

DEEPWATER: 120-DAY UPDATE

(110-50)

HEARING

BEFORE THE

SUBCOMMITTEE ON
COAST GUARD AND MARITIME TRANSPORTATION
OF THE

COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

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JUNE 12, 2007
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U.S. House of Representatives
Committee on Transportation and Infrastructure
Washington, DC 20515

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June 11, 2007

SUMMARY OF SUBJECT MATTER

TO: Members of the Subcommittee on Coast Guard and Maritime Transportation
FROM: Subcommittee on Coast Guard and Maritime Transportation Staff
SUBJECT: Hearing to Receive 120-Day Update on the Deepwater Procurement

PURPOSE OF HEARING

The Subcommittee on Coast Guard and Maritime Transportation will meet on Tuesday, June 12, 2007, at 11:00 a.m. to receive an update from Admiral Thad Allen, the Commandant of the United States Coast Guard, on the steps he has taken during the past 120 days (the time that has elapsed from a hearing held on Deepwater by the Subcommittee in January 2007) to improve the management of the Deepwater contract. The Subcommittee will also hear from the Inspector General of the Department of Homeland Security, Richard Skinner.

BACKGROUND

Overview of Deepwater

The Deepwater program is a series of procurement programs intended to renew the Coast Guard's fleet of cutters and aircraft. It is currently expected to cost \$24 billion and to require 25 years to complete, and encompasses 91 cutters, 124 small surface craft, and 244 new or converted aircraft, including both helicopters and fixed-wing airplanes. The procurements are intended to create a "system of systems" – meaning a suite of assets that are fully integrated and feature interoperable command/control/communication systems called C4ISR.

The Deepwater program began its initial planning stages in the 1990s. On June 25, 2002, the Coast Guard awarded the Deepwater program to a consortium comprised of Lockheed Martin and Northrop Grumman and now identified as the Integrated Coast Guard Systems (ICGS). The contract awarded in 2002 was an indefinite delivery, indefinite quantity contract with a five-year

baseline ending in 2007. The contract included five potential additional award terms of up to five years each (in other words, the contract could be extended for as long as 25 years).

The ICGS team serves as the lead systems integrator – meaning that its role is to oversee the acquisition of all planned systems and to ensure that they are integrated into the “system of systems” to support the Coast Guard’s missions. The ICGS team has had broad powers to determine the best way of acquiring assets required for the Deepwater program, including making decisions about whether ICGS itself will build assets using the members of its own team or whether it will openly compete acquisitions.

The original plan for Deepwater was submitted prior to the September 11, 2001 terrorist attacks and was expected to cost \$17 billion. After 9/11, the Coast Guard’s mission was revised to encompass significant new homeland security functions and its asset needs were re-analyzed – yielding a new plan for Deepwater (submitted to Congress on March 25, 2005) that increased its costs to the current \$24 billion and increased its procurement period from 20 years to the current 25 years.

Through fiscal year 2007, Congress has appropriated approximately \$4.4 billion for the Deepwater program. In fiscal year 2007, Congress appropriated \$1.1 billion for Deepwater. The House Appropriations Committee has approved \$698 million for Deepwater for fiscal year 2008. This amount is approximately \$368 million less than the fiscal year 2007 appropriated level, and \$139 million below the President’s request.

Problems with Acquisitions Under the Deepwater Contract

The Department of Homeland Security’s Office of Inspector General (“OIG”) has issued several reports on the problems encountered in the implementation of specific procurements in the Deepwater program.

In August 2006, the OIG issued a report entitled “Improvements Needed in the U.S. Coast Guard’s Acquisition and Implementation of Deepwater Information Technology Systems” that detailed problems encountered during the development of the C4ISR system, including problems with the certification of C4ISR components and with the functionality of these systems. The report indicated that inadequate oversight and lack of clarity in the original contract created a situation in which the Coast Guard could not be certain that the contractor was making the decisions that would most effectively accomplish the goals of the Deepwater IT program. The report also cited a “lack of discipline” in the Coast Guard’s management of contract change orders.

In January 2007, the OIG issued a report on the Coast Guard’s procurement of the National Security Cutter (“NSC”) dated January 2007. Currently, eight NSCs – each at more than 400 feet in length – are to be procured under the Deepwater program; these cutters are the single most expensive part of the Deepwater program and could total as much as 12 percent (or more) of the entire \$24 billion Deepwater budget.

In its report on the NSC, the OIG indicated that the Deepwater contract requires that the NSC be built to be underway at least 230 days per year for 30 years; the Coast Guard disagrees with the OIG’s claims and argues that the Deepwater contract requires that the ships be built to be underway for only 185 days.

The OIG report further claims that weaknesses in the first two NSC hulls may lead the hulls to crack before the end of the 30-year service life of the vessel. It also argues that the failures in the design of the NSC are due to the Coast Guard's failure to properly oversee the NSC contract. Presently, the Coast Guard is working to determine how to strengthen these hulls so that NSC 1 and NSC 2 can achieve what it claims is the required number of days underway each year (185 days) over their projected 30-year service lives if they are operated in general Atlantic and North Pacific conditions. Negotiations are on-going regarding the specific changes that must be made to the hulls, the cost of these changes, and how and when the changes will be completed. The Coast Guard is reportedly working on design alterations that will be incorporated into NSCs 3-8 in order to produce hulls with a fatigue life that meets contractual specifications. Of particular concern is the cost of these corrections and the need to ensure that the designs and plans adopted by the Coast Guard will truly correct the hull-fatigue service life problems.

The problems with the acquisition of the NSC are just the latest in a series of problems encountered in the acquisition of cutters under the Deepwater program. In a procurement initiated earlier in the Deepwater program, the Coast Guard attempted to lengthen 110-foot patrol boats to 123 feet. The hulls of the lengthened boats began to experience buckling shortly after each was delivered. In November 2006, after eight boats had been lengthened, all eight boats were removed from service because of concerns over their operational safety. In April 2007, the Commandant announced that the lengthened boats would be decommissioned and that salvageable informational technology components would be removed from the boats before they were scrapped. The Congressional Research Service reports that between \$87 million and \$100 million was expended on the failed lengthening effort.

While there is still not agreement about the cause of the hull problems experienced on the 123, the Coast Guard is moving to address the aftermath of that procurement, having recently decommissioned the vessels and having notified ICGS that it has now rescinded acceptance of the ships and will move to seek financial restitution as appropriate.

Similarly, problems have also been encountered with the development of the Fast Response Cutter ("FRC"). The FRC is to be the smallest of the three cutters proposed to be acquired under Deepwater, with a total length likely to range between 120 feet and 160 feet; a total of 58 FRCs are expected to be built. The failed effort to lengthen the 110-foot patrol boats has left a coverage gap in the Coast Guard's patrol hours, particularly in the Caribbean. The Coast Guard has proposed to make up this coverage gap by accelerating the acquisition of the FRC. In February 2006, the Coast Guard suspended work on the initial design effort of the FRC, which had involved the proposed use of a composite hull, following the failure of that initial design to pass certain design tests. The Coast Guard subsequently split the FRC procurement into an A series (of which 46 will be acquired) and a B series (of which 12 will be acquired). The FRC-Bs are to be procured quickly using an off-the-shelf model while the FRC-As will be the subject of a new design effort. In March 2007, the Coast Guard announced that it will procure the FRC-Bs directly from a vendor rather than through the ICGS team.

In February 2007, the Defense Acquisition University ("DAU") issued a report requested by the Coast Guard to provide findings and recommendations to the Program Executive Officer for improvement of this program. In summary, this report finds that a need to quickly recapitalize the Coast Guard with a broad portfolio of new and complex assets led the Coast Guard to use the

“system of systems” strategy. However, this is a complicated strategy to implement and the DAU finds that the Coast Guard’s implementation of the strategy has been challenged by the following factors:

- The scope and complexity of design changes that were necessary to respond to the threats presented by the events of 9/11 and that were added after many key engineering milestones had already been crossed;
- Funding provided at levels below those assumed when the ICGS contract was signed in 2002;
- Use of a contract structure inappropriate to the changing missions and requirements of the program and to the major systems integration tasks that were required;
- Industry emphasis on work sharing among joint venture partners that minimized the use of other U.S. industry and existing Coast Guard infrastructure;
- Insufficient numbers of Coast Guard acquisition personnel and insufficient experience in major systems acquisition; and,
- Lack of a management model and processes sufficient for the management and oversight of the major systems acquisitions to be made under Deepwater.

The DAU report indicates that these factors threaten to prevent the Coast Guard from being able to complete all of the acquisitions planned under Deepwater within the planned \$24 billion budget and suggests that changes in acquisitions requirements or adjustments to the budget may be needed. The DAU study also recommends specific changes in the Coast Guard’s acquisition strategy and the structure and management of the Deepwater contract.

Most recently, the Congressional Research Service notes reports indicating that the United States Department of Justice is investigating the Deepwater contract. The investigation is reported to center on the 110-foot patrol boats and the NSC.

Admiral Allen Announces Changes in Coast Guard’s Management of Deepwater

On April 17, 2007, Admiral Allen announced six changes to the Coast Guard’s management of the Deepwater program. Among these changes, the Admiral announced that the Coast Guard will assume the lead role as systems integrator and manage life-cycle logistics functions. He also announced that the Coast Guard will expand the role of the American Bureau of Shipping and other appropriate third parties to ensure appropriate design and construction standards are met. Further, he announced that the Coast Guard will contract directly with a prime vendor when it is in the best interests of the Federal Government.

While these announced changes appear to represent a new direction in the Coast Guard’s management of the Deepwater program, it is unclear how these new directions will be translated into new practices in the contracting process and, more importantly, what the impact of these practices will be in correcting the significant problems that have been encountered in the Deepwater program.

Separately, Admiral Allen has announced the formation of a new acquisitions directorate in the Coast Guard; however, both the Coast Guard itself and the OIG have expressed concerns about the ability of the Coast Guard to take on a larger role in managing the systems integration functions

under the Deepwater program. The Coast Guard recently testified before another Congressional Committee that it is increasing the number of personnel in its acquisitions unit and will be ready to assume responsibility as the lead systems integrator in 12 to 18 months. The lack of trained and experienced acquisitions experts in the Coast Guard continues to hinder its ability to correct the problems with the procurement – and there is concern both on the part of the Coast Guard and the OIG about the ability of the Coast Guard to attract such personnel given the extent of the negative publicity that has surrounded Deepwater.

PREVIOUS COMMITTEE ACTION

The Subcommittee on Coast Guard and Maritime Transportation has held two hearings on the Deepwater acquisition during the 110th Congress. The first hearing was held on January 30, 2007, and considered the entire Deepwater contract, with a focus on problems involving the NSC. A second hearing was held on March 8, 2007, on the Coast Guard's fiscal year 2008 budget; that hearing received testimony on Deepwater from both the DHS IG and the Government Accountability Office.

The Full Committee on Transportation and Infrastructure held an Investigation hearing entitled "Compliance with the Requirements of the Deepwater Contract" on April 18, 2007. This hearing investigated the failure of the 123-foot patrol boat procurement undertaken as part of Deepwater.

WITNESSES

PANEL I

Admiral Thad Allen
Commandant
United States Coast Guard

PANEL II

The Honorable Richard L. Skinner
Inspector General
Department of Homeland Security

HEARING ON DEEPWATER: 120 DAY UPDATE

Tuesday, June 12, 2007

HOUSE OF REPRESENTATIVES,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
SUBCOMMITTEE ON COAST GUARD AND MARITIME
TRANSPORTATION,
Washington, DC.

The Subcommittee met, pursuant to call, at 11:00 a.m., in Room 2167, Rayburn House Office Building, the Honorable Elijah E. Cummings [Chairman of the Subcommittee] presiding.

Mr. CUMMINGS. The Subcommittee will come to order.

Today, the Subcommittee on Coast Guard and Maritime Transportation convenes to receive an update on the steps that the Coast Guard has taken over the past 120 days to continue strengthening the management of the \$24 billion 25 year Deepwater procurement program.

I note the significance of the 120 day time period. It is the time that has elapsed since I convened the Committee's first oversight hearing on Deepwater in the 110th Congress, and it is the time period after which I promised the Subcommittee would reconvene to hear again from the Coast Guard's Commandant, Admiral Thad Allen.

This hearing continues our Subcommittee's unwavering commitment to require strict accountability from the Coast Guard for its implementation of the Deepwater program and the expenditures of taxpayers' resources. Since we met in January, our Subcommittee has examined the Coast Guard's fiscal year 2008 budget, and the House is considering the appropriation for the Coast Guard on the Floor today.

The Full Committee on Transportation and Infrastructure has also held an investigative hearing to examine the extent to which contractors working on the failed 123 foot patrol boat program complied with the requirements of the Deepwater contract.

During that 120 day period, the Commandant has also announced important changes to the Deepwater program including promising the Coast Guard will assume the lead role as systems integrator for the program, that the use of third party certification will be increased and that the Coast Guard will contract directly with vendors when it is in the best interest of the service to do so. Further, the Coast Guard will stand up a new acquisitions directorate under the command of Rear Admiral Gary Blore on July 13.

The principles and plans the Commandant has announced appear likely to set the Deepwater program on a steadier course. However, it is important that we understand how these principles

will be translated into the specific practices that will insure the success of the program.

The failures already registered in Deepwater are simply unacceptable. An approximately \$100 million effort to lengthen 8 123 foot patrol boats yielded only 8 buckled hulls. According to the Inspector General, the Coast Guard has obligated more than 100 million of money allocated to the development of the vertical unmanned aerial vehicle through fiscal year 2007, but this obligation has yielded little more than a pile of rubble and the first effort to design a Fast Response Cutter, which at just 120 to 160 feet is the smallest of the new cutters expected to be acquired under Deepwater, produced a failed design.

As I have said before, what we expect from Deepwater is really quite simple. It is no rocket scientist stuff. We expect boats to float. We expect aircraft to fly. Yet, as simple as these goals appear to be, too frequently they have not been met in the Deepwater program, and this is simply intolerable.

Unfortunately, there are problems with other ongoing procurements, most notably the National Security Cutter, the most expensive asset to be acquired under Deepwater. I had the opportunity, thanks to Admiral Allen, to visit the NSC last week in Pascagoula, Mississippi, and it is indeed, without a doubt, an impressive ship. However, like all of my colleagues on the Subcommittee, I am deeply concerned by lingering questions about the likely fatigue life of hulls 1 and 2.

I believe that it is imperative and should be among the Coast Guard's top priorities at this time to ensure that design changes incorporated into hulls 3 through 8 will yield ships that will fulfill all of the requirements of the Deepwater contract. For that reason, I believe that all proposed designs must be closely examined by the Navy's Carderock Division.

During today's hearing, I also hope to understand the specific role that the Integrated Coast Guard Systems Team is currently playing in implementing the Deepwater procurements and how any future contract extension granted to that team will be structured to ensure that performance is based solely on the quality of work performed and the effectiveness of assets produced.

In recent years, our great Country has unfortunately witnessed the troubled aftermath of incompetence in government, and the Congress has been too willing to tolerate mediocrity. Ladies and gentlemen, these days are over. We are the United States of America. We were not founded on mediocrity. We cannot stoop to it now, and we will no longer tolerate failures in the Deepwater program.

Thus, while I continue to have the utmost confidence in Admiral Allen, our Subcommittee will also continue to expect the Coast Guard to meet the highest standards of performance. We look forward to hearing today from Admiral Allen and how he will put in place the systems and personnel that will ensure these standards are met.

In addition to hearing from Admiral Allen, we will also hear from the Inspector General of the Department of Homeland Security, Richard Skinner. Inspector General Skinner has done an outstanding job in reporting on emerging problems throughout the Deepwater program, and it was his office that identified the hull

fatigue life problems with the NSC. The Inspector General's Office has been a critical partner to our Subcommittee as we have conducted our oversight over the Coast Guard.

I look forward to Mr. Skinner's comments today on the steps that the Coast Guard still needs to take to prepare to implement the reforms that Admiral Allen has announced. I also invite him to comment on the steps being taken to mitigate the problems with the NSC.

Again, I want to reiterate my full confidence in Admiral Allen. Admiral Allen has earned our trust, not only from a standpoint of integrity and the highest integrity but also from the standpoint of the highest level of competence.

And so, with that, I would like to now recognize my colleague, the Ranking Member of our Committee, Mr. LaTourette.

Mr. LATOURETTE. Thank you very much, Mr. Chairman, for yielding and also for conducting this hearing.

The Subcommittee, as you have indicated, is meeting this morning to continue its oversight of the Coast Guard's Deepwater program. This Subcommittee has already held three oversight hearings to review the setbacks that have been encountered by the Deepwater program.

Since our last hearing, the Coast Guard has proposed several modifications to improve its management of the acquisition process to address some of the issues that have caused previous problems. I know and I hope that Commandant Allen today will provide the Subcommittee with an update on the progress that has been made since we met in January.

The Coast Guard has taken several promising steps to improve its management and oversight of the Deepwater contract. The Coast Guard has started and will continue to enhance its acquisition and contracting personnel levels and expertise. The service has also reasserted itself as the lead technical authority for all designs and design modifications of Deepwater assets. Lastly, the Coast Guard has committed to use the capabilities of the American Bureau of Shipping and other third parties to review and oversee the design and construction of Deepwater vessels.

While I commend the Coast Guard for these actions, I continue to have deep reservations about the decision to take on the wide-ranging responsibilities of the lead system integrator for a project of this size and length. I am concerned that the Coast Guard does not have the resources, personnel or capabilities to fully take on this task. When the concept of Deepwater was first considered, the Coast Guard made the decision to utilize a private sector lead system integrator because the Coast Guard lacked the in-house administrative, technical and contracting expertise to carry out such a large multi-year project.

While the Coast Guard is rapidly increasing its personnel and capabilities of the acquisition staff, the service does not presently have the necessary personnel or expertise in place. I hope to hear and I have confidence that we will hear how the Coast Guard plans to build on these capabilities while at the same time carrying out all of its other vital missions within the service's limited resources.

The Deepwater program and the assets that will be acquired under Deepwater are critical to the Coast Guard future mission

success. The program remains at a critical junction, but I have confidence that under the leadership of Admiral Allen the program can be a success. The men and women of the Coast Guard carry out brave and selfless service to our Nation each and every day, and we all need to make sure that this program is delivering the aircraft, vessels and systems that are necessary to support their missions.

I thank the witnesses for appearing and thank the Inspector General and his staff for their continued efforts to examine and approve this complex, wide-ranging program.

In closing, the Chairman noted that during the consideration of the Homeland Security appropriations bill, that the Deepwater program was one of the line items contained in that bill. I am disappointed at the level in that bill, and I hope that Members of the Subcommittee will join me later during debate in expressing disappointment with the decision of the Appropriations Committee in that regard.

I thank you, Mr. Chairman, and yield back my time.

Mr. CUMMINGS. Before I yield to Mr. Larsen for an opening statement, I hope that the Admiral will comment on the level of funding in the appropriations bill so we can have some guidance from you as to how that fits with your program.

Mr. Larsen?

Mr. LARSEN. Thank you, Mr. Chairman. I will just try to be brief here.

I think we all share the goal of the Coast Guard's long term recapitalization plan, Deepwater, and I think we all share the goal that the purpose is critical to the security of the United States. We also, though, need to be sure to work with the Coast Guard to pull Deepwater out of the critical care that it still seems to be in.

The U.S. Coast Guard will soon activate a directorate that will have responsibility for acquisition. This is a major positive step, I think. However, according to testimony, the Coast Guard currently lacks the number of acquisition professional necessary to handle the major acquisitions and has requested no funding for this. I would be interested in hearing from Admiral Allen how they plan to handle these major acquisitions in the short term while they build up for the long term.

Second, numerous reports and testimony indicate problems with the testing and certification of the secured communication components of Deepwater, but the U.S. Coast Guard doesn't address this problem in its testimony except to say it seems that it isn't a problem.

I don't think that we can nor should we accept a he said/she said debate regarding this important national security element of the Deepwater program, and I would like to hear a little more detail from Admiral Allen exactly what he believes the problems are with the secured communication components and what is being done to address the problems in it based on the reports that we have heard, not just from individuals but from certainly qualified analyses from the IG and others.

So with that, Mr. Chairman, I will yield back and look forward to the testimony.

Mr. CUMMINGS. Thank you very much.

Mr. Coble?

Mr. COBLE. Thank you, Mr. Chairman. I will not use the full five minutes, but I thank you for having this hearing.

I want to associate myself with your remarks in commending Admiral Allen. I think he has performed superbly. Gentlemen, many of these problems that currently plagued the Coast Guard are unfamiliar to some of us, but many of those problems were inherited by Admiral Allen prior to his appointment as Commandant.

To coin an oft-uttered nautical phrase, they did not happen on your watch, Admiral. That doesn't make them disappear. You are still stuck with them. But I am looking forward to hearing from you, Admiral. I think you are doing a good job.

I still believe, Mr. Chairman, that the American taxpayer, these other problems notwithstanding, get the best bang for the buck with the Coast Guard, and I continue to believe that.

I look forward to hearing from Admiral Allen today, and I yield back my time.

Mr. CUMMINGS. Mr. Coble, as a response to what you just said, I agree with you. I think they get the best bang for their buck too, and that is why I want to make sure—and I know we all want to make sure—that they have the equipment that they need so that they can do the job that we have asked them to do.

I want to thank you for your support.

Are there any opening statements on this side? Mr. Higgins, did you?

Thank you very much.

We will now go to Mr. LoBiondo.

Mr. LOBIONDO. Thank you very much, Mr. Chairman. I would like to commend you for vigorously pursuing the looking into of the Deepwater program and for holding this hearing. I really think it is imperative that we continue to pursue the particulars of the Deepwater program.

I join with most of my colleagues in expressing my disappointment in the missteps and failures of the Deepwater program especially prior to the tenure of Admiral Allen. I think there are a lot of things we can look at and wish had been done differently and wish that we knew about.

However, I am, like my colleagues, very pleased with the direction Admiral Allen has taken to rein in control of the program including taking the lead role of systems integrator. It is a very serious situation that needs to be fixed, and again I have full confidence in Admiral Allen.

But as Mr. LaTourette mentioned a minute ago, I am concerned that the Coast Guard does not currently have the proper number of qualified acquisition personnel to properly manage the program, and I am also concerned that in the time it takes to establish that competency the procurement of desperately needed replacement assets may be further delayed.

Mr. Chairman, I certainly look forward to working with you and the Committee to make sure that we move forward with reforming Deepwater and seeing that it is positively moving forward.

Finally, I would like to remind my colleagues of what really Deepwater is all about, that the safety of the men and women of the Coast Guard and success of their mission are dependent on a

replacement of these rapidly failing obsolete assets. We must see this program through, but it must be done right.

Again, Mr. Chairman, thank you very much.

Mr. CUMMINGS. Thank you very much.

Admiral Allen, please.

**TESTIMONY OF ADMIRAL THAD W. ALLEN, COMMANDANT,
UNITED STATES COAST GUARD; RICHARD L. SKINNER, IN-
SPECTOR GENERAL, DEPARTMENT OF HOMELAND SEC-
URITY ACCOMPANIED BY RICH JOHNSON, PROJECT MAN-
AGER, OFFICE OF INSPECTOR GENERAL, DEPARTMENT OF
HOMELAND SECURITY**

Admiral ALLEN. Thank you, Mr. Chairman. Chairman Cummings, Representative LaTourette, thank you for the opportunity to appear before this Committee as well as the other Members.

Let me first say that the Coast Guard family expresses its deepest sympathy and regret at the passing of Representative Millender-McDonald. Our thoughts remain with her family, friends and loved ones.

Mr. Chairman, in January, I committed to returning here and testify to the progress of the last 120 days in addressing the challenges associated with our Deepwater program. As I have stated previously, I am personally accountable to make the changes needed to move this program forward, and I am prepared to report before this Committee in another 120 days or at whatever interval is needed to ensure that you and the American public have confidence that we are on track.

I have a brief opening statement. I would ask that my written statement be included in its entirety for the record.

Mr. CUMMINGS. So ordered.

Admiral ALLEN. My written statement contains an extensive list of actions taken in the last 120 days, but I will focus on a few important points, and I will be glad to answer any questions.

Mr. Chairman, last week, you walked the decks of two Coast Guard cutters with me.

The first one was 40 years old, the Cutter Decisive that was commissioned the year I entered the Coast Guard Academy, 1967. You saw the 24 person berthing areas with 3-high bunks and a single head. You saw the cramped operations spaces and the separation of communication and sensors displays in different compartments. You saw the flight deck where Commander Walker explained that just a few days earlier held over 200 migrants.

Across the channel in Pascagoula, the Cutter Bertholf nears completion, and we anticipate in the new calendar year it will see successful acceptance trials. The largest berthing module in the Bertholf will house only six personnel in two-high bunks. Its propulsion and electrical systems are the most capable and versatile that have ever been built into a Coast Guard cutter. The flight deck is more capable than any Navy or Coast Guard vessel of similar size and requires no personnel on deck to launch or recover an aircraft.

Mr. Chairman, you have seen our past and our future. When you addressed the crew of the Project Management Resident Office in

Pascagoula, you gave them a charge. You told them, our children are the signals we send to a future we will never see.

Your words were stunning then, and they remain so now.

The aircraft, sensors and surface craft that Deepwater will provide to the Coast Guard are the signals we will send to a future Coast Guard that we will never see. For that reason, we are building an acquisition organization that can create a future for the Coast Guard.

Rear Admiral Ron Rabago has relieved Rear Admiral Gary Blore as Program Executive Officer for Deepwater. Next month, we will stand up our new acquisition organization that will unify and strengthen program management, contracting and workforce development. Within another year, we will create a mission support organization that will unify our technical authorities with the acquisition organization under a single accountable senior flag officer.

We are nearing completion of negotiations regarding the structural changes for the third National Security Cutter. We have been engaged in near continual negotiations for the past week and are close to an agreement. I hope to be able to report to you shortly NSC 3 is under contract. This will establish the technical baseline for changes needed to lock in the first two cutters and create a design baseline for the remaining hulls.

This month, we will award the next term contract to Integrated Coast Guard Systems under a substantially changed structure. We will have the opportunity to award the contract for a period of 43 months. We intend to limit any tasking to 18 months or less so that we can determine whether the level of performance justifies further awards. It is important that we retain our relationship with ICGS as we transition the Coast Guard to a lead role in systems integration and allow for our workforce to be brought on board and developed.

I have met regularly with the CEOs of Lockheed Martin and Northrop Grumman, most recently in Pascagoula two weeks ago. The focus of that meeting was the need to develop a comprehensive, realistic, integrated schedule for the delivery of the first National Security Cutter to complete the consolidated contract action being negotiated as we speak this morning.

Our next meeting will focus on aviation and logistics issues and will be held at our Aviation and Logistics Center in Elizabeth City, North Carolina.

On the 22nd of June, we will issue a request for proposals for the Fast Response Cutter based on an existing design. We are moving at best speed to bring more patrol boat hours into the fleet. This vessel will be ABS classed.

Every integrated product team in Deepwater is now chaired by a Coast Guard military or civilian employee, and the remaining accomplishments are listed in my statement for the record.

Mr. Chairman, I would ask two things of you to assist me and the Coast Guard in continuing our progress. First, we are seeking through our appropriations request the ability to manage all Coast Guard personnel within a single funding account to create flexibility to respond in gaps and surges and needs associated with the Deepwater or other operations. Stovepiping personnel costs within appropriation inhibits the optimum use of resources.

Second, I am in the process of adding 50 additional personnel to the Deepwater program management organization to the current year programmings and the fiscal year 2008 appropriations request. I have temporarily assigned four personnel to assist in meeting congressional reporting requirements. I am prepared to work with the Congress to consolidate the various information request and status reports to effectively and transparently communicate to you and other Committees.

Prior to responding to your questions, I would close by assuring the Committee that as the Commandant, I am committed to the effective execution of all of our assigned missions. I have stated from the outset one year ago that mission execution is our first responsibility. That includes all of our missions.

Security concerns in a post-9/11 environment present significant challenges as have the mandates provided by Congress. We are also mindful that the Country depends on the Coast Guard for safety and stewardship of our maritime transportation system and the Earth's last global commons. The rapid growth of maritime shipping, the expansion of liquid natural gas facility permit requests, and the fragility and vulnerability of our ecosystems require a discussion and a prioritization of Coast Guard resources against assigned tasks.

I look forward to the discussion. I would be glad to answer questions.

Mr. CUMMINGS. Admiral, thank you very much.

I want to go straight to the heart of matters. As you have heard the opening statements, there seems to be some concern about the systems integrator and the capacity of the Coast Guard to take on those responsibilities. So I am going to ask you some questions about that because I think we need to get that cleared up.

I know you have carefully looked at your manpower and womanpower and tried to figure out exactly your experts in this and that and how you are going to run them and all that, but I want to make sure the Committee is satisfied but first of all understands exactly where you are going with this, and the capability questions must be brought up.

The current award term for the contract for the ICGS expires in June, 2007. Can you describe in more detail the status of the next award and how it will be structured?

Admiral ALLEN. Yes, sir. Based on the evaluation of the first award, the base award term, we are allowed to award a contract for up to 43 months, a sole source. We are not required to nor are we obligated to. There are certain support functions and integration functions that ICGS provides to us that are separate from the platform acquisitions that we can acquire under the contract.

Our goal is to issue task orders regarding the ongoing operations including the operations of the Systems Integration Program Office which has the lead systems integration responsibility right now for a period not to exceed 18 months and to determine the level of performance before we proceed after that. So the first thing we are going to do is there will be no task order issued under the new contract that is longer than 18 months even though we could go 43 months because we want to make sure we understand the level of performance.

That also allows us to maintain a contractual relationship with ICGS regarding the systems integration and support functions they carry out as we make that transition. It can't be an on-off switch where they do it one day and we do it the next day, and this will allow for that transition.

We intend to take the current functions that are being carried out at the Systems Integration Program Office and move those to Coast Guard Headquarters as part of the larger acquisition organization, but that will take over the next six to twelve months to accomplish.

To make sure that this is carried out in a timely fashion and we are ramping up with personnel at the same time we are slowly lessening our dependence on ICGS, we have, over the course of fiscal year 2007 and 2008, added approximately 50 new people to the Deepwater organizational structure. To give you an idea of the order of magnitude, when the contract was awarded in 2002, we had 245 personnel assigned to project management. As we sit here this morning, that number is 451 of which 50 more will be added. So there have been significant resources that have been added to this program.

In addition, we have strategic agreements with Naval Sea Systems Command, Naval Surface Warfare Center at Carderock, SPAWAR for things like TEMPEST testing and so we can also partner and outsource to bring in some of that technical competency. At the same time, we have designated technical authorities for hull machinery and equipment associated with design, and we have emerging together a technical authority and program management that did not exist before.

The challenge moving forward will be to take that same technical authority structure and apply that to the sensor systems with our Chief Information Officer, and we are in the process of doing that right now.

Mr. CUMMINGS. How do we make sure?

One of the things about the Coast Guard and we hear this. I have heard this from a number of folks, the heads of ports, and I have heard it from various people in the maritime industry. One of the things that they are concerned about is that people, they do certain things for a certain period of time and then they move on. I know that is the nature of the military.

Admiral, say, for example, we train people to do these things that you are talking about. I know what you are trying to do is create a mechanism so that when Admiral Allen is fixing to retire, that systems are still in place, smooth transition is in place, so that we keep the strong expertise and personnel that we need, so that we don't have to keep reinventing the wheel and keep borrowing from other people.

Admiral ALLEN. Yes, sir, excellent point.

Mr. CUMMINGS. How do you do that? Have you thought about it?

Admiral ALLEN. Yes, sir. You have to bootstrap it and build it from the ground up, and these things don't happen overnight. We are looking at some very innovative career entry level opportunities where we can engage college students with the right technical capabilities while they are still in school—internships, co-ops, bring them in and stairstep, let us say to GS-7, 9, 11, offer them a career

progression fairly early on, get them into the organization and then create that work structure, that pyramid that we had lost over the years.

A fundamental part of the Blueprint for Acquisition Reform in the Coast Guard is the workforce development portion of that. We have new direct hiring authorities regarding bringing contract specialists on board, and we will continue to partner and find other ways to meet those gaps, but we have to grow this workforce ourselves and make sure that it can be sustained.

In addition to that, we have to have blue-suiters, active duty military folks that go in and out of program management as they go back to sea and do the things that they are expected to do throughout a career that ultimately culminate in them being a project manager and very similar to the operation you saw down in Pascagoula. We have extensive experience down there as we briefed you on it. We need to create that kind of competency throughout the acquisition organization, and you do that with human resources first, sir.

Mr. CUMMINGS. Similarly, let us go back. In April, you announced that the Coast Guard will expand the role of the American Bureau of Shipping, and I was very excited about that. But you went on to say, or other third parties as appropriate to increase assurances that Deepwater assets are properly designed and constructed in accordance with established standards.

That is what you said.

Admiral ALLEN. Yes, sir.

Mr. CUMMINGS. What exactly does that mean? Just be fair, will you now ensure that every cutter you acquire in the future will be classed by the ABS or another appropriate third party?

Admiral ALLEN. Yes, sir. The issue involving the American Bureau of Shipping is they have a series of what they call Naval Vessel Rules which are an interpretation of the old military specifications to more commercial standards, and they are actually rules specifically related to what they call a high speed craft which is what the new Fast Response Cutter will be.

We intend to bring ABS as part of the solicitation process, part of the proposal review and have them involved throughout the construction of the vessel and have the vessel classed by the American Bureau of Shipping, sir.

To the extent we need other technical support, we have the Naval Surface Warfare Center at Carderock that can provide us engineering support, and we have SPAWAR that can provide us support related to TEMPEST inspections. As you saw when you were in Pascagoula, about one-third of our inspection force down there is people that have 15 to 20 years experience working for the Navy Supervisor of Ships in Pascagoula, sir.

Mr. CUMMINGS. I was very impressed with the folks down there.

Let me go back for just one moment to the ICGS. One of the things I think our Committee has been very concerned about—and I am sure the American people, when they found out about this, are concerned about—is whether we are overspending with regard to this project. Let me show you where I am going.

You just talked about the increase in personnel with regard to acquisitions, is that right? The overseeing contracts, is that right?

Admiral ALLEN. Yes, sir.

Mr. CUMMINGS. As we increase, is there a decrease on the other end? Do you understand what I am saying?

Admiral ALLEN. Yes, sir.

Mr. CUMMINGS. I would hate to see us increasing our folks in the Coast Guard and then the integrated team folks, Lockheed Martin, Northrop Grumman are staying a certain level. How does that work and how do we make sure we are not increasing our costs?

I mean there may be some costs associated that may have to be.

Admiral ALLEN. There is some because of the overlap.

Mr. CUMMINGS. Right, but I just want to make sure that we are not increasing our costs overall and then we end up paying twice. What are you doing to make sure that we have that one goes up and the other one goes down effect?

Admiral ALLEN. Yes, sir. That is exactly what is happening, and I can give you a three year answer for the record if you like on the amount of money that has gone into the ICGS contract for program management and systems integration. That is tailing off, and ours is being ramped up. We can give you those exact numbers.

Mr. CUMMINGS. Fine. I would appreciate that.

Admiral ALLEN. That is exactly what is happening, sir.

Mr. CUMMINGS. I am going to get ready to go to Mr. LaTourette, but I wanted to say that I really do appreciate the visit down to Pascagoula and also down to Houston.

I think that going back to something Mr. Coble said a moment ago. I tell you when I stood there and I spoke to two groups of our Coast Guard's folks, I could not have been more proud of them and to just let them know. Mr. Coble, I made it clear to them that we are their number one fans and that we are going to do every single thing in our power to help you provide them with the very best that our Nation can provide and that how we proud we are. I tell you it was just a wonderful opportunity to address them.

To the Committee, I can't tell you how much they were appreciative of knowing of our interest and our support of what they were doing, and I appreciate the opportunity.

Mr. LaTourette?

Mr. LATOURETTE. Thank you very much, Mr. Chairman.

Commandant, when you, in your opening remarks, talked about the appropriations bill that is on the Floor and you talked about stovepiping, I just want to be clear because that bill is on the Floor today. Were you referring to the request that you made to transfer personnel devoted to overseeing and supporting acquisitions to operating expenses, that \$82 million? Is that what you were talking about?

Admiral ALLEN. I was, sir.

Mr. LATOURETTE. Can you tell me because the bill that is on the Floor today denies that request and says that at least the Appropriations Committee feels that it is better if it stays in the AC&I account as opposed to going to the ONE account?

Can you explain the basis of that and why you think that money should have been transferred to the ONE account?

Admiral ALLEN. I can, sir. For many years, personnel costs associated with a particular appropriation, in other words, executing those funds was required to be funded out of that appropriation.

In fact back when I was a commander at Coast Guard Headquarters, we had a GAO desk audit where they came and they said, for an engineer, how much work do you do that utilizes operation expense fund and how much of your work is entailed in designing capital investment expenditures out of AC&I? Actually, we had a couple of anti-deficiency issues arise because of that, so everything was stovepiped. So you are limited in the amount of personnel you can put toward a problem set in a particular appropriation.

For several years now, we have proposed to take our personnel account and put it one particular funding source which is not inconsistent with the way the other military services do it. That allows you to do a couple of things. If you have a surge or a gap, you can readdress within your own operating base personnel to cover that.

It wouldn't be just a problem regarding acquisition. It might be an operational situation regarding a mass migration or type of a surge operation, long term surge operation following a natural disaster. It provides flexibility.

We are willing to be transparent, provide reports on where our personnel are assigned and so forth, but we just think it will allow us to be more responsive to the oversight being provided by the Congress in how we are applying human resources to the acquisition issue.

Mr. LATOURETTE. Thank you, Commandant.

The Chairman, in his opening remarks, referenced a number of the hearings, and one of the hearings that we had was an oversight hearing, an investigative Subcommittee, I guess, done with the Full Committee. I am sorry you couldn't have been with us until 11:30 that night. We had a good time.

But there were some reports that followed that hearing, and I think that those reports were at least disturbing to me because some of the things that were in those reports were not what I came away from at that hearing. The reports suggested that secure communications installed aboard the lengthened 123 foot patrol boats failed the TEMPEST inspections and that the use of these vessels could have and some suggested did expose national security information to unauthorized persons.

Were you made aware of those allegations at that hearing and what response do you have to that?

Admiral ALLEN. I am aware of the allegations, sir.

To state this very briefly, I know the hearing had exhaustive treatment of this issue but to summarize before I make a statement. A TEMPEST certification is divided into both a visual inspection and a test of emanations that might come from the cables. There has been exhaustive information provided to the Committee on how that came about, changes that were made regarding the equipment, a lack of a waiver procedure for the Coast Guard, all of those which have been put into effect since the lessons learned from the 123s.

To my knowledge, and I have talked extensively with my staff, we have no indication there were ever any insecure emanations made from those vessels while they were operating.

I would also add that to the extent there are questions, and I noted earlier this sometimes becomes a he said-she said-she said-they said regarding whether or not there is compliance. I would submit to the Congress that I would request that you call the National Security Agency and have them testify, and I think they would be the experts of record because they own this program for the Federal Government.

Mr. LATOURETTE. Thank you, Commandant.

Lastly, one of our hearings touched upon the fact that there were some rulemaking projects that the Coast Guard was undertaking, and staff tells me that that may be 100. Could you just give us an update of where you are with these rulemaking projects?

Admiral ALLEN. Yes, sir. It is of some source of concern to me and has been for a while even before I assumed the duties as Commandant. To give you an example, I will give you a rough order of magnitude, and we will give you an exact answer for the record.

But I believe around 9/11 we had about 50 or 51 rulemaking projects that were backlogged that we were working on, anywhere from invasive species on the Great Lakes to alternate tonnage, a wide variety of issues that impact maritime transportation security and safety and, quite frankly, facilitation of commerce, if you will. That backlog is over 90 right now. A lot of these have been generated by new legislation, the Maritime Transportation Security Act, SAFE Port Act and so forth.

We are working on these now, but basically have roughly, with some modest increases, the same workforce that we had before 9/11. It is of significant concern to me that I have raised it in meetings with Members, and we are looking at a way to prioritize these things, come back and communicate to the Committee.

We are going to have to do one of two things. You have to prioritize what you can do with the resources you have or you have to look at resources.

One of the things I am concerned about right now is the proliferation of requests for permits for liquid natural gas facilities that require extensive Coast Guard oversight for waterway suitability assessments. Then if there is a suitability assessment that says that a plant can be operated with certain security or safety safeguards, I am not sure if there has been an adequate enough public discussion about who should provide those resources.

Is that something that should be passed on to the consumer through the price of goods? Is this a local responsibility, a Federal responsibility? I think that needs much, much more discussion, sir.

Mr. LATOURETTE. Thank you very much, Commandant. I know that the Chairman would be happy if maybe you didn't do that waterway survey up at Sparrows Point and take care of that.

Thank you, Mr. Chairman. I yield back my time.

Mr. CUMMINGS. Thank you very much, Mr. LaTourette.

Mr. Larsen?

I am sorry, Mr. Bishop, and then we will come back to you.

Mr. BISHOP. Thank you, Mr. Chairman. Thank you very much for holding this hearing.

I want to pick up on where you just left off on the LNG issue. There is an LNG platform proposed in my district. The captain of the port issued a report, a waterway suitability report that said

that the facility would be acceptable, would not impair the waterway but that the Coast Guard would need significant additional resources, and he specifically indicated that one of the things that he needed would be a new 110 foot cutter.

Now given the difficulties with the 110 foot cutters that we currently have that we all have discussed, the IG's report says that the ability of you, of the Coast Guard to close its patrol gap is compromised by the shortfall of cutters.

How do you see the Coast Guard going forward with respect to dealing with this issue of securing LNG platforms? There are 42 some platforms I believe proposed all over the Country.

So given, if you will, the juxtaposition of Deepwater which admittedly has not gone the way any of us would like it to go and now a new demand that perhaps was not foreseen at the time Deepwater was conceived, how do you see this playing out?

Admiral ALLEN. Yes, sir. First of all, I thank you for the question.

When we look at a requirement for security or safety or any mission requirement for the Coast Guard, it is always better to look at the requirement. In this case, if there is a requirement for a certain number of hours for a patrol boat to be operating there, that doesn't necessarily presuppose that 110 foot cutter would be the right cutter. In fact, most of the cutters that operate in and around Long Island Sound are 87 foot cutters, and there is one that is home-ported in New London, Connecticut.

We have, with supplemental money provided by the GWOT supplement that was just passed, placed on order with Bollinger Shipyard a request for 4 87 foot patrol boats. There are many places at the lower end of the operating spectrum of 110 foot patrol boats where we can use those patrol boats to do the same thing, and the type of patrols in and around an LNG facility would be something that would be suitable for an 87 footer.

So we are able to mitigate the gap that is currently existing right now while we bring the new Fast Response Cutter online through a number of way crewing 110 foot cutters down south. We are buying 4 additional 87 foot patrol boats, and we have negotiated with the Navy to retain their 179 foot patrol boats they had transferred to us through 2011. Three of those will be stationed in Pascagoula.

But I would separate out the requirement to have a presence on sea to meet the conditions of the waterway suitability assessment and how that source. I would add, as I stated earlier, I think there needs to be a public discussion on whether or not that is a Federal role or not.

Mr. BISHOP. Thank you. Thank you for that.

One more question, if I may, the VUAV acquisitions project, and I am going to reference Mr. Skinner's testimony which I don't know whether you have seen or not.

Admiral ALLEN. I have.

Mr. BISHOP. If I have this correct, we will spend approximately \$198 million of the \$500 million that had been originally contemplated for 45 VUAVs. We will spend \$198 million and take ownership of only 2 VUAVs if I understand the IG's testimony correctly which would suggest that we will have committed 40 percent

of the at least expected expenditure for this project but only have 5 percent of the assets.

So my question is, the VUAV program, if we are going to carry it forward, are we likely to see significant cost overruns or is this a program that may not realize the potential that you first? If that is the case, what does that do to the NSC capability?

Admiral ALLEN. Yes, sir, a fair question as well.

Just a general statement for all the Committee Members, what we are doing right now as part of the Deepwater program is take a look at every single platform, going back and revisiting the business case, where we are at, is the current solution the right solution, is there enough competition, and what is the best way forward.

The solution that was offered for a vertically launched UAV, which is part of the larger system for both the National Security Cutter and the Offshore Patrol Cutter to increase their effectiveness, if you will, to be able to allow us to reduce the number of vessels that are operating out there, assumed that we would operate with vertically launched UAVs. At the time the contract was awarded, there were only two out there that might be viable, a helicopter drone and a tilt rotor type drone which is what was offered to us by ICGS.

In the last year since I became Commandant, we have had a technical evaluation done that tells us there is risk associated with proceeding forward with the vertically launched UAV that was offered by Integrated Coast Guard Systems. We have stopped at this point and are looking at other alternatives. We do not want to proceed forward and make another mistake that results in the same type of first article failures we have had before, so we are calling an all-stop, assessing where we are at and if there are other solutions to providing that type of surveillance with the National Security Cutter package.

We do recognize as the IG has stated, however, that if you deploy that vessel without the proper aviation assets with it, you will not get the mission effectiveness that was advertised in the proposal by Deepwater.

So I would tell you that we probably in the next three to four months owe this Committee a way forward on VUAVs. Everything has been kind of queued up with the National Security Cutter and the 123s being at the top of the triage list, I would say right now. But we do not anticipate any further action on the vertically launched UAV task order that we have got in place right now until we clarify the way forward for the aerial assets to be with the NSC.

Mr. CUMMINGS. The gentleman's time has expired.

Mr. BISHOP. Thank you.

Mr. CUMMINGS. Thank you.

We are very pleased to have the Ranking Member of our Full Committee, Mr. Mica.

Mr. Mica?

Mr. MICA. Thank you and thank you for conducting this important follow-up hearing. I think it is very important that we proceed as Mr. Cummings and I worked very closely together for a number of years, and I appreciate his thoroughness on this important responsibility he had inherited.

I had some questions. As you know, Admiral Allen, I was a little bit concerned about sort of the stampeding of the Coast Guard into becoming the systems integrator and not having the capability to do systems integration in these large projects.

First of all, I have to say looking at the history of the Deepwater problems, you inherited most of this and you have done a great job in trying to resolve some of the problems that you inherited. Many of these decisions go back long before you took your current position.

I still have some questions, though. Now it is my understanding that the contract, the ICGS contract, is going to continue with a maximum of 43 months but 18 months, is that what you said, for any one assignment?

Admiral ALLEN. Yes, sir, that is correct.

Mr. MICA. Also, you talked about the number of personnel. The thing that concerned me about the Coast Guard becoming the systems integrator is the ability, one, to attract the personnel that you need to do that kind of job.

I think the mistake they made was not having a third party. You have Northrop Grumman and Lockheed, who have formed this consortium, are doing the whole enchilada. We should have had somebody else. Someone writes the specs. Someone conducts the systems, oversees systems integration and some oversight responsibility.

You also said you went from 240 to was it 400 and some?

Admiral ALLEN. Four hundred and fifty-one, yes, sir.

Mr. MICA. How many of those are enlisted Coast Guard personnel versus civilian employees?

Admiral ALLEN. Right now, I can give you a rough approximately. I would be glad to answer for the record.

Mr. MICA. Of the added personnel.

Admiral ALLEN. It is about one-third military, one-third civilian and one-third contractor, sir.

Mr. MICA. With that combination, you feel you can have in-house the expertise to perform?

Admiral ALLEN. I would say to begin the transition, sir. As I mentioned earlier, we are going to need to build a larger workforce. We have time to do that. In the meantime, we need to partner with the Navy and other folks to provide some of this expertise and capacity that we need, but we have to build ultimately an organization.

Mr. MICA. Are the contractors an en bloc number that you retained someone or you hired them individually?

Admiral ALLEN. We retain a third.

Mr. MICA. You said a third are your personnel.

Admiral ALLEN. Yes, sir. We can give you a breakdown on it, but it is usually a contractor that we award a contract, and they provide the personnel, a support contractor.

Mr. MICA. See, I don't think you can hire in-house all the expertise that you need and retain them. I mean your average enlisted person probably is in and out in how many years?

Admiral ALLEN. Well, we don't have very many enlisted people doing this. If they are, they are usually senior, sir.

Mr. MICA. I know. I know, but I am just saying your average Coast Guard person. Even with a Commandant now you get a four-year slot.

Admiral ALLEN. Yes, sir, I am term-limited.

Mr. MICA. And you are cleaning up the mess from the last one. But these programs do take a long time. This started over four years ago.

Admiral ALLEN. Yes, sir. This is building for the future.

Mr. MICA. Exactly. Then a lot of this is contingent on Congress providing additional money. What was the figure that you need to have the personnel and have the additional physical capability of putting in place the component to do this job?

Admiral ALLEN. Well, we actually have requested increased personnel as part of the fiscal year 2008 request, but the other issue was having the ability to have more expanded use of all personnel funds in the Coast Guard so you can surge if you need to do that.

Mr. MICA. I think that there were some problems that a Member relayed.

Admiral ALLEN. Yes, sir.

Mr. MICA. But did you have a dollar total figure?

Admiral ALLEN. The entire amount of personnel applied to the acquisition, construction, improvement portion of our budget is around \$82 million.

Mr. MICA. Around \$82 million.

Admiral ALLEN. Eighty-two million, yes, sir.

Mr. MICA. On an annualized basis.

Admiral ALLEN. Yes, sir.

Mr. MICA. All right, well, again we will watch this. I know you are trying to clean it up, and you have done as good a job as possible in trying to put in place, something, a mechanism and a protocol so that we don't have the same problem.

Thank you. I yield back.

Mr. CUMMINGS. Thank you very much.

Before we go on to Mr. Larsen, let me just follow up one real quick question.

The one-third military, one-third contract and one-third civilian, do you anticipate, Admiral, that those percentages remain the same or is there an effort to, say, reduce the contractors and increase the civilians or increase the military and what have you?

Admiral ALLEN. I think we need to increase our civilian workforce and diminish the number of contractors. I am not sure what that right balance is because you always need a margin just because of the ebb and flow of work. Civilians provide us continuity across changes in military assignments as was mentioned earlier.

But one of the things we are going to have to do is create a pyramid so there is career growth. One of the challenges we have currently in the Coast Guard is with being largely military and only having about 6,000 civilians. In some specialties, there is not a broad enough pyramid or base, if you will, to be able to support upward mobility, and we need to take a look at that. That is the reason the structure of some of these ratings is going to be important.

But we have had success, believe it or not, in wooing some of the folks that are working for our contractors to come on over once we

get those positions established on the civilian side. My goal is to diminish somewhat the contracting force but not entirely, sir.

Mr. CUMMINGS. Mr. Larsen?

Mr. LARSEN. Thank you, Mr. Chairman.

Admiral, regarding the C4ISR issue that I mentioned in my opening statement, the OIG reported in their testimony—I think you indicated you had read the OIG testimony—on page seven of the OIG testimony talked about them reviewing the efforts to design and implement C4ISR to support the Deepwater program, lack of discipline and changed management processes provided little assurance that requirements remain up to date or effective and meet program goals. Certification and accreditation of C4ISR equipment was difficult to obtain and so on.

Your statement discusses that and your written and oral testimony indicates to the best of your knowledge there was no compromise of classified information and suggests that we look into that, and I am sure we will.

But I think what I gather from the OIG's comments wasn't so much whether classified information was compromised or not but that there were problems with certification and accreditation regardless of the outcome on the other end.

So I was wondering if you could address the issue the OIG brings up, that is, the challenges of the certification and accreditation and then what steps you are taking to address those challenges.

Admiral ALLEN. I am happy to do that and thank you for the question, sir.

The way the Coast Guard's technical community is structured right now is really in two different offices. One, we have the CG-4 shop which is a civil engineering, naval engineering and aviation engineering and ocean engineering. The electronics engineering and sensor part of our technical world comes underneath the CIO shop in the Coast Guard which is the CG-6 organization.

Early on when I became Commandant, it was clear that the technical authority vested in CG-4, even if it was not explicit, was not good enough to make sure that the contractors were adhering to standards. We officially designed the CG-4 shop as a technical authority for all those engineering disciplines that they own.

We are in the process now of doing exactly the same thing for the CG-6 shop, the CIO, and make them the responsible technical authority not only for issues like TEMPEST certification and dealing with the National Security Agency, SPAWAR and so forth but to have the technical authority reside in them for certification and accreditation for C4ISR systems, sir.

Mr. LARSEN. Well, before that, was the authority to do that floating around the Coast Guard?

Admiral ALLEN. I am not sure it was floating around, but it wasn't explicitly delegated in terms of a written instruction to me, saying you are accountable and there is going to be a person that is, for instance, for an air search radar. This is the one that certifies that the requirements are being met, and that is what we are doing, sir.

Mr. LARSEN. Okay, so that is how you are addressing that.

Admiral ALLEN. Yes, sir.

Mr. LARSEN. Can I ask a question about helicopters as well?

In your written testimony, you start off, and I encourage everyone to read early on in your testimony, some great stories about the results of some of the investments including the great story in Washington State of this high altitude rescue—you call it daring, I think—and the video from this rescue, of this high altitude rescue at 7,000 feet in my home State of Washington State. It is, in fact, pretty compelling and pretty exciting to watch, and that was on a helicopter with new engines or re-engined engines, some great stories.

However, there is always a but in this. Again, the OIG indicates that after some recommendations were made, the Coast Guard did not concur with any of the agency's 65 recommendations that it had made. It goes on to say that Coast Guard officials said that ICGS minimized operational legal costs and contract performance risk associated with re-engining.

Can you address the OIG's comments? Those are on page seven of the OIG's testimony with regards to helicopter re-engining.

Admiral ALLEN. I can, but I would just make a general comment.

There were a number of decisions that were taken over the last three or four years in the course of Deepwater that were senior management decisions that were not documented to the level that there was an audible or traceable record on which the IG could determine how the decision was made. For instance, we merely issued the DTO for the construction of the NSC because it required no more affirmative action than to do that, but the lack of a business case on the subject and the basis for the decisions brings into question whether or not terms are being dictated to the Coast Guard.

I was present and understood when the decision was being made to re-engine the helicopters that it was done to mitigate risk. We knew there was a cost premium associated with that. We knew that we could have ordered the work directly to our logistics center in Elizabeth City, North Carolina, but the decision was taken, maybe not documented to an audible trail level of specificity, but that was the decision that was taken.

We could have gone other ways through a sole source contract or a sole source award through our own logistics function. But we were mitigating risk and, at that point, we considered the additional cost associated with going through ICGS was worth the value achieved in reducing the risk to the acquisition.

That was the decision that was taken. Whether or not there was an adequate business case to support that, that is up to question. But I was there. I was privy to it. That was the decision taken.

Mr. LARSEN. Thank you.

Thank you, Mr. Chairman.

Mr. CUMMINGS. Thank you very much.

Mr. Coble?

Mr. COBLE. Thank you, Mr. Chairman.

Admiral, thank you for your testimony today. Let me put a two part question to you, Admiral.

As you know, the problems of Deepwater have been widely reported in the media and closely scrutinized by the Congress. In fairness to you, I would like for you to tell us some of the segments of the program that are succeeding, number one.

Number two, what, if anything, can be salvaged from 123 conversion and what can be done to recoup some of the monies expended on that project to assure that similar situations do not subsequently occur?

Admiral ALLEN. Yes, sir. A couple of successes: the retrofitting of our Legacy Cutters with new sensor and communication equipment has been very successful. We have the ability now to come up and classify what we call SIPRNET, secure internet protocol router chatrooms. Where we used to have to relay requests up the chain of command for permission to do something, everybody is on the circuit at once, if you will, negotiating how the resources do apply to what the problems are that are out there.

The Coast Guard Cutter Sherman recently set a maritime record seizing nearly 20 tons of cocaine off Panama just a matter of weeks ago. That whole operation, including the pursuit into Panamanian waters under the bilateral agreement with Panama, was facilitated through SIPRNET chat that did not exist before the Legacy equipment was put on the old cutters. So the ability to operate these old cutters with a higher level of efficiency is a significant win, and our commanding officers out there love this equipment.

We are happy with where we are going with the Casa 235 aircraft. We are in the process now of testing the mission palate. That is the integration of the sensor suite in the back of the aircraft. We have achieved connectivity with that first palate in the C4ISR Center of Excellence in Morristown, New Jersey.

We need to finish the tests and evaluation of that to make sure that the new palate integrates with the aircraft. We are ready and into full production on the airframe itself. Once we are sure of the integration on that, then we need to pull that forward as fast as we can.

Where we do achieve success, I think we need to selectively accelerate those things and pull them forward. If there is not an issue with first article performance, let us buy that out and get it off the table because we have other problems we have to deal with.

Regarding the 123s, we have revoked acceptance of those cutters. That is the first step in the process of recouping the Government's interest in the money that was invested there. There is some residual value related to the short range prosecutors, the boats that were delivered with the boats, the sensor suites that are on the boats and the engines that are in the boats.

Ultimately, we will come up with a fair value that the Government should receive in consideration for this, and we will take that to ICGS and request that money be returned. At that point, we will move on to whatever legal remedies are required after that.

Mr. COBLE. You can keep the Committee up to speed on the progress to that.

Admiral ALLEN. I would be happy to do that, sir.

Mr. COBLE. Thank you, Admiral.

I yield back, Mr. Chairman.

Mr. CUMMINGS. Mr. LoBiondo?

Mr. LOBIONDO. Thank you, Mr. Chairman.

Admiral, you just referenced the drug bust with the improved capability for communication. Can you just briefly say what implica-

tions that would have for homeland security, how that would apply?

You told us how it applied in the drug bust.

Admiral ALLEN. Maybe I can give you a better example. There are some cases where there is a threat approaching this Country, and it could be a migrant or a drug boat but where you may have cause to want to use warning shots or disabling fire.

Traditionally in the Coast Guard, that starts at the unit level with the commanding officer, goes up maybe through the local sector to the district command centers, sometimes to headquarters for interagency consultation regarding the country that is involved and the particular situation where we are trying to negotiate what we call a Maritime Operational Threat Response.

To be able to do that in parallel at the same time and not sequentially reduces a process that could be a half hour to an hour to hours. In some cases, we have been able to reduce that down to 15 minutes or less, that allows the commanding officer on the scene to be able to react to the threat, in some cases before they might enter the territorial sea or actually get involved in an illegal operation because we had not gotten the permission to use warning shots or disabling fire.

Mr. LOBIONDO. So pretty invaluable.

Admiral ALLEN. It is.

Mr. LOBIONDO. Admiral, your statement indicated that you will be releasing a request for proposals to build the interim Fast Response Cutter B in the next couple of weeks. The cutter will replace the rapidly failing 110 patrol boats and the failed 123s. My concern and I think a concern of the Committee is the time it will take to field the Fast Response Cutter B. I understand the first one will not be in the water until 2010, is that correct?

Admiral ALLEN. The proposal has that right now. I have been working hard with our folks to try and incentivize us to make it sooner than that, sir. We can't get these boats soon enough and if I can get them before 2010, I will, sir.

Mr. LOBIONDO. There is still a delay here. Meanwhile, the readiness gap, I think, is at about 25,000 hours—if my information is correct—25,000 hours annually and will be expanding. How do you plan to make up the gap?

Admiral ALLEN. Yes, sir, I will give you a qualitative breakdown of where that is at, and we can give you an answer for the record as to actually the hours we are accumulating right now.

About half of those hours have been recouped by taking the eight crews and the maintenance money associated with the 123s that were taken out of service and double-crewing 8 boats, 4 in Miami and 4 in St. Pete. So we are basically recouping close to 50 percent of those hours by just using the crews on other vessels and operating the vessels at a higher tempo. We are taking the maintenance money associated with the 123s and supporting those higher maintenance costs with that.

This is not unlike the operations we are running in the Persian Gulf with the six patrol boats over there that have been serving in superb fashion for a number of years now because we have the right maintenance processes in place. That is one.

Two, we are making better use of maritime patrol aircraft down there as far as taking the search out of search and seizure or search and rescue. We are also using multi-mission hours that are available to us through our buoy tender fleet or the cutter fleets to fill in those other hours, and we can give you a detailed breakdown of where those hours are coming from, sir.

Mr. LOBIONDO. Thank you.

One more question, Admiral, can you explain if there will be any impact on the schedule for the replacement of the Legacy assets from the service's efforts to build an acquisition staff and assume the role of systems integrator and what steps are you taking to mitigate that potential?

Admiral ALLEN. Well, I think we have to almost on a yearly basis, and I think we need to be up here talking with you folks about how the organization is being stood up.

We are going to be making one by one decisions on every one of these platforms. In other words, how are we going to continue with the Casa 235? Where are we going to go with the FRC, the NSC, the Offshore Patrol Cutter? Each time we make a decision to bring a new platform on, we are going to have to balance that with the capacity, capability and competency needed to execute that in a lead systems integrator role.

There have been a lot of requests for status from a number of Committees this year. I think we need, on an annual basis, to say, here is the plan. Here are the platforms that are coming on board. Here is the human resource plan that supports that, the workforce development plan that support it. Where there is a gap, it will be filled by ABS certification, agreements with the Naval Sea Systems Command, putting supervisor ship inspectors into our Project Management Resident Offices, and that plan needs to be transparent to you, sir.

Mr. LOBIONDO. Thank you. I will just close, Admiral, by saying thank you for your outstanding leadership at this very critical time.

Thank you, Mr. Chairman.

Mr. CUMMINGS. Thank you.

Let me just ask a few wrap-up questions because the IG is going to come up and I want to make sure that I address some of the things that the IG may be addressing so that you will have an opportunity to do that. Not all of these things but I am going to try to go through a little list of things that I am concerned about.

The 123 program, first of all, I was very pleased and I am sure all of us were pleased that you rescinded the delivery of the 123s. It just made sense.

But there is a piece of that that really interested me, and I have expressed these concerns to at least Lockheed Martin. I want the American people to get every dime, not every dime, every penny of the money that they are due as a result of not getting what they were supposed to get, and I want to know where are we on that piece. It is one thing to rescind. It is another thing to make sure that the American people get their money.

I just want to know. What is the status of that? As a lawyer, I know that you are not necessarily going to get every penny, but I just want to know where that stands.

Admiral ALLEN. The next step is for the Coast Guard to issue a letter to ICGS, saying, here is the dollar amount, we would like it back.

Mr. CUMMINGS. You have already done that?

Admiral ALLEN. We are in the process of finalizing that number, yes, sir.

Mr. CUMMINGS. And so, you are going to ask for a certain amount of money. Can you share that with us later if you can? We don't want to interfere with your negotiations.

Admiral ALLEN. Yes, sir. I would have to check with my contracting officers and my attorney if it is allowable.

Mr. CUMMINGS. Fine. I understand. I understand.

We just want to make sure that the American people get their due. I just don't think that you can have a situation like this, Admiral. It sends a bad message to a whole lot of people.

Admiral ALLEN. Sir, it sends a bad message for the Coast Guard.

Mr. CUMMINGS. Yes, but what I am saying is that we teach our kids that you keep a commitment. You deliver what you say you are going to deliver. Then we see a situation, as I have used the example, where you go and buy, for example, a \$375 lawnmower that doesn't cut a blade of grass, and then the United States of America's taxpayers' dollars are being spent on that. We can't have that.

A lesson must be sent. I mean the word must go out that when you do that to the American people, the American people want their money back. It is just simple, basic accountability.

But I want you, if you can, to just keep us apprized of that. We know that you are working with your lawyers and everything. I am just glad that it was a two part statement.

Admiral ALLEN. Yes, sir.

Mr. CUMMINGS. We rescind. We want money back.

Admiral ALLEN. Yes, sir.

Mr. CUMMINGS. Now let me go to some of the things that the IG may be concerned about. First of all, when do you anticipate taking delivery of NSC 1?

Admiral ALLEN. My best guess, this is caught up in the current negotiations because one of the things is we can't close on the current contracting arrangements right now until we both agree on how many hours it will take to finish NSC 1 and then establish the cost to be able to settle all the claims associated with that, and that is where we are about now.

I would tell you that the hull and machinery portion, the stuff that you saw below decks, will probably be ready sometime before the end of the calendar year. The sensor suite, while it may be there, it may be after the end of the calendar year. So I would err on the side of conservatism and tell you that acceptance trials probably after the first of the year, sir.

Mr. CUMMINGS. What, if any, are the systems that will not be fully operational and mission-ready when you accept delivery of the ship? Do you anticipate such?

Admiral ALLEN. That is another great question.

Since we are going to retrofit certain portions of that ship, we have to agree on what is the NSC that will be delivered because, as we know, once we issue the construction order for NSC 3, we

will establish a technical baseline that we have to go back and change 2 and 1. Knowing that will happen at a later date than acceptance, we have to define what is acceptance and what is that hull at acceptance, and that is the basis for the current contract negotiations that we are about to close, sir.

Mr. CUMMINGS. Do you anticipate the ship will be TEMPEST certifiable when delivery of the ship is made?

Admiral ALLEN. Yes, sir. We spoke when you were down there. We showed you the cabinets and the cables, sir.

Mr. CUMMINGS. If you recall, when I was down there, there was that issue of nine feet.

Admiral ALLEN. Nine feet versus twelve feet, yes, sir.

Mr. CUMMINGS. So you all anticipate you will be able to address that.

Admiral ALLEN. Yes, sir, as you remember, the 12 feet was a standard that was developed many, many years ago that was based on the fact that there would be physical separation of visual inspection and then an emanation inspection. We are waiting for the results of the test, and we will provide that to you as soon as we have it, sir.

Mr. CUMMINGS. Now let me just ask you a few more questions about the life, fatigue life of NSCs 3 through 8.

Admiral ALLEN. Yes, sir.

Mr. CUMMINGS. Before you begin construction on NSC 3, will you have implemented a new design to strengthen the hull fatigue life and, if so, can you describe that design?

Admiral ALLEN. Yes, sir. In fact, the basis for the entire what we call a consolidated contracting action is to decide what the baseline is moving forward from NSC number 3. Once you do that, then you know what you have to change in 1 and 2. So the very first decision that is being negotiated right now is the changes related to the NSC 3 design and what are we going to do.

My statement for the record has a schematic, and we can answer in a lot of detail. But as we explained when we were down in Pascagoula the other day, the biggest change will be to make a separation between the two superstructures so that stresses associated with the ship when it is hogging and sagging can't be transmitted back and forth through the ship and create a way to absorb the stresses. There are some other areas regarding transitions between certain areas of the structure that will be strengthened and reinforced.

These are based on an agreement between our technical authority that has now been designated for hull and machinery and the program manager, that that is the fix that will guarantee the service life of the ship that is being designed as NSC 3, sir.

Mr. CUMMINGS. What you just told me, has the Navy Surface Warfare Center at Carderock gone over that, what you just said?

Admiral ALLEN. The changes that were recommended by our technical authority were based on a finite element analysis conducted by Carderock Surface Warfare Center that were subject to previous hearings, sir.

Mr. CUMMINGS. Perfect, perfect. I want to make sure we are learning from our mistakes.

Admiral ALLEN. Yes, sir. In fact, before Carderock did the finite element analysis, this was just a supposition on the part of our engineers based on their experience that there might be problems just based on their knowledge of how structures work. The Carderock finite element analysis basically corroborated what our engineers believed to be the case on fatigue life, sir.

Mr. CUMMINGS. Do we have any idea about how much that design will cost?

In other words, we are making some changes. We had anticipated a certain amount the NSC 3 costing.

Admiral ALLEN. Yes, sir. In a matter of days, as soon as that NSC 3 task order is awarded, we will be able to tell you the costs for NSC 3 and the following hulls, sir.

Mr. CUMMINGS. Are you confident that the new design will enable NSC 3 through 8 to be underway for 185 days per year in the general Atlantic and north Pacific sea states without experiencing hull buckling or cracking?

Admiral ALLEN. Yes, sir. It will allow them to be away from home port 230 days and approximately 180, 185 days in the operational environments that were exposed under the finite element analysis that Carderock conducted, sir.

Mr. CUMMINGS. To what extent does the ICGS team or Northrop Grumman now believe that there is a problem with the fatigue life on the NSC and to what extent will Northrop Grumman assume responsibility for the cost of strengthening hulls 1 and 2, if you know?

Admiral ALLEN. Sir, the difference between Northrop Grumman and the Coast Guard on this issue is as follows and, not being a naval engineer, I will extend revised comments if I could for the record.

Mr. CUMMINGS. Yes, you may.

Admiral ALLEN. To the best of my knowledge, the construction standards used by Northrop Grumman to develop the design of the National Security Cutter were based on something called design data sheets and general specifications that are used to build military vessels. That is a different type of a design approach than our engineers used to assess the fatigue life.

In other words, we accepted the design offered by Northrop Grumman for the National Security Cutter based on the technology they had at the time, military specifications. We are applying a different standard to assess fatigue life.

Northrop Grumman feels they have met the requirements of the contract with the technical basis for their designs. We believe they have not. Therefore, it is a Government-requested change, sir.

Mr. CUMMINGS. I see. And so, you feel confident that your recommendations are better than Northrop Grumman's. In other words, it will serve our purpose better.

Admiral ALLEN. I think that is a better way to say it.

Mr. CUMMINGS. The purpose of the Coast Guard.

Admiral ALLEN. Yes, sir.

Mr. CUMMINGS. I am not trying to get you to beat up on Northrop Grumman.

Admiral ALLEN. No. I talked to them.

Mr. CUMMINGS. Again, I am trying to make sure that we are clear as to what we are bargaining for, and I want us to be clear as to what performance is, and I want to be clear as to making sure that we have the kinds of equipment, i.e., ships to do the job that the American people expect us to do.

Admiral ALLEN. Yes, sir. We are in violent agreement, sir.

Mr. CUMMINGS. Let me ask you this, and this will be my last question. When you look, I just want you to do a little crystal ball thing for me and try to tell us.

You have what, about a year and a half left, two years left?

Admiral ALLEN. In my term, sir?

Mr. CUMMINGS. Yes.

Admiral ALLEN. Three.

Mr. CUMMINGS. Three years?

Admiral ALLEN. About three years.

Mr. CUMMINGS. What do you want to see?

Everybody up here just about has expressed tremendous confidence in you, and it is not too much that we all agree on. I can tell you. But that says a lot. So I want to know.

Now, you can't tell me exactly, but every morning when you get up, you must say, at the end of my three years, I want to have accomplished this.

I just want to know, what is this? Do you follow what I am saying?

Admiral ALLEN. Yes, sir. It is an organization that is positioned to execute its mission to the standards that the American people have come to expect of us especially in a post-Katrina environment and having the mission execution and mission support structure that allows us to do that effectively but also allows us to adapt to change and changing external environments.

As I stated in my State of the Coast Guard speech—and you were there, sir—we have been acting like a small business when we are a Fortune 500 company. We have got to get our business processes, command and control, and the organizational structure of this Coast Guard to be more flexible, agile and adaptable including human resources and technology and everything.

I consider myself a transition commandant trying to reposition the service for success far after I am gone, sir.

Mr. CUMMINGS. I take it that with all that has happened, there were plans before and those plans had to be changed to a certain degree. Can you give us a new schedule?

Admiral ALLEN. Are you talking about the National Security Cutter?

Mr. CUMMINGS. I am talking about now with regard to Deep-water, period. In other words, you expect certain things to be happening at a certain time.

Admiral ALLEN. Yes, sir.

Mr. CUMMINGS. I am just wondering, can you submit to us?

I don't want a situation where we have to keep, not have to but keep bringing you to the Hill to tell us where things are. I think that you realize the reason why we did this, this time, is because we were in a critical situation.

I personally think that this Committee has been very helpful in helping you to do the things that you have been trying to do. Again, we are your number one fan.

Admiral ALLEN. Yes, sir.

Mr. CUMMINGS. We are just trying to make sure that things are the best that they can be. I guess what I am trying to get at is exactly because of the problems we experienced, we learn from them and we go forward.

I am just asking, can you get a new schedule as to when you see certain things being completed?

Admiral ALLEN. Yes, sir. I think on an annual basis because there are certain things that impact a schedule: contractor performance that you are observing, the level of funding you may get year to year that may not be what was anticipated early on that impacts the number of units you can produce on any particular platform.

This is almost going to have to be a year to year presentation to you across all platforms. We come with a budget. Here is what we are requesting this year. Here is what we got last year. Here is the progress we have made. Here is where I think we are going.

I would tell you that I haven't compiled them all side by side and sat down and looked at them. If you look at all the pending provisions that have either been included in the GWOT supplemental or are being considered right now, collectively, I think give you that information.

As I mentioned in my opening statement, I would like to work with the Congress to create a transparent way to give you that information on a real time basis so we hold it, you know it and there are no surprises, sir.

Mr. CUMMINGS. Last but not least, then I will go to Mr. LoBiondo if he has anything, and I understand Mr. Larsen has a follow-up question, but let me ask you this.

You mentioned a few moments ago that you said there were Government changes, is that right, I think with NSC with regard to 3? You said there were Government changes.

Admiral ALLEN. Yes, sir.

Mr. CUMMINGS. Who pays for that?

Admiral ALLEN. We do, sir, if we ask them to be done.

Mr. CUMMINGS. Okay, very well.

Mr. Larsen?

Mr. LARSEN. Thank you, Mr. Chairman.

Just a quick couple of questions, regarding the FRC B, the off the shelf model, has the initial failure of a composite hull model soured the Coast Guard on composite hulls as you move forward?

Admiral ALLEN. I am not sure we are soured on composite hulls, and I think composites have shown themselves to be successful in other areas, particularly the superstructures and naval vessels and reducing the weight and long term durability and lower maintenance cost.

I think, in our case, applying that technology to a high speed craft of that size had not been demonstrated before, and we had done two things that weren't done early on when we started pursuing a composite variant.

Number one was just plain business case analysis. How much is it going to cost to do this because to achieve a certain speed and

certain requirements, it requires a certain amount of horsepower that drives the parameters of the boat? The second one was the technical issues and the risks associated with producing the boat. Both of those told us that this was a high risk and we needed to take a look at mitigating the risks associated with that.

While all that has been going on, you can't wait for all that to be done to fill this patrol boat gap as we talked about earlier. So we elected to proceed with the FRC B instead.

Mr. LARSEN. Right. Finally, in your oral testimony and in our questions, we have focused on the 50 or so folks that you plan to hire for acquisition, but you mentioned 4 people that you have assigned specifically to respond to various requests probably from us here.

Admiral ALLEN. That is correct, sir.

Mr. LARSEN. If those four weren't responding to our requests, what would they be doing?

Admiral ALLEN. They would be applied somewhere else in the organization, working on the problems that have been discussed, sir.

Mr. LARSEN. Pardon me?

Admiral ALLEN. They would be applied somewhere else in the organization, working on the problems that have been discussed, sir.

Mr. LARSEN. Thank you.

Thank you, Mr. Chairman.

Mr. CUMMINGS. Thank you. As we let you go, the NSC 3, you said something that just kind of ricocheted back into my mind. Apparently, with the NSC 1 and NSC 2, the Coast Guard was not satisfied with the Northrop Grumman design. Is that an accurate statement?

Admiral ALLEN. Our engineers were not satisfied that the design that was offered by Northrop Grumman would meet the fatigue life of the vessel, sir, our engineers, and they notified senior management in 2004 of their concerns, sir. The decision was made to go ahead and proceed with construction because of the implications for cost of stopping, redesigning and starting again with the knowledge we would have to retrofit whatever solution that was developed into hulls 1 and 2.

Mr. CUMMINGS. Okay, now, let us put a pen in that and rewind. What has been done to address those issues that you just stated with regard to 1 and 2 because we are going to have Coast Guard men and women on those ships? They are going to be trying to do the things that you are mandated to do.

So just tell me what has been done to make sure that those, 1 and 2, are okay.

Admiral ALLEN. It starts with establishing the technical baseline for the entire fleet with NSC 3 which will have the changes to meet the fatigue life designed in.

The second step then is to go back and look at 1 and 2. As you know, more work will have to be done to institute those changes on 1 because it is over 70 percent complete. There may be an opportunity to make those changes earlier as they sit in the shop and other places with NSC 2 which is somewhere between 20 and 30 percent done at this time.

So the type of retrofit for both the first two hulls will have to be depending on where those ships were at when the baseline was es-

tablished. That is the reason it is so incredibly important to get the baseline established for NSC 3, sir.

Mr. CUMMINGS. So it is possible. It is possible—I didn't say probable—possible that we could end up scrapping 1 and 2?

Admiral ALLEN. Not in the vaguest realm of my imagination, sir.

Mr. CUMMINGS. You see where I am going with this, right?

Admiral ALLEN. Yes, sir. I understand the issue with the 123s. The issue with fatigue life of the NSCs is different on what is going to happen 15, 20 or 30 years from now, not what is going to happen tomorrow. In fact, we are offered the opportunity to do some forensics on the hull 1 that we have never been able to do before, and that is to put strain gauges on the ship—it has not been changed yet—and see who is right.

Mr. CUMMINGS. Okay.

Admiral ALLEN. This is not an immediate safety problem, sir. I would not put my people to sea in this ship if I thought it was.

Mr. CUMMINGS. Say that one more time.

Admiral ALLEN. I would not put my people to sea in this ship if it was a safety problem.

Mr. CUMMINGS. I take it that that was the same thinking, what you just said—what you just said—with regard to 123s, in other words, the last sentence or two that you just said. You said I would not put my people on a ship that whatever you just said.

Admiral ALLEN. That is the reason I laid them up, sir.

Mr. CUMMINGS. Right. I just wanted to make sure we were on the same page.

Admiral ALLEN. In my view, by the time we laid the 123s up, it ceased to be a technology issue. It became a leadership issue.

Mr. CUMMINGS. Finally, with regard to that, how do we make sure when we know that there is a disagreement?

We know it because you just said it, that there is a disagreement with regard to the design of the NSC 3, the proposed design, and what we have done with NSC 1 and 2. Do we then put and are we now putting NSC 1 and 2—I guess I am just trying to do some prevention stuff here—under a microscope where we make sure that every single inch is right?

I think we are making great progress. I really do. I think we are moving forward. The last thing we need is for one of these NSCs to get out there and then we discover we have got problems.

Admiral ALLEN. I don't believe that will happen. The issues associated with fatigue life which could produce cracking based on the repeated stress of wave action on the hull that is repeated over a period of time and doesn't happen immediately when the ship is launched.

Mr. CUMMINGS. Right.

Admiral ALLEN. You have got to bend that paper clip quite a few times before it finally breaks. We will be able to test the strain on the hull with instrumentation at the same time we are developing on how to retrofit those hulls. But we are not talking about an immediate safety problem, sir.

Mr. CUMMINGS. I understand, but I am also concerned. You used some of my words in your opening. We are talking about a future we will never see. You and I, hopefully, will be having tea up in heaven, and we want to make sure these ships are still doing okay.

Admiral ALLEN. Yes, sir. Well, I hope I am there with you.
[Laughter.]

Mr. CUMMINGS. I guess I am being kind of presumptuous.

Admiral ALLEN. Sir, let me make a comment about Coast Guard culture because I think this needs to be said. We rejected technical solutions offered by Deepwater in the aviation community because the aviation community would not stand for it. We originally offered an extended-range Casa 235 and an AB-139 helicopter, neither of which we are using in the aircraft solution for Deepwater.

I would tell you that the technical competency mind set, configuration control union, if you will, of our aviation engineers held the line.

Mr. CUMMINGS. Good.

Admiral ALLEN. I think the traditional notion of service operators, and I am one. I have got a cutterman's pin. I am I have been the commanding officer of a ship. We tend to be more independent, less organized. I think there are a lot of issues related to the two cultures that played into this, and I think we are going to solve some of those by going to a standard maintenance concept for the entire service, sir.

Mr. CUMMINGS. Very well. Could you try to get us just a general idea at some point of where you expect to be in the next six months? I am not going to bring you back up here, but I would like to have that so I can hold you to it.

Admiral ALLEN. Sir, I will come back as often as you want. I will be glad to communicate. I suggest maybe, if you have never seen acceptance trials, you might like to see that ship underway, sir.

Mr. CUMMINGS. I will. I will.

Any other comments, questions?

Admiral, we have the full confidence. The things that I said down there in Pascagoula and down in Houston, I hope that you make sure that your men and women know that we really mean that. We are so very, very proud of them, and we want to do everything we can to support them.

Admiral ALLEN. Yes, sir. Your hope has made it throughout the Coast Guard, sir.

Mr. CUMMINGS. Thank you very much.

Inspector General Skinner? Mr. Skinner, how are you?

Mr. SKINNER. Fine, thank you.

Mr. CUMMINGS. Thank you very much for being with us.

Mr. SKINNER. It is my pleasure and thank you and good afternoon, Mr. Chairman and Members of the Committee.

Today, I have with me, Rich Johnson who is our Project Manager providing audit oversight for our Coast Guard operations, and I am pleased to have Rich next to me to answer any technical questions you may have about any of our work.

When I last appeared before this Subcommittee over three months ago, I talked about our acquisition management concerns associated with the Deepwater program and how they affected the modernization of key Coast Guard assets and systems.

I would like to take this opportunity today to talk about the Coast Guard's ongoing and future challenges in their efforts to improve the management of this very important and complex acquisition initiative.

We previously identified several problems in our audits of assets and IT systems being acquired under the Deepwater contract. These deficiencies contributed to schedule delays, cost increases and assets designs that did not meet minimum Deepwater performance specifications.

As you heard today from Admiral Allen, the Coast Guard recognizes these challenges and, through its recently published Blueprint for Acquisition Reform, is taking aggressive action to strengthen program management and oversight. The Blueprint, among other things, outlines the Coast Guard's plans for reorganizing and rebuilding its acquisition workforce. We are encouraged that the Coast Guard recognizes these challenges and is beginning to take aggressive action to strengthen its acquisition management capabilities.

However, many of these corrective measures will take time, such as building a procurement workforce to manage the broad scope and complexity of the program. There is considerable risk associated with the Coast Guard assuming the lead systems integrator role at this time before having fully implemented its Blueprint for Acquisition Reform. If all goes as planned, the Coast Guard's Blueprint will not be fully implemented until fiscal year 2010.

In the meantime, this month, the Coast Guard is planning to move ahead with the second phase of the Deepwater contract which will entail the estimated expenditure of more than \$3 billion over a 43 month period. We believe the Coast Guard should exercise caution and take a slower or phased approach to assuming the systems integrator role, taking advantage of all the tools at its disposal to mitigate risk and to avoid future problems.

At a minimum, the Coast Guard needs to develop a performance baseline, that is, something against which they can measure the progress being made to achieve the goals outlined in the Blueprint. These include the specific numbers and types of acquisition professionals needed, when they are scheduled to arrive on board and the financial costs associated with the realignment, reorganization, retraining and rebuilding of its acquisition workforce.

We are also concerned that the Coast Guard may have difficulty resolving the structural design and performance issues associated with National Security Cutters 1 and 2. For example, the Coast Guard stated that it plans to go ahead with construction of cutter 3 before it determines the actual cost of the structural modifications to cutters 1 and 2 as well as cutters 3 through 8 and the impact these modifications will have on its operational performance requirements.

Consequently, there is a possibility that the required changes to all eight cutters could be cost-prohibitive or result in a reduction in operational capability. The cost and operational impact of structural modifications to all of the cutters should be identified and evaluated fully before the Coast Guard authorizes any future construction.

Finally, we continue to identify other issues that may impact Deepwater costs and inhibit the Coast Guard's ability to perform its mission. The Coast Guard's acquisition of a vertical unmanned aerial vehicle is a case in point. Originally, the Coast Guard intended the VUAV to significantly increase the aerial surveillance

of the National Security Cutter from 13,800 square nautical miles to 58,000 square nautical miles, a four-fold increase in surveillance capability. Acquiring the VUAV was also a major reason why the Coast Guard elected to build eight versus twelve cutters.

To date, the Coast Guard has obligated over \$114 million to the project with very little to show for it. It is not yet clear exactly when the VUAV will come online and how the Deepwater system of systems approach to acquisition will make up for this lost capability.

Another concern that we have deals with the needed modifications to the HH-65 helicopter fleet to enable the helicopters to deploy and be stowed safely on the National Security Cutter. The Coast Guard estimates that it could take as long as 5 years and an estimated 55 million to install such a system on the entire fleet. Again, this is an integral part of the cutter's system of systems capability.

To date, however, no funding has been available for this project. Consequently, the Coast Guard will be unable to fully test the interoperability of the ship's systems with the HH-65 when National Security Cutter 1 undergoes builder sea trials and operational tests that are scheduled to begin, as you heard, early next year.

In conclusion, the Coast Guard is to be commended for the steps it has taken to regain control of the Deepwater program and the improvements it is making to its acquisition management function. When fully implemented, these actions should mitigate many of the cost, schedule and performance risks identified with the Deepwater program.

Nevertheless, we must keep in mind that these changes are in their infant stage. A lot can go wrong before they are fully implemented. The Deepwater program will continue to require the highest levels of planning, coordination and oversight to be fully successful.

Mr. Chairman, Members, this concludes my remarks. I will be happy to answer any questions.

Mr. CUMMINGS. Thank you very much, Mr. Skinner, and I want to thank you for your very thorough work. We really appreciate it. You have been extremely, extremely helpful.

Let me ask you this. I think we all know the problem generally. On the one hand, you have got the Coast Guard that is trying to get this contract complete to get performance. They are also coming under a lot of pressure from the Members of Congress, and they need this equipment.

So we have got the ICGS. We see what the problems have been with them. I guess what is happening is that the Coast Guard is saying, okay, things didn't work out. So now we are going to do it.

I am just trying to figure out, on the one hand, I think almost all of us have concerns, the same concerns that you have. Are they ready to do this, even in the time period?

As I listened to the Admiral and I didn't get a chance to ask him. I didn't think of it until after he left actually. If we are bringing on these military folks in particular and some civilians and contractors, but I am more concerned about the military and the civil-

ians, to do this oversight of the contracts, the question becomes, who are we bringing?

In other words, are those people going to be really qualified to do this job or is there a steep learning curve? You may not even have the answers to these questions.

But then on the other hand, on the other side of it, Mr. Skinner, you have a situation where they are saying, well, we just can't keep doing what we are doing because what we have been doing doesn't work.

I think that is the problem. They are trying to say get away from the ICGS because there has been embarrassment. There have been problems and whatever. But then the question is becoming, are they moving too fast into taking it over themselves?

Is that a fair statement?

Mr. SKINNER. That is correct. That is one of the concerns, and that is one of the issues we have discussed with Admiral Allen and his executive team. We agree that a transitional period moving from the ICGS to the Coast Guard assuming the integrator role is probably a wise decision. However, we need to proceed with caution.

I think we are seeing what the Coast Guard is currently doing. They are, in fact, proceeding with caution. For example, the Admiral that they are bringing in the Navy to fill in some gaps, operational gaps, management gaps.

They are using the integrator, the ICGS, that is, to continue to work on those contracts that are currently in place without giving them necessarily new contracts. Instead of providing task orders, which they did in the past for five years, in this case 43 months, they are providing them task orders for 18 months so that they can better manage and control how the ICGS continues to do the work that it now has responsibility for or any future work that it may have responsibility for.

But it is something that needs to be closely monitored. It is something that requires the highest level of management attention as we move forward.

Are we moving too fast, that is, are we tasking our contractors to do more work than we are able or faster than our ability to manage them? That is something that needs to be taken into consideration every time they issue a tasking order or a task order.

Mr. CUMMINGS. Now, considering what you just said, what would make you feel more comfortable?

I understand what you are saying is maybe we need to slow down this process a little bit. Maybe we need to be a little more careful. Do you see a role, let us say under ideal circumstances, while making that transition? Do you see a significant role for the ICGS team or would you have something else in place to try to make sure that things still flow nicely while we are building up within the Coast Guard?

Mr. SKINNER. There is no question there is a continuing role for the ICGS.

Mr. CUMMINGS. What would that be?

Mr. SKINNER. They have contracts, for example, outstanding right now. In actually systems integration, for example, there are things that they have been heavily involved in, and they probably

can do a better job at this point in time than anyone in Government can do. We don't want to halt that work.

There are some successes under this Deepwater program. Unfortunately, those get overshadowed by all the failures that we have had. The systems integration work, for example, is something they can continue to do. We just don't want to cut them off, and there may be other work that they might be able to do. I don't want to speculate what that could be or what that would be or what they couldn't do.

But, nonetheless, each time there is a tasking, I think the Coast Guard needs to be more intricately involved in the decision-making as to whether we want to go sole source with the ICGS or whether we want to look outside ICGS to procure those assets, for example, the FRC B. I think they are going outside the Deepwater program.

Mr. CUMMINGS. Yes.

Mr. SKINNER. I think that is probably a wise decision.

Mr. CUMMINGS. Has the Coast Guard, to your knowledge, experienced challenges recruiting and retaining qualified acquisitions professionals?

Mr. SKINNER. Like I said, this initiative in acquisition management, this program, is in its infant stages. It is too early to tell whether they are going to see challenges. If they experience anything like what we have experienced in other parts of the department, in CBP, for example, or in FEMA as another example or, for that matter, Government-wide, they are going to experience considerable problems in bringing the right mix of expertise to the table that can do these jobs.

Mr. CUMMINGS. Earlier, I talked about some problems that have been experienced by the Coast Guard with regard to Deepwater. It seems as if while we know that there have been some successes, we also know that there have been a number of things that have been touched in this process that simply have not worked. I think that we as human beings expect that there are going to be failures. That is part of life.

But when you see them over and over and over again, then you have to begin to ask the question, is there something wrong with the system or the systems? Is there something wrong with the personnel? Is there something wrong with the leadership?

The question is with the Admiral having done all the things that he has stated. I know his intentions are great. We believe in him. Do we still have the elements of whatever caused us to get to where we are? With the mistakes and the problems, are they still present?

Does that make sense?

Mr. SKINNER. Yes, it does. I think I understand where you are going. If we don't continue to focus on the management of this program—it is a 24, 25 year program—we can revert back and start experiencing the same problems that we experienced in the first 5 years.

A lot of it has to do with leadership and a commitment to manage, and Admiral Allen, I believe, has made that commitment. But like we all know, that is a four year appointment. That commitment needs to be carried forward to ensure that the resources are

maintained to provide the oversight and the management of this initiative or we could revert back to where we were.

We are making progress. We are in an infant stage. There is a long way to go before we can say that we have this Deepwater program under control.

Mr. CUMMINGS. You heard my questions of Admiral Allen, as a matter of fact, my last set of questions with regard to NSC 1, NSC 2 and then NSC 3. I was concerned because it sounds like there are some issues with NSC 1 and 2.

Can you comment on some of the things that he said? I mean the things they are doing, for example, to mitigate any problems that there might be with NSC 1 and 2.

Mr. SKINNER. Yes.

Mr. CUMMINGS. And do you have concerns?

Mr. SKINNER. We have concerns. Admiral Allen's comments, I believe, were at the 30,000 foot level, and the devil is in the details. Our concerns are, one, they say the Coast Guard has an engineering solution to mitigate or to fix cutter 1 and cutter 2. Our concern is what impact is that going to have on your operational performance capability and also how much is it going to cost?

When I say operational capability because these ships are going to have to be taken offline. They are going to have to be taken offline for an extensive period of time somewhere down the road, probably within their first four or five years. When they start retrofitting these ships, they are not going to be in operation.

We are only going to build eight of these cutters. We are taking two offline in the first five years. That leaves us with six, and that raises concern.

Mr. CUMMINGS. Where do you get the five years from? Why do you say five years?

Mr. SKINNER. I believe it is our understanding that generally a new ship that goes out to sea is usually brought back in for maintenance and repairs and just to check to see how it is operating at sea, and generally that is done in four or five years. That may be a Navy standard.

Mr. CUMMINGS. I got you.

Mr. SKINNER. Somewhere along the way, someone within the Coast Guard in their engineering area has told us that.

Mr. CUMMINGS. Okay.

Mr. SKINNER. It could be sooner.

Mr. CUMMINGS. I understand, but you raised a very, very significant issue.

When I was talking to Admiral Allen, as best I can remember, he was talking about immediate safety problems, and you are talking about not necessarily immediate safety problems but definite problems. He, I think, was trying to distinguish that with regard to long term fatigue. I think that is what he was trying to do.

Mr. SKINNER. Yes.

Mr. CUMMINGS. So what you are saying, though, is that there are concerns because they are going to bring them back in and they are going to probably be in some kind of trouble. That is going to take them offline, and then we are going to have to start over again, at least do some serious work.

Then we are going to have another bill, by the way. Let us not forget the bill where folks are going to make some decent money and the American people are going to pay.

Is there something that you all would recommend different than what he said?

Mr. SKINNER. What we are suggesting is that I think the Coast Guard needs to step back, analyze what the total costs are associated with retrofitting 1 and 2 to ensure that they meet the performance specifications and the costs associated with the design changes to 3 through 8, plus look at the operational limitations these design changes may or may not have on their performance capability as well as the impact it will have on their operational capabilities when 1 and 2 are taken offline for extensive repairs somewhere down the road, anywhere from 2 to 4 or 5 years. We have heard different figures from different sources.

Once they are equipped with that knowledge, then they can make an informed decision or have a business case as to whether they want to proceed with the construction of 3 through 8 or look for other alternatives.

Mr. CUMMINGS. I will have some more questions.

Mr. LoBiondo?

Mr. LOBIONDO. Thank you, Mr. Chairman.

Mr. Skinner, thank you for being here.

You asked some of the questions, Mr. Chairman, that I had outlined.

Mr. Skinner, Admiral Allen has proposed and is in the process of implementing significant modifications to the Deepwater program which will establish the Coast Guard as the lead system integrator and reassert the Coast Guard technical authority over Deepwater projects and hopefully enhance the Coast Guard's oversight over all facets of the program.

What, in your mind, are additional steps that the Coast Guard can take to further improve its management and oversight of the program?

Mr. SKINNER. Incidentally, these things that you just referred to are things that we recommended in prior audit reports. Thank you for the question.

It goes beyond more than just reorganizing which is something that we think they need to do, reasserting a technical authority.

But there are things like they need to ensure that we have third party certification of our designs as we move forward. We should not be self-certifying. We should have third party or an independent.

Mr. LOBIONDO. Excuse me. What would an example be?

Mr. SKINNER. You can go to Carderock, for example. There is the private sector as well that can provide such certification but Carderock for dealing with the ships, the national cutters and any others that we may be bringing in that are state of the art, first line cutters in the out years.

There is the self-certification, technical authority. The acquisition reorganization, of course, is something that we talked about.

There is also the contract itself needs to be rewritten to ensure that the Coast Guard. Now I understand these are the things that were told, that these are the things that are going to be written

into the new contract or the Phase 2 contract for the 43 month contract that we referenced earlier that will give the Coast Guard additional authority, that will clearly define what we expect. We can do a better job of defining our specifications and ensuring that the contractor in fact meets the performance requirements.

There is a whole series of things that goes along with just the reorganization. It is the management of the contracts. It is the way the contract is written. It is the definition, the specificity that we have in our taskings so that when we to back, we can say this is not what we asked for.

We found ourselves in trouble with the 123 retrofits because we were not that specific. When we went back and said this is not what we ordered and we looked at the requirements of the contract, it was so vague. We couldn't hold the contractor accountable.

Mr. LOBIONDO. What do you see as the risks associated for the Coast Guard with taking on the role of lead system integrator in the middle of the 25 year acquisition process?

Mr. SKINNER. It is highly risky, and that is why we suggest that they take a deep breath and they proceed with caution and they do it in a very phased approach. This is something that I believe Admiral Allen and the Coast Guard recognize that it can be very risky if they move too quickly.

They are now using. They are not just going to eliminate the ICGS. They are going to phase them out over time, and in the interim they are also going to rely very heavily on resources from the Navy, for example, to fill any gaps in management or oversight, give them the oversight capability of any new taskings that may be coming down the road.

But if we don't do it in a very phased, cautious manner, we could get in trouble. It is too early now to predict whether we are moving too fast. Our assessment right now is that we are in fact moving in a very cautious manner.

Mr. LOBIONDO. How do you see the potential liability for costs associated with delays, modifications and potential asset failure to be shared between the parties under the new arrangement?

Mr. SKINNER. It is very important that the Government clearly defines what it is asking for. If we clearly define what we are asking for and before we take delivery of any products, we obtain expert certification that this is what we were asking for, then I believe that the contractor has 100 percent responsibility to give us that. If they don't, they need to be held liable.

Our biggest problem now is or has been that we don't clearly define what we are asking for, up-front, before we issue the tasking or at the time we issue the task order. So, therefore, when delivery is made, we are not in a position to hold the contractor accountable.

Mr. LOBIONDO. Mr. Chairman, do I have time for a couple more questions.

Mr. CUMMINGS. Please.

Mr. LOBIONDO. Mr. Skinner, the Coast Guard obviously is in the process of significantly increasing its acquisition and contracting staff to carry out the increased responsibilities associated with the assumption of the lead system integrator role. What do you think about the Coast Guard having the resources necessary to carry out

this buildup without negatively impacting other acquisitions and operations?

Mr. SKINNER. I don't think it should impact. For one thing, under the reorganization, acquisition is going to be under one directorate. That is one thing.

Secondly, this buildup should not have an impact on any other of their acquisition functions. If anything, it would complement any other acquisition activities they may have ongoing outside of Deepwater. But I wouldn't see that having any type of negative impact.

Our concern is you are not going to be able to build up that capability easily. It is not just a matter of hiring people. It is a matter of hiring the right mix of people, getting them, training them and retaining them.

Mr. LOBIONDO. That leads to my next question. What do you think about the Coast Guard's ability to attract and retain the tremendously qualified acquisition and contracting personnel that Deepwater requires?

Mr. SKINNER. It is going to be very, very difficult. We are experiencing these problems in other parts of the Department of Homeland Security, most notably in CBP, Customs Border and Patrol, and within FEMA. It is going to be a difficult task.

We are competing not only with ourselves in the Department, but we are also competing with other Federal agencies which also are strapped and are short of acquisitions types, and we are also competing with the private sector. It is not going to be an easy task.

Mr. LOBIONDO. Having the continuum of information and background is going to be critical along with the expertise, isn't it?

Mr. SKINNER. Yes. You can bring in contracting officers that have contracting experience but not necessarily the type of Coast Guard-related experience, but nonetheless that expertise is invaluable as well. You need people to come in that have not necessarily Coast Guard experience but naval military or the type of acquisition experience associated with buying, retrofitting or building ships, airplanes, things that are necessary to modernize the Coast Guard's fleet.

The IT area is another area that is going to be very challenging as well, there primarily because of the competition we have with the private sector, we in the Federal Government, that is. You don't necessarily have to come through the ranks of the Coast Guard to have an appreciation for systems communications and things of that nature. Those things can be learned on the job.

Mr. LOBIONDO. Mr. Chairman, it seems to me that is real critical point. I am not sure if Admiral Allen addressed that. I might respectfully request that you consider asking him about not only attracting the top-flight people that are necessary but the plan to keep them on board so that while the best laid plans are there, if we have gaps in service, we could experience further problems.

Mr. Skinner, thank you very much.

Mr. Chairman, thank you.

Mr. CUMMINGS. Thank you. I will do that.

I am going to go back to what I started with because we have got a little bit of a dilemma here, I think, and I want some clarity.

On the one hand, we have a team that has been in place doing this, that the results of their efforts have not been stellar. Is that a fair statement?

Mr. SKINNER. Yes.

Mr. CUMMINGS. On the other hand, we are trying to get to a place where the Coast Guard can do the work of the integrator team. Is that a fair statement?

Mr. SKINNER. Yes.

Mr. CUMMINGS. This is a piece that I found interesting, and I don't know whether you find it interesting or not. We just heard the Admiral provide testimony about rescinding the 123s and to my knowledge—to my knowledge—nobody has ever told me anything different. We scrapped I guess more than about \$100 million worth? How much was that?

The scrapping process, how much did we scrap? Do you know what that was worth?

Mr. SKINNER. No, I don't.

Mr. CUMMINGS. Okay, well, millions, tens of millions.

Mr. SKINNER. Yes.

Mr. CUMMINGS. Do you know whether anybody in the present team was fired or demoted, the present team?

Mr. SKINNER. Not that I am aware of. We have to understand when we talk about the present team and the performance was not stellar, we have to understand that oft times their hands were tied because of the terms and conditions on the contract under which they were operating which left the ICGS, giving them ultimate authority to make final decisions as to go, no go.

Mr. CUMMINGS. I got you.

Mr. SKINNER. And so, it is not the people within the Coast Guard per se. Matter of fact, there were some very good people who came forward and complained to us about this which brought it to our attention, some of the problems.

Mr. CUMMINGS. Is it a good idea to leave things as they are then or as they have been?

Mr. SKINNER. No, no.

Mr. CUMMINGS. Why do you say that?

Mr. SKINNER. The Coast Guard needs to assume control over the program. As I testified, I believe three or four months ago, they were content to ride shotgun and turn over the reins to the integrator, allowing them to define what your requirements are and to deliver, make the ultimate decisions as to what we are going to deliver, when we are going to deliver it, how much it is going to cost and who is going to deliver it to you.

The Coast Guard just relied too heavily on the integrator to make its decisions for them, and that is where we need to turn the pendulum. The Coast Guard needs to get more actively engaged in making those decisions.

Mr. CUMMINGS. Right now, because that is what we have got to deal with, we are trying to figure out where we are going to be, where we are proceeding in the next year. What do you see as being the role of the integrator team once again?

See, it sounds like you are saying on the one hand. I don't want to misunderstand you.

On the one hand, the Coast Guard needs to slow down. On the other hand, we have got the integrator team over here saying, okay, I am just hypothetically saying, well, things may not have gone right, but we will stay in the ball game, coach.

I am just trying to figure out what role would they be playing while we are slowly proceeding and carefully proceeding to take over, that is, the Coast Guard take over?

Mr. SKINNER. Yes, and there is where the devil is in the details. We have an acquisition blueprint, the Blueprint for Acquisition Reform. That is a strategic plan. We need, you need detail. The Coast Guard needs detail.

Now, it is my understanding, and I think Admiral Allen did allude to it at the end of his testimony, that they are developing an operational performance baseline plan which will set forth: these are the things we intend to do. These are the people that are going to do it. These are the things that are going to remain with ICGS, for example, some of its IT capabilities or the NSC capabilities. These are the things that we are going to take outside of the Deepwater, and these are the things we are going to keep in Deepwater but we are going to do ourselves.

We don't have that right now.

Mr. CUMMINGS. I guess it sounds like this 18 month proposal as opposed to 43 months that the Admiral talked about, is that a good idea in that it gives you a shorter assessment time?

In other words, you see how things go, how we are doing. Then you go back and say, okay, this is what we do. Instead of waiting 43 months which is about, what, three times the time?

Mr. SKINNER. Yes. The first time I heard about the 18 month thing was today, and I think that is an excellent idea because that gives the Coast Guard an exit ramp or an exit clause to say, we don't like where you are headed here, and so therefore we are just going to sever this particular. We are just going to take away from you, this particular tasking.

It is somewhat modeled after what we are doing in the SPINET program. Instead of entering into a three to five year contract, we are doing this in a very incremental basis and a phased approach. And so, at any point in time, in a short period of time, if we don't like the progress we are making, you can pull out without penalty.

Mr. CUMMINGS. Based upon what you just said—I guess this might be difficult to answer—do you have any idea when the Coast Guard might be ready to take over as the full integrator?

Mr. SKINNER. It would only be speculation.

Mr. CUMMINGS. Yes.

Mr. SKINNER. It is going to some time. I don't think it is anything. It is going to happen in the next two to three years because they are going through a major reorganization. It is also a cultural shock for many people in the Coast Guard.

It is not the numbers so much that we are concerned about. It is the mix of expertise that you have to ensure continuity, to ensure continuity on the integrated project teams. You don't want people coming in and out every two years. You want people, civilians that are in there that can lend continuity to this whole thing, and it is going to take time, two to three years at a minimum.

Mr. CUMMINGS. Let me say this, and then I am finished. One of the things I think that has concerned me over and over again, and I said it in my opening statement, is as far as I am concerned this is the greatest country in the world.

I tell you when I went to see the 123s. I am not a ship guy, but when I went to see them and I saw the buckling and whatever, I have seen yachts that were bigger. I said to myself, how in the world couldn't we get this right? We send people to the moon.

Then today when I listened to the Admiral, I must admit that I had some flashbacks because I thought about the NSC 1 and NSC 2, and really not under our watch do I want to see us go backwards. Under our watch, I want to see us go forward.

That is why your testimony and the work of your staff, and I hope you will convey this to them, has been incredible. So often, our public servants do not get their due, but I really mean it. You all have been working with our staff. You have been absolutely great, and I just want you to know.

Again, I know there are people working behind the scenes that we never see. I know that.

Mr. SKINNER. Yes, and one of them is sitting next to me at the moment.

Mr. CUMMINGS. Mr. Johnson, thank you very much and your team back there. The reason why I say that is because we couldn't have done a number of things that we have been able to do without you.

We are going to stay on top of this, and I am trying to stay away from a political thing because I think it is so much bigger than that. This is about our national security.

I am very pleased. Mr. LoBiondo cannot imagine. I know he chaired this Committee, and his support and both sides have been great because I think we are all looking at the big picture, and I think everybody is trying to be fair across the board.

But, in the end, we want to make sure that the Coast Guard has what it needs to do the job and that our personnel are safe on these vessels and these planes and these helicopters.

Mr. LoBiondo, did you have anything?

Mr. LOBIONDO. No, thank you, Mr. Chairman.

Mr. Skinner and Mr. Johnson, thank you.

Mr. CUMMINGS. Thank you very much. That ends this hearing.

Mr. SKINNER. You are welcome.

[Whereupon, at 1:14 p.m., the Subcommittee was adjourned.]

**Statement Of
The Honorable Elijah Cummings
Hearing On
“Deepwater: 120-Day Update”
June 12, 2007**

Today, the Subcommittee on Coast Guard and Maritime Transportation convenes to receive an update on the steps that the Coast Guard has taken over the past 120 days to continue strengthening the management of the \$24 billion, 25-year Deepwater procurement program.

I note the significance of the 120-day time period – it is the time that has elapsed since I convened the Subcommittee’s first oversight hearing on Deepwater in the 110th Congress and it is the time period after which I promised the Subcommittee would reconvene to hear again from the Coast Guard’s Commandant, Admiral Thad Allen.

This hearing continues our Subcommittee’s unwavering commitment to requiring strict accountability from the Coast Guard for its implementation of the Deepwater program and the expenditures it makes of taxpayer resources. Since we met in January, our Subcommittee has examined the Coast Guard’s fiscal year 2008 budget – and the House is considering the appropriation for the Coast Guard on the floor today. The Full Committee on Transportation and Infrastructure has also held an investigative hearing to examine the extent to which contractors working on the failed 123-foot patrol boat program complied with the requirements of the Deepwater contract.

During that 120-day period, the Commandant has also announced important changes to the Deepwater program, including promising that the Coast Guard will assume the lead role as systems integrator for the program, that the use of third-party certification will be increased, and that the Coast Guard will contract directly with vendors when it is in the best interest of the service to do so. Further, the Coast Guard will stand up a new acquisitions directorate under the command of Rear Admiral Gary Blore on July 13. The principles and plans the Commandant has announced appear likely to set the Deepwater program on a steadier course. However, it is important that we understand how these principles will be translated into the specific practices that will ensure the success of the program.

The failures already registered in Deepwater are simply unacceptable. An approximately \$100 million effort to lengthen eight 123-foot patrol boats yielded only eight buckled hulls. According to the Inspector General, the Coast Guard has obligated more than \$100 million of the money allocated to the development of the vertical unmanned aerial vehicle through fiscal year 2007 – but this obligation has yielded little more than a pile of rubble. And the first effort to design a Fast Response Cutter which, at just 120 to 160 feet is the smallest of the new cutters expected to be acquired under Deepwater, produced a failed design.

As I have said before, what we expect from Deepwater is really quite simple. We expect boats that float. We expect aircraft that fly. And yet, as simple as these goals appear to be, too frequently, they have not been met in the Deepwater program – and this is intolerable.

Unfortunately, there are problems with other on-going procurements, most notably the National Security Cutter – the most expensive asset class to be acquired under Deepwater. I had the opportunity to visit the NSC last week – and it is indeed an impressive ship. However,

like all of my colleagues on the Subcommittee, I am deeply concerned by lingering questions about the likely fatigue life of hulls 1 and 2.

I believe it is imperative – and should be among the Coast Guard's top priorities at this time – to ensure that design changes incorporated into hulls 3 through 8 will yield ships that will fulfill all of the requirements of the Deepwater contract. For that reason, I believe all proposed designs must be closely examined by the Navy's Carderock division.

During today's hearing, I also hope to understand the specific role that the Integrated Coast Guard Systems team is currently playing in implementing the Deepwater procurements – and how any future contract extension granted to that team will be structured to ensure that performance is based solely on the quality of work performed and the effectiveness of assets produced.

In recent years, our great country has, unfortunately, witnessed the terrible aftermath of incompetence in government and the Congress has been too willing to tolerate mediocrity. Ladies and gentlemen, these days are over. We are the United States of America. We were not founded on mediocrity, we cannot stoop to it now, and we will no longer tolerate failures in the Deepwater program.

Thus, while I continue to have the utmost confidence in Admiral Allen, our Subcommittee will also continue to expect the Coast Guard to meet the highest standards of performance. We look forward to hearing today from Admiral Allen how he will put in place the systems and personnel that will ensure these standards are met.

In addition to hearing from Admiral Allen, we will also hear from the Inspector General of the Department of Homeland Security, Richard Skinner. Inspector General Skinner has done outstanding work in reporting on emerging problems throughout the Deepwater program – and it was his office that identified the hull fatigue life problems with the NSC.

The Inspector General's office has been a critical partner to our Subcommittee as we have conducted our oversight over the Coast Guard, and I look forward to Mr. Skinner's comments today on the steps that the Coast Guard still needs to take to prepare to implement the reforms that Admiral Allen has announced. I also invite him to comment on the steps being taken to mitigate the problems with the NSC.

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DEPARTMENT OF HOMELAND SECURITY

U. S. COAST GUARD

STATEMENT OF

**ADMIRAL THAD W. ALLEN
COMMANDANT**

ON

DEEPWATER: 120-DAYS LATER

BEFORE THE

SUBCOMMITTEE ON COAST GUARD & MARITIME TRANSPORTATION

COMMITTEE ON TRANSPORTATION & INFRASTRUCTURE

U. S. HOUSE OF REPRESENTATIVES

JUNE 12, 2007

Good morning Mr. Chairman, and distinguished members of the Subcommittee. It has been four months since I first sat here to discuss the way ahead for our Integrated Deepwater System. Much has changed in those four short months and I am grateful for the opportunity today to talk about those changes, our accomplishments, and how we're addressing and moving beyond remaining challenges.

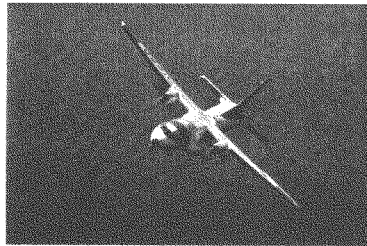
The one thing that has not changed is how absolutely critical the Deepwater program is for the future of the Coast Guard. Unless we are able to continue delivering the program's much-needed assets, our ability to secure the nation's maritime borders, save lives, ensure national security and protect natural resources will be severely limited.

My overarching goal is to recapitalize the Coast Guard's aging fleet of cutters, aircraft and sensors and the actions I have taken since we last met are dedicated to that purpose. That goal must be shared by each stakeholder along the way, and I appreciate the support this Subcommittee has shown as we work toward that end.

Sitting here today, our shared responsibility is to ensure that the Coast Guard is able to meet its vast mission requirements. That means that as we address challenges and implement changes we must do so prudently, or risk significant impacts to the cost, schedule and performance of the Deepwater system. We must acquire these assets responsibly and in a manner that protects the American taxpayer from unnecessary cost and delay. I'm committed to doing just that and am confident that the changes I've directed have put us on a very sound footing going forward.

Forward Momentum

As part of our discussion about the progress we're making in Deepwater, I'd like to take a moment to highlight some significant recent milestones we've achieved.



When I appeared before you in January I acknowledged the recent arrival in the U.S. of the first new HC-144A CASA Maritime Patrol Aircraft. We have since seen the second aircraft arrive and anticipate the third to follow shortly. The first two aircraft are currently undergoing installation and testing of mission sensor and communications pallets at the Coast Guard Aviation Repair & Supply Center in Elizabeth City, N.C. The fourth and fifth aircraft are under construction. Additionally, we awarded contracts

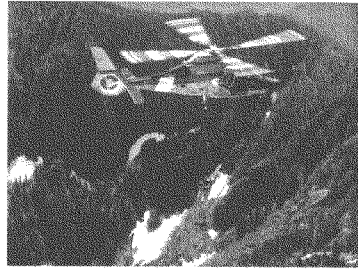
for the sixth, seventh and eighth aircraft with a cost savings of \$900,000 per aircraft, compared to the cost of the first five. Meanwhile, the first of six new, more capable HC-130J long range search aircraft is undergoing upgrade modifications and the existing fleet of HC-130H aircraft is being modernized as part of the Deepwater program.

In fact, a recently upgraded HC-130H, stationed in Clearwater, Fla., recently demonstrated the capabilities of newly-installed Deepwater equipment. On the night of April 11, 2007, Coast guard crews were called on to rescue the crew of an overturned vessel, the *Paradox*. Using the new DF-430 multi-mission direction finder, the crew aboard an HC-130H was able to locate the

Paradox's radio beacon and follow the signal to the stricken boat. Once the aircrew located the vessel, an HH-60J helicopter was vectored to pick up the stranded passengers and crew. It's significant to note that aircrews flying a legacy HU-25 Guardian in previous sorties had been unable to detect the radio beacon. The new equipment installed on the HC-130H provided greater sensor capability, at a greater range, and made that rescue possible.

These fixed-wing projects are a large portion of the Deepwater program and have been extremely successful in terms of both schedule and cost. I am very satisfied with these projects and look forward to the immense value these aircraft will bring to our fleet.

The conversion of our HH-65 Dolphin helicopters has also been extremely successful. In March we marked a major milestone when all Coast Guard air stations with the HH-65 began flying the Deepwater-upgraded "C" model. The re-engining of these helicopters provides 40 percent more lift capability, allowing flight crews to lift more weight, stay aloft almost twice as long, and hoist twice as many survivors as the "B" model during rescue operations. We just reached another milestone in this project when we delivered the 84th re-engined HH-65C to the fleet on May 16—on cost and more than a month ahead of schedule. In fact, as of May 31, 86 aircraft have been delivered on cost and ahead of schedule. These helicopters have already proven their value as they support search and rescue missions around the fleet, including a daring high-altitude rescue of an injured 64-year-old man in Washington State just last month. That mountain hoist, at 7,000 feet, was the highest altitude rescue ever achieved by the Coast Guard and was made possible by the greater lift capacity of Deepwater-upgraded engines.



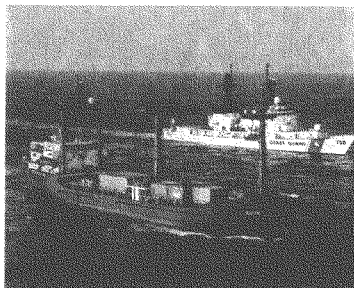
In addition to the successful re-engining of these HH-65C helicopters, we are also upgrading our HH-60 fleet under the Deepwater program. The first airframe began the conversion process in January 2007 and is expected to complete conversion to the HH-60T prototype later this month. The conversion will replace 1970's-era equipment and sensors with updated technology to provide increased capabilities for the wide range of missions the helicopter is expected to perform. Specifically, these aircraft are being outfitted with a new state-of-the-art cockpit with high-tech equipment, enhanced radar and optical sensors, upgraded engines, and an airborne use of force package to provide more firepower and protection from small arms fire.



Another important milestone was achieved this spring under the Deepwater-funded Mission Effectiveness Project (MEP) for legacy cutters. This project is designed to provide maintenance and upgrades to improve reliability and enable legacy cutters to remain in service until replaced by new Deepwater cutters. On April 26, 2007, the cutter *Tybee*, the first 110-foot Island Class patrol boat to complete the year-long MEP, re-entered the fleet after a very successful refurbishment process.

This spring also saw some exciting progress in our C4ISR (command, control, communications, computers, intelligence, surveillance, and reconnaissance) projects. In March, we opened our new shipboard systems training facility at the Coast Guard Training Center in Petaluma, Calif. This facility is equipped with state-of-the-art simulators, radars and electronics equipment to train Coast Guard crews assigned to new Deepwater cutters. And, the facility is being used to train both Coast Guard and U.S. Navy personnel on common C4ISR systems.

Deepwater upgrades to legacy cutters are also contributing to mission success. In March 2007, *Sherman* executed the largest drug bust in the Coast Guard's history—19.5 metric tons of cocaine. Using its newly-installed Automated Identification System (AIS), the *Sherman* was able to identify the suspect vessel, *Gatun*, while sorting dozens of other vessels near the busy approaches to the Panama Canal. Deepwater C4ISR upgrades also allowed the *Sherman* to remain covert while tracking the *Gatun* from 17 miles away, over the horizon. And, during the execution of the bust, the cutter was able to simultaneously communicate critical information via SIPRNET, upload and receive large files, and receive unclassified message traffic. Ironically, the U.S. Navy has had these tools for decades. It's only through the Deepwater program that they are now available for use on our Coast Guard assets.



Unified Acquisition

These successes notwithstanding, any acquisition of this size will continue to face challenges. As we move forward we must position ourselves to successfully manage those challenges, rather than let the challenges manage us. In January I told you we needed to make some important changes. We are doing just that.

Four months ago we talked about how acquisition success is dependant upon the proper organizational structure and alignment within our acquisition community. At that time we were already plotting a course to achieve that alignment. Since then, we have taken concrete steps to bring together previously disconnected entities within our acquisition community to gain synergies among experts in critical fields.

In April, the first elements of an all-new, consolidated acquisition directorate began coming together, organizationally and geographically. The initial operation of this new directorate will begin officially on July 13. As part of this consolidation, the Acquisition Directorate, the Deepwater Program Office, the Office of Procurement Management, the Office of Research, Development, and Technical Management, the Research and Development Center, and the Head Contracting Authority are being brought together under one roof, led by an assistant commandant for acquisition. This means that we will be better able to allocate our contracting and acquisition professionals and resources to focus on excellence in program management and execution. We expect this to create efficiencies and more consistent and coherent processes,

leading ultimately to a more effective acquisition organization when it reaches full staffing and capability in 2009. As we transition to 2009, we are undertaking major efforts to analyze workforce requirements, fill critical positions and ensure that program managers and contracting officers are appropriately trained and certified following the course charted in our *Blueprint for Acquisition Reform*.

We've also redefined the role of the Coast Guard's chief engineer as the lead technical authority for all designs and design changes and to the operational community for definition of asset performance requirements. This means that project and program managers, as well as associated contracting and acquisition professionals, have a direct link back to our technical and operational experts to ensure that designs meet requirements and will enable mission execution. We're also further defining the role of the Coast Guard's chief information officer as the technical expert for all C4ISR systems and equipment.

One of our goals through all of this is to make the Coast Guard a model for mid-size federal agency acquisition and procurement organizations. The new acquisition organization will align with the Department of Homeland Security's procurement organization, improve the efficiency of our human capital, provide opportunities for enhanced professional development and succession, and ensure the success of our acquisition managers. The bottom line is: this consolidation will enable the Coast Guard to perform more effective program management and provide more effective oversight by bringing together the expertise, collaboration, coordination, and synergies formerly divided between two directorates.

This newly aligned acquisition organization is enabling the Coast Guard to take many of the steps that this Subcommittee, the Government Accountability Office (GAO), the DHS Office of Inspector General (OIG), the Defense Acquisition University (DAU), and others have recommended. As I've said before, we benefit from the oversight these organizations provide and we are prudently implementing recommendations where appropriate to ensure greater acquisition success in the future.

One challenge the Coast Guard is facing, however, is the excessive burden placed on our limited staff in completing required, but often duplicative, external reports. These reports, while critical to preserving transparency within the major systems acquisition process, often require the redirection of effort from important program management functions. I would like to work with you to develop consolidated acquisition oversight reports, thereby reducing the often redundant nature of these varied reports as well as providing you with the information you need. Consolidated reports will better serve the Coast Guard, you, the Congress, and the Nation.

As I committed to you in January, transparency to our stakeholders remains one of my top priorities. I was pleased to note the DHS OIG's recent acknowledgement of my staff's positive cooperation with its efforts. That level of cooperation will be the rule under my watch.

Better Business Practices

When I appeared before you in January I described a frank meeting I'd had with the Chief Executive Officers of Northrop Grumman and Lockheed Martin where we discussed how to set Deepwater on a course for future success. At that meeting, we agreed to meet regularly to ensure that real change was achieved and that issues could be effectively resolved.

I subsequently reached agreement with industry on six fundamental management principles that we have already begun implementing. These principles will ensure the government's interests are fully and fairly achieved in acquiring and fielding assets and capabilities being developed and produced under the Integrated Deepwater System. These principles will guide us as we seek to obtain the best value for the government through robust competition and vigilant contract oversight and management.

Working together with industry, the Coast Guard will make the following six fundamental changes to improve Deepwater program management:

- The Coast Guard will assume the lead role as systems integrator for all Deepwater asset acquisitions, as well as other major acquisitions as appropriate.
- The Coast Guard will take full responsibility for leading management of all life cycle logistics functions within Deepwater.
- The Coast Guard will expand the role of the American Bureau of Shipping (or other third-parties as appropriate) for Deepwater vessels.
- The Coast Guard will work collaboratively with ICGS to identify and implement an expeditious resolution to all outstanding issues regarding the first two National Security Cutters.
- The Coast Guard will consider placing contract responsibilities for continued production of an asset class (on a case-by-case basis) directly with the prime vendor consistent with competition requirements if: (1) such is deemed to be in the best interest of the government and (2) only after we verify lead asset performance compared with established mission requirements.
- Finally, I will meet no less than quarterly with my counterparts from industry until any and all Deepwater program issues are fully resolved.

Last month we met again, this time in Pascagoula, Miss., and also toured together the National Security Cutter. During this meeting, we focused on developing a robust integrated schedule and on reaching an agreement for NSC's #1-#3 through the consolidated contracting action.

These changes in program management and oversight going forward will change the course of Deepwater. By redefining our roles and responsibilities, redefining our relationships with our industry partners, and redefining how we assess the success of government and industry management and performance, the Deepwater program of tomorrow will be fundamentally better than the Deepwater program of today.

As another example of steps taken to strengthen government management and oversight of the Deepwater program, to better position the Coast Guard to fully oversee the contractor and to effectively adjudicate technical concerns we have mandated that all Integrated Product Teams (IPT) be chaired by an officer or employee of the Coast Guard. That change happened in March 2007. Previously, our IPTs were chaired by representatives from Integrated Coast Guard Systems (ICGS). Additionally, all IPT charters have been re-examined to determine where other

changes might be made if needed. Coast Guard leadership of IPTs means we are better able to resolve non-major technical concerns or, where concerns persist, raise them to appropriate management and contracting levels for adjudication.

Change within Deepwater and our acquisition community required us to take a hard look at our workforce needs moving forward. Deepwater was initially envisioned and developed as a way to acquire needed assets while maintaining minimal government program management staff. Five years later, we know that method didn't deliver the results we wanted. So, to support the Coast Guard taking on more appropriate program and contract management responsibilities, we are keenly focused on building out our workforce to achieve required bench depth in such professional areas as program management, systems engineering, cost estimating, and contracting. I appreciate the support this Subcommittee has provided with this. As a direct result of that support, and with special authorities approved by DHS, we are creating a corps of professionals with required experience to compliment our existing dedicated contracting and acquisition staffs.

In April I announced that the Coast Guard will assume the lead role as systems integrator for the entire Deepwater program—a role previously held by ICGS. I want to be clear that this transition will not happen in an instant. But, as we continue to expand organic capabilities and expertise, we'll gradually phase out the role of a private-sector lead systems integrator. Critical to this effort is the staffing flexibility afforded to me by a consolidated personnel account, which provides the ability to put the right people in the right job. Currently, all salaries, benefits, and support for the military and civilian personnel who administer Acquisition, Construction and Improvement (AC&I) contracts are funded by the AC&I appropriation, whereas 97 percent of the Coast Guard's personnel is funded from the Operating Expenses (OE) appropriation. Consolidating these will allow the Coast Guard to maximize efficiencies and leverage potential synergies in acquisition oversight, as well as increase the Coast Guard's ability to surge personnel to AC&I-related positions as appropriated project funding levels fluctuate.

As the system integrator, we may still need or choose to utilize ICGS, or any other private or government entity - such as NAVSEA or NAVAIR - to perform specific management, engineering and system integration functions for which they are best suited. I have personally met with the Secretary of the Navy, Chief of Naval Operations and the Commander of the Naval Sea Systems Command. We have an outstanding working relationship.

As the Coast Guard continues to shoulder additional systems integrator responsibilities we will examine changing workforce requirements. In fact, we have commissioned an independent, third-party assessment, to be completed this fall, to examine our current and future human capital needs under the new acquisition directorate. We will focus future planning, recruitment, retention and training efforts based on the findings of that assessment.

Added program management staff has also allowed us to establish procedures for more effectively responding to contractor requests for deviations and waivers. The very nature of a request for deviation or waiver demands intense government scrutiny of the request and consideration of any possible consequences to mission execution and crew safety. To enable this type of timely action, we've developed a new review process for these types of requests. Under this process, and before any request is approved, that request must be reviewed in detail by a board of technical experts and contracting officers based on pre-determined guidelines. Under

this procedure, the entire request for deviation or waiver process will be thoroughly documented, from the submission of the request by the contractor through the expert review to the decision of the Coast Guard regarding whether to grant the request. This will help to ensure that each asset system meets or exceeds performance requirements.

We've also determined that the Coast Guard will use the American Bureau of Shipping (ABS) to certify that Deepwater vessels meet High Speed Naval Craft (HSNC) and Naval Vessel rules as appropriate. In fact, we're taking steps now to ensure that this certification is included in the acquisition of the B-Class Fast Response Cutter, currently in the Request for Proposal process. By establishing a certification expectation for this and future vessels, we can ensure that equipment and assets meet requirements and that standards are enforced consistently and independently.

We continued to reaffirm our commitment to third-party reviews as tools of effective program management. Our recently commissioned assessment of human capital needs is only one such review that will enable informed program management decisions. In January, I also noted the comprehensive business case analysis and technology readiness assessments conducted for the composite-hull Fast Response Cutter design (also called FRC A-Class).

Based on findings in that review, we have taken a step back and refocused our immediate patrol boat efforts toward our "parent craft" replacement patrol boat (FRC B-Class). In January, we had anticipated receiving a design proposal for the replacement patrol boat from ICGS by the end of March. But, in mid-March, after being briefed by ICGS on its progress, we determined that it was in the best interest of the government to procure the FRC B-Class outside of the ICGS construct. A number of considerations led to this determination, one of which was the importance of full and open competition in the procurement.

We're also conducting an independent review of the Deepwater program's Vertical Launch and Recovery Unmanned Aerial Vehicle (VUAV) through our Research and Development Center (R&D) and the Center for Naval Analysis. The first phase of this multi-phased review examined the technology required for both the Eagle Eye (targeted for the Deepwater program) and the Fire Scout (being developed for the U.S. Navy). It found that the technology needed for either platform is not mature enough to warrant full-rate production. The second phase of the R&D study is examining alternate methods of achieving the surveillance and reconnaissance capabilities required from the VUAV. We will make a determination about future procurement of a UAV in Deepwater based on those findings. And we will continue to monitor DHS and DoD efforts for potential opportunities to align in the future.

We're also currently negotiating the modified Deepwater contract for the first award term. While the new award term does establish ICGS as a *possible* sole-source option, it does not *obligate* the government nor *guarantee* award of any work to ICGS. This new contract will be a change in direction demonstrating the Coast Guard is in charge of the Deepwater program and is making all decisions. The scope of the new award term contract is fully one-third less than the original base contract. The Coast Guard is going to be a smart buyer, only moving forward on a product line after a first article asset success.

Under the new award term, each contract task or delivery order will be negotiated and awarded based on best value for the government. The new award term of 43-months begins June 25, 2007, with a focus on the first 18 months of the term. After that 18-month period, we'll review

contractor performance and determine whether to award any additional delivery task orders from that point forward. We've also strengthened award term criteria, making them more objective and placing the focus of determination more appropriately on cost control, operational effectiveness, competition, program management and execution, and logistics.

Addressing the Past

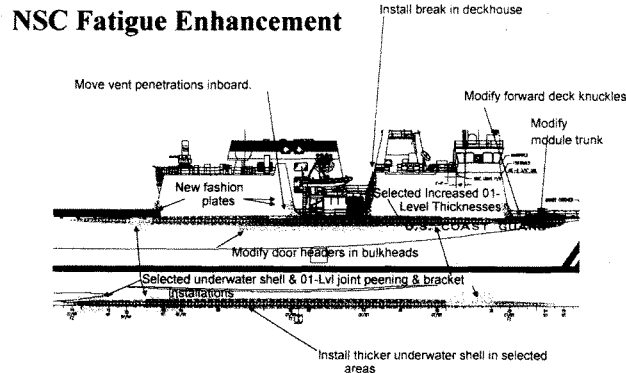
I'd like to take just a moment to address past challenges that continue to merit our attention and require further resolution.

First: the question of our 123-foot patrol boats. On April 17, 2007 I announced my decision to permanently decommission these eight cutters due to ongoing structural issues following their extension from 110-foot boats. Since last fall when I suspended the 123s from service, we have had a team of legal, engineering, and contracting experts reviewing documents and designs to recommend possible actions to recoup government costs incurred as a result of the loss of these hulls. Multiple studies and extensive analysis conducted by Coast Guard engineers and third-party naval architects and marine engineers over the last several months collectively establish that the failures were directly related to ICGS design flaws for the 123' conversion effort. On May 17, 2007 we issued a letter to ICGS in accordance with Federal Acquisition Regulations (FAR) revoking acceptance of all eight cutters due to hull buckling and shaft alignment issues. We have not yet determined the amount of damages due the government from ICGS but will provide a payment letter to ICGS once that determination is made. Additionally, we anticipate being able to recoup residual value from significant equipment on the cutters, such as the eight Short Range Prosecutors, 16 Paxman engines and other equipment.

Recent statements in testimony before this Subcommittee and in the press suggest that the Coast Guard's handling of classified information is suspect or worse. I want to state for the record that to the best of my knowledge there was no compromise of classified information related to the 123-foot patrol boats. All TEMPEST requirements were met following Department of Defense processes and with independent verification and validation from the U.S. Navy's Space and Naval Warfare Systems Command (SPAWAR). These processes have been developed to identify and address potential vulnerabilities prior to a system being authorized to handle any classified information, and we used these processes effectively to do just that. Our nation's secure information posture is aggressively overseen by the National Security Agency, the Defense Information Systems Agency, the Joint Task Force for Global Network Operations and the Director of National Intelligence. Our partnership with each of these entities is a great source of pride for the Coast Guard and had any of these agencies detected a compromise we would have been informed. With regard to the National Security Cutter, the only difference in the testing process is that we will address it earlier in the ship's construction and delivery process based on lessons learned.

Moving to the National Security Cutter, under the recommendation from our technical authority we've identified an engineering solution to address fatigue concerns with the hull. We are 100 percent confident that this engineering solution will eliminate fatigue concerns. As I discussed in January, the issue here has always been a question of fatigue life over the course of the cutter's 30-year service life. I want to reiterate: there has never been a question of safety related to the ship's structure, nor have we ever anticipated any operational restrictions. We simply felt,

after analysis of the design, that some modifications were needed to ensure the fatigue life reached 30 years. These modifications will be retrofitted to the first and second NSC. The design fix for the remaining six NSCs will be incorporated during initial construction.



Homeland
Security

DEEPWATER 

We're also actively working with industry on a consolidated contracting action to resolve all outstanding contract issues related to the National Security Cutter. This includes industry's Request for Equitable Adjustment (REA) and post-9/11 design changes to the NSCs. I assure you that during these negotiations we are taking a very hard look at whether an REA is warranted and what limits should be placed on it. This includes demanding that industry provide very precise justifications for each aspect of its requests. The Coast Guard's shipbuilding team is better prepared than ever before to successfully handle a contracting issue of this size. The objective of the consolidated contract action is to contractually agree to the final cost of the first three NSCs and to place NSC 3 on contract in order to continue this vital production line. Any break in production of a project with this level of complexity drives cost higher.

The Coast Guard's shipbuilding programs are facing the same well-documented challenges that the U.S. Navy is experiencing. A diminishing industrial base along with continuing Hurricane Katrina impacts are real cost drivers. In spite of these challenges, the first NSC, *CGC Bertholf*, continues to make impressive progress. As an example, we recently lit off the electrical generators on board. This is a tremendous milestone as we drive our team to take the *Bertholf* to sea this year.

The *Bertholf* is the best "first-in-class" cutter ever built for the Coast Guard. The Chairman and I toured her recently. If any on this Subcommittee doubt the ability of this ship to meet our requirements for mission execution and crew safety, I invite you to join me for a walk of her decks yourselves.

Next Six Months

The next six months will show some very significant progress and the realization of tremendous milestones for the Coast Guard and Deepwater.

In the next few weeks we'll release the Request for Proposal (RFP) for the replacement patrol boat (FRC B-Class). We anticipate that the contract for this cutter will be awarded in the second quarter of FY2008, following full and open competition, with lead ship delivery in FY2010.

As I mentioned earlier, later this month we'll finalize negotiations and award the contract for the first award term. This contract will establish even more rigorous evaluation criteria and will hold the contractor accountable for work performed under the contract.

On July 13 we'll stand up the newly aligned acquisition directorate under the command of an assistant commandant for acquisition. Rear Admiral Gary Blore, who has superbly led Deepwater through this year of change, will assume the role as Chief Acquisition Officer and assistant commandant for acquisition for the Coast Guard. The Program Executive Officer for Deepwater will be retained within the new organization; I have asked Rear Admiral Ron Rabago, an engineer, former commanding officer of the Coast Guard Yard and technical expert on naval engineering issues, to take the helm there.

And we anticipate we'll finish our negotiations in July as part of the consolidated contract action for outstanding issues with the National Security Cutter. This will allow us to move forward, confident of cost and with the ability to negotiate and award contracts for future hulls.

We expect to accept the first fully mission-ready HC-130J this fall following a very successful missionization process that began last December.

Future Success

It's appropriate that we sit here today to examine the progress we've made in the Deepwater program during the past four months. We're on the leading edge of significant changes in the program and are already beginning to see real results. Many hard choices still lie ahead, but the Coast Guard is now positioned, organized and empowered to make those decisions in the best interest of the government.

This is a very exciting time for the Coast Guard and for Deepwater. New capabilities are being added daily. Our past challenges have made us stronger today and better able to manage the challenges of tomorrow. We can get this right and I've given you my commitment as Commandant to do just that.

Again, our shared goal must be the recapitalization of the Coast Guard. Deepwater assets and upgrades have already proven their worth in mission operations nationwide and even thousands of miles from our shores. Now is the time to renew our dedication to provide these ships, aircraft and sensors for the future success of Coast Guard missions. We owe it to the American people to ensure that their Coast Guard remains a viable protector today and into the future.

Thank you for the opportunity to testify before you today. I'm happy to answer any questions you may have.

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Fiscal Year	Government Program Management (USCG)	Systems Engineering and Integration /Program Management (ICGS)	USCG ramp up
2005	\$38.0M	\$43.0M	-\$5M
2006	\$38.115M	\$36.630M	\$1.48M
2007	\$46.475M	\$35.145M	\$11.33M
3yr Total	\$122.59M	\$114.75M	\$7.815M

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A list of all outstanding rule-making projects that the Coast Guard is undertaking can be found in Federal Register / Vol. 72, No. 82 / Monday, April 30, 2007.

Insert on Page 55, Following Line number 1240

APPROVED MITIGATING INITIATIVES: The Coast Guard will recuperate 18,700 annual programmed hours with two initiatives to assist in the mitigation of the patrol boat gap. The third initiative contributes to patrol boat missions but not directly to the patrol boat hour gap.

- 1) **Multi-Crewing:** The Coast Guard is utilizing crews from the non operational 123' WPBs in a multi-crewing effort to help reduce both the overall Patrol Boat gap and the hour gap specific to the District Seven Area of Responsibility (AOR). Specifically, two crews are attached to each of the eight D7 Florida multi-crewed 110' WPBs and they operate at a pace of 3,600 hours per year thereby (recouping 11,200 programmed hours) annually. Multi-crewing began in February 2007.
- 2) **Extending 179' WPC Memorandum of Agreement (MOA) with the Navy:** After negotiations with the Navy to modify the current 179' WPC MOA to extend use of these vessels until 2011, was agreed upon to extend the use of three 179' WPCs for a period of three years. An addendum was signed by both parties in February 2007. Three WPCs will remain in Pascagoula, MS until the end of Fiscal Year 2011. This will provide 7,500 programmed hours each year.
- 3) **Procurement of Additional 87' Coastal Patrol Boats:** Funding for procurement of four additional 87' Coastal Patrol Boats (CPBs) has been approved. The additional 87' CPBs will be homeported in District Seven to allow the most positive impact on

Southern Florida AOR and add 7,200 programmed hours per year to the 87' CPB fleet. One 87' CPB will be operational by the end of Fiscal Year 2008 with the remaining three becoming operational in Fiscal Year 2009.

POTENTIAL NEAR-TERM MITIGATING OPTIONS: There are five potential options that the Coast Guard is analyzing to further mitigate the loss of hours and hulls:]

- 1) **Adjust WPB MEP Timeline:** A decision to shorten the WPB Mission Effectiveness Project (MEP) timeline is under consideration. By reducing the annual number of 110's inducted into MEP from four hulls to three hulls, and decreasing the time spent undergoing MEP from 12 months to 9 months, the Coast Guard can reduce the need for 110' WPBs in MEP by 21 months per year recouping approximately 3,000 programmed hours per year. If approved, the schedule change would take effect in September 2007.
- 2) **Increase 87' Coastal Patrol Boat Programmed Hours:** The Coast Guard is assessing the costs and impacts of increasing programmed operating hours for the entire fleet of sixty-five 87' CPBs from 1,800 hours to 2,000 hours per year. This would provide an additional 13,000 programmed hours per year to assist in augmenting the patrol boat missions. If approved, this initiative would take effect on October 1, 2008.
- 3) **Lease of Commercial Vessels:** Lease four commercial high-speed boats with similar characteristics of a patrol boat for execution of Coast Guard missions in the District Seven AOR. Each leased vessel would be multi-crewed using the former 123' WPB crews and operate 4,400 hours per year. This option provides 17,600 programmed hours per year (6,400 more hours than the current multi-crewing initiative) and would replace half of the hull and surge capacity lost by the non operational 123' WPBs. The Coast Guard Office of Acquisition is currently conducting a lease vs. buy analysis to determine the feasibility of leasing commercial vessels. If approved, the lease vessels are projected to be available for Coast Guard operations by July 2008.
- 4) **Increase 110' Patrol Boat Programmed Hours:** The Coast Guard is assessing the cost and impacts of increasing programmed operating hours for all non-District Seven 110' WPBs by 400 hours. This strategy will provide 5,400 programmed hours per year to assist in the mitigation of the WPB Op Hour Gap, a timeline when this option could begin has not been determined.

LONG-TERM MITIGATING OPTIONS: The Coast Guard's primary long-term mitigation strategy is procurement of the Fast Response Cutter.

- 1) **FRC-B:** The Coast Guard's Office of Acquisition (G-A) is developing the Request for Proposal (RFP) package for the FRC-B. Overall, the Coast Guard is planning to acquire twelve FRC-B assets. The first FRC-B is anticipated to be delivered in Fiscal Year 2010 with the final hull delivered by the end of Fiscal Year 2013.

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In general, the two methodologies are the Spectral Fatigue Analysis approach and the cursory (or Benchmarking) approach.

Spectral Fatigue Analysis: Starting in the early 1990s, the U. S. Navy began a number of investigations into structural fatigue as a larger effort to develop a reliability-based structural design methodology for naval ships. The Naval Surface Warfare Center, Carderock Division (NSWC-CD), in concert with the Ship Structure Committee, developed fatigue assessment methodologies that were mature, well-validated and proven reliable for use in the maritime industry. They utilized S-N curves (experimentally based statistical relationships between the cyclic stress range (S) and the number of loading cycles to failure (N)) to account for fatigue in the initial design of marine structures. Today, stress analysis using S-N curves, commonly referred to as the S-N approach or Spectral Fatigue Analysis, is well-proven and has become the primary means of assessing the fatigue characteristics of marine structures. The recently published ABS Naval Vessel Rules codify this U. S. Navy approach to fatigue analysis. The ABS Naval Vessel Rules reflect the approach described in NSWC-CD Report, NSWCCD-65-TR-2000/25, Fatigue Guidance for Surface Ships. NSWC-CD conducted a spectral analysis of the National Security Cutter and concluded that while the ultimate strength of the hull girder was sufficient, the hull section moduli were insufficient to adequately carry the hull girder bending loads for 30 years in the General Atlantic.

Cursory Procedure: The second methodology for establishing fatigue limits is the cursory procedure in the Fatigue Design Guide. The cursory procedure in the Fatigue Design Guide is based on benchmarking Navy ships having no structural problems over their service life. A key parameter of this methodology is that it establishes fatigue permissible maximum lifetime stress ranges for similar type ships operated in a similar manner, given ship type, principal dimensions and weld details of interest (NOTE: U. S. Navy ships generally experience a relatively low annual operational intensity averaging 120-130 days per year in generally benign operating areas where the probability of encountering severe sea conditions was very low).

The Coast Guard utilized the first methodology (S-N curves) while ICGS utilized the cursory methodology from the Fatigue Design Guide. Both methodologies, if applied correctly, are considered valid in assessing fatigue life. In this case, the operating profile of the National Security Cutter is far different from that of the HAMILTON class and coupled with the fact that the HAMILTON class had fatigue cracking early in its service life, using the cursory method in the case of the National Security Cutter is inappropriate.

STATEMENT OF RICHARD L. SKINNER

INSPECTOR GENERAL

U.S. DEPARTMENT OF HOMELAND SECURITY

BEFORE THE

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION

U.S. HOUSE OF REPRESENTATIVES

“DEEPWATER: 120-Day Update”

June 12, 2007



Introduction

Good morning, Chairman Cummings and members of the Subcommittee. I am Richard L. Skinner, Inspector General for the Department of Homeland Security. Thank you for the opportunity to discuss the challenges facing the United States Coast Guard, in particular, its Deepwater Program.

When I last appeared before the Committee, I talked about the many contract and program management challenges and risks associated with the Coast Guard's Deepwater Program and how they continue to affect the modernization, acquisition, and operational capability of key Deepwater assets and systems. These include: the HH-65 helicopter; the 123' patrol boats; the Fast Response Cutter (FRC); the National Security Cutter (NSC); and the upgrades to the Coast Guard's Command, Control, Communication, Computers, Intelligence, Surveillance, and Reconnaissance (C⁴ISR) system.

My testimony today will address the many ongoing challenges and risks associated with the Deepwater Program and the efforts being taken by the Coast Guard to improve the management and oversight over this very important and complex acquisition initiative. I also will address the actions and challenges associated with the Coast Guard's decision to reorganize its acquisition workforce as outlined in its *Blueprint for Acquisition Reform*.

I want to note that Admiral Allen and his staff have been very responsive to our audit recommendations as well as to our continuous requests for Deepwater-related briefings and document requests. Further, they are implementing sweeping changes to their management of major acquisitions that, when fully-implemented, should mitigate many of the cost, schedule, and performance risks identified with the Deepwater Program. My staff continues to monitor the effectiveness of these corrective actions and to identify emerging risks before they become full-blown problems.

As part of this effort, we recently issued a scorecard summarizing the status of the Deepwater acquisition program, and we continue to closely monitor the situation through regular progress briefings supplemented by one-on-one interviews with Coast Guard officials. These efforts will allow us to keep up-to-date with Coast Guard's efforts to reorganize, expand, and improve the performance of its acquisition management system in general and the Deepwater Program in particular. We plan to produce an annual scorecard on the Deepwater acquisition program, as well as on other key management challenges that exist throughout the Department of Homeland Security.

Deepwater Program

The Integrated Deepwater System Program (Deepwater) is a \$24 billion, 25-year acquisition program designed to replace, modernize, and sustain the Coast Guard's aging and deteriorating fleet of ships and aircraft. The initial Deepwater acquisition strategy provided for private industry to propose and develop an optimal system-of-systems mix of assets, infrastructure, information systems, and people solutions designed to accomplish all of the Coast Guard's Deepwater missions. Private industry was also tasked to provide the assets, the systems integration, integrated logistics support, and the program management.

Under a traditional acquisition strategy, the government would have responsibility for ensuring that sufficient program management support was in place to oversee the administration of the contract.

In June 2002, the Coast Guard awarded Integrated Coast Guard Systems (ICGS) a 5-year contract to serve as the Deepwater systems integrator. ICGS is a joint venture of Northrop Grumman and Lockheed Martin. The 2002 award decision followed a multiyear competitive phase in which two other industry teams vied with ICGS. The current base contract expires in June 2007. The Coast Guard may authorize up to five additional 5-year award terms. In May 2006, the Coast Guard announced its decision to award ICGS an extension of the Deepwater contract for 43 out of a maximum 60 months for the next award term beginning in June 2007.

Deepwater Program Management and Oversight

We previously identified several common themes and risks in our audits of assets and information technology systems being acquired under the Deepwater contract. These include the dominant influence of expediency, unfavorable contract terms and conditions, poorly defined performance requirements, and inadequate management and technical oversight. These deficiencies contributed to schedule delays, cost increases, and asset designs that did not meet minimum Deepwater performance requirements.

Systems Integrator Approach. The Coast Guard's decision to outsource program management to the systems integrator fully empowered the contractor with authority to make day-to-day decisions regarding all aspects of the contract. According to the Coast Guard, its acquisition workforce did not have the requisite training, experience, and certification to manage an acquisition the size, scope, and complexity of the Deepwater Program. Further, the Coast Guard was reluctant to exercise a sufficient degree of authority to influence the design and production of its own assets. As a result, ICGS assumed full technical authority over all asset design and configuration decisions while the Coast Guard's technical role was limited to that of an expert "advisor."

Furthermore, there is no contractual requirement that the Systems Integrator accept or act upon the Coast Guard's technical advice, regardless of its proven validity. There are also no contract provisions ensuring government involvement into subcontract management and "make or buy" decisions. The Systems Integrator decides who is the source of the supply. The effectiveness of the contractor-led Integrated Product teams (IPTs), which were originally intended to be the vehicle for managing the Deepwater Program and resolving Coast Guard's technical concerns, has been called into question by the General Accountability Office and my office.

Contractor Accountability. Our reviews have raised concerns about the definition and clarity of operational requirements, contract requirements, performance specifications, and contractual obligations. For example, in our National Security Cutter (NSC) report, we reported that the Coast Guard and the American Bureau of Shipping jointly developed standards that would govern the design, construction, and certification of all cutters acquired under the Deepwater Program. These standards were intended to ensure that

competing industry teams developed proposals that met the Coast Guard's unique performance requirements. Prior to the Phase 2 contract award, the Coast Guard provided these design standards to the competing industry teams. Based on industry feedback, the Coast Guard converted the majority of the standards (85% of the 1,175 standards) to guidance and permitted the industry teams to select their own alternative standards without a contractual mechanism in place to ensure that those alternative standards met or exceeded the original guidance standards. The competing teams were allowed to select cutter design criteria.

Additionally, the Deepwater contract gave the Systems Integrator the authority to make all asset design and configuration decisions necessary to meet system performance requirements. This allowed ICGS to deviate significantly from a set of cutter design standards originally developed to support the Coast Guard's unique mission requirements, and permitted ICGS to self-certify compliance with those design standards. As a result, the Coast Guard gave ICGS wide latitude to develop and validate the design of its Deepwater cutters, including the NSC.

Deepwater Performance Requirements Are Ill-Defined. Vague contract terms and conditions have also compromised the Coast Guard's ability to hold the contractor accountable by making possible competing interpretations of key performance requirements. For example, the performance specifications associated with upgrading the information systems on the Coast Guard's 123' patrol boat fleet did not have a clearly defined expected level of performance. Also, in our review of the Helicopter Interdiction Tactical Squadron (HITRON) lease, we determined that vague contract performance requirements inhibited the Coast Guard's ability to assess contractor performance. In another example, the performance specifications for the NSC were not clearly defined, which resulted in disagreements, both within the Coast Guard and between the Coast Guard and ICGS, regarding the intent behind the cutter performance requirements.

Deepwater Cost Increases. The cost of NSCs 1 and 2 are expected to increase well beyond the current \$775 million estimate, as this figure does not include a \$302 million Request for Equitable Adjustment (REA) submitted to the Coast Guard by ICGS on November 21, 2005. The REA represents ICGS's repricing of all work associated with the production and deployment of NSCs 1 and 2, which was caused by adjustments to the cutters' respective implementation schedules as of January 31, 2005. The Coast Guard and ICGS are currently engaged in negotiations over the final cost of this REA. ICGS has also indicated its intention to submit additional REAs for adjusted work schedules affecting future NSCs, including the additional cost of delays caused by Hurricane Katrina.

Additionally, the \$775 million cost estimate for NSCs 1 and 2 does not include the cost of structural modifications to be made to mitigate known design deficiencies. The cost of these modifications and the cost of future REAs could add hundreds of millions of dollars to the total NSC acquisition cost. We remain concerned that these and other cost increases within the Deepwater Program could result in the Coast Guard acquiring fewer and less capable NSCs, FRCs, and Offshore Patrol Cutters (OPCs) under the Deepwater contract.

Impact on Coast Guard Operational Capabilities—Short and Long Term

The problems with the Deepwater Program are also affecting the Coast Guard's ability to perform Homeland Security and legacy missions. For example, while the re-engining of the HH-65B helicopters resulted in aircraft with significantly improved capabilities, the program has experienced schedule delays and cost increases. As a result, the 84th HH-65C was delivered during May 2007, 11 months beyond the Commandant's original July 2006 deadline. Extending the delivery schedule exposed HH-65B aircrews to risk due to the increased rate of which in-flight loss of power mishaps were occurring.

There are also problems with Coast Guard's acquisition of the Vertical Unmanned Aerial Vehicle (VUAV). VUAVs have the potential to provide the Coast Guard's flight deck equipped cutters with expanded air surveillance, detection, classification, and identification capabilities. Currently, the VUAV acquisition is over budget and more than 12 months behind schedule. On May 8, 2007, the Coast Guard issued a second 90-day stop work order and the Commandant recently testified that the VUAV was under review by Coast Guard's Research and Development Center. The review is expected to provide recommendations for the way ahead with the VUAV.

Not having VUAV capability would significantly reduce the long-range surveillance capability of the NSC and the Offshore Patrol Cutter (OPC) from 58,000 square nautical miles with the VUAV to that of the Coast Guard's Hamilton class high endurance cutters (13,500 square nautical miles). This represents a 76% reduction in Deepwater surveillance capability. The Coast Guard's Revised Deepwater Implementation Plan of 2005 called for the acquisition of 45 VUAVs at a total cost of approximately \$500 million. As of March 31, 2007, the Coast Guard had obligated \$114 million (77%) of the \$148 million allocated to the project for FY 2007, with very little to show for it. According to the Coast Guard estimates, it would take an additional \$50 million and 18 months to deliver the first two VUAV systems. However, the Coast Guard's FY 2008 budget submission does not include VUAV funding through FY 2012.

Another issue that will affect the operational capability of the NSC is the delay associated with the system development and installation of the helicopter Aircraft Ship Integrated Secure and Traverse (ASIST) system modifications to the HH-65C fleet. The purpose of the ASIST system is to improve the efficiency and safety associated with the landing and stowage of helicopters to be deployed from the NSC and OPC. According to the Coast Guard, it will take 18 to 24 months and \$7.5 million to complete the non-recurring engineering for system integration, followed by the installation of the system aboard two HH-65Cs. To date, the funding for developing and installing the ASIST has not been made available to the Coast Guard's Aviation Repair and Supply Center which is responsible for the installing the system aboard the HH-65C. As a result, the Coast Guard may have difficulty testing the interoperability of the ship systems with the HH-65 helicopters when the NSC undergoes builder sea trials (fall of 2007) and operational test and evaluation trials (fall of 2008).

The increased cost, schedule delays, and structural design problems associated with the 123' patrol boat and FRC are also affecting the Coast Guard's ability to close its maritime

patrol boat operational hour and capability gap. This is particularly true in the Key West area of operations where the eight 123' patrol boats had originally been stationed. To its credit, the Coast Guard is doing what it can to mitigate the problem by extending an agreement with the U.S. Navy to continue the operation of three of the five 179' "Cyclone" class patrol boats currently on loan to the Coast Guard from FY 2009 through FY 2011. The Coast Guard is also extending the operational capability of the 110-foot Island Class fleet through service life extension programs, shifting assets (87' patrol boats and buoy tenders) from other districts to the South Florida area, and multi-crewing eight 110s already located in South Florida. While the increased operations tempo will help in the short-term, it has a ripple effect in that it increases the workload of personnel and assets assigned to take the place of 87' patrol boats and buoy tenders sent to South Florida. It also increases the wear and tear on the 87' and 110' patrol boats. Further, the use of multiple crews is a double-edged sword insofar as the increased operational capability comes at the expense of vessel maintenance and crew training. Over time, this could lead to an increase in the number of engineering casualties and crew accidents that could negatively affect the operational readiness of the 87' and 110' patrol boat fleets. For these reasons, we expect the maritime patrol boat gap, which the Coast Guard has reported to be in excess of 20,000 hours, to increase rather than decrease until the service life extensions on the 110' patrol boats are completed and a significant number of FRCs are constructed and deployed. This is not expected to occur before FY 2013.

Recent OIG Reports

Over the past 2 years, my office has issued reports on various assets being acquired under the Deepwater contract including:

- The reengining of the HH-65B helicopter fleet;
- The acquisition and implementation of Deepwater C⁴ISR systems;
- The acquisition of the national security cutter; and
- The modernization of the 110'/123' patrol boat fleet.

We identified serious cost, schedule, performance, and management oversight issues with each of the aforementioned Deepwater projects.

Re-engining of the HH-65B. We reviewed the Coast Guard's HH-65 Dolphin helicopter re-engining project. The review was initiated in response to concerns that the re-engining requirements specified for the HH-65 helicopter were not sufficient for the needs of the Coast Guard over the Deepwater project timeframe. Specifically, the HH-65 was experiencing a sharp increase in the number of in-flight loss of power mishaps that jeopardized the safety of HH-65 flight crews. We also identified concerns that the ICGS proposal did not meet the Commandant's mandate to have 84 HH-65s re-engined by July 2006.

Our review of the HH-65 re-engining project determined that the replacement of the HH-65 engines with the Ariel 2C2 engine would resolve the safety and reliability issues that had

plagued the HH-65 fleet for much of the past decade. Our report also determined that it would be timelier and more cost-effective to have the re-engining performed at the Coast Guard Aircraft and Repair Supply Center rather than to have responsibility for the re-engining placed under the auspices of ICGS. The Coast Guard's Assistant Commandant for Operations made a similar recommendation in May 2004.

The Coast Guard did not concur with any of our HH-65 recommendations. Coast Guard officials said that ICGS minimized the operational, legal, cost, and contract performance risks associated with the re-engining. The Coast Guard also said it believed that it received significant benefits from the current ICGS contract that far outweighed the benefits of having Coast Guard aviation manage the project. We did not and do not believe that these benefits have been demonstrated. To date, 84 re-engined HH-65s have been delivered to the Coast Guard.¹ The remaining 11 HH-65 helicopters are to be delivered to the Coast Guard by the end of FY 2007. As of March 31, 2007, the Coast Guard had obligated \$324 million (94.4%) of the \$343 million funded for the project of which at least \$46 million (16%) in administrative expense and fees are estimated to have been paid to ICGS and Lockheed Martin.

C⁴ISR Systems Review. We also reviewed the Coast Guard's efforts to design and implement C⁴ISR systems to support the Deepwater Program. We determined that the Coast Guard had limited influence over contractor decisions on meeting information technology requirements. The lack of discipline in change management processes provided little assurance that the requirements remain up-to-date or effective in meeting program goals. Certification and accreditation of Deepwater C⁴ISR equipment was difficult to obtain, placing systems security and operations at risk. Further, although the Deepwater Program had established information technology testing procedures, the contractor did not follow them consistently to ensure the C⁴ISR systems and the assets on which they are installed performed effectively.

Recently, the Coast Guard provided an update regarding the progress being made to implement the recommendations contained in our report on C⁴ISR systems. In its response, the Coast Guard stated that the language contained in the Deepwater contract, including the contract's "award term" criteria, will be revised to further clarify contractor responsibilities for developing Deepwater C⁴ISR systems.

NSC Review. We also conducted a review of the Coast Guard's acquisition of the NSC to determine the extent to which the cutter will meet the cost, schedule, and performance requirements contained in the Deepwater contract. We determined that the NSC costs have significantly increased and, as designed and constructed, will not meet performance specifications described in the original Deepwater contract. Specifically, the NSC's hull structure provides insufficient fatigue strength to achieve a 30-year service life under Caribbean (General Atlantic) and Gulf of Alaska (North Pacific) sea conditions. To mitigate the effects of these deficiencies, the Coast Guard has advised us that it intends to modify the NSC's design to meet the service and fatigue life requirements specified in

¹ Seventy-two of the 84 HH-65s re-engined to date (86%) were modified in-house by the Coast Guard's Aircraft Repair and Supply Center (ARSC).

the contract. However, this decision was made after the Coast Guard authorized production of two of the eight being procured.

NSC 1 was christened on November 11, 2006, and final delivery to the Coast Guard is scheduled for January 2008. NSC 2 is under construction and scheduled for delivery during the summer of 2009. As of March 31, 2007, the Coast Guard had obligated \$769.6 million (50.6%) of the \$1,519.7 million funded for the project.

We recommended that the Coast Guard ensure the NSC is capable of fulfilling all performance requirements outlined in the Deepwater contract and improve the level of Coast Guard technical oversight and accountability. The Coast Guard has gone on record, including testimony before Congress, on its agreement with our audit recommendations and the need for change. It has also identified aggressive actions to address the concerns identified in our report. However, the Coast Guard's written responses to our report excluded important details of its corrective actions. For example, the Coast Guard's 90-day response to our NSC report did not include a detailed plan with timelines, reporting requirements, milestones, responsible parties, and cost estimates for the structural modifications. In addition, the response did not specify whether the Engineering Change Proposals, prepared by the Coast Guard and ICGS to address the structural design and performance issues associated with the NSC, would be fully evaluated by an independent, qualified third party, such as U.S. Navy's Surface Warfare Center - Carderock Division.

We are also concerned that the Coast Guard may have difficulty resolving the structural design and performance issues associated with NSCs 1 and 2. For example, the Coast Guard stated that it plans to go ahead with construction of NSCs 3 through 8 before it determines the extent and cost of the structural modifications needed to enable NSCs 1 and 2 meet the fatigue life and performance requirements outlined in the Deepwater contract. Consequently, there is a possibility that the required changes to all eight NSCs could be cost prohibitive or result in a reduction in operational capability. The number, type, scope, and cost of all structural modifications to be made to NSCs 1 and 2 need to be identified and evaluated *before* the Coast Guard authorizes construction of NSCs 3 through 8.

110'/123' OIG Hotline Allegation. In response to an OIG Hotline allegation, we reviewed certain deliverables under the Coast Guard's 110'/123' Island Class patrol boats (123' patrol boats). We determined that low-smoke cabling was not installed and that there were numerous instances where the contractor installed C⁴ISR equipment aboard the 123' patrol boats and short-range prosecutors that did not meet the design standards set forth in the Deepwater contract.

We raised many concerns about the Coast Guard's program and technical oversight of the Deepwater contractor responsible for the 110'/123' Patrol boat Modernization Project. For example, the contractor purchased and installed hundreds of non-low-smoke cables prior to the Coast Guard's approval of the Request for Deviation. In effect, the Coast Guard accepted delivery and operated four 123' patrol boats without knowing the extent of the hazards associated with the use of the non-low-smoke cabling. The contractor also purchased and installed hundreds of C⁴ISR topside components aboard the 123' patrol boats

and short range prosecutors knowing that they either did not meet contract performance requirements, or compliance with the requirements had not been verified. For these reasons, we are concerned that similar performance issues could affect the operational effectiveness of C⁴ISR system upgrades recently installed aboard its legacy fleet of cutters.

We recommended that the Coast Guard investigate and address the low-smoke cabling and environmental issues associated with the equipment installation, and take steps to prevent similar technical oversight issues from affecting the remaining assets to be modernized, upgraded, or acquired through the Deepwater Program. The Coast Guard concurred with our recommendations, and said it is in the process of implementing corrective measures. Subsequent to our review, and for reasons unrelated to the issues identified during our inquiry, the 123' patrol boat fleet has been withdrawn from service and will be formally decommissioned.

Coast Guard's "Way Forward" - Blueprint for Acquisition Reform

The Coast Guard recognizes that urgent and immediate changes are needed to meet the management challenges facing its Deepwater Program. As part of its endeavors to improve the Deepwater Program, the Coast Guard recently issued its *Blueprint for Acquisition Reform* (Blueprint), which catalogues many of the aforementioned challenges and risks that have impeded the efficient execution of the Deepwater contract. According to the Coast Guard, implementing this Blueprint will enhance its ability to execute asset-based, "traditional" acquisition projects, effectively use a governmental or commercial entity as a systems integrator for complex acquisitions, and execute minor acquisitions contracts for goods and services.

According to the Coast Guard, the Blueprint outlines its plans for reorganizing and rebuilding its acquisition workforce. Specifically, the Blueprint calls for:

- Consolidation of all Coast Guard acquisition functions under one directorate;
- Reassertion of the Coast Guard's technical authority;
- Use of independent, third-party assessments; and,
- Redefinition of the contract terms and conditions.

While the Blueprint contains a number of key initiatives, the Coast Guard should adopt measures of performance or desired outcomes that would enable it to assess the progress being made. These include the specific numbers and types of acquisition professionals needed, when they are scheduled to arrive onboard, and the financial cost associated with the realignment, reorganization, retraining, and rebuilding of its acquisition workforce.

The Coast Guard is beginning to take aggressive action to resolve some of the management oversight issues identified in our reports. For example, it is significantly increasing staffing levels at headquarters and at its Program Management Review Office in Pascagoula, Mississippi, to enable them to increase its scrutiny of contractor requests for deviation and waivers to the NSC. To improve the effectiveness of the Deepwater IPTs, the Coast Guard

is assuming the role of IPT chairs, and the IPT charters are being reviewed to determine where changes need to be made. The Coast Guard is also expanding its acquisition training and certification process, and working with the Department of Defense to ensure that technical support staff, program managers, and contracting officers have the requisite skills, education, and experience to manage complex acquisitions.

The Coast Guard will stand up its Acquisitions Directorate on July 13, 2007. Should all go as planned, the Coast Guard's efforts to reorganize and expand the level of technical and management oversight over the Deepwater Program will be fully implemented during FY 2010. In the meantime, the Coast Guard is planning to move ahead with the second phase of the Deepwater contract with Award Term I, which will entail the estimated expenditure of more than \$3 billion over a 43-month period starting during June 2007.

Conclusion

We are encouraged that the Coast Guard recognizes these challenges and is beginning to take aggressive action to strengthen program management and oversight—such as technical authority designation; use of independent, third-party assessments; consolidation of acquisition activities under one directorate; and redefinition of the contract terms and conditions, including award fee criteria. Furthermore, the Coast Guard is beginning to implement its plan to increase its staffing for the Deepwater Program, and to reinvestigate its acquisition training and certification processes to ensure that staff has the requisite skills and education to manage the program.

These steps should improve the Coast Guard's ability to oversee major acquisitions. However, the Coast Guard's system-of-systems approach will require the highest levels of planning and coordination to mitigate cost overruns, schedule delays, asset performance shortcomings, or potential operational gaps due to delays in asset acquisition. Most importantly, there is considerable risk associated with the Coast Guard assuming the lead systems integrator role at this time without having fully implemented its *Blueprint for Acquisition Reform*. In particular, the Deepwater Program needs to overcome its human capital gap. The Coast Guard needs to exercise caution and take a slower or phased approach to assuming the systems integrator role.

In conclusion, we remain committed to the oversight of the Deepwater Program and other major acquisitions within the department. We will continue to work with the Coast Guard to identify milestones and due dates to assess the most appropriate cycle for reporting the program's progress. When fully-implemented, the Coast Guard's steps should significantly increase its level of management oversight over the air, surface, and C⁴ISR assets that are acquired or modernized under the Deepwater Program. We look forward to working closely with the Coast Guard to continue the improvement of the efficiency, effectiveness, and economy of the Deepwater Program.

Chairman Cummings and members of the Subcommittee, this concludes my prepared remarks. I would be happy to answer any questions that you may have.