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DEPARTMENT OF HOMELAND SECURITY

U. S. COAST GUARD

STATEMENT OF

ADMIRAL THAD W. ALLEN
COMMANDANT

ON THE

PROCUREMENT PRACTICES OF THE DEPARTMENT OF HOMELAND SECURITY: INTEGRATED DEEPWATER SYSTEMS

BEFORE THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT AFFAIRS

U. S. HOUSE OF REPRESENTATIVES

FEBRUARY 8, 2007

Introduction

Good morning, Mr. Chairman, and distinguished members of the Committee. It is an honor to be here today to discuss the state of the Integrated Deepwater System, its recent milestones and challenges, and provide you with a look at the way ahead.

Our ability to save lives, interdict drug and alien smugglers, and protect ports, waterways and natural resources depends on our having the best-trained people operating a modern, state-of-the-art fleet. The Deepwater Program has and will continue to provide America with more capable, interoperable assets that will close today's operational gaps and enable the Coast Guard to perform its demanding missions more effectively, efficiently and safely.

I am also grateful for the opportunity to discuss in detail Deepwater issues recently covered in the national media. Some of the stories spoke factually to program challenges that genuinely merit further attention. It is my goal this morning to provide you the facts and reassure you of my absolute commitment to sound stewardship, robust oversight and the corrective actions I've taken to outfit our fleet to meet 21st-century threats and requirements. We have to get this right: the Coast Guard's future readiness depends on it. America depends on it.

Why a "System of Systems"?

By the mid 1990s, most of our ships and aircraft were approaching the end of their service lives. Our cutter fleet was then, and remains, one of the oldest among the world's naval fleets. In light of a looming block fleet obsolescence, it wasn't sensible to attempt piecemeal, one-for-one replacement of each class of assets. We also didn't have the capacity to manage that many projects in parallel.

Because of these anticipated challenges, we knew an innovative approach was required. And because maritime threats were evolving in the post-Cold War environment in which Deepwater was conceived, we knew expectations for maritime security were changing as well, so our asset mix would need to support these dynamic requirements. We determined, therefore, that it would be most cost effective and efficient to acquire a wholly-integrated system of ships, aircraft, sensors and communications systems, or, as it is commonly called, a "system of systems." The idea is based on the concept that the whole is greater than the sum of its parts; all elements combine to generate greater capabilities across the entire system. Given that, our goal is not to replace ships, aircraft, and sensors with more ships, aircraft, and sensors, but to provide the Coast Guard with the *functional capabilities* required to safely achieve mission success. We also decided that maximizing operational effectiveness while minimizing Total Ownership Cost would be central to this approach.

Originally called the Deepwater Capability Replacement Project, the program was established by the Deputy Secretary of Transportation in August 1996 following completion of a Mission Analysis Report and a Mission Needs Statement. The project was designated a Level I Major Acquisition and the agency was authorized to proceed to Concept Exploration under the oversight of the Deputy Secretary as Transportation Acquisition Executive. Subsequently, responsibility for oversight was delegated to the Vice Commandant of the Coast Guard as Agency Acquisition Executive.

Phase 1: A Three-Pronged Approach for Concept Exploration

"The [Coast Guard's] 'system of systems' approach seems logical as a way to avoid a costly one-for-one replacement of assets, and its use of multiple contractors is an attempt to leverage technology and to identify cost-effective alternatives."

--GAO Report to the Subcommittee on Transportation, Committee on Appropriations, U.S. Senate (GAO/RCED-99-6), October 1998

In Spring 1997, the Coast Guard forwarded its proposed Phase I acquisition plan to the Department for approval. The document provided planning information and the acquisition strategy for Concept Exploration. As ultimately approved in July of that year, the three-pronged Phase I approach was to: 1) issue three cost-reimbursement contracts to private sector contractors; 2) conduct a coordinated effort between the Coast Guard and an Independent Analysis Government Contractor; and 3) conduct in-house platform studies through Matrix Product Teams. All three steps would be done in parallel. The approach was designed to optimize the source, number and potentially the variety of proposed concepts for the system. Following evaluation of proposed concepts, the preferred one would be recommended for development.

In the year following program establishment, additional key milestones were attained. A diverse working group of Coast Guard personnel produced a functional capability statement and comprehensive evaluation of legacy systems, which was then validated by flag officers and senior executives. A draft Request for Proposal for a conceptual design was sent to industry and other government agencies, including the General Accounting Office (GAO) and Office of Management and Budget (OMB), for external review and comment. It is worth noting that this outreach to GAO and OMB set a precedent for ongoing, active engagement with both offices. Their insights, guidance and recommendations for course corrections—along with those from the Departments of Transportation and Homeland Security and from Congress—have proven invaluable to program development and execution.

In October 1997, the Vice Commandant of the Coast Guard tasked Rear Admiral Thomas H. Collins, a former Chief of Acquisitions, to undertake a comprehensive review of the project to identify risks to successful program execution and suggest strategies for risk mitigation. Supported by a panel of experts, Admiral Collins concluded the acquisition strategy and Request for Proposal were fundamentally sound, but cited a need for a corporate strategy or "master plan" for Deepwater, along with some organization changes, invigoration of Matrix Product Teams, and key staff augmentations. The then Commandant concurred in the findings of The Collins Study and approved its recommendations.

At that time, the acquisition strategy was also revised to include a second phase wherein the three private sector companies involved in Phase 1 would be allowed to participate in a further, limited competition for the development of the resulting preferred proposal. The revised strategy was approved by the Deputy Secretary in February 1998. Also that month, the functional capability statement was modified to become the program System Performance Specification; these requirements became the basis for the final Phase 1 Request for Proposal, which was released for full and open competition that March.

Five months later, three $1 million contracts were awarded to begin initial concept development for the Deepwater system. The awarded contracting teams[1] consisted of one prime contractor and from four-to-fourteen first-tier subcontractors. The Center for Naval Analyses was selected as the first of two Independent Analysis Government Contractors[2] to perform analysis of Deepwater assets and environments and develop an additional concept. At many points along the way, additional expertise from within and outside the Coast Guard was leveraged to identify risk, improve program strategies, and prepare for a successful Phase 2. GAO recommended a Justification for Other Than Full and Open Competition be developed to ensure only those entities participating in Phase 1 could participate in Phase 2; this was necessary to reduce risk and obtain further refined designs and cost information. The Justification for Other Than Full and Open Competition was approved in March 1999 and requirements line items were added to the three contracts to allow for subsequent issuance of task orders to evolve proposed concepts through functional design. Phase 1 ended in June 2001.

Phase 2: A Single Systems Integrator for an Integrated Solution

"The recapitalization of the Coast Guard's Deepwater capability is a near-term national priority. The Deepwater acquisition project is a sound approach to that end and the Interagency Task Force strongly endorses its process and timeline."

--Report of the Interagency Task Force on the Roles and Missions of the United States Coast Guard, December 1999

Because the Deepwater Capability Replacement Project would grow to be the largest acquisition in Coast Guard history, it was agreed that the Service had neither the technical expertise nor the manpower in-house to accomplish the complex role of systems integrator. The Coast Guard determined it wanted a single systems integrator to implement the entire Deepwater system. Based on internal discussion as well as meetings with other government agencies and the private sector, a flexible Delivery/Task Order contract with Award Term provisions was chosen. In weighing possible contracting alternatives, the agency put primary emphasis on achieving a comprehensive, integrated Deepwater solution, because we believed such a solution would lead to synergies and efficiencies. Senior Coast Guard and Department of Transportation leadership were briefed on the contract strategy and approval was given in May 2000.

Guiding principles for Phase 2 outcomes were in consonance with those employed in Phase 1: a performance-based, systems engineering approach to developing a system of systems; emphasis on commercially available, non-developmental items, with operational effectiveness and Total Ownership Cost as key metrics. A source selection plan incorporating four organizational levels, each with unique responsibilities, was created and approved and the Phase 2 Request for Proposal was released in June 2001. Basis for award would be "best value to the Government in terms of operational effectiveness, total ownership cost, management capability, and technical feasibility" of proposals. Competing contractors were advised of an expectation to provide the systems integrator with an Acquisition Construction & Improvement (AC&I) funding stream of $300 million in the first year and $500 million per year[3] thereafter until system build-out.

Robust proposal evaluation procedures were established, including provision for expert advice from throughout government and the private sector. A final list of several hundred advisors included specialists from throughout the Coast Guard and such diverse entities as the Coast Guard Research and

[1] The teams were: Litton/Avondale Industries (evaluated in Phase 2 as The Boeing Co.); Lockheed Martin Naval Electronics and Surveillance Systems (evaluated in Phase 2 as Integrated Coast Guard Systems); and Science Applications International Corporation (evaluated in Phase 2 as Maritime System Alliance).

[2] Booz Allen Hamilton was the second.

[3] In FY98 dollars, subject to Congressional approval

Development Center, Center for Naval Analyses, Naval Air and Sea Systems commands, Naval Research Lab, Naval Surface Warfare Center Carderock, Anteon, CACI, MITRE Corp., Booz Allen Hamilton, Technomics, KPMG, and Designers & Planners, Inc., among others. Proposals were received from industry teams in September 2001. A 26-member evaluation team expended in excess of 34,000 hours evaluating the proposals. In March 2002, competitors were notified that Integrated Coast Guard Systems (ICGS) was the only one of the three determined to be within the "competitive range." A final brief to the Source Selection Authority was given in late May and the contract for the Integrated Deepwater System was awarded to ICGS in June 2002.

The Benefits of Oversight

"During the course of this assessment, the Coast Guard requested that Acquisition Solutions review their proposed Request for Proposal changes to determine if the revisions captured both the letter and intent of our recommendations. We were pleased to see that, in all cases, our recommendations were clearly and comprehensively incorporated into the Request for Proposal document."[4]

--Acquisition Solutions, Inc., July 2001

As noted above, the program has been the beneficiary of rigorous oversight and independent analysis since its inception. I underscore this point to demonstrate that the contract structure for Deepwater was not created or developed in a vacuum, but rather resulted from an iterative, thoughtful process that incorporated input and recommendations from wide-ranging experts and overseers. Any acquisition of this scope, cost and complexity presents risks to the government, so activities designed to identify and mitigate risk have become part of how the program does business every day.

For instance, the GAO was asked to review Deepwater twice in the run-up to contract award. Their first report[5], issued in 1998, considered the project's justification and the planning process being followed by the Coast Guard. While auditors felt the system of systems strategy was sound overall, they expressed concern about methodologies used to assess the remaining service life of existing assets and feared the Service's estimated funding levels for the program might not be attainable in constrained budget environments. A second GAO review in 2001, titled "Progress Being Made on Deepwater Project, but Risks Remain"[6], continued to cite affordability as the program's biggest risk and felt best practices calling for capital planning within funding levels were not followed. The Coast Guard acknowledged the risk but asserted the prescribed funding levels were essential to provide necessary mission capability.

Auditors also addressed risk related to: cost control in later years (in light of use of a systems integrator who is also a prime contractor); ensuring procedures and personnel are in place to manage and oversee the program post-award, and minimizing potential problems related to developing unproven technologies. Auditors stated, however, that the Coast Guard had taken steps to delay some key program milestones to consider the GAO's concerns and had taken steps, such as a phased award term contract approach, to mitigate a potential lack of competition. In most respects, the report noted,

> …the Coast Guard's management of this phase has been excellent.
> In fact, the Coast Guard's procedures and management structure
> for this phase were among the best of the federal agencies we have evaluated.[7]

[4] Independent Assessment of the United States Coast Guard "Integrated Deepwater System" Acquisition Issue Brief
[5] "Coast Guard's Acquisition Management: Deepwater Project's Justification and Affordability Need to Be Addressed More Thoroughly" (GAO/RCED-99-6)
[6] GAO-01-564
[7] GAO-01-564, p. 4

Additional pre-award program reviews were conducted by an Expert Review Panel—among whose membership were the Contracts Branch Head for Shipbuilding at Naval Sea Systems Command, the Deputy Associate Commissioner for Program Management at the Internal Revenue Service, and the Deputy Associate Administrator for Acquisition Implementation at the Office of Federal Procurement Policy—and an Interagency Task Force on the Roles and Missions of the United States Coast Guard, established by Executive Order. Its members included 16 senior administration officials who studied the Coast Guard and Deepwater for an extended period in 1999.

The Department of Transportation Office of the Inspector General (OIG) also reviewed program plans at length; based upon their suggestions, the Coast Guard aggressively validated the Interagency Task Force report and used it to update both the Deepwater Mission Analysis Report and Mission Needs Statement. Again, the Department of Transportation OIG found the planning process was sound and that all relevant options for justifying program funding had been considered. Acquisition Solutions, Inc. and MITRE Corp. also did program analyses; as a result of their recommendations, annual reviews of contractor performance were added and the Request for Proposal was changed to require submission of plans for competition in out-years. A Risk Management Plan was also incorporated into the overarching Program Management Plan.

In summary, program managers, contracting personnel and Coast Guard leadership actively leveraged resident and outside expertise and recommendations to continuously refine planning processes and strategies. The Deepwater Program was not created in a vacuum and has not been managed in a vacuum, as the next section demonstrates.

Outsourcing a Difficult Task Does Not Make it Any Easier

"First, risk is part of every acquisition. There will always be significant cost, schedule and performance risks inherent in projects of this size, scope, and complexity. Second, outsourcing a difficult task does not make it any easier. The Coast Guard still must identify existing, potential and emerging risks and develop measures to mitigate and manage the risks. Third, this is a mission-essential, unavoidable requirement and major investment is inevitable. There is a bill that must be paid."

--Acquisition Solutions, Inc., July 2001

As the Deepwater Program moved from its source selection process and into program execution, the Coast Guard faced an array of challenges in contract management. Some of these challenges had been anticipated during planning prior to contract award and many measures were put in place to enable the government-industry team to deliver on the program's promise. I'd like now to discuss highlights of several of the most important elements of our program and contract management strategy outlined below.

Establishment of a Program Executive Office

Traditionally, the Coast Guard has used a project management structure to manage major acquisitions. However, the scope and significance of Deepwater warranted a program executive management structure akin to that used for major system acquisitions within the Department of Defense (DoD).

Accordingly, the Coast Guard established its first Program Executive Officer structure and assigned a flag officer to the position. Under the general direction and supervision of the Commandant, Vice Commandant, and Chief of Staff, and with guidance provided in the Program Executive Officer's

charter and from an Overarching Matrix Team comprised of senior Coast Guard officers, the Deepwater Program Executive Officer oversees contractor performance in the development and delivery of Deepwater assets.

Adoption of Integrated Product Teams

To assist the Program Executive Officer in his responsibilities, an Integrated Product Team strategy was adopted as the primary tool for overseeing and managing the contract. Joint Integrated Product Teams include significant representation from both the Coast Guard and ICGS and are organized at two levels. At the program level, the Program Management Team assumes joint responsibility for overall acquisition management and execution of the Deepwater Program. Also at the program level, the Systems Engineering and Integration Team insures a system of systems consideration of program engineering, cost, performance and schedule issues.

At the product level, individual product Integrated Product Teams are formed to oversee development of specific assets, such as the Maritime Patrol Aircraft or a patrol boat. Required by the Deepwater contract, these teams are chartered by, and report directly to, their respective Program Management Teams in the Surface, Air, C4ISR, Logistics and Systems of Systems domains. Integrated Product Team membership is comprised of Coast Guard, ICGS, contract administration, system integration and engineering personnel. While generally led by ICGS, oversight at the Integrated Product Team level occurs as government domain leads, contracting officers, and other representatives participate in and oversee team performance. Each Integrated Product Team has specific responsibility for chartering and providing management direction and adjudicating Integrated Product Team-level issues within its domain, including those relating to cost, schedule, technical concerns, risk and others.

Through the Integrated Product Team construct, subject matter experts and program managers have a forum for examining each aspect of the program—from asset design and development through construction and delivery to the fleet—and appropriately adjudicating concerns that may arise during any one of the program's phases. Issues that the Integrated Product Team is not able to come to consensus on are elevated to the Program Management Team for review and from there, if still not resolved, to the Program Executive Officer and Agency Acquisition Executive for further adjudication.

In a 2004 report on Deepwater contract management, the GAO observed Integrated Product Team performance was uneven across the program, and we agreed that it is critical for each Integrated Product Team to be fully chartered, for all Integrated Product Team members to complete required training, and for each Integrated Product Team to establish clearly defined performance measures, roles and responsibilities. With cooperation from ICGS, these upgrades to Integrated Product Team operations have now been accomplished and the GAO has acknowledged our progress in this area.

Domain Management Teams have also been strengthened to address challenges within the Integrated Product Team process. These teams are designed to directly oversee and resolve conflict within the Integrated Product Teams as well as to enhance collaboration on issues that may span the responsibility of several individual Integrated Product Teams. Monthly assessments show that these Domain Management Teams are helping Integrated Product Teams to improve their effectiveness.

Risk Management Board

As noted elsewhere in this statement, a program of this scope and complexity will present risk to the government throughout its life. Knowing that, leadership established an integrated Risk Management Board with representatives from ICGS, the Coast Guard, and Tier 1 subcontractors. The board reports

directly to the Deepwater Project Management Matrix Team and the Program Executive Officer. Board membership includes representation from each domain and the Systems Engineering and Integration Team. Representatives from Tier 1 subcontractors are adjunct members. This membership make-up supports the system approach to risk management, while the process invoked by this plan ensures a comprehensive approach to identifying, assessing, documenting, and mitigating risks.

Award Term, Award Fee and Other Performance Evaluations

Deepwater's evolved award fee and award term criteria also serve as significant contractor oversight and management tools. The initial contract awarded to ICGS in June 2002 specified a five-year base period of performance ending in June 2007 with the potential for five additional award terms of up to 60 months each, for a maximum total of 30 years. The first follow-on award term would be referred to as Award Term 1 and would consider contractor performance through the end of 2005.

On May 19, 2006, Rear Admiral Patrick Stillman, the Deepwater Program Executive Officer and Award Term Determining Official notified ICGS senior leadership that the length of the Award Term 1 would be for a performance period of 43 months, beginning in June 2007 and ending in January 2011. The length of the award term was determined by RADM Stillman based upon recommendations from a Coast Guard Award Term Evaluation Board, following its extensive review of ICGS' performance during the first 42 months of the base period.

Award Term Evaluation Board members comprised a cross-section of Coast Guard operators and acquisition personnel who reviewed data from June 2002 through December 2005. ICGS also provided a self-assessment of its performance during that period. The Award Term Evaluation Board also reviewed reports from performance monitors and evaluated the contractually-defined criteria of operational effectiveness, total ownership cost and customer satisfaction.

The announcement of the length of the potential period of performance for Award Term 1 did not change the existing contract. In addition, there was no specific contract dollar value associated with the announcement. What it does mean is that as a result of this decision, ICGS is assured the sole source opportunity to respond to the Request for Proposal for work expected to be contracted during the first award term. That Request for Proposal was released on December 1, 2006.

Following Coast Guard receipt of an ICGS proposal, there will be Coast Guard-ICGS negotiations to determine the potential value of the additional 43-month contract period. Upon completion of successful negotiations and achievement of fair and reasonable prices for the government, a contract including the length of the award term will be executed.

The anticipated completion date for the entire process— Request for Proposal release, proposal receipt, negotiations, execution of contract—is June 25, 2007, the end date of the current base period.

As a result of lessons learned during the initial performance period, the Coast Guard reexamined these criteria and made changes to bolster their effectiveness in holding the contractor accountable for performance. These criteria now include consideration of cost control, operational effectiveness, program management and execution, logistics and competition. We've strengthened the criteria, made them more objective, and are focusing greater attention on training performance monitors. Further, we have increased the frequency of performance feedback from annual to semi-annual and are providing quarterly performance inputs to ICGS. Revised award fee criteria are now in place for the award period that began January 1, 2007; revised award term criteria are already in effect.

In addition to the award term process, a schedule of regular reviews was established in the Deepwater plan to provide oversight of contractor performance. These include Quarterly Program Management Reviews, semi-annual Baseline Management Reviews, and Annual Performance Reviews. The program also produces monthly "QUAD Charts" that track progress and performance within each domain of the Deepwater program. And, to aid in transparency, these charts are provided to Congress, OMB, GAO and DHS OIG on a quarterly basis and briefed upon request.

Strengthening the award criteria and the Integrated Product Team process has significantly improved the Coast Guard's oversight of the Deepwater Program. I'm confident that these measures are already helping to more firmly keep the Deepwater Program on the right course.

Performance Measurement and Modeling of Operational Effectiveness

A Performance Measurement Matrix Team was chartered within the Deepwater Program Executive Office to provide the requisite guidance and leadership for the efficient management of Deepwater Performance Measurement and its attendant metrics plans. The Deepwater Performance Measurement Plan is a separate, non-Program Management Plan detailed planning document, and provides the detailed measurements that are used to manage and monitor the Program. The Performance Measurement Matrix Team supports the Award Fee Performance Evaluation Board and Award Term Evaluation Board by providing metrics and evaluation as required by the respective plans.

The Deepwater Program adapted Kaplan & Norton's Balanced Score Card approach to strategically manage the program via performance measurement; the adapted version is called the Deepwater Performance Measurement System, whose aim is to provide complete measure of the program's success by balancing the objectives and outcomes of its four interdependent perspectives. This allows the program to continually evaluate its progress in a forward-looking manner, and to easily make appropriate adjustments. Routine reports, such as trend analyses, facilitate decision-making and action plans to meet stated goals. Information from the Balanced Score Card is used to assess the Deepwater Program in order to make informed decisions and improve performance. As the program matures and progresses through acquisition phases, the measures used in the Deepwater Performance Measurement System will also mature to ensure data accurately reflect the current program at any given time.

The Balanced Score Card model was selected as a means to implement the Deepwater strategic plan in a practical manner by correlating budget to performance. It enables the program to continually improve its businesses processes to become more productive. Management insight obtained from the Balanced Score Card helps to ensure successful management of the three major objectives of the Deepwater strategic plan: maximizing operational effectiveness minimizing Total Ownership Cost, and achieving customer satisfaction. Oversight of the program's Earned Value Management System is another responsibility of the Performance Measurement Matrix Team, who work closely with Deepwater program managers as the primary customers of Earned Value to monitor program cost and schedule performance.

In the early years of any acquisition, it's difficult to measure operational effectiveness of new assets because those assets have not yet been delivered to the fleet. We have, however, developed modeling capabilities to simulate the effect of new assets' capabilities on the Coast Guard's ability to meet its mission requirements. This modeling has shown that the current proposed mix of new and upgraded assets will effectively meet post-9/11 mission needs.

This measurement is critically important to our ability to hold the contractor accountable for performance requirements. In response to a GAO recommendation for measuring the contractor's progress toward improving operational effectiveness, the Coast Guard has developed a three-tiered construct, known as "Mission, System, and Asset."

At the *mission* level, the Coast Guard tracks the operational effectiveness of the Deepwater System using actual mission performance data available from operational Deepwater assets. This assessment measures the contribution provided by Deepwater systems and assets in seven mission areas: search and rescue, illegal drug interdiction, illegal and undocumented migrant interdiction, foreign fishing vessel interdiction, protection of living marine resources, defense readiness, and international ice patrol.

At the *system* level, the Coast Guard is using the Center for Naval Analyses IDS Asset Assessment Tool model to project the surface area coverage capability for Deepwater force packages and available mission hours the system will achieve. This model was designed to measure the area of ocean in which Deepwater assets can detect, identify, and prosecute targets.

At the *asset* level, the Coast Guard is tracking the contractor's performance in delivering assets that exceed key performance criteria. Delivered assets will undergo a rigorous period of post-delivery test and evaluation during which they will be subjected to most mission scenarios in varying operational conditions.

Competition

One of the best ways to ensure that performance requirements are met and costs are controlled is through robust and effective competition. As elaborated upon earlier in this statement, the Deepwater contract was awarded under full and open competition, following extensive concept exploration and source selection phases. However, it's unrealistic to imagine that the initial competition held for the Deepwater contract would sufficiently benefit the program over the course of its planned 25-year life. That's why we place an emphasis on and monitor the level of competition for each asset through every phase of development and construction. Both of the ICGS joint venture partners, Northrop Grumman and Lockheed Martin, have maintained approved status of their respective purchasing systems (based on an annual review) under Federal Acquisition Regulations (FAR), which means that every subcontract granted by the two companies is FAR-compliant. The Deepwater program now employs nearly 600 suppliers in over 40 states—an indicator of purchasing system effectiveness.

Competition analyses performed separately by Northrop Grumman Ship Systems and the Lockheed Martin Materials Acquisition Center Mid-Atlantic Region (MACMAR) have shown that Deepwater competition is within the normal range for large government procurements. Dollar value summations show that in excess of 50 percent of all items are available for full and open competition.

Pursuant to GAO recommendations, the Coast Guard contracted with Acquisition Solutions, Inc., in 2005 to assess the amount of second-tier competition conducted by ICGS and the tier-one subcontractors during 2004. This assessment, which included a review of the competitive procedures the purchasing and/or contracting departments of both contractors had in place, determined that competitive procedures were being followed. The Coast Guard plans to accomplish reviews of this type on a recurring basis. This review is in addition to the regularly scheduled Defense Contract Audit Agency monitoring of both major contractors' purchasing and/or contracting departments described above.

Based on Acquisition Solution Inc.'s report and GAO's recommendations, we have reaffirmed our commitment to broad competition as the program moves forward. We continue to reinforce competition for the delivery of assets under the Deepwater program, including placing increased emphasis upon it in new award term criteria. It's of utmost importance to me. That's why we chose to procure the Short Range Prosecutor, for the ninth boat and beyond, for example, competitively through traditional Coast Guard acquisition processes when that appeared to be in the government's best interest. And, we've instructed ICGS to openly compete the design and production of our Replacement Patrol Boat (FRC B-Class).

Cost Control

I'd be remiss in discussing these challenges and my actions to address them if I failed to mention two issues recently covered in the media: the first is cost growth, the second is contract oversight. There is obvious truth to claims of programmatic cost increases. As noted, the original Deepwater plan was estimated to cost $17 billion and now we're projecting a $24 billion price tag over 25 years. However, it's imperative to understand that the main driver of cost increases was the complete revision of the original plan to meet post 9/11 mission requirements. New missions meant that we needed more capable assets which cost more to acquire and build.

In addition to improved mission capabilities, Hurricanes Katrina and Rita hit the Gulf Coast shipyard industry hard during production of the first National Security Cutter, flooding the hull and causing extensive damage to the facility. The impacts to industry—even just in terms of rebuilding a skilled, sufficient workforce—should not be underestimated. The tragedy was real (I can personally attest to this) and contributed to cost increases and some schedule slippage for the cutter. That these impacts were not greater speaks volumes about the dedication of the shipbuilding industry and its employees along the Gulf Coast, and to the support of Congress in providing supplemental funding.

Of course, we must remain vigilant regarding cost growth, but we also know empirically that rising costs are an economic fact in shipbuilding, for a variety of reasons that are beyond our complete ability to control. However, I am committed to working with industry to develop and promote cost reduction measures and am personally engaged with the CEO's of Lockheed Martin and Northrop Grumman regarding my concerns.

Challenges

The failure of the 110-foot cutter conversion project is of great concern to the USCG. I have established a team of contracting, engineering, and legal subject matter experts to examine the contracting and technical process at each stage, beginning with the pre-award proposal submissions from ICGS to the present. This will involve extensive documentation. The team will help determine whether any weaknesses in the contract or technical process may have contributed to the 123-foot conversion problems, and identify the contractual responsibilities that either ICGS or the USCG should assume for the conversion failures.

Turning to the National Security Cutter (NSC), I would like to clarify recent reports of structural problems. The DHS OIG recently concluded an audit of the NSC which highlighted concerns with our approach to potential structural integrity issues with the NSC hull. The issue here, which we have communicated to DHS OIG and which we have been actively addressing for several years, is a question of fatigue life over the course of the cutter's 30-year service life. There has never been a

question of safety related to the ship's structure, nor have we ever anticipated any operational restrictions related to its design. As you are well aware, we drive our ships hard, so service and fatigue life of new cutters is of critical concern to us.

Some have wondered why we didn't suspend construction of the first NSC when we learned of these concerns. The Coast Guard's decisions to continue production of the NSC reflect more than simply the naval engineering perspective. They also encompass considerations of cost, schedule, and performance. After extensive research and deliberation and with all of these considerations in mind, the Coast Guard decided that the need for enhancements to NSC #1 could be effectively addressed by later retrofits and did not justify the schedule and cost risk associated with stopping the production line. These kinds of issues are not unusual in production of a first-in-class vessel and I believe the decision to move forward was prudent. We will fix NSC #1 and 2 and design the fix into future hulls' production.

The Way Ahead

Building on "lessons learned" during the first four years of program and contract management and with the support of Congress, I've taken steps to ensure that the Coast Guard maintains vigilant oversight of contractors and project management:

- I've reaffirmed in writing the role of the Coast Guard's chief engineer as the technical authority for all acquisition projects.
- I've directed independent, third-party design reviews as new assets are developed or major modifications to assets are contemplated.
- I am cultivating a more robust relationship with the Naval Sea and Air Systems Commands to leverage outside technical expertise.

The Deepwater Program Executive Officer, Rear Admiral Gary Blore, has already undertaken a number of independent reviews, including a comprehensive business case analysis and technology readiness assessment for the composite-hulled Fast Response Cutter (FRC-A Class). We have contracted with Defense Acquisition University to conduct a "quick-look" review of Deepwater to examine the program's key management and technical processes, performance-based acquisition strategy, organizational structure and our government/industry "partnership" contract, with a report due shortly. The USCG Research and Development Center is conducting a study and will provide recommendations for the way ahead on the planned Deepwater Vertical-Launch Unmanned Aerial Vehicle (VUAV), and we've initiated an independent review of workload and workforce management issues. Based on these findings and recommendations, we will make "course corrections" where needed in order to lead an efficient organization and guarantee successful execution of the Deepwater Program.

In my opinion, the challenges we are dealing with in the Deepwater Program are not the result of a flawed contract or acquisition design. Rather, they are the result of the Coast Guard not being adequately positioned early on to manage an integrated acquisition of this size. We're taking decisive action now to fix that. We cannot manage a simultaneous and complex acquisition of this size with a system integrator without an integrated Coast Guard. We need to unify our technical authority, requirements owner, and our acquirers in a way that allows early and efficient adjudication of problems and ensures transparency. That's exactly what we're doing now. I am implementing a plan titled Coast Guard: Blueprint for Acquisition Reform which is designed to focus our organizational alignment, processes and workforce to enhance our ability to efficiently execute asset-based contracts and more complex systems contracts through a government or commercial integrator when appropriate.

In the coming months, you will see significant changes inside the Coast Guard's acquisition directorate to bring all acquisition efforts - traditional as well as system-of-systems - under one organization. Rear Admiral Blore will become the Coast Guard's Chief Acquisition Officer, with responsibility over all procurement projects, including Deepwater and the continued management of ongoing projects such a Rescue 21, our Response Boat-Medium and Nationwide Automatic Identification System. The Program Executive Officer for Deepwater will work within the new organization. I have asked Rear Admiral Ron Rabago, a naval engineer, former Commanding Officer of the Coast Guard Yard, and a technical expert on naval engineering issues to take Deepwater's "helm." Consolidating our acquisition efforts will provide immediate benefits, including better allocation of contracting officers and acquisition professionals, and an integrated product line approach to our management of acquisitions, thereby allowing projects to be handled by the same people, with the same expertise and the same linkages to the technical authorities. Under this revised construct we will be able to balance requirements generation with tailored acquisition processes and justified resource requests to more efficiently execute procurement at the program level.
Additional efforts are underway within Deepwater and the Coast Guard to develop more appropriate staffing in order to efficiently obligate program funding and ensure successful delivery of needed assets to the fleet. Under the *Blueprint*, reinvigorating our acquisition training and certification process to ensure that acquisition staff, program managers and contracting officers have the requisite skills and education needed to manage this complex program. Our desired end state is to become the model for mid-sized federal agency acquisition and procurement.

One news story stated that the Coast Guard is not in control of the Deepwater Program; that we've somehow abrogated our oversight responsibilities and handed industry the "keys to the vault." That is not true. The Coast Guard has been and remains fully involved in the management of this program and has made all final and critical decisions. When appropriate, the issues are briefed all the way up the chain of command to me and I make the decision myself. And following recommendations from DHS auditors, we have taken steps to ensure that we accurately and thoroughly document such decisions for future reference.

As I discussed earlier, we've redefined our award term and award fee criteria, making them more objective in order to improve contractor performance. As resources allow, the Coast Guard will assume greater responsibility as the system integrator, a role we now feel better positioned to take on.

We are also taking steps to limit the use of self-certification by ICGS by requiring that new cutters be classified by the American Bureau of Shipping (ABS) to High Speed Naval Craft Rules. In a collaborative environment, representatives of the Coast Guard and ICGS are tailoring the Cutter Specific Certification Matrix to maximize the use of ABS High Speed Naval Craft standards. We also intend to work with ABS to certify other standards in the CSCM that are not part of High Speed Naval Craft classification but for which ABS has the right technical skills.

Industry is On Board

Industry is on board with these improvements in program management. On 19 January 2007, I met with Lockheed Martin CEO Robert Stevens and Northrop Grumman CEO Ronald Sugar to discuss near and long-term objectives and goals for Deepwater. During the two-hour meeting at Coast Guard headquarters, we focused on the most important issues related to Deepwater, including recent Coast Guard initiatives to strengthen program management and oversight--such as technical authority designation, use of independent (third party) assessments, and consolidation of Coast Guard acquisition activities under one directorate. We also discussed ways to capitalize on proven, first-article Deepwater

successes, to sustain momentum in recapitalizing the Coast Guard through the Deepwater program, and determine the most viable way forward in resolving outstanding challenges associated with some projects within Deepwater.

It is critical that the senior leadership in each of our organizations meet regularly to be informed of the progress of this program so we can provide executive level oversight at all times, and specific direction when warranted. As a result, I am personally committed to doing all that I can to make this a successful starting point for further improvement in both the performance and relationships that exist within the Deepwater program, which is so vital to Coast Guard readiness.

We're on the Path to Change

In conclusion, we have learned some hard lessons and are implementing recommendations from the GAO, DHS OIG and self-assessments to keep Deepwater moving successfully forward. We are making significant progress and outfitting our fleet to meet 21st century threats and requirements.

I am confident the National Security Cutter is on the correct course, I'm convinced our Fast Response Cutter "dual path" approach is the best and fastest way to address the patrol boat gap, and I'm pleased that our Deepwater aviation assets are already making real contributions within the fleet. I look forward to the delivery of additional assets and the operational capacity they will bring. They will close the existing aircraft and patrol boat gaps so that we can best protect our maritime borders and tend to the nation's business at sea.

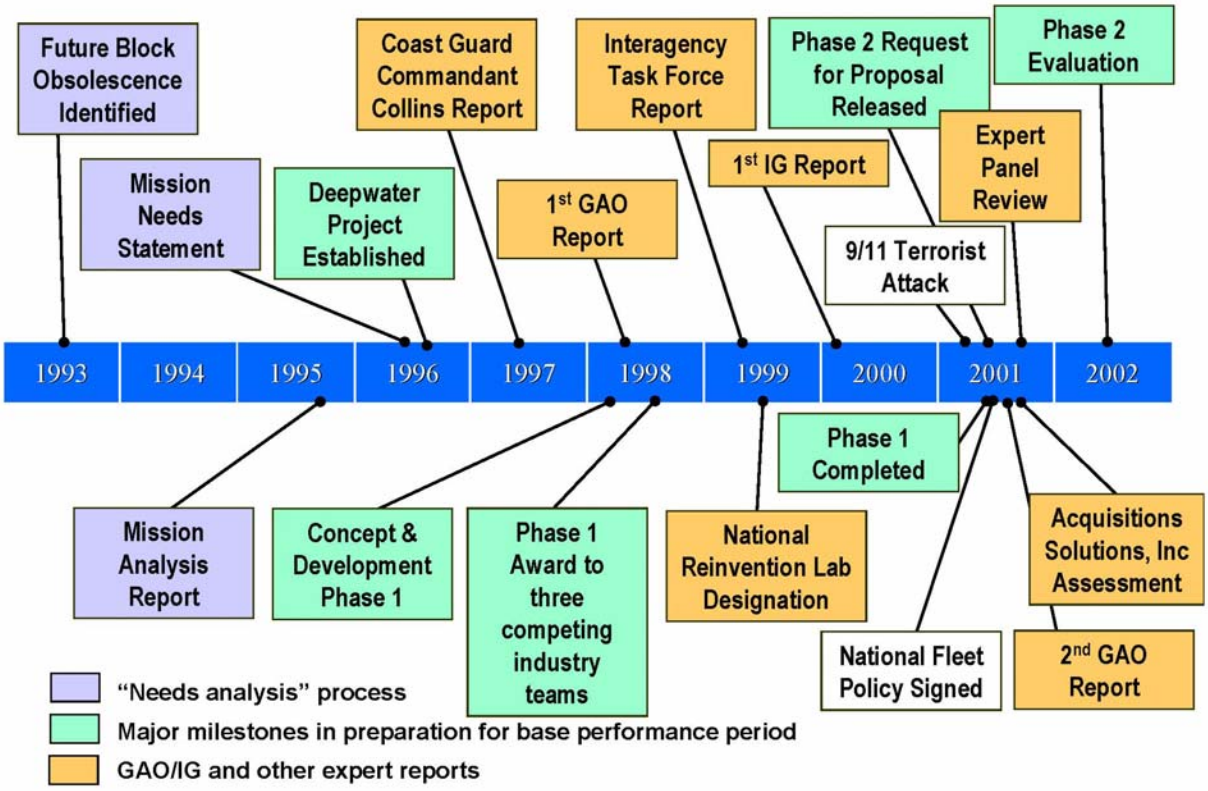
As I stated before, we knew there would be risks when we set out on this path. But, our critical mission need outweighed those risks then and continues to outweigh them. I'm grateful for the crucial support Congress continues to give to the Deepwater program, both in key oversight insights and recommendations and in funding provided. And we appreciate the support and oversight we've received from the very beginning of the program from OMB, GAO, and the Inspector General. Their recommendations and suggestions have proven invaluable.

The future security and well-being of our maritime borders depends on our ability to manage the Deepwater Program and successfully deliver the ships and aircraft to our men and women of the fleet. I know you're anxious for results; I am too, and I assure you nobody is as anxious as the men and women of the Coast Guard. We are on the path to change and we will not stop until Coast Guard has the tools it needs to protect America.

I am the Commandant of the Coast Guard, I am responsible, and I will do this right.

Thank you for the opportunity to testify before you today and for all you do for Coast Guard men and women. I'm happy to answer any questions you may have.

Deepwater History/Timeline (1993 – 2002)



Deepwater History/Timeline (2002 – 2007)