in-process reviews were conducted, they were not formally documented by the Program Office or the contractor.

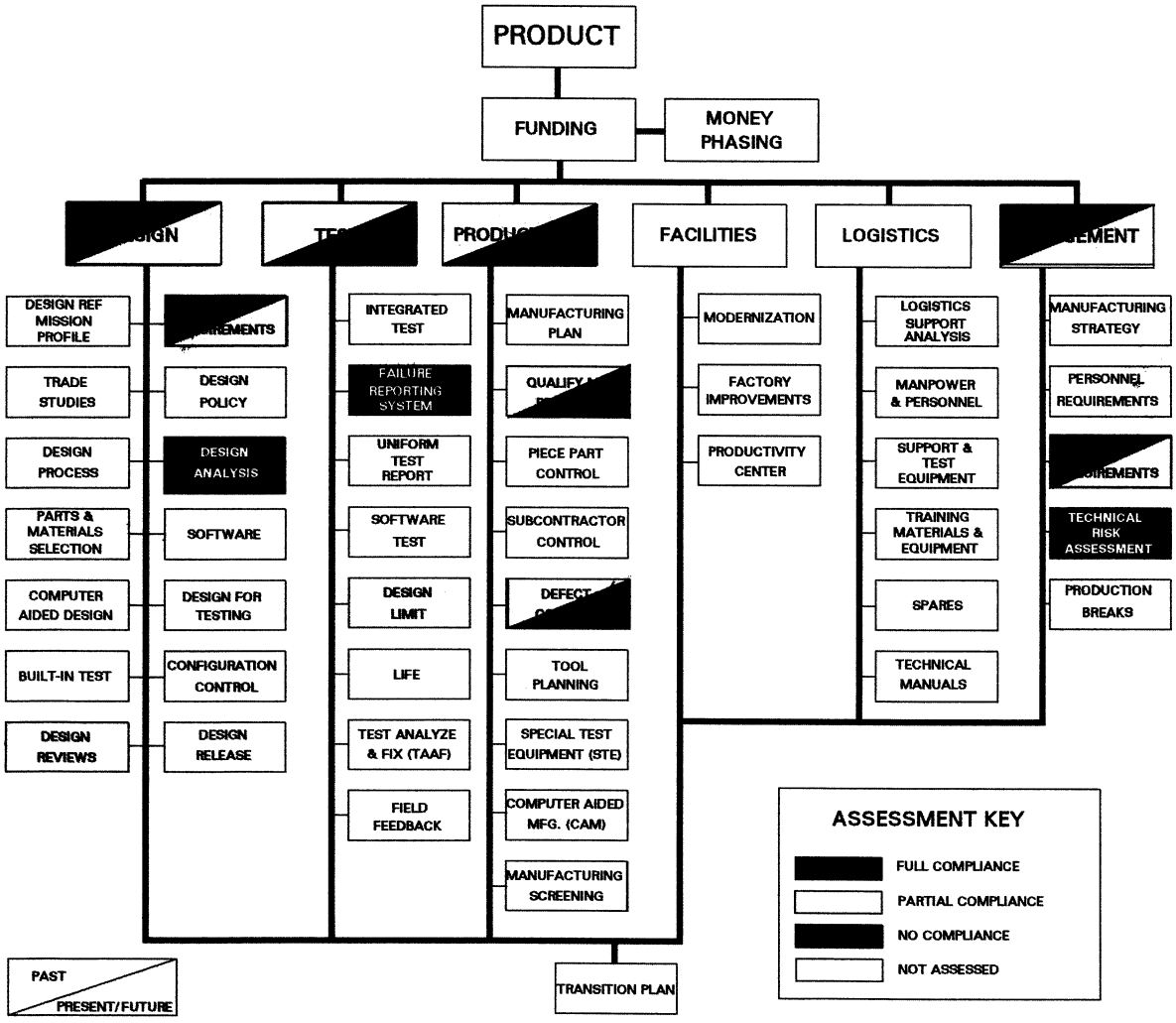
Test. Within this functional area, the failure reporting system and design limit were assessed. No major concerns were found with the Program Office's failure reporting system. The assessment found that uniform failure reporting requirements were generally being applied by both the Program Office and the contractor.

Production. The two areas assessed under this function were quality manufacturing process and defect control. For the quality manufacturing process area, the engineers concluded that Production Readiness Reviews were not formally conducted. Instead, several less formal quarterly production progress conferences were held that did not adequately address or document areas of concern. For defect control, the engineers concluded that RIB management appeared more concerned with the delivery schedule than defect control.

Management. Areas assessed under this function were data requirement and technical risk assessment. In the data requirement area, the engineers found that no independent review was made to ensure that the technical data package was ready for production. Drawings planned for the RIB procurement were not verified or validated to determine their completeness, accuracy, and suitability for production.

In assessing program technical risk, our engineers found that technical risk indicators were not developed for design, test, manufacturing, cost, and program management. As a result, technical risk factors were not identified in the program. Also, after the RIB contractor realized the deficiencies in the technical data package, he should have insisted on assessing the technical risk to expose all significant risks areas before the start of production.

RIGID INFLATABLE BOAT
SUMMARY ASSESSMENT CHART



Appendix C. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
p. 6	Economy and Efficiency and Management Control. Captures lessons learned to avoid similar problems in future acquisitions.	Nonquantifiable monetary benefits because unable to project future use of NDI acquisition approach.

Appendix D. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology, Washington, DC
Assistant Secretary of Defense (Special Operations and Low-Intensity Conflict), Washington, DC

Department of the Navy

Assistant Secretary of the Navy (Research, Development and Acquisition), Washington, DC
Chief of Naval Operation (Naval Special Warfare Branch), Washington, DC
Naval Sea Systems Command, Arlington, VA
Commander, Operational Test and Evaluation Force, Norfolk, VA
Naval Surface Warfare Center, Carderock Division, Suffolk,VA
Supervisor of Shipbuilding, Conversion and Repair, New Orleans, LA

Other Defense Organizations

Commander in Chief, U.S. Special Operations Command, MacDill Air Force Base, FL
Commander, Naval Special Warfare Command, Coronado, CA
Naval Special Warfare Group One, Coronado, CA
Naval Special Warfare Group Two, Little Creek, VA

Non-Governmental Organization

Bollinger Machine Shop and Shipyard, Inc., Lockport, LA

Appendix E. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
  Assistant Secretary of Defense (Economic Security)
  Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
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Assistant Secretary of Defense (Special Operations and Low-Intensity Conflict)
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

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Department of the Navy

Assistant Secretary of the Navy (Research, Development and Acquisition)
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Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on International Affairs and Criminal Justice, Committee on Government Reform and Oversight
House Committee on National Security

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