MANAGEMENT OF MASSIVE HOMELAND SECURITY CONTRACTS: DEEPWATER AND SBINET

HEARING

BEFORE THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

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MANAGEMENT OF MASSIVE HOMELAND SECURITY CONTRACTS: DEEPWATER AND SBINET

THURSDAY, FEBRUARY 8, 2007

HOUSE OF REPRESENTATIVES,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The committee met, pursuant to notice, at 10 a.m., in room 2157, Rayburn House Office Building, Hon. Henry A. Waxman (chairman of the committee) presiding.

Present: Representatives Waxman, Maloney, Cummings, Kucinich, Davis of Illinois, Tierney, Clay, Watson, Lynch, Higgins, Yarmuth, Norton, Cooper, Hodes, Sarbanes, Davis of Virginia, Burton, Shays, Mica, Souder, Platts, Duncan, Issa, Foxx, and Sali.

Staff present: Phil Schiliro, chief of staff; Phil Barnett, staff director and chief counsel; Kristin Amerling, general counsel; Karen Lightfoot, communications director and senior policy advisor; David Rapallo, chief investigative counsel; John Williams, deputy chief investigative counsel; Margaret Daum, counsel; Molly Gulland, assistant communications director; Anna Laitin, professional staff member; Earley Green, chief clerk; Teresa Coufal, deputy clerk; Caren Auchman, press assistant; Davis Hake and Sam Buffone, staff assistants; David Marin, minority staff director; Larry Halloran, minority deputy staff director; Jennifer Safavian, minority chief counsel for oversight and investigations; Keith Ausbrook, minority chief counsel; Ellen Brown, minority legislative director and senior policy counsel; John Brosnan, minority senior procurement counsel; Steve Castor and Charles Phillips, minority counsels; Edward Kidd, minority professional staff member; John Cuaderes, minority senior investigator and policy advisor; Patrick Lyden, minority parliamentarian and member services coordinator; Brian McNicoll, minority communications director; and Benjamin Chance, minority clerk.

Chairman WAXMAN. The meeting of the committee will please come to order.

For the last days, we have been examining wasteful spending in Iraq. With today's hearing, the committee turns its attention to fraud, waste, and abuse inside the United States.

We are going to examine the booming industry of Federal contracting by focusing on two enormous contracts awarded by the Department of Homeland Security.

The first contract is the Coast Guard's $24 billion Deepwater contract. The Deepwater contract was supposed to modernize the Coast Guard's aging fleet.

Instead, it has produced a series of lemons that have cost the taxpayers hundreds of millions of dollars.

The second contract is the Department's $30 billion contract with Boeing to design and build a comprehensive border security plan. The program, SBInet, is just getting off the ground.

Deepwater and SBInet are at completely different stages of the procurement process, but they share something important in common: virtually every detail is being outsourced from the Government to private contractors.

The Government is relying on private contractors to design the programs, build them, and even conduct oversight of them. As the Deepwater experience shows, this can be a prescription for enormous fraud, waste, and abuse.

Today, the committee will release disturbing information about the largest and most ambitious element of the Coast Guard's Deepwater program: the new 425-foot National Security Cutter. In March 2005, the Deepwater Program Office asked the Navy to evaluate the vulnerability of the ship to fatigue.

The Navy followed through and, 9 months later, provided a damaging assessment of the new ship to the Deepwater Program Office. According to the documents we have obtained, the Navy report included a series of "bottom line" warnings—printed in red ink—that concluded the ship would not last for its full 30-year life span.

What happened next raises many questions. The Deepwater Office transmitted an edited version of the Navy report to the Commandant of the Coast Guard. The briefing slides given to the Commandant were nearly identical to the slides prepared by the Navy with one critical exception: all of the Navy's "bottom line" conclusions about the ship's problems had been deleted. This took place just months before the Coast Guard renewed and extended the Deepwater contract.

My staff has prepared a memorandum that describes these events in detail, and I ask that, by unanimous consent, it be made part of the record.

[The information referred to follows:]

HENRY A. WAXMAN, CALIFORNIA
CHAIRMAN

TOM DAVIS, VIRGINIA
RANKING MINORITY MEMBER

ONE HUNDRED TENTH CONGRESS

Congress of the United States
House of Representatives
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
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Majority (202) 225-5051
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MEMORANDUM

February 8, 2007

To: Members of the Committee on Oversight and Government Reform

Fr: Majority Staff

Re: Additional Information about the Deepwater Contract

In January 2007, the Committee requested information about the Coast Guard's Integrated Deepwater Systems contract. The Committee's request followed a number of news reports and government audits that have shown deficiencies in the management of the Deepwater program.

In response to the Committee's request, the Committee has received documents that raise further questions about the actions of Coast Guard officials and private contractors in managing and overseeing the contract.

I. The Navy Fatigue Assessment

Beginning in 2002, technical experts within the Coast Guard began to express concerns about the design of the National Security Cutter (NSC), the flagship of the new Deepwater fleet. In September 2003, a Coast Guard expert wrote:

> [We] have done all we can over the past fourteen months to work collaboratively with ICGS to resolve these problems, however our input has been ignored and ICGS has been unwilling to take the steps necessary to resolve these problems. I remain gravely concerned that the U.S. Coast Guard will take delivery of a ship with a fatally flawed structural design.[1]

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[1] E-mail from Chief, Naval Architecture Branch, Engineering Logistics Center, to unknown recipients in the Coast Guard's Office of Acquisition and Deepwater program

To resolve these issues, the Deepwater Program Office contracted with the U.S. Navy in March 2005 to conduct a fatigue assessment of the National Security Cutter. The Deepwater Program Office is located within the Coast Guard, but is physically situated in an office with Integrated Coast Guard Systems, the prime contractor for the Deepwater program.[2] The Naval Surface Warfare Center, Carderock, performed the examination for the Navy. The Carderock Center describes itself as the "Navy's experts for maritime technology."[3]

On December 2, 2005, the Deepwater Program Office received a briefing from the Carderock Center regarding the technical design assessment.[4] This briefing informed Deepwater officials that the ship as designed did not have a fatigue life of 30 years. It included numerous slides with technical analyses of the stresses on various elements of the ship. While most of the text on these slides is technical in nature, several slides include prominent warnings in red type that summarize the Carderock findings. Three of these warnings read:

- "Bottom line ... Stresses are too high for Cat E details to last 30 yrs => problem!"
- "Bottom line ... Stresses are too high to allow D details (long'l weld) or E details (butt weld) to last 30 yrs => problem!"
- "Bottom line ... Stresses are too high to allow E, F, or F2 details to last 30 years => problem!"[5]

One week later, on December 8, 2005, the National Security Cutter Program Manager briefed the Commandant of the Coast Guard on Carderock's findings.[6] Several of the slides presented to the Commandant were identical to the slides provided to the Program Management Office with two notable exceptions: (1) some of the slides with technical findings were eliminated from the presentation and (2) the prominent red warnings that provided Carderock's "bottom line" assessments were systematically deleted.

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management (Sept. 17, 2003), as cited in Office of Inspector General, U.S. Department of Homeland Security, *Acquisition of the National Security Cutter* (OIG-07023) (Jan. 2007).

[2] Briefing by Rear Admiral Gary Blore, Deepwater Executive Officer, U.S. Coast Guard, to Staff, House Committee on Oversight and Government Reform (Feb. 2, 2007).

[3] Naval Surface Warfare Center, Carderock Division, *About Us* (online at www.dt.navy.mil/about_us/about_us.html).

[4] Naval Surface Warfare Center, Carderock Division, *NSC Structural Assessment Fatigue Progress as of 12-02-2005* (Dec. 2005) (See Appendix A).

[5] *Id.*

[6] National Security Cutter Program Manager, *NSC Structure Update* (Dec. 8, 2005). (See Appendix B). Information about the attendance at the briefing provided in E-mail from Office of Inspector General, U.S. Department of Homeland Security, to Staff, House Committee on Oversight and Government Reform (Feb. 6, 2007).

The Committee staff has inquired why the warnings from Carderock were deleted from the briefing materials provided to the Commandant, but has received no response.

The Carderock Center did not prepare a final report on its fatigue assessment until August 2006. This final report confirmed that the Navy had identified "several areas of concern that have insufficient fatigue strength to endure 30 years of operation."[7] By the time the final report was released, however, the Commandant had already made the decision to renew the Deepwater contract.

There is also evidence that the Carderock findings may have been withheld from the Department's Inspector General. According to the most recent report from the Inspector General, the IG requested the December 2005 briefing from the Carderock Center but was given the internal briefing provided to the Commandant instead.[8] The IG informed the Committee staff that the IG had to pressure the Coast Guard to receive the original, unredacted briefing.[9]

II. The Contract Renewal Decision

On May 19, 2006, the Coast Guard made a decision to extend the Deepwater contract for an additional three and a half years. According to documents the Committee has received, this decision was made just 11 days after the National Security Cutter Program Manager briefed the Commandant about serious problems with both the ship and the performance of the contractors.

The briefing by the National Security Cutter Program Manager to the Commandant on the structural design of the National Security Cutter occurred on May 8, 2006. The primary finding of the briefing was that the ship was "not compliant with performance requirements."[10]

The briefing specifically discussed the "participation" of contractors responsible for building the ship, ICGS and Northrop Grumman Ship Systems. The briefing informed the Commandant of multiple problems the Coast Guard had encountered dealing with the contractors, including:

- "Energy focused on deflecting Government technical analysis and reinterpreting contract requirements. Little interest displayed to partner for solutions."

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[7] Naval Surface Warfare Center, Carderock Division, *Structural Assessment of the US Coast Guard National Security Cutter* (Aug. 2006).

[8] Office of Inspector General, U.S. Department of Homeland Security, *Acquisition of the National Security Cutter* (OIG-07023) (Jan. 2007).

[9] Briefing by Richard Skinner, Inspector General, U.S. Department of Homeland Security, to Staff, House Committee on Oversight and Government Reform (Jan. 25, 2007).

[10] Deepwater Program Office, *Brief to Commandant: NSC Structure Update to G-C* (May 8, 2006), included as Appendix G of Office of Inspector General, U.S. Department of Homeland Security, *Acquisition of the National Security Cutter* (OIG-07023) (Jan. 2007). (See Appendix C).

- "No interest yet expressed to assume technical leadership and solve ... problems or address underlying systems engineering issues."
- "[N]o leadership initiative."
- "Gradual back-peddling away from ... fatigue technical problems. Performed by local subcontractor with no prior experience with structural fatigue."[11]

The briefing expressly advised the Commandant that he "should consider using 3rd party."[12]

This briefing and the problems it raised do not appear to have had an influence on the decision to renew the contract. Contrary to the findings presented in the briefing to the Commandant, the memorandum announcing the renewal decision states: "Within the factors over which it has control, the contractor has made positive contributions to maximize operational effectiveness and minimize total ownership cost."[13] It also notes: "Positive trends are evident in all performance areas."[14]

The Committee staff has not received an explanation for the apparent discrepancy between the findings presented to the Commandant and the renewal decision and justification.

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[11] *Id.*

[12] *Id.*

[13] Award Term Determination for Contract HSCG23-02-C-2DW001, Base Period (May 19, 2006).

[14] *Id.*

Chairman WAXMAN. It is bad enough that the Coast Guard ignored the warnings and decided to renew the Deepwater contract, but we now see the Homeland Security Department making the same mistakes on the SBInet contract. As Yogi Berra once said, "This is like deja vu all over again."

I am also releasing a memorandum today with new information about the SBInet contract. My staff has been examining what steps the Department is taking to oversee the multi-billion dollar contract with Boeing to secure our borders. What we have learned is that there seems to be no task too important to be outsourced to private contractors.

As of December, the Department of Homeland Security had hired a staff of 98 to oversee the new SBInet contract. That may seem like a lot of progress until you ask who these overseers are. More than half are private contractors. Some of these contractors even work for companies that are business partners of Boeing, the company they are supposed to be overseeing. And from what we are now learning from the Department, this may be just the tip of the iceberg.

We need to correct our mistakes, not repeat them. The Deepwater contract is a textbook case of what not to do. Yet, Deepwater seems to be the model for SBInet. We will explore these and related issues this morning, and I look forward to learning more from the testimony we will receive.

[The prepared statement of Chairman Henry A. Waxman follows:]

Opening Statement
Rep. Henry A. Waxman, Chairman
Committee on Oversight and Government Reform
Hearing on Homeland Security Contracts

February 8, 2007

For the last two days, we have been examining wasteful spending in Iraq. With today's hearing, the Committee turns its attention to fraud, waste, and abuse inside the United States.

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Chairman WAXMAN. At this time I want to recognize Mr. Davis, the ranking member of the committee.

Mr. DAVIS OF VIRGINIA. Thank you very much, Chairman Waxman.

Today, we examine two critical acquisitions by the Department of Homeland Security: the Coast Guard's Deepwater Shipbuilding and Aircraft Replacement Program and the SBInet, an ambitious border security effort by the Customs and Border Patrol. Both are vital components of the Department's plans to meet its evolving mission in the years ahead. Both multi-billion dollar programs promise great operational benefits. And both pose substantial risks to homeland security and fiscal integrity if they are not done right.

So I am pleased that the committee will examine these programs, and I look forward to today's testimony and future hearings on improving Federal procurements. These large-scale, complete, multiyear acquisitions are being undertaken using a lead system integrator. That approach has its critics, and both programs offer important lessons on the advantages and the pitfalls of that particular contracting vehicle.

Deepwater, 4 years into a planned 25 year project, has experienced well documented troubles. The Government Accountability Office, the DHS Inspector General, and other congressional committees have found the Coast Guard's Vanguard Fleet Replacement Program in danger of running aground. Most recent reports suggest the program is finally getting back on course. But with so many critical sets of eyes already trained on the program, this committee's challenge today will be to bring a fresh perspective, not simply to rehash old complaints about the Deepwater program or the systems integrator concept in general.

And Deepwater can serve as a cautionary tale for SBInet. Work on the integrated border security program has just begun. The contract is only 4 months old and currently within budget. But issues regarding the adequacy of oversight mechanisms, cost controls, and contractor performance assessments that plague Deepwater are already being raised about the program, and legitimately so. There is a great deal at stake, and we should take every opportunity to use our oversight, vigilant watchfulness, to keep SBInet on schedule and within cost.

That having been said, we need to be just as careful to distinguish between faults specific to particular programs and any general conclusions about the appropriateness or efficacy of the lead systems integrator concept. It can be done well and there are circumstances in which it is the best method to acquire the best value for the Government.

Deepwater may yet prove to be such a program. In the late 1990's, under the Clinton administration, faced with the realities of an aging fleet of ships and aircraft, the Coast Guard chose to use a private contractor as a lead systems integrator for its most ambitious acquisition program ever. They chose that method because the Coast Guard did not have the staff, the technical expertise, or perhaps the desire to divert substantial internal management resources to a complicated acquisition. And, I might add, the diminution of the Federal staff was a concept coming out of the Clinton administration in their reinventing government initiatives, where

they would bring down the number of Federal employees and contract out more, a conscious effort coming out of that administration.

They evaluated their options, including asking the Navy for help, and determined none would be better than using its lead systems integrator approach. Similar considerations were explored by DHS and SBInet, and their conclusions, so far, seem just as sound.

In attempting to secure the homeland, we face a disbursed and adaptable adversary. Our efforts to empower personnel, strengthen infrastructure, and integrate complex technologies against that threat have to be just as nimble and just as innovative. Detailed examination of these programs and the contracting modes used to build them will help us reach that goal.

Again, Chairman Waxman, I appreciate your holding this hearing today.

[The prepared statement of Hon. Tom Davis follows:]

HENRY A. WAXMAN, CALIFORNIA
CHAIRMAN

TOM DAVIS, VIRGINIA
RANKING MINORITY MEMBER

ONE HUNDRED TENTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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Statement of Rep. Tom Davis
Ranking Member
Oversight and Government Reform Committee Hearing
"*Management of Large Homeland Security Contracts: Deepwater and* SBI*net*."

February 8, 2007

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These large-scale, complex, multi-year acquisitions are being undertaken using a lead system integrator. That approach has its critics, and both programs offer important lessons on the advantages and pitfalls of that particular contracting vehicle. *Deepwater*, four years into a planned 25-year project, has experienced well-documented troubles. The Government Accountability Office, the DHS Inspector General and other congressional committees have found the Coast Guard's vanguard fleet replacement program in danger of running aground. Most recent reports suggest the program is getting back on course. With so many critical sets of eyes already trained on the program, this Committee's challenge today will be to bring a fresh perspective and not simply rehash old complaints about the *Deepwater* program or the systems integrator concept in general.

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That having been said, we need to be just as careful to distinguish between faults specific to particular programs and any general conclusions about the appropriateness or efficacy of the lead system integrator concept. It can be done well, and there are circumstances in which it is the most appropriate method to acquire the best value for the government.

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In attempting to secure the homeland, we face a dispersed and adaptable adversary. Our efforts to empower personnel, strengthen infrastructure and integrate complex technologies against that threat have to be just as nimble and innovative. Detailed examination of these programs, and the contracting modes used to build them, will help us reach that goal.

Chairman WAXMAN. Thank you very much, Mr. Davis.

What I would like to do without objection is to have all Members submit their opening statements for the record, and I will call on Members who wish to make opening statements orally for no more than 2 minutes.

Let me indicate that we are very fortunate to have on our committee Representative Elijah Cummings, and that he is here with us today. He is the chairman of the Coast Guard Subcommittee of the Transportation and Infrastructure Committee, so I particularly look forward to his comments and am so pleased he is participating with us in this hearing, because this is an issue that he knows a great deal about.

Mr. Cummings.

Mr. CUMMINGS. Thank you very much, Mr. Chairman, and I do thank you for holding this hearing. As you know, I held a hearing to investigate Deepwater last week in the subcommittee that I chair, the Subcommittee on Coast Guard and Maritime Transportation.

As I said last week, the Inspector General's report on Deepwater is one of the most disturbing reports that I have read during my entire 11-year tenure in the Congress of the United States. The $24 billion, 25-year program represents the most complex procurement that the Coast Guard has ever undertaken. And yet, according to the IG report and the findings of our committee, the Coast Guard chose to further complicate the process by hiring private contractors to serve as the systems integrator, tasking them with both identifying program requirements and implementing them.

The conflict of interest that arises from this scenario is obvious to even the most casual observer. We cannot expect private contractors to police themselves. Perhaps, not surprisingly, the Deepwater procurement process has had a series of failures, and we are still trying to figure out who is going to pay for the failures. Most recently, the IG reported that the first two National Security Cutters, designed to be the largest ships in the Coast Guard's fleet, are not likely to meet performance standards specified in the Deepwater contract.

Like many of the agencies that were combined into DHS, the Coast Guard found itself in the situation of both trying to implement new missions and, at the same time, acquire new assets to support those changing missions, while developing the management systems needed to control those acquisitions. The Coast Guard's example would suggest that some critical management tasks simply cannot be outsourced to contractors, and I hope that DHS and, indeed, our entire Federal Government will learn from this example.

At this point, our top priority is to get the Deepwater procurement back on the right track so that it produces reliable assets that the Coast Guard can use to protect our Nation for years to come. Admiral Allen, to his credit, has committed to making the necessary changes, and those of us in the Congress will be working with him to make sure that happens.

Again, this is a hearing about accountability, competence, and trust, and I am looking forward to hearing from the witnesses, and

I want to thank you, Mr. Chairman, for your comments. I yield back.

Chairman WAXMAN. Thank you very much for your comments, Mr. Cummings.

The Chair recognizes Mr. Shays.

Mr. SHAYS. Thank you, Mr. Chairman, for having this hearing.

I am sorry, Mr. Walker, I missed your presentation yesterday at Homeland Security.

Chairman WAXMAN. Thank you, Mr. Shays. Don't feel obligated. I appreciate your not feeling obligated to give an opening statement, but Members do have that opportunity.

I believe Mr. Souder is next.

Mr. SOUDER. Thank you, Mr. Chairman.

As the ranking member of the Border Security and Maritime Security Subcommittee over in Homeland Security, I have some deep concerns about some of the way this is progressing on the secure border initiative. There are obvious concerns about how best to control our borders, and how we do this initiative accurately and whether the costs have been correctly stated. And I have expressed that, and I believe there needs to be accountability, but some of us believe that this question is partly because—and hasn't been stated because some oppose a fence and oppose a natural secure border, and that this is a delaying problem, not a budgeting problem.

After the Homeland Security hearing yesterday, I am deeply concerned that some of this is a delaying tactic, and has nothing to do with budgeting. It seems that our witnesses thought that the 700 miles of fence was something to be studied and debated, rather than a specific law requiring it to be built; that the study is supposed to be for the areas that aren't fenced and for how to back up the fence. It is not within the authority of the IG or the Comptroller to try to rewrite specific legislation of Congress, whether they agree or not. Bluntly said, you have not been elected to do this.

Now, this is often discussed in the secure border initiative about how complex it is and how it needs to be done correctly, and we shouldn't waste money, and I absolutely agree that there needs to be more accountability, as Mr. Walker said yesterday, on subcontracting. But the fence is a specific requirement to be built; we already have fencing areas. And this administration should not hide behind, nor should Congress hide behind, oh, well, we need to study this for a long time.

The American people are getting increasingly skeptical, as we had a debate yesterday, and I am sure we will have more today, about how the Border Patrol agents were handled. We seem more concerned about how to stop getting things done on securing our border than getting our border secure. I believe we need to carefully study our basic border defense—how to do the north border, how to do the south border—but not to delay building the fence and not have secure borders in this country.

Chairman WAXMAN. Thank you very much.

Mr. Tierney.

Mr. TIERNEY. Thank you, Mr. Chairman. I am not going to make a long statement, but the importance of the Coast Guard to my particular district and region of the country is paramount, and we

are all concerned, of course, about border protection. I think that we have—you know, the serious questions that we want to hear today is who should define the program and objectives, and who should determine when they are met, whether or not the Coast Guard and the Customs and Border Protection agencies really do not have the human capacity to fulfill those obligations; and the wisdom of allowing one single entity, a private entity to set both the standards and design, and monitor whether or not compliance and execution has gone the way it should.

I look forward to the answers to that. I think they will be instructive as to how we move forward in this area, and I want to thank you, Mr. Chairman, for bringing this important hearing to be today. Thank you.

Chairman WAXMAN. Thank you very much.

Mr. Sali.

Mr. SALI. Yielding to the Chairman's admonition that we not feel obligated to make a comment, I will forego that.

Chairman WAXMAN. Thank you very much.

Mr. Duncan.

Mr. DUNCAN. Well, thank you very much, Mr. Chairman. And I really don't have a formal opening statement, but I will mention this, that an article yesterday or from yesterday's hearing said Homeland Security officials previously said SBInet would cost between $2 billion and $5 billion, but Skinner said it could cost as much as $30 billion. When pressed by Rogers to provide a ballpark estimate of the program's cost, SBI Director Gregory Giddens balked, "I wish I could answer that with greater clarity."

I think we need to look very, very closely at the costs associated here, because like so many huge Government projects, there seem to be all sorts of cost overruns and low estimates on the front end and then huge cost overruns on the end of it. And when you are talking about $30 billion or more, you are talking about a huge amount of money. So I think we need very close oversight on this project, and I thank you for calling this hearing.

Chairman WAXMAN. Thank you very much, Mr. Duncan.

Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman. I will submit my remarks for the record, but I do want to say, prior to coming to Congress, I had an opportunity to work as an iron worker for about 20 years. I was educated, I got my associate's degree in welding engineering, worked at the General Dynamics Shipyard, so I probably know just about enough in this matter to be dangerous.

I have read all the documents, the audits, and based on the audits and investigations conducted by GAO and the Inspector General, as well as thousands of pages of documents provided by the Department to this committee, DHS's oversight of Deepwater and SBInet is severely limited by the prime negotiator contracts that actually vest almost all of the authority over this program—the design, construction, operation, and quality control—with the private contractors hired to do the work.

The documents indicate that the Government, DHS, has contracted out the oversight of contractors to contractors. That is the problem. And in the case of SBInet, for example, DHS's expendi-

ture plan identifies 60 of the 98 personnel assigned to manage the contract program as private contractors.

The last time I saw this type of model for managing a project was the Big Dig in Boston. This is exactly what they did; they fused the oversight function with the engineering and construction function. Everybody was in the same tent. Nobody was watching out for the owner, who in this case is the U.S. taxpayer.

This is a terrible model. I see a lot of it. And generally what we see is when this model is in place, we see just colossal failures here and huge cost overruns.

So I am delighted that we are having this hearing, Mr. Chairman. I am glad you are leading the way with Mr. Davis. And we have a lot of work to do here, but if this was the private sector, I will tell you, there would be some people getting their papers, their walking papers over what has gone on in these two projects. So this is very, very serious, huge losses, and somebody has to be held responsible.

Thank you, Mr. Chairman. I yield back.

Chairman WAXMAN. Thank you very much, Mr. Lynch.

Mr. Issa.

Mr. ISSA. Thank you, Mr. Chairman. I will put the majority of my opening statement in the record, but I want to thank the chairman and the ranking member for having this hearing today. I believe this hearing should, in its best case, not be about the contracting mistakes alone of this 25-year program, an ambitious one by the Coast Guard, but, rather, be a fair and impartial look at the fundamental problems we have throughout our open and classified procurement process today.

It is very clear that the admirals and captains sitting out here at the end of their careers in fact could not have been properly told as young ensigns that they were going to enter a 25-year career and they were going to oversee a multi-billion dollar 25-year program, and that they would come in as an ensign and go out as a captain and they were going to own that program. That is not the way the U.S. military works; it is not the way the Coast Guard works; it is not even the way our non-uniform services work.

So it is very clear to me that we are going to have to have contractor relationships throughout the process in which people are hired and they are on a program for potentially decades, and that is not going to happen with active government, and particularly not active duty alone.

Having said that, it is also clear that we do not know how, as a government, to share that responsibility, and that developing what Mr. Lynch said, a way not to repeat the Big Dig mistakes, is an obligation of this oversight committee.

So I look forward to delving further into how the relationship between the Government, the developing contractors, and the actual building contractors needs to be done not just on this project, but on $3 trillion economy or $3 trillion Governments broad projects.

And I would only say one last thing. This was begun under President Clinton's watch. It is very clear that it will be President Chelsea Clinton before we will have reformed it entirely.

I yield back.

Chairman WAXMAN. Thank you, Mr. Issa.

Mr. Cooper.

Mr. COOPER. No opening statement.

Chairman WAXMAN. Mr. Hodes.

Mr. HODES. Thank you, Mr. Chairman. I just want to make a few comments.

The problems with the processes and relationships that we are reviewing here highlight for me the challenge we face in how we do Government business in this new era of homeland security. The American people expect and deserve transparency, efficiency, cost-effectiveness, and getting it right in these complex relationships between Government and contractors.

Ultimately, as Members of Congress, it is up to us to learn from what are clearly glaring errors in these projects, the Deepwater and the SBInet, and make it better as quickly as we can, because in an age when we are facing tremendous budgetary challenges and the enormous challenge of fiscal responsibility for the American people, we can't afford to keep getting it wrong.

So as a new Member of Congress, I know I have a lot to learn, but I want to hear what we can do to make sure that this doesn't happen anymore.

Thank you very much. I yield back.

Chairman WAXMAN. Thank you, Mr. Hodes.

In recognizing Mr. Mica, I want to point out that he is the ranking member of the full Transportation and Infrastructure Committee, which has jurisdiction over this issue. So I am pleased that he is with us today.

Mr. Mica.

Mr. MICA. Thank you, Chairman Waxman. I feel a little bit like—was it last Friday was Groundhog Day—that this is Groundhog Day, that we are repeating this, because on January 30th we did conduct a full oversight investigation on the same matter in the jurisdiction of the Coast Guard Subcommittee under Transportation and Infrastructure, but I guess sometimes we have to beat a dead horse and we have to also beat a cracked vessel hull here. But I think the exercise is good.

I heard some of the junior Members talking, and you don't want this repeated, but I have to put it a little bit in context.

We are dealing with a project that started in 2002. It started under the Department of Transportation, actually, under the jurisdiction of the Coast Guard. We changed that out, as you know, to DHS, and DHS has assumed some of the responsibility. We have had two admirals, Admiral Collins—he is not here, is he?

Allen, you are going to take the heat, but he has come on board and actually put in places I think some good protections so this won't happen again.

I come from the private sector, and when you take a project and you are going to move forward on it, you try to bring in the best people. It appears they did bring in the best. Lockheed was well known for its communications ability, Grumman for its shipbuilding, probably the best in the world. But any unique development program for new National Security Cutter and also the problem we had with—we looked at the problem we had with eight patrol boat cutters that will be retrofitted, and that program also went south.

The lessons learned, that you do need good oversight of these projects. You need some single acquisition responsibility and oversight, and I think that has been put in place, so I feel pretty good about that. Comparing this project and these mistakes with the Boeing, I guess, project and border protection is kind of comparing apples and oranges because we were developing a different product with these vessels, the new vessels, in any event. Most of what Boeing is going to do is off-the-shelf systems integration, and I think they should be successful.

But the lesson learned is really good oversight and also oversight from Congress in some continuum. And as we move these departments and responsibilities around, there have been problems, and Mr. Walker is great at finding what they were and enunciating them. But we can learn from this, and I believe that we have, and changes by Admiral Allen, now that you are here now, are being made and I am pleased with them.

Thank you.

Chairman WAXMAN. Thank you, Mr. Mica.

Mr. Yarmuth.

Mr. YARMUTH. Thank you, Mr. Chairman. I would like to submit prepared opening remarks for the record, but I would like to open by saying that there is a methodology in the world, and it seems to be adopted as doctrine, irrefutable doctrine, in many Government circles: that the private sector is always more efficient and effective than the Government sector. And I think what we have seen in this particular situation is evidence to the contrary.

Having been in the private sector for quite a while, the reason the private sector can be more efficient is that there is oversight provided by customers and by shareholders and by the public, and what I think we need to be aware of, and I think that these hearings will help illuminate, is that if the Government is going to employ private contractors for a great percentage of its business, that it needs to provide proper oversight, because the normal controls of the private sector aren't always present.

So thank you, Mr. Chairman, for holding these hearings, and I look forward to hearing from the witnesses.

Chairman WAXMAN. Thank you, Mr. Yarmuth.

Mr. Kucinich, do you wish to make an opening statement or you have it for the record?

Mr. KUCINICH. Actually, I would like to make a brief opening statement.

Chairman WAXMAN. The gentleman is recognized.

Mr. KUCINICH. Thank you very much.

We have seen that privatization has meant profit for a few at the expense of the many, the many being the taxpayers of the United States, but also at the expense of, for example, the Coast Guard. The contractors having control and influence over Government acquisition has meant that the financial interest of the contractors are regarded.

But when you look at a program like the so-called prime integrator contract, Deepwater, you have Coast Guard ships that are not designed and constructed in a way that relates to the functional effectiveness of the Coast Guard. You see ships that have serious cracks and other structural problems. You see structural weak-

nesses in the new 425-foot National Security Cutter. What a great metaphor that is, that our National Security Cutter has cracks in it because of the ineffectiveness and of oversight by the Government itself. And it is good that this committee is undertaking such an oversight effort.

I thank the Chair.

Chairman WAXMAN. Thank you, Mr. Kucinich.

Ms. Watson.

Ms. WATSON. I too want to thank you, Mr. Chairman, for holding these hearings.

Today we need to determine if the prime contractors truly understand the needs of their Government clients or purposely change these designs to fit their own preferences and products.

We also need to determine if the prime contractors played a meaningful role or were an obstacle to direct communication and assistance between the Government agencies and the subcontractors actually doing the work.

More importantly, we need to determine why these Government agencies fail to do due diligence in monitoring the performance or lack of performance of these contractors, and why they waited so long to call in third party auditors to uncover the deficiencies.

And, last, we need to determine what impact the setbacks in these two projects will have in our overall security programs and whether these problems are unique or symptomatic of a larger problem in the Department of Homeland Security.

And I hope the witnesses today will be able to give an honest assessment of what went wrong with these projects and how we can prevent similar occurrences in the future. And I also hope that my colleagues will take a critical look at whether the concept of the prime interrogator is a feasible and cost-effective model for the procurement of large Government projects or another example of the fox guarding the hen house.

Thank you, Mr. Chairman.

Chairman WAXMAN. Thank you, Ms. Watson.

Mr. Higgins.

Mr. HIGGINS. Thank you, Mr. Chairman. I appreciate your taking the initiative to do this hearing, and I think it is very important just generally with respect to the Congress's oversight role here. What we are finding over the last several days in many aspects, the contracting out of various functions within agencies is not producing cost-cutting stimulus, it is resulting in a lot of waste, which is precluding various Government agencies from doing other responsibilities that come under their jurisdiction.

I represent an area of Buffalo, NY, where we have a shore facility that is in need of attention, but it is not being addressed because of the problems, I believe, having to do with the integrated Deepwater systems. So my hope is that as the previous hearings have, this hearing will shed light and promote transparency and accountability into a system that is in desperate need of accountability and transparency.

Thank you, sir.

Chairman WAXMAN. Thank you, Mr. Higgins.

Mr. Sarbanes.

Mr. SARBANES. Thank you, Mr. Chairman. And thank you for your continued vigilance to ensure that taxpayer dollars are being well spent when the Federal Government contracts with private businesses. The hearings of the last 2 days have been serious examinations of our Federal procurement process, and I appreciate your leadership.

That the Federal Government depends on private sector businesses for certain services is nothing new, but I remain concerned that we have exceeded the limits of what can be characterized as a healthy reliance on private contractors for the provision of Government services. Yesterday we heard about the role that contractors play in the conflict in Iraq. That literally hundreds of companies playing multiple roles and answering to different masters leads to confusion in a war zone is without question. But as we heard yesterday, it can also lead to tragedy when the lines are blurred between combat operations and support services.

Today we are examining Department of Homeland Security contracts to determine if, with the so-called integrator model, the Department has relinquished too much authority by allowing contractors to not only execute a contract, but also design the scope of that contract. Both the Deepwater Coast Guard program and the Southern Border Initiative are costly and serious programs. The congressional district I represent includes the Baltimore Harbor and neighbors the Curtis Bay Coast Guard Yard, so I have a particular interest in the upgrade of the Coast Guard fleet.

I hope this hearing will help to shine light on the issues associated with the integrator model of contracting, and I hope it results in a better understanding of what steps the Department of Homeland Security must take to improve its management of both of these important initiatives.

Mr. Chairman, I yield back the remainder of my time and look forward to hearing from the panel.

Chairman WAXMAN. Thank you very much.

Mrs. Maloney.

Mrs. MALONEY. Thank you, Mr. Chairman, for continuing your oversight of making Government really work better for the American people and for the values and goals of the American Government.

What I find so incredibly frustrating, Mr. Chairman—and I will say Mr. Walker and Mr. Skinner—is that we see the same story over and over again. It is like a broken record. The administration wastes billions and billions on fundamentally flawed contracting processes and approaches, and really lacks oversight. The $8.8 billion that they lost or they could not account for that we heard earlier in this week. But it reminds me of the movie of Groundhog's Day; we keep seeing the same problem over and over again.

So what I hope to learn from your testimony today and to hear from you is what we in Congress can do to stop this seemingly endless continuing cycle of waste, fraud, and abuse, and mismanagement in the Government contracting process.

I yield back the balance of my time.

Chairman WAXMAN. Thank you very much, Mrs. Maloney.

I want to now turn to our witnesses to receive testimony today.

Oh, Mr. Clay, I didn't see you come in. Do you wish to be recognized?

Mr. CLAY. Yes, just for a short statement, Mr. Chairman.

Chairman WAXMAN. Certainly. The gentleman is recognized.

Mr. CLAY. Thank you for that. And I thank Ranking Member Davis for holding today's hearing on the management of the Deepwater and SBInet contracts.

It is extremely disturbing that the Coast Guard has been systematically rewarding Deepwater contractors whose products contain crucial structural flaws. The Deepwater program's goal was to replace an aging Coast Guard fleet with new and improved ships. Instead, the poor design and construction of these ships will prevent them from carrying out their mission objective.

Giving these contractors high marks for their poor performance and extending their contracts for substandard equipment is criminal. Someone is dropping the ball, and I look forward to hearing testimony that explains who is being held accountable for this lax oversight. It is my hope that today's hearing will not only shed light on the policy of DHS as to its procurement practices, but also to learn if the Government is efficiently managing taxpayer dollars by relying so heavily on private contractors.

That ends my statement, Mr. Chairman. I yield back the balance of my time.

Chairman WAXMAN. Thank you very much.

Unless any other Members wish to be recognized for an opening statement, we will proceed to the witnesses.

We are honored to have with us David Walker, Comptroller General of the United States and head of the U.S. Government Accountability Office; and Richard Skinner, the Inspector General of the U.S. Department of Homeland Security. We welcome both of you.

It is our policy in this committee to swear in all witnesses, and I would like to ask you to rise and hold up your right hands.

[Witnesses sworn.]

Chairman WAXMAN. Thank you very much. The record will indicate that the witnesses answered in the affirmative.

Your prepared statements are going to be in the record in its entirety, but what we would like to ask each of you to do is to give us a brief summary of the testimony and to try to keep it within 5 minutes.

Mr. Walker, we are going to call on you first.

STATEMENTS OF DAVID WALKER, COMPTROLLER GENERAL, U.S. GOVERNMENT ACCOUNTABILITY OFFICE; AND RICHARD SKINNER, INSPECTOR GENERAL, U.S. DEPARTMENT OF HOMELAND SECURITY

STATEMENT OF DAVID WALKER

Mr. WALKER. Thank you, Chairman Waxman, Ranking Member Davis, other members of the committee. It is a pleasure to be before you today to discuss GAO's reviews of the Department of Homeland Security's acquisition challenges in general and the U.S. Coast Guard's Deepwater program in particular.

In January 2003, the GAO designated DHS's implementation and transformation effort as a high risk area because of the size and complexity of the effort and the existing challenges faced by many of the components of the 22 different entities that were merged into the Department of Homeland Security. Although DHS has made progress in addressing a number of these challenges, there are major items that remain which, therefore, keeps it on our high-risk list.

In fiscal 2006, DHS reported obligating $15.6 billion for acquisitions, making it the third largest Federal department in spending taxpayer dollars in this area. DHS is undertaking large, complex investments as the Federal Government is increasingly relying upon contractors for roles and missions previously performed by Government employees. Contractors have an important role to play in the discharge of the Government's responsibilities, and in some cases the use of contractors can result in improved economy, efficiency, and effectiveness.

At the same time, they don't always result in improved economy, efficiency, and effectiveness. And there may be occasions when contractors are used to provide certain services because the Government lacks another viable and timely option. In such cases, the Government may actually be paying more, and taking on more risk, for such services as opposed to providing certain services by Federal employees. Furthermore, giving more flexibility and responsibilities to contractors results in more risk to the Government and to the taxpayers, which must be actively managed.

In this environment of increased reliance on contractors, sound planning, effective contract execution, and ongoing oversight are critical for success. We have previously identified the need to examine the appropriate role for contractors to be among the greatest challenges facing the Government in the 21st century.

And, I might add, we may be talking about DHS today, we may be talking about Deepwater today, but this is a systemic problem which, Mr. Chairman, I would respectfully suggest may be meritorious of having a separate hearing just on the contracting issue by itself.

DHS has a stated goal of integrating the acquisition function more broadly across the Department. We have reported that this goal has not yet been accomplished and we have identified a number of key impediments to achieving it.

From the outset, we have expressed some concerns about the risk involved with the Coast Guard's acquisition strategy for the Deepwater program. In 2004, we reported that, well into the contract's second year, key components needed to manage the program and to oversee the system integrator's performance had not yet been effectively implemented. It was clear that there was a possibility of expectation gaps between what the Coast Guard may have wanted and what they might ultimately receive.

We also reported that, despite documented problems in schedule, performance, cost control, and contract administration through the first year of the Deepwater contract, the contractor had received a rating of 87 percent, which fell in the "very good" range and resulted in an award fee of $4 million of a maximum $4.6 million being paid. The Federal Government all too frequently is subject to

great inflation, not having adequate performance metrics, and paying award fees based upon attitude and efforts, rather than real results. That is a systemic problem and it needs to be addressed.

However, a number of actions have been taken and others remain to be taken in order to try to get control of the Deepwater situation. I must say that Admiral Allen inherited a number of problems. I would also like to say for the record that I have known Admiral Allen for many years; I have great respect for his leadership ability and I know that he is taking this issue very, very seriously. And you will hear from him later.

We have ongoing work with regard to both SBInet as well as the Deepwater program which we will be issuing in the near future.

And, in summary, let me just say we may be talking about DHS acquisitions and Deepwater in particular today, but let me reiterate, this is a systemic problem throughout the entire Federal Government. The taxpayers lose billions of dollars a year. We have identified, Mr. Chairman and Ranking Member Davis, 15 Government-wide systemic problems in the contracting area, and I would respectfully request at some point in time to have the opportunity to appear before this committee to discuss those, because I think they merit such a hearing.

Thank you.

[The prepared statement of Mr. Walker follows:]

United States Government Accountability Office

GAO

Testimony
Before the Committee on Oversight and Government Reform, House of Representatives

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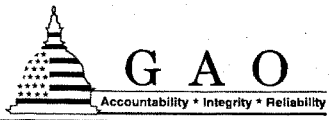
HOMELAND SECURITY

Observations on the Department of Homeland Security's Acquisition Organization and on the Coast Guard's Deepwater Program

Statement of David M. Walker
Comptroller General of the United States



GAO-07-453T

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Highlights

Highlights of GAO-07-453T, a testimony before the Committee on Oversight and Government Reform, House of Representatives

February 8, 2007

HOMELAND SECURITY

Observations on the Department of Homeland Security's Acquisition Organization and on the Coast Guard's Deepwater Program

Why GAO Did This Study

In January 2003, GAO designated the Department of Homeland Security's (DHS) implementation and transformation as high risk because of the size and complexity of the effort and the existing challenges faced by the components being merged into the department. The success of the effort to integrate numerous agencies and organizations into one cabinet-level department rests in large part on DHS's ability to effectively acquire the wide range of goods and services it needs to achieve its mission of protecting the nation from terrorism.

DHS is undertaking a number of large, complex investments as the federal government increasingly relies on contractors for roles and missions previously performed by government employees. One of the department's largest investments—the Deepwater program, now estimated to cost $24 billion—is the Coast Guard's major effort to replace or modernize its aircraft and vessels. Rather than using a traditional acquisition approach, the Coast Guard is using a system integrator to design, construct, deploy, support, and integrate the Deepwater assets.

Today, I would like to discuss (1) the overarching challenges DHS faces in establishing an effective acquisition organization, (2) GAO's prior work on Coast Guard and contractor management of the Deepwater program, and (3) the status of GAO's ongoing reviews.

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To view the full product, including the scope and methodology, click on the link above. For more information, contact Steve Caldwell at (202) 512-9610 or caldwells@gao.gov or John Hutton at (202) 512-7773 or huttonj@gao.gov.

What GAO Found

GAO has reported in the past on acquisition management at several components of DHS and has assessed the department's overall acquisition management and oversight efforts. A common theme in these reports is DHS's struggle, from the outset, to provide adequate support to its mission components in acquiring goods and services and to provide departmentwide oversight of its acquisition function. DHS has a stated goal of integrating the acquisition function more broadly across the department. GAO has reported that this goal has not yet been accomplished and has identified key impediments to achieving it. A management directive intended to integrate the acquisition line of business did not provide the Chief Procurement Officer with the enforcement authority needed in practice, and it does not pertain to all component agencies. Also, the procurement organizations within the department remained somewhat autonomous, and centralized acquisition oversight had not been implemented. While DHS's review process for major investments adopts some best practices, key decision-making reviews at certain points are not required. Investments that are not reviewed at the appropriate points can face a range of problems—such as redesign—resulting in significant cost increases and schedule delays.

The Coast Guard's Deepwater program illustrates problems that can occur when effective program management and contractor oversight are not in place. In 2001, GAO described the Deepwater project as "risky" due to the unique, untried acquisition strategy for a project of this magnitude within the Coast Guard—a system-of-systems approach with the contractor as the integrator. In 2004, GAO reported that well into the contract's second year, key components needed to manage the program and oversee the system integrator's performance had not been effectively implemented. For example, integrated product teams, comprised of government and contractor employees, are the Coast Guard's primary tool for managing the program and overseeing the contractor. GAO found that the teams had not been effective due to changing membership, understaffing, insufficient training, lack of authority for decision-making, and inadequate communication among members. GAO also reported that, despite documented problems in schedule, performance, cost control, and contract administration throughout the first year of the Deepwater contract, the contractor had received a rating of 87 percent, which fell in the "very good" range and resulted in an award fee of $4.0 million. GAO's more recent work found that, while the Coast Guard had taken steps to address some of the problems, concerns remained about program management and contractor oversight. In addition to these overall management issues, there have been problems with the design and performance of specific Deepwater assets.

Given the size of DHS and the scope of its acquisitions, GAO is continuing to assess the department's acquisition oversight process and procedures in ongoing work. GAO is also currently reviewing the status of the Deepwater program's implementation and contractor oversight.

Mr. Chairman and Members of the Committee:

Thank you for inviting me here today to discuss our reviews of the Department of Homeland Security's (DHS) acquisition organization and the U.S. Coast Guard's Deepwater program. When it was established in March 2003, DHS faced the challenge of integrating 22 separate federal agencies and organizations with multiple missions, values, and cultures into one cabinet-level department.[1] The success of this mammoth task—one of the biggest mergers ever to take place within the federal government—rests in large part on DHS's ability to implement the necessary management structure and processes for effectively acquiring goods and services. A wide range of contractor-provided products, technologies, and services are critical to the department's ability to achieve its mission of protecting the nation from terrorism. For example, DHS has purchased increasingly sophisticated screening equipment for air passenger security, acquired technologies to secure the nation's borders, and is upgrading the Coast Guard's offshore fleet of surface and air assets.

In January 2003, we designated DHS's implementation and transformation as high risk because of the size and complexity of the effort and the existing challenges faced by the components being merged into the department.[2] Although DHS has made some progress transforming its components into a fully functioning department, this transformation remains high risk.[3] DHS has yet to implement a corrective action plan that includes a comprehensive transformation strategy, and its management systems—including those related to acquisition—are not yet integrated and wholly operational. DHS's acquisition systems will require continued attention to help prevent waste and ensure that DHS can allocate its resources efficiently and effectively.

In fiscal year 2006, DHS reported obligating $15.6 billion in acquisitions, making it the third largest federal department in spending taxpayer dollars. DHS is undertaking large, complex investments as the federal government increasingly relies on contractors for roles and missions previously performed by government employees. Contractors have an

[1] When the department was established, 22 agencies and organizations were brought in; Plum Island Animal Disease Center joined DHS afterward as the 23rd.

[2] GAO, *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.: January 2003).

[3] GAO, *High-Risk Series: An Update*, GAO-07-310 (Washington, D.C.: January 2007).

important role to play in the discharge of the government's responsibilities, and in some cases the use of contractors can result in improved economy, efficiency, and effectiveness. At the same time, there may be occasions when contractors are used to provide certain services because the government lacks another viable and timely option. In such cases, the government may actually be paying more than if such services were provided by federal employees. In this environment of increased reliance on contractors, sound planning and contract execution are critical for success. We have previously identified the need to examine the appropriate role for contractors to be among the challenges in meeting the nation's defense needs in the 21st century.[4]

My statement today will focus on the overarching challenges DHS faces in creating an effective, integrated acquisition organization and will discuss our prior work on one of the department's most complex programs—the Coast Guard's Deepwater program. I will also discuss areas where we have related ongoing work.

This testimony is based on our work on DHS's acquisition organization and the Deepwater program. That work was conducted in accordance with generally accepted government auditing standards.

Summary

DHS faces challenges in creating an effective acquisition organization:

- DHS has a stated goal of integrating the acquisition function more broadly across the department. We have reported that this goal has not yet been accomplished and have identified key impediments to achieving it. A management directive intended to integrate the acquisition line of business did not provide the Chief Procurement Officer with the enforcement authority needed in practice, and it does not pertain to the Coast Guard and Secret Service. Also, the procurement organizations within the department remained somewhat autonomous, and centralized acquisition oversight had not been implemented. While DHS's review process for major investments adopts some best practices, key decision-making reviews at certain points are not required.

[4] GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, GAO-05-325SP (Washington, D.C.: February 2005).

The Coast Guard's Deepwater program illustrates the type of problems that can occur when effective program management and contractor oversight are not in place:

- From the outset, we have expressed concern about the risks involved with the Coast Guard's acquisition strategy for the Deepwater program. In 2004, we reported that well into the contract's second year, key components needed to manage the program and oversee the system integrator's performance had not been effectively implemented. For example, integrated product teams, comprised of government and contractor employees, are the Coast Guard's primary tool for managing the program and overseeing the contractor. We found that the teams had not been effective due to changing membership, understaffing, insufficient training, lack of authority for decision-making, and inadequate communication among members. We also reported that, despite documented problems in schedule, performance, cost control, and contract administration throughout the first year of the Deepwater contract, the contractor had received a rating of 87 percent, which fell in the "very good" range and resulted in an award fee of $4.0 million of the maximum $4.6 million.[5] In 2006, we reported that the Coast Guard had taken steps to address some of the problems we identified.[6] However, the actions had not been adequate to resolve continuing concerns about program management and contractor oversight. In addition to these overall management issues, there have been problems with the design and performance of specific Deepwater assets.

We continue to review DHS's overall acquisition organization and the Deepwater program:

- Clearly, the challenges DHS faces in establishing an effective, integrated acquisition organization will take some time to resolve. We are continuing to assess DHS's progress, as well as examining other aspects of its acquisition function such as its use of performance-based acquisitions.

[5] We recently reported on the Department of Defense's use of award and incentive fees. GAO, *Defense Acquisitions: DOD Has Paid Billions in Award and Incentive Fees Regardless of Acquisition Outcomes*, GAO-06-66 (Washington, D.C.: Dec. 19, 2005).

[6] GAO, *Coast Guard: Changes to Deepwater Appear Sound, and Program Management Has Improved, but Continued Monitoring Is Warranted*, GAO-06-546 (Washington, D.C.: Apr. 28, 2006).

- Similarly, we continue to review the Deepwater program as it moves into the 5th year of the contract. We recognize that a variety of factors have contributed to the problems we have identified. In some cases, the Coast Guard has taken actions to improve outcomes; in other cases it has either not taken action or actions taken to date have not been effective. We are currently doing work on Deepwater for the House and Senate Appropriations Committees. When we complete our work in several months, we would be happy to provide our results to this committee.

Challenges to Creating an Integrated Acquisition Function at DHS

We have reported in the past on acquisition management at several components of DHS. We have also assessed the department's overall acquisition management efforts.[7] A common theme in these reports is DHS's struggle, from the outset, to provide adequate procurement support to its mission components and to provide departmentwide oversight of its acquisition function. Of the 22 components that initially joined DHS from other agencies, only 7 came with their own procurement support. An eighth office, the Office of Procurement Operations, was created anew to provide support to a variety of DHS entities—but not until January 2004, almost a year after the department was created. DHS has established a goal of aligning procurement staffing levels with contract spending at its various components by the last quarter of fiscal year 2009.

DHS has set forth a stated goal of integrating the acquisition function more broadly across the department. However, the goal has not been accomplished. In March 2005, we identified key factors impeding accomplishment of the department's objective, including limitations of a 2004 management directive and lack of departmentwide oversight of component acquisition organizations. We also identified potential gaps in the department's knowledge-based approach for reviewing its major, complex investments. On a related issue, a number of systemic acquisition challenges we have identified at the Department of Defense could apply equally to DHS.

[7] GAO, *Contract Management: INS Contracting Weaknesses Need Attention from the Department of Homeland Security*, GAO-03-799 (Washington, D.C.: July 25, 2003); *Transportation Security Administration: High-Level Attention Needed to Strengthen Acquisition Function*, GAO-04-544 (Washington, D.C.: May 28, 2004); and *Homeland Security: Successes and Challenges in DHS's Efforts to Create an Effective Acquisition Organization*, GAO-05-179 (Washington, D.C.: Mar. 29, 2005).

Management Directive Has Limitations

In October 2004, the Secretary of DHS signed a management directive entitled "Acquisition Line of Business Integration and Management," the department's principal guidance for leading, governing, integrating, and managing the acquisition function. It directs managers from each component organization to commit resources to training, development, and certification of acquisition professionals. It also highlights the Chief Procurement Officer's broad authority, including management, administration, and oversight of departmentwide acquisition.

However, we have reported that the directive may not achieve its goal of creating an integrated acquisition organization because it creates unclear working relationships between the Chief Procurement Officer and heads of DHS's principal components. For example, the Chief Procurement Officer and the director of Immigration and Customs Enforcement share responsibility for recruiting and selecting key acquisition officials, preparing performance ratings for the top manager of the contracting office, and providing appropriate resources to support procurement initiatives. The policy leaves unclear how the responsibilities will be implemented or what enforcement authority the Chief Procurement Officer has to ensure that initiatives are carried out.

Further, the directive does not apply to the Coast Guard or Secret Service, two entities that are required by the Homeland Security Act of 2002[8] to be maintained as distinct entities within DHS. According to the directive, the Coast Guard and Secret Service are exempted by statute. We are not aware of any explicit statutory exemption that would prevent the application of this directive. Nothing in the document would reasonably appear to threaten the status of these entities as distinct entities within the department or otherwise impair their ability to perform statutory missions. DHS's General Counsel has agreed, telling us that the applicability of the directive is a policy, not legal, matter. Excluding certain components from complying with management directives regarding the acquisition function hampers efforts to integrate the acquisition organization. The Coast Guard, for example, is one of the largest organizations within DHS.

[8] Pub. L. No. 107-296, §§ 821, 888, 116 Stat. 2135 (2002).

Procurement Organizations are Somewhat Autonomous and Lack Departmentwide Oversight

We have reported that DHS's principal organizations are, to a large extent, still functioning much as they did in pre-merger days with regard to acquisition-related functions. Embedded within the seven procurement organizations that came to DHS were, for the most part, the same contracting staffs that joined the department from their former agencies.[9] In addition, the Chief Procurement Officer, who is held accountable for departmentwide management and oversight of the acquisition function, lacks the enforcement authority and has limited resources to ensure compliance with acquisition policies and processes. As of August 2006, according to DHS officials, only five staff were assigned to departmentwide oversight responsibilities. The officials told us that, because their small staff faces the competing demands of providing departmentwide oversight and providing acquisition support for urgent needs at the component level, they have focused their efforts on procurement execution rather than oversight. Our prior work shows that in a highly functioning acquisition organization, the chief procurement officer is in a position to oversee compliance by implementing strong oversight mechanisms.[10] Adequate oversight of acquisition activities across DHS is imperative, in light of the department's mission and the problems that have been reported by us and inspectors general for some of the large components within the department.

Knowledge-based Acquisition Review Process

Some DHS organizations have large, complex, and high-cost acquisition programs—such as the Coast Guard's Deepwater program—that need to be closely managed. DHS's investment review process involves several different levels of review, depending on the dollar threshold and risk level of the program. Deepwater, for example, has been designated as a level 1 investment, meaning that it is subject to review at the highest levels within the department. We reported in 2005 that DHS's framework for reviewing its major investments adopts several best practices from lessons learned from leading commercial companies and successful federal programs that, if applied consistently, could refine its ability to reduce risk to meet cost and delivery targets.[11] One of these best practices is a knowledge-based approach for managers to hold reviews at key decision points in order to

[9] GAO-05-179.

[10] GAO, *Best Practices: Taking a Strategic Approach Could Improve DOD's Acquisition of Services*, GAO-02-230 (Washington, D.C.: Jan. 18, 2002).

[11] GAO-05-179.

reduce risk before investing resources in the next phase of a program's development. For example, DHS's investment review policy encourages program managers to demonstrate a product's design with critical design reviews prior to a production decision.

However, we have found that, based on our extensive body of work on this knowledge-based approach, additional program reviews could be incorporated into the process as internal controls to better position DHS to make well-informed decisions on its major, complex investments. For example, DHS does not require a review to ensure that an investment's design performs as expected before investing in a prototype. We also reported that DHS review processes permitted low-rate initial production to be well underway before a mandatory review gave the go-ahead to proceed to production. A review prior to initiating low-rate initial production was not mandatory; rather, it was held at the discretion of the Investment Review Board (IRB). Our best practices work shows that successful investments reduce risk by ensuring that high levels of knowledge are achieved at these key points of development. We have found that investments that were not reviewed at the appropriate points faced problems—such as redesign—that resulted in cost increases and schedule delays. It is not clear how the Deepwater acquisition has been influenced by the department's investment review process. According to a DHS official, an IRB review of the Deepwater acquisition program baseline, scheduled for January 2007, was postponed.

In its Performance and Accountability Report for fiscal year 2006, DHS stated that it has improved its process for investment reviews by providing greater clarity on DHS policies and procedures. It acknowledges that developing and maintaining the capability needed to achieve DHS missions requires a robust investment program. DHS also states that its components are now required to report on the status of major investments on a quarterly basis and to submit information to ensure that investments are staying within established baselines for cost, schedule, and performance. The report says that the department will identify and introduce acquisition best practices into the investment review process by the first quarter of fiscal year 2008.

Systemic Acquisition Challenges

We have identified a series of systemic acquisition challenges for complex, developmental systems, based mostly on our reviews of Department of Defense programs. In principle, many may apply equally to DHS as it moves forward with its major, complex investments. Some of these challenges include:

- Program requirements are often set at unrealistic levels, then changed frequently as recognition sets in that they cannot be achieved. As a result, too much time passes, threats may change, and/or members of the user and acquisition communities may simply change their minds. The resulting program instability causes cost escalation, schedule delays, fewer quantities, and reduced contractor accountability.
- Program decisions to move into design and production are made without adequate standards or knowledge.
- Contracts, especially service contracts, often do not have measures in place at the outset in order to control costs and facilitate accountability.
- Contracts typically do not accurately reflect the complexity of projects or appropriately allocate risk between the contractors and the taxpayers.
- The acquisition workforce faces serious challenges (e.g. size, skills, knowledge, succession planning).
- Incentive and award fees are often paid based on contractor attitudes and efforts versus positive results, such as cost, quality, and schedule.
- Inadequate government oversight results in little to no accountability for recurring and systemic problems.

Deepwater Program Is Illustrative of Problems Stemming from Lack of Effective Program Management and Contractor Oversight

The Deepwater program is the Coast Guard's major effort to replace or modernize its aircraft and vessels. It has been in development for a number of years. Between 1998 and 2001, three industry teams competed to identify and provide the assets needed to transform the Coast Guard. In 2001, we described the Deepwater project as "risky" due to the unique, untried acquisition strategy for a project of this magnitude within the Coast Guard.[12] Rather than using the traditional approach of replacing classes of ships or aircraft through a series of individual acquisitions, the Coast Guard chose to use a system-of-systems acquisition strategy that would replace its deteriorating assets with a single, integrated package of aircraft, vessels, and unmanned aerial vehicles, to be linked through systems that provide C4ISR,[13] and supporting logistics.

[12] GAO, *Coast Guard: Progress Being Made on Deepwater Project, but Risks Remain*, GAO-01-564 (Washington, D.C.: May 2, 2001).

[13] C4ISR refers to command, control, communications, computer, intelligence, surveillance, and reconnaissance.

System Integrator Concept and the Role of Contractors

In June 2002, the Coast Guard awarded the Deepwater contract to Integrated Coast Guard Systems (ICGS). ICGS—a business entity jointly owned by Northrop Grumman and Lockheed Martin—is a system integrator, responsible for designing, constructing, deploying, supporting, and integrating the Deepwater assets to meet Coast Guard requirements. The management approach of using a system integrator has been used on other government programs that require system-of-systems integration, such as the Army's Future Combat System, a networked family of weapons and other systems. This type of business arrangement gives the contractor extensive involvement in requirements development, design, and source selection of major system and subsystem subcontractors.

Government agencies have turned to the system integrator approach when they believe they do not have the in-house capability to design, develop, and manage complex acquisitions. Giving contractors more control and influence over the government's acquisitions in a system integrator role creates a potential risk that program decisions and products could be influenced by the financial interest of the contractor (who is accountable to its shareholders), which may not match the primary interest of the government–maximizing its return on taxpayer dollars. The system integrator arrangement creates an inherent risk, as the contractor is given more discretion to make certain program decisions. Along with this greater discretion comes the need for more government oversight and an even greater need to develop well-defined outcomes at the outset.

The proper role of contractors in providing services to the government is currently the topic of some debate. I believe there is a need to focus greater attention on what type of functions and activities should be contracted out and which ones should not. There is also a need to review and reconsider the current independence and conflict of interest rules relating to contractors. Finally, there is a need to identify the factors that prompt the government to use contractors in circumstances where the proper choice might be the use of civil servants or military personnel. Possible factors could include inadequate force structure, outdated or inadequate hiring policies, classification and compensation approaches, and inadequate numbers of full-time equivalent slots.

Performance-based Acquisition

The Deepwater program has also been designated as a performance-based acquisition. When buying services, federal agencies are currently required to employ—to the maximum extent feasible—this concept, wherein acquisitions are structured around the results to be achieved as opposed to the manner in which the work is to be performed. That is, the

government specifies the outcome it requires while leaving the contractor to propose decisions about how it will achieve that outcome. Performance-based contracts for services are required to include a performance work statement; measurable performance standards (i.e., in terms of quality, timeliness, quantity, etc.) and the method of assessing contractor performance against these standards; and performance incentives, where appropriate. If performance-based acquisitions are not appropriately planned and structured, there is an increased risk that the government may receive products or services that are over cost estimates, delivered late, and of unacceptable quality.

Assessments of Deepwater Program

In 2001, we reported that the Deepwater project faced risks, including the ability to control costs in the contract's later years; ensuring that procedures and personnel were in place for managing and overseeing the contractor; and minimizing potential problems with developing unproven technology.[14] We noted that the risks could be mitigated to varying degrees, but not without management attention. Our assessment of the Deepwater program in 2004 found that the Coast Guard had not effectively managed the program or overseen the system integrator.[15] We reported last year that the Coast Guard had revised its Deepwater implementation plan to reflect additional homeland security responsibilities as a result of the September 11, 2001, terrorist attacks.[16] The revised plan increased overall program costs from the original estimate of $17 billion to $24 billion. Overall, the acquisition schedule was lengthened by 5 years, with the final assets now scheduled for delivery in 2027.

Our reported concerns in 2004 and in subsequent assessments in 2005 and 2006 have centered on three main areas: program management, contractor accountability, and cost control through competition. While we recognize that the Coast Guard has taken steps to address our findings and recommendations, aspects of the Deepwater program will require continued attention, such as the risk involved in the system-of-systems approach with the contractor acting as overall integrator. A project of this

[14] GAO-01-564.

[15] GAO, *Contract Management: Coast Guard's Deepwater Program Needs Increased Attention to Management and Contractor Oversight*, GAO-04-380 (Washington, D.C.: Mar. 9, 2004).

[16] GAO-06-546.

magnitude will likely continue to experience other problems as more becomes known.

Program Management

In 2004, we reported that more than a year and a half into the Deepwater contract, the key components needed to manage the program and oversee the system integrator had not been effectively implemented. For example, integrated product teams, comprised of government and contractor employees, are the Coast Guard's primary tool for managing the program and overseeing the contractor. We found that the teams had not been effective due to changing membership, understaffing, insufficient training, lack of authority for decision making, and inadequate communication among members.

Although some efforts have been made to improve the effectiveness of the integrated product teams, we have found that the needed changes are not yet sufficiently in place. In 2005, we reported that decision making was to a large extent stove-piped, and some teams lacked adequate authority to make decisions within their realm of responsibility.[17] One source of difficulty for some team members has been the fact that each of the two major subcontractors has used its own management systems and processes to manage different segments of the program. We noted that decisions on air assets were made by Lockheed Martin, while decisions regarding surface assets were made by Northrop Grumman. This approach can lessen the likelihood that a system-of-systems outcome will be achieved if decisions affecting the entire program are made without the full consultation of all parties involved. In 2006, we reported that Coast Guard officials believed collaboration among the subcontractors to be problematic and that ICGS wielded little influence to compel decisions among them. For example, when dealing with proposed design changes to assets under construction, ICGS submitted the changes as two separate proposals from both subcontractors rather than coordinating the separate proposals into one coherent plan. According to Coast Guard performance monitors, this approach complicates the government review of design changes because the two proposals often carried overlapping work items, thereby forcing the Coast Guard to act as the system integrator in those situations.

[17] GAO, *Coast Guard: Progress Being Made on Addressing Legacy Asset Condition Issues and Program Management, but Acquisition Challenges Remain*, GAO-05-757 (Washington, D.C.: July 22, 2005).

In addition, we reported in 2004 that the Coast Guard had not adequately communicated to its operational personnel decisions on how new and old assets would be integrated and how maintenance responsibilities would be divided between government and contractor personnel. We also found that the Coast Guard had not adequately staffed its program management function. Despite some actions taken to more fully staff the Deepwater program, we reported that in January 2005 shortfalls remained. While 244 positions were assigned to the program, only 206 were filled, resulting in a 16 percent vacancy rate.

Contractor Accountability

In 2004, we found that the Coast Guard had not developed quantifiable metrics to hold the system integrator accountable for its ongoing performance and that the process by which the Coast Guard assessed performance after the first year of the contract lacked rigor. For example, the first annual award fee determination was based largely on unsupported calculations. Despite documented problems in schedule, performance, cost control, and contract administration throughout the first year, the program executive officer awarded the contractor an overall rating of 87 percent, which fell in the "very good" range. This rating resulted in an award fee of $4.0 million of the maximum of $4.6 million.

We also reported in 2004 that the Coast Guard had not begun to measure the system integrator's performance on the three overarching goals of the Deepwater program—maximizing operational effectiveness, minimizing total ownership costs, and satisfying the customers. Coast Guard officials told us that metrics for measuring these objectives had not been finalized; therefore they could not accurately assess the contractor's performance against the goals. However, at the time, the Coast Guard had no time frame in which to accomplish this measurement.

Cost Control through Competition

In 2004, we reported that, although competition among subcontractors was a key vehicle for controlling costs, the Coast Guard had neither measured the extent of competition among the suppliers of Deepwater assets nor held the system integrator accountable for taking steps to achieve competition.[18] As the two major subcontractors to ICGS, Lockheed Martin and Northrop Grumman have sole responsibility for determining whether to provide the Deepwater assets themselves or to hold

[18] GAO-04-380.

competitions—decisions commonly referred to as "make or buy." We noted that the Coast Guard's hands-off approach to make-or-buy decisions and its failure to assess the extent of competition raised questions about whether the government would be able to control Deepwater program costs.

Failure to control costs can result in waste of taxpayer dollars. Along with my several colleagues in the accountability community, I have developed a definition of waste. As we see it, waste involves the taxpayers in the aggregate not receiving reasonable value for money in connection with any government funded activities due to an inappropriate act or omission by players with control over or access to government resources (e.g., executive, judicial or legislative branch employees, contractors, grantees or other recipients). Importantly, waste involves a transgression that is less than fraud and abuse and most waste does not involve a violation of law. Rather, waste relates primarily to mismanagement, inappropriate actions, or inadequate oversight.

Status of Recommendations

We made 11 recommendations in 2004 in the areas of management and oversight, contractor accountability, and cost control through competition. In April 2006, we reported that the Coast Guard had implemented five of them. Actions had been taken to

- revise the Deepwater human capital plan;
- develop measurable award fee criteria;
- implement a more rigorous method of obtaining input from Coast Guard monitors on the contractor's performance;
- include in the contractor's performance measures actions taken to improve the integrated product teams' effectiveness; and
- require the contractor to notify the Coast Guard of subcontracts over $10 million that were awarded to the two major subcontractors.[19]

The Coast Guard had begun to address five other recommendations by

- initiating actions to establish charters and training for integrated product teams;

[19] Our 2004 recommendation was to use a $5 million threshold because Lockheed Martin, one of the major subcontractors, uses that amount as the threshold for considering its suppliers major. The Coast Guard decided to use the $10 million threshold based on the criteria in the make-or-buy program provisions of the Federal Acquisition Regulation.

- improving communications with field personnel regarding the transition to Deepwater assets;
- devising a time frame for measuring the contractor's progress toward improving operational effectiveness;
- establishing criteria to determine when to adjust the project baseline; and
- developing a plan to hold the contractor accountable for ensuring adequate competition among suppliers.

We determined that, based on our work, these recommendations had not been fully implemented.

The Coast Guard disagreed with and declined to implement one of our recommendations, to establish a baseline to determine whether the system-of-systems acquisition approach is costing the government more than the traditional asset replacement approach. While we stand behind our original recommendation, the Coast Guard maintains that the cost to implement this recommendation would be excessive.

Performance and Design Problems

In addition to overall management issues discussed above, there have been problems with the design and performance of specific Deepwater assets. For example, in February 2006, the Coast Guard suspended design work on the Fast Response Cutter (FRC) due to design risks such as excessive weight and horsepower requirements.[20] The FRC was intended as a long-term replacement for the legacy 110-foot patrol boats. Coast Guard engineers raised concerns about the viability of the FRC design (which involved building the FRC's hull, decks, and bulkheads out of composite materials rather than steel) beginning in January 2005. In February 2006, the Coast Guard suspended FRC design work after an independent design review by third-party consultants demonstrated, among other things, that the FRC would be far heavier and less efficient than a typical patrol boat of similar length, in part, because it would need four engines to meet Coast Guard speed requirements.

In moving forward with the FRC acquisition, the Coast Guard will end up with two classes of FRCs. The first class of FRCs to be built would be based on an adapted design from a patrol boat already on the market to expedite delivery. The Coast Guard would then pursue development of a

[20]GAO, *Coast Guard: Status of Deepwater Fast Response Cutter Design Efforts*, GAO-06-764 (Washington, D.C.: June 23, 2006).

follow-on class that would be completely redesigned to address the problems in the original FRC design plans. Coast Guard officials now estimate that the first FRC delivery will slip to fiscal year 2009, at the earliest, rather than 2007 as outlined in the 2005 Revised Deepwater Implementation Plan.

In addition to problems with the FRC design, problems have also been discovered with the long-term structural integrity of the National Security Cutter's (NSC) design, which could pose operational and financial impacts to the Coast Guard. The Commandant of the Coast Guard recently stated that internal reviews by Coast Guard engineers, as well as by independent analysts have concluded that the NSC as designed will need structural reinforcement to meet its expected 30-year service life. In addition, a recent report by the DHS Inspector General indicated that the NSC design will not achieve a 30-year service life based on an operating profile of 230 days underway per year in General Atlantic and North Pacific sea conditions and added that Coast Guard technical experts believe the NSC's design deficiencies will lead to increased maintenance costs and reduced service life.[21]

In an effort to address the structural deficiencies of the NSC, the Commandant has stated that the Coast Guard is taking a two-pronged approach. First, the Coast Guard is working with the contractors to enhance the structural integrity of hulls three through eight that have not yet been constructed. Second, after determining that the NSC's structural deficiencies are not related to the safe operation of the vessel in the near term, the Coast Guard has decided to address the deficiencies of hulls one and two as part of depot-level maintenance, planned for several years after they are delivered. The Commandant stated that he decided to delay the repairs to the first two NSC hulls in an effort to prevent further cost increases or delays in construction and delivery.

Further, the Deepwater program's conversion of the legacy 110-foot patrol boats to 123-foot patrol boats has also encountered performance problems. The Coast Guard had originally intended to convert all 49 of its 110-foot patrol boats into 123-foot patrol boats in order to increase the patrol boats' annual operational hours. This conversion program was also intended to add additional capability to the patrol boats, such as enhanced

[21] Department of Homeland Security, Office of Inspector General, *Acquisition of the National Security Cutter, U.S. Coast Guard*, OIG-07-23 (Washington, D.C.: Jan. 23, 2007).

and improved C4ISR capabilities, as well as stern launch and recovery capability for a small boat. However, the converted 123-foot patrol boats began to display deck cracking and hull buckling and developed shaft alignment problems, and the Coast Guard elected to stop the conversion process at eight hulls upon determining that the converted patrol boats would not meet their expanded post-9/11 operational requirements.

Problems Have Operational Consequences

The design and performance problems illustrated above have clear operational consequences for the Coast Guard. In the case of the 123-foot patrol boats, the hull performance problems cited above led the Coast Guard to suspend all normal operations of the eight converted normal 123-foot patrol boats effective November 30, 2006. The Commandant of the Coast Guard has stated that having reliable, safe cutters is "paramount" to executing its missions, such as search and rescue and migrant interdiction.[22] The Coast Guard is exploring options to address operational gaps resulting from the suspension of the 123-foot patrol boat operations.

In regard to the suspension of FRC design work, as of our June 2006 report, Coast Guard officials had not yet determined how changes in the design and delivery date for the FRC would affect the operations of the overall system-of-systems approach. However, because the delivery of Deepwater assets are interdependent within this acquisition approach, schedule slippages and uncertainties associated with potential changes in the design and capabilities of the new assets have increased the risks that the Coast Guard may not meet its expanded homeland security performance requirements within given budget parameters and milestone dates.

Additional Reviews Ongoing

Given the size of DHS and the scope of its acquisitions, we are continuing to assess the department's acquisition oversight process and procedures in ongoing work. For example, we are currently reviewing DHS's use of contractors to provide management and professional services, including the roles they are performing and how their performance is overseen. In addition, the conference report to the Department of Homeland Security Appropriations Act for Fiscal Year 2007[23] directed DHS's Chief

[22] *Coast Guard Suspends Converted Patrol Boat Operations*, November 30, 2006, U.S. Coast Guard, Office of Public Affairs.

[23] H.R. Conf. Rep. No. 109-699, at 118 (2006).

Procurement Officer to develop a procurement oversight plan, identifying necessary oversight resources and how improvements in the department's performance of its procurement functions will be achieved. We have been directed to review the plan and provide our observations to congressional committees. We are also reviewing the department's use of performance-based acquisitions.

We will also continue to review Deepwater implementation and contract oversight. We are currently reviewing aspects of the Deepwater program for the House and Senate Appropriations Committees' Subcommittees on Homeland Security.[24] Our objectives are to review (1) the status of the development and delivery of the major aviation and maritime assets that comprise the Coast Guard's Deepwater program; (2) the history of the contract, design, fielding, and grounding of the converted 123-foot patrol boats and operational adjustments the Coast Guard making to account for the removal from service of the 123-foot patrol boats; and (3) the status of the Coast Guard's implementation of our 2004 recommendations on Deepwater contract management for improving Deepwater program management, holding the prime contractor accountable for meeting key program goals, and facilitating cost control through competition. We will share our results with those committees in April of this year.

Concluding Observations

Due to the complexity of its organization, DHS is likely to continue to face challenges in unifying the acquisition functions of its components and overseeing their acquisitions—particularly those involving large and complex investments. Although the Coast Guard has taken actions to improve its management of the Deepwater program and oversight of the system integrator, problems continue to emerge as the program is implemented. DHS and the Coast Guard face the challenge of effectively managing this program to obtain desired outcomes while making decisions that are in the best interest of the taxpayer. Given its experience with Deepwater, the department would be wise to apply lessons learned to its other major, complex acquisitions, particularly those involving a system integrator.

[24] This work is based on Conference Committee Report language (H.R. Conf. Rep. No. 109-699, at 118 (2006)) incorporating GAO reporting provisions contained in a House Appropriations Committee Report (H.R. Rep. No. 109-476, at 15 (2006)).

Mr. Chairman, that concludes my statement. I would be happy to respond to any questions you or other Members of the Committee may have at this time.

Contacts and Acknowledgements

For information about this testimony, contact Steve Caldwell at (202) 512-9610 or John Hutton at (202) 512-7773. Other individuals making key contributions to this testimony include Michele Mackin, Christopher Conrad, and Adam Couvillion.

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Chairman WAXMAN. Thank you very much, Mr. Walker. I share your concerns and we will continue to look at the picture as well.

Mr. Skinner.

STATEMENT OF RICHARD SKINNER

Mr. SKINNER. Good morning, Mr. Chairman and members of the committee.

Before I go into details, there are a couple of points I would like to note, and they are also things that members of the committee have also raised in their opening statements.

First of all, people have to understand when the Department was stood up in March 2003, it was shortchanged. On one side of the ledger it acquired entire operational assets and programs of 22 disparate agencies. On the other side of the ledger it did not acquire a proportionate share of the acquisition management assets needed to support those programs and operations.

To compound matters, DHS was asked or was required—the acquisition management function was asked to service whole new components that were stood up as a result of the creation of the Department of Homeland Security. For example, the Science and Technology Directorate, the Intelligence Analysis Directorate, and the Infrastructure Protection Directorate.

The Government's greatest exposure to fraud, waste, and abuse is undoubtedly in the area of procurement. As already pointed out by members of this committee, the problem is not a new one; it dates back to the Federal Government's nearsighted policies of the early 1990's to reduce the Federal work force. While acquisition management capabilities were being downsized, the procurement workload was on the rise.

This phenomenon is most profound within DHS, the Department of Homeland Security, where reliance on the private sector is critical. Forty percent of the Department's budget in year 2006 was spent on contracts, $16 billion. The Department, in essence, however, is in a catch–22. The urgency of its mission demands rapid pursuit of major investment programs; it cannot wait until its acquisition management infrastructure is in place or fully staffed. And, without a systems command or a program management capability to provide managers with expertise, business processes and tools, DHS's large, complex performance-based contracts, such as Deepwater and SBInet, are at risk of cost overruns, delayed delivery schedules, poor performance and, yes, waste.

DHS recognizes these problems and is acting aggressively to correct them. However, many of these corrective measures will take time, such as building a procurement work force to manage the Department's massive workload. Until this is accomplished, DHS needs to proceed with caution and take advantage of all the tools at its disposal to mitigate risk and avoid future problems.

I am sure you will hear from the next panel about the precautions and plans that the Department's Procurement Office, the Coast Guard, and the Customs and Border Security Office are taking or planning to take to safeguard Department's contract dollars in the future. Some common themes and risks that have emerged from our audits over the past several years are the dominant influ-

ence of expediency, poorly defined requirements, and inadequate oversight of staffing.

With regard to Deepwater, the Department of Transportation created in the late 1990's to replace, modernize, and sustain the Coast Guard's aging and deteriorating fleet of ships and aircraft. In June 2002, the Coast Guard awarded the Integrated Coast Guard Systems with a 5-year term, 30-year contract to serve as the Deepwater systems integrator.

Five months later, in February 2003, the U.S. Department of Transportation Office of Inspector General reported that the Coast Guard lacked sufficient management controls and capacity to oversee the program. That was 4 years ago. The program was initiated without the people and processes needed to manage the effort, even with the outsourcing of program management to a systems integrator. This lack of a proper foundation for the Deepwater program remains a challenge to this day and, as a result, the Coast Guard has encountered a number of challenges which have resulted in cost increases, schedule delays, and reduced operational performance.

The Deepwater contract essentially empowered the contractor with authority for decisionmaking. Therefore, the Coast Guard was reluctant, in our opinion, to exercise a sufficient degree of authority to influence the design and production of its own assets. Furthermore, general ambiguities in the Deepwater contract terms and condition have compromised the Coast Guard's ability to hold the contractor accountable for its performance.

The Coast Guard recognizes these challenges and I can assure you Admiral Allen takes them very, very seriously, and he has assured us—and you will hear from him later today—that they will take aggressive corrective action to turn this around.

Concerning the SBInet program, it too is a performance-based strategy with a systems integrator to develop solutions to manage, control, and secure the borders. The Department awarded the SBInet systems integrator contract to the Boeing Co. in September 2006. We have been monitoring the Department's implementation of the SBInet program and recently provided a risk advisory with recommendations to address weaknesses in the program. The Department has agreed with our recommendation and said it is planning to pursue corrective actions.

As described in that report, our main concern about SBInet is that DHS embarked on a multi-million dollar acquisition project without having laid the foundation to oversee and assess contractor performance and cost control and schedule. Deja vu, Deepwater all over again. Prior to the award, DHS has not properly defined, validated, and stabilized operational requirements. Moreover, until the operational and contract requirements are firm, effective performance management and cost and schedule control are precluded.

We also reported that the Department does not have the capacity needed to plan, oversee, and execute the SBInet program, to administer its contracts, and control cost and schedule. DHS needs to move quickly to establish the organizational capacity to oversee, manage, and execute the program.

Also, in all fairness, I should note that we also reported that the SBInet program has taken steps to mitigate risk and avoid some of the problems encountered by the Deepwater program. For exam-

ple, unlike the Deepwater acquisition, DHS retained decision authority; included contract provisions ensuring Government involvement in the subcontract management or in make-or-buy decisions; the system integrator is not necessarily the source of supply; adopted shorter contract terms which included off-ramps in the contract; used concept demonstrations and incremental approaches before committing to a long-term solution and investment.

I would like to conclude by saying that my office is highly committed to the oversight of these and other major acquisitions within the Department. It is an area where we continue to focus considerable resources. This year, we plan to issue a report card on the Department's management of its procurement responsibilities, the Deepwater program, the SBInet program, and FEMA'S procurement program. We also plan to issue a series of reports on the Department's management of both the SBInet and the Deepwater program.

Mr. Chairman, that concludes my remarks. I would be happy to answer your questions, any questions you or the Members may have.

[The prepared statement of Mr. Skinner follows:]

STATEMENT OF RICHARD L. SKINNER

INSPECTOR GENERAL

U.S. DEPARTMENT OF HOMELAND SECURITY

BEFORE THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

U.S. HOUSE OF REPRESENTATIVES

"Procurement Practices of the Department of Homeland Security"

February 8, 2007

Introduction

Good morning, Mr. Chairman and Members of the Committee. I am Richard L. Skinner, Inspector General for the Department of Homeland Security (DHS). Thank you for the opportunity to discuss challenges facing the department in managing major acquisitions, such as Deepwater and SBInet.

My testimony today will address acquisition management challenges facing the department with a focus on major systems acquisitions. I will provide highlights of the unique management challenges facing the Deepwater and SBInet programs, and present our plans for oversight of these programs and the department's overall acquisition management function.

In July 2006, my Assistant Inspector General for Audits advised this committee about challenges the department faced in building an effective acquisition management infrastructure. Today I will expand on those observations focusing on the department's capacity for managing major systems acquisition programs. The particular focus of the committee on Deepwater and SBInet is prudent and I applaud your committee's interest and oversight of these two high-risk programs.

Deepwater and SBInet are inherently high-risk not only because of their scope, complexity, and high dollar value, but also because they are essential to the department's mission accomplishment. As our recent reviews have shown, further increasing their risk are the vulnerabilities stemming from the lack of acquisition management capacity.

Acquisition Management Challenges Across the Department

In prior years, we conducted audits and reviews of individual DHS contracts, such as the Transportation Security Administration's (TSA's) screener recruiting and TSA's information technology services. More recently, we have completed audits relating to the Coast Guard's Deepwater program, the SBInet program, and the Federal Emergency Management Agency (FEMA) contracting. Common themes and risks emerged from these audits, primarily the dominant influence of expediency, poorly defined requirements, and inadequate oversight that contributed to ineffective or inefficient results and increased costs.

The department continues to pursue high-risk, complex, system-of-systems acquisitions programs, such as SBInet and Deepwater. A performance-based acquisition strategy to address the challenges of these programs is, in our opinion, a good one. Partnering with the private sector adds fresh perspective, insight, creative energy, and innovation. It shifts the focus from traditional acquisition models, i.e., strict contract compliance, into one of collaborative, performance-oriented teamwork with a focus on performance, improvement, and innovation. Nevertheless, using this type of approach does not come without risks. To ensure that this partnership is successful, the department must lay the foundation to oversee and assess contractor performance, and control costs and schedules. This requires more effort and smarter processes to administer and oversee.

Acquisition management is not just awarding a contract, but fulfilling a mission need through a thoughtful, balanced approach that considers cost, schedule, and performance. The urgency and complexity of the department's mission will continue to demand rapid pursuit of major investment programs. In 2006, DHS spent about 40 of its budget through contracts.

DHS must have an infrastructure in place that enables it to oversee effectively the complex and large dollar procurements critically important to achieving the department's mission. While DHS continues to build its acquisition management capabilities in the component agencies and on the department-wide level, the business of the department goes on and major procurements continue to move. We identified significant risks and vulnerabilities that might threaten the integrity of the department's acquisition management program. In general, DHS needs to improve its major acquisitions planning, operational requirements definition, and implementation oversight.

The prerequisite for effective acquisitions, that is, obtaining the right, cost-effective systems and equipment to accomplish the department's missions, is program management. Complex and high dollar contracts require multiple program managers, often with varying types of expertise. Several DHS procurements have encountered problems because contract technical and performance requirements were not well defined. DHS needs more certified program managers; comprehensive department-wide standards for program management; a strengthened investment review board process to provide greater independent analysis and review; better defined technical requirements; and more balance among schedule, cost, and performance when expediting contracts. The Office of the Chief Procurement Officer recently established a program management advisory board, established standards for certifying program managers, and promoted program management training opportunities. The Office of the Chief Procurement Officer is assisting program offices with acquisition planning, including templates and one-on-one assistance.

In their transition into DHS, seven agencies retained their procurement functions, including the United States Coast Guard, FEMA, and TSA. The expertise and capability of the seven procurement offices mirrored the expertise and capability they had before creation of DHS, with staff size that ranged from 21 to 346 procurement personnel. DHS established an eighth acquisition office, the Office of Procurement Operations, under the direct supervision of the Chief Procurement Officer, to service the other DHS components and manage department-wide procurements. Many DHS procurement offices reported that their lack of staffing prevents proper procurement planning and severely limits their ability to monitor contractor performance and conduct effective contract administration. The fiscal year 2007 DHS Appropriations Act provides over 400 additional contract specialist positions to alleviate part of the shortfall. Moreover, DHS is planning a contracting fellows program with up to 100 entry-level positions to begin in fiscal year 2008.

In addition to awarding contracts, the Office of the Chief Procurement Officer helps DHS components adhere to standards of conduct and federal acquisition regulations in awarding and administering contracts. This oversight role involves developing department-wide policies and procedures, and enforcing those policies and procedures. Both our office and the Government Accountability Office (GAO) have reported that the Office of the Chief Procurement Officer needs more staff and authority to carry out its general oversight responsibilities. GAO recommended that DHS provide the Office of the Chief Procurement Officer sufficient resources and enforcement authority to enable effective department-wide oversight of acquisition policies and procedures. We made a similar recommendation. The DHS, in response to our December 2006 report, *Major Management Challenges Facing the Department of Homeland Security*, said that it disseminated the Acquisition Professional Management Directive to identify and certify appropriately trained and experienced program managers, contracting officer's technical representatives, and authorized buying agents. It also has certified 348 program managers since 2004, and continues to focus on qualifications and placement.

During fiscal year 2006, the Under Secretary for Management established policies for acquisition oversight and directed each of the eight heads of contracting activities to measure and manage their acquisition organizations. Also, the number of oversight specialists in the Acquisition Oversight Division is authorized to expand to nine during fiscal year 2007. The Office of the Chief Procurement Office has undertaken an outreach program to involve DHS component staff to manage effectively and assist in acquisition oversight. The department also chartered the Program Management Council to develop recommendations and priorities for program management policies and requirements; develop and promote standards and performance measures; foster best practices; and advise on hiring, training, and professional development issues.

Deepwater Program & Challenges

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, providing a deepwater-capable fleet for 40 years. The Deepwater acquisition strategy is a nontraditional approach by which private industry was asked to not only develop and propose an optimal system-of-systems mix of assets, infrastructure, information systems, and people solution designed to accomplish all of the Coast Guard's Deepwater missions, but also to provide the assets, the systems integration, integrated logistics support, and the program management. Under a more traditional acquisition strategy, the government would have separately contracted for each major activity or asset involved, such as cutters, aircraft, their logistics support,[1] communications equipment, systems integration, and program management support.

In June 2002, the Coast Guard awarded Integrated Coast Guard Systems (ICGS) with an initial 5-year contract to serve as the Deepwater systems integrator. The current base contract expires in June 2007 and the Coast Guard may authorize up to five additional

[1] For example spares, repair parts, maintenance, supply support, user manuals, and operator training.

5-year award terms. ICGS is a joint venture of Northrop Grumman and Lockheed Martin. The 2002 award decision followed a multiyear competitive phase where two other industry teams vied with ICGS.

In February 2003, the U.S. Department of Transportation Office of Inspector General (DOT OIG) reported that:

- The underlying operational requirements for the Deepwater program were not stable and, therefore, all of the program's plans, budgets, and cost estimates were invalid. Operational requirements changed with the increased emphasis on presence-based missions, secure communications, rapidly deploying response teams, and other needs. A further source of instability was uncertainties about the mix and number of assets needed to meet post-September 11th requirements, the increasingly deteriorated condition of the fleet from high operating tempos, and congressional calls to accelerate the program.

- The Coast Guar's management controls and capacity to oversee the program were not in place. The program was initiated without the people and processes needed to manage the effort, even with the outsourcing of program management support to ICGS. Specifically, the necessary staffing, business processes, information systems, earned value management systems, integrated product development processes and teams, and support arrangements were not in place.[2] Also, an acquisition program baseline of cost, schedule, and technical performance measures had not been set, although funding constraints were known and ICGS had laid out a notional program in its winning proposal. The DOT OIG also warned that information system support and defined business processes for the new program office were not in place to document the basis for decisions that future program and contracting officials would need to know.

The Coast Guard acknowledged some of the concerns, and identified actions underway to redress them, but decided that the number of staff assigned was adequate.

Establishing the proper foundation for the Deepwater program remains a challenge the Coast Guard and ICGS have not been able to overcome. The Coast Guard has encountered a number of similar challenges in executing its Deepwater Acquisition program, despite the expenditure of more than $3 billion over 4 years. Our reviews have identified the difficulties the program has encountered, which have resulted in cost increases, schedule delays, and reduced operational performance. This applies to both the Deepwater surface and air domains, and the Command Control Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) Systems. For example, we identified management deficiencies and inadequate technical oversight related to the acquisition of the National Security Cutter. In this case, the Coast Guard did not exercise sufficient oversight authority of the contract with Integrated Coast Guard Systems to address design deficiencies. Consequently, the National Security Cutter (NSC) acquisition is expected to cost more than originally planned and the cutters may be

[2] Such as an agreement with Defense Contract Management Agency for contract administration support.

subject to operational limitations that affect the ability of the Coast Guard to execute its Deepwater mission.

Reviews of Deepwater assets revealed problems with the definition and clarity of operational requirements, contract requirements and performance specifications, and contractual obligations. For example, from our review of the NSC, we reported the Coast Guard and the American Bureau of Shipping (ABS) 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 their 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.

In our review of the Helicopter Interdiction Tactical Squadron (HITRON) acquisition, the MH-68A aircraft did not fully meet performance requirements or operational needs for endurance, power, and maneuverability as set in the 2003 contract. In order to provide uninterrupted operations with the MH-68A, the Coast Guard modified the performance requirements from the 2003 contract, both omitting and decreasing requirements in the 2005 contract, so that the current MH-68A aircraft could meet the reduced contract and mission requirements.

Another example of weakness in translating operational requirements into contract requirements is the video surveillance system for the 123' Island Class Patrol Boat. The performance specifications the Coast Guard included in the Deepwater contract specified only that a video surveillance system be installed. It did not state the number of cameras to be installed or a requirement that the system provide 360-degrees of coverage. As a result, the installation consists of a four-camera system with coverage gaps that meets minimum Deepwater contract requirements but may not meet all the 123' Patrol Boat's surveillance and security requirements.

Management and Oversight Capacity. Weaknesses in Coast Guard execution and program oversight of the Deepwater contract were revealed during several different audits, including reviews of the NSC, the 123' Island Class Patrol Boat, HITRON, and C4ISR systems. These deficiencies, in several instances, resulted in the development of assets that do not meet all contractual requirements or Coast Guard mission needs. Common causes for insufficient program oversight and execution include lack of resources, staff capacity, and the ability and willingness to hold the contractor accountable for ensuring sufficient contract performance. For example, from our NSC audit, we reported weaknesses in the Coast Guard's oversight processes and controls, which left the program office either unwilling or unable to prevent the contractor from focusing on reinterpreting aspects of the performance specifications rather than working

to meet performance requirements. Additionally, serious structural design concerns raised by the Coast Guard's in-house technical experts were not resolved in a timely manner. As a result, the first two cutters were produced despite known design concerns. Furthermore, the lack of supporting documentation for key program decisions puts the Coast Guard at a disadvantage during critical contract negotiations and calls into question Coast Guard stewardship of public resources. The audit of the C4ISR systems revealed that the Coast Guard did not have sufficient resources to carry out effective oversight of the contract to install the desired systems nor adequate user training or IT support.

Additionally, the route the Coast Guard took to outsource program management to the systems integrator has presented challenges in implementation. The Deepwater contract essentially empowered the contractor with authority for decision-making. Therefore, the Coast Guard was reluctant to exercise a sufficient degree of authority to influence the design and production of its own assets. Specifically, under the contract ICGS was the Systems Integrator and assigned 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." However, there is no contractual requirement that the Systems Integrator accept or act upon the Coast Guard's technical advice, regardless of its proven validity. Further, as the primary management tool for the Coast Guard to contribute its input on the development of Deepwater assets, the effectiveness of the contractor-led Integrated Product Teams (IPTs) in resolving the Coast Guard's technical concerns has been called into question by both the GAO and the OIG. As a result, key Deepwater assets, such as the National Security Cutter, have moved into the production phase with significant design and performance concerns intact.

Ineffective business processes and controls were evident from our reviews as well. For example, regarding the NSC, although the Coast Guard and ABS initially specified a certifying agent for each standard to ensure that all cutters would be objectively evaluated for compliance, the Coast Guard ultimately allowed the competing industry teams to determine the certifying entity for any non-ABS standards it selected and, to the extent that it was permitted, the contractor elected to self-certify compliance with these standards. This decision is not only in sharp contrast to the intended role of the an independent certifying authority as provided in the Deepwater contract, but also eliminated an oversight tool for ensuring the cutter designs developed under the Deepwater program would meet both contractor and Deepwater mission performance requirements.

General ambiguities in the Deepwater contract's terms and conditions have compromised the Coast Guard's ability to hold the contractor accountable by creating situations where competing interpretations of key provisions exist. For example, the performance specifications associated with upgrading the information systems on the Coast Guard's 123' Island Class Patrol Boats did not have a clearly defined expected level of performance. In our review of the HITRON acquisition, we determined that a similar lack of clarity in the asset's contractual performance requirements challenged the Coast Guard's ability to effectively assess contractor performance. On the NSC acquisition, while the Coast Guard admits that the cutter's performance specifications contain "minor

ambiguities," these ambiguities open the door to allow the contractor to focus its energy on reinterpreting the NSC's performance requirements to accommodate the ship's current design rather than on designing the ship to meet its stated performance capability.

Similar issues were previously identified related to the 110-foot patrol boat conversion project. This project was curtailed at eight cutters due to design, construction, performance, and cost concerns. In December, the Coast Guard decided to take the eight converted cutters out of service due to structural design deficiencies. In response to these challenges, the Coast Guard accelerated plans to design, construct, and deploy the composite Fast Response Cutter by more than 10 years as a replacement for the 110-foot patrol boat. However, an independent analysis has confirmed that the Fast Response Cutter design is outside patrol boat design parameters; i.e., too heavy, too overpowered, and not streamlined enough to reduce resistance. These concerns led to the Coast Guard's April 2006 decision to suspend work on the Fast Response Cutter until these issues could be resolved or an alternative commercial off-the-shelf design identified.

In the Deepwater air domain, the HH-65C helicopter and unmanned aerial vehicle acquisitions have encountered schedule delays and cost increases. These Deepwater design, construction, performance, scheduling, and cost issues are expected to continue to present significant challenges to Coast Guard Deepwater Program in the future.

The Coast Guard recognizes these challenges and is taking 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, and most importantly, the Coast Guard is increasing its staffing for the Deepwater program, and reinvigorating its acquisition training and certification processes to ensure that staff have the requisite skills and education needed to manage the program. The Coast Guard is also taking steps to improve the documentation of key Deepwater related decisions. These steps should go a long way in improving the management and oversight of the Deepwater Program as it moves forward.

SBInet Program & Challenges

In the fall of 2005, the White House and the department announced the Secure Border Initiative (SBI), a comprehensive multiyear effort to secure the borders and reduce illegal immigration, which included a U.S. Immigration and Customs Enforcement-led plan to increase and improve the apprehension, detention, and removal of illegal aliens; a U.S. Citizenship and Immigration Service-led plan for expanding the guest worker program and streamlining immigration benefits processes; and a U.S. Customs and Border Protection (CBP)-led program to gain control of the Nation's land borders. This DHS program, referred to as SBInet, is intended to improve border control operations, deploying more infrastructure and personnel with modernized technology and tactics.

The objective of SBInet is to develop solutions to manage, control, and secure the borders using a mix of proven, current and future technology, infrastructure, personnel, response

capability, and processes. SBInet is a new-start major acquisition program that replaces and expands upon two previous efforts to gain control of the borders: the Integrated Surveillance Intelligence System (ISIS) and the America's Shield Initiative (ASI). The department recognized that differences in the geography and conditions among sectors of the border require a different mix of technology, infrastructure, and personnel. Therefore, the department selected a performance-based acquisition strategy that solicited solutions from industry, and then selected a systems integrator to develop solutions to manage, control, and secure the borders. The department awarded the SBInet systems integration contract to the Boeing Company in September 2006.

The department awarded an indefinite delivery, indefinite quantity contract, leaving the work tasks and deliverables largely undefined until the government negotiates a specific delivery task order. The contract base period is 3 years with three 1-year options. The initially awarded task was for Boeing to provide and integrate equipment to achieve operational control of a segment of the border near Tucson, Arizona, by June 2007.

We have monitored the initiation of the SBInet program and provided a risk advisory with recommendations to address observed weaknesses in the program. The department was fully interactive and responsive during our SBInet review, agreed to our recommendations, and is planning and pursuing corrective actions. However, the SBI procurement continues to present a considerable acquisition risk because of its size and scope.

Our main concern about SBInet is that DHS is embarking on this multibillion-dollar acquisition project without having laid the foundation to effectively oversee and assess contractor performance and effectively control cost and schedule. DHS has not properly defined, validated, and stabilized operational requirements and needs to do so quickly to avoid rework of the contractor's systems engineering and the attendant waste of resources and delay in implementation. Moreover, until the operational and contract requirements are firm, effective performance management, and cost and schedule control are precluded. As acknowledged in our report, the department took actions to mitigate risk during the course of our review and is planning further actions to establish an effective performance management system for SBInet.

We also reported that the department does not have the capacity needed to effectively plan, oversee, and execute the SBInet program; administer its contracts; and control costs and schedule. The department's acquisition management capacity lacks the appropriate work force, business processes, and management controls for planning and executing a new-start, major acquisition program such as SBInet. Without a preexisting professional acquisition workforce, Customs and Border Protection has had to create staffing plans, locate workspace, and establish business processes, while simultaneously initiating one of the largest acquisition programs in the department. DHS needs to move quickly to establish the organizational capacity to properly oversee, manage, and execute the program.

While the department has taken steps to establish adequate oversight of this contract, we see risks similar to those occurring in other DHS acquisitions where contract management and oversight has failed. Prior to award of the SBInet contract, the department did not lay the foundation to oversee and assess contractor performance, and control costs and schedule of this major investment.

Management and Oversight Capacity. The department's acquisition management capacity lacked the appropriate work force, business processes, and management controls for planning and executing a new-start major acquisition program such as SBInet. Without a preexisting professional acquisition workforce, CBP had to create staffing plans, locate workspace, and establish business processes, while simultaneously initiating one of the largest acquisition programs in the department. At the time of the contract award, the organizational structure was in flux and key positions were still being identified and filled.

The emerging organization proposed 252 positions; however, it is unclear whether that organization will be up to the challenges ahead. Staffing the SBInet program office has been a critical problem for the department. We identified other specific management oversight risks at the time the award:

- Whether organizational roles and functions will be assigned appropriately for employees and contractors. While contractors are appropriate for support services, only federal employees should perform inherently governmental functions.[3] The emerging organizational structure identified 65% of the 252 positions as contractors. This appears excessive for the management control environment that will be needed for such a large, complex acquisition.

- Whether the staff will have the appropriate qualifications and necessary training in acquisition management, as well as the right skill mix. A question remains whether the emerging organizational structure will adequately provide for the use of integrated product teams, as required by OMB capital budgeting regulations.[4]

- How workforce turnover and fluctuations will be managed. As a stopgap measure, CBP is detailing agents and other staff on temporary assignment to identify and perform tasks for which they are not experienced or trained. The program office had no clear plan for replacing the detailees and transferring their institutional knowledge. Without turnover procedures and documentation of decisions and deliberations, new personnel could be at a disadvantage in managing implementation.

[3] OMB Policy Letter 92-1 and Circular A-76 describe inherently governmental functions as those so intimately related to the public interest as to mandate performance by government employees.
[4] OMB Circular A-11 requires use of Integrated Product Teams (IPTs). IPTs bring a variety of functional disciplines to the task, ensuring full consideration of perspectives in making program decisions, so that the potential impacts are identified and trade-offs understood. At issue for SBInet is whether the appropriate mix of technical and business disciplines, such as engineers, logisticians, contracting officers, and cost analysts will be available to staff the IPTs.

Additionally, the investment review processes required by department directive[5] were bypassed, and key decisions about the scope of the program and the acquisition strategy were made without the prescribed review and analysis or transparency. The department has since moved toward completing these reviews. The department's Investment Review Board and Joint Requirements Council provide for deliberative processes to obtain the counsel of functional stakeholders.

Operational Requirements. Until the department fully defines, validates, and stabilizes the operational requirements underlying the SBInet program, the program's objectives are at risk and effective cost and schedule control are precluded.

The department deferred fully defining operational requirements until after award of the systems integration contract. In selecting the systems integrator, the department used a broad statement of objectives as part of its acquisition strategy in order to allow industry to be creative in its solutions and, consequently, deferred setting contract requirements, including performance metrics, until delivery task order negotiations.

While the SBInet broad statement of objectives is an appropriate algorithm[6] for encouraging the systems engineering desired, success in accomplishing this macro algorithm cannot be practically measured. By not setting measurable performance goals and thresholds, the government was at increased risk that offerors would rely on unproven technologies and high-risk technical solutions that would delay implementation or be unaffordable.

To mitigate this risk, the solicitation asked for solutions that used commercial off-the-shelf and government off-the-shelf solutions, even as the department publicly encouraged use of high-risk, developmental items, such as unmanned aerial vehicles. Also, the department aggressively pursued Quality Assurance Surveillance Plans and included Earned Value Management requirements as part of the proposals to mitigate this risk. However, it remains to be seen whether the contractor's quality assurance plan will satisfy the department's needs or whether the department's criteria for gauging program success is sufficient to evaluate the contractor's performance. To control this risk, the department needs to refine, validate, and set stable operational requirements for SBInet, enabling the program office to define and set contract requirements in task order negotiations, including the performance metrics needed to ensure accomplishment of the program's objectives.

At the time, the department also needed to define and document the underlying operational requirements, i.e., translating mission needs, describing shortcomings with

[5] DHS Management Directive 1400, Investment Review Process

[6] The macro algorithm is to "detect entries, identify and classify, respond, resolve." The SBInet system is to detect entries when they occur; identify what the entry is; classify its level of threat (who are they, what are they doing, how many, etc.); effectively and efficiently respond to the entry; and bring the situation to the appropriate law enforcement resolution (apprehension, interdiction, transport to interdiction processing point, etc.).

the status quo systems and tactics, setting thresholds and objectives for key performance parameters including affordability, and prioritizing among competing needs and conflicting goals. Without operational requirements, the department will not have a common understanding of what it is to be accomplished, and program managers will not have the guidelines needed to balance competing objectives in cost, schedule, and performance objectives through the life of the program. Furthermore, until operational requirements are fully defined and validated, providing firm support and validated assumptions for the program's cost estimates, the credibility of budget estimates is undermined.

The department took steps during the competition for the systems integration contract to compensate for the lack of fully defined, validated, stabilized, and documented requirements. While the participating DHS and CBP officials had a strong sense of the underlying operational requirements they expected the SBInet program to fulfill, such an understanding was not reduced to writing and conveyed to others. However, the department provided industry with a library of documents and videos that describe mission goals, current operations, and desired improvements over current operations. Also, the department conducted an extensive "due diligence" process and held oral presentations and question-and-answer sessions with the competitors to exchange information. Additionally, the department developed a structure to frame analysis of the offerors' approaches. The department then modified the solicitation, requiring offers to be mapped to this structure; thereby clarifying proposed approaches, assumptions, and costs and facilitating comparisons. Eventually, this work breakdown analysis should facilitate comparison of the winning industry approach to the validated operational requirements.

However, until the operational requirements are validated and stabilized, the SBInet program will be vulnerable to changing direction. Changing the program's direction will likely require contract changes and equitable adjustments; rework of the contractor's planning, management, and systems engineering efforts; and add cost and delay.

With firm requirements, the program office can and should move quickly to implement performance management processes. A deferred, but critical, first step in establishing control of cost, schedule, and performance is the setting of an "acquisition program baseline." This baseline of performance and schedule requirements and total cost estimates is needed to monitor the health of the program. The absence of an acquisition program baseline is a significant risk to the success of the SBInet program. The department deferred setting a baseline until after contract award because of the uncertainties related to industry solutions. Without an "acquisition program baseline," however, it is impossible to gauge the effectiveness of the program. An acquisition program baseline is a necessary first step in implementing "earned value management." The department plans to rectify this omission through the Investment Review Board, and Joint Requirements Council review and approval process.

"Earned value management" is a comprehensive management information and analysis system, fed by cost accounting data arrayed against work breakdown structures and

program schedules. It is essential to the department's understanding of the program status, the contractor's performance, and reliability of program budgets and cost estimates. The program manager must know at all times how the actual cost of the work performed compares to the budgeted cost of the work scheduled. Automated analyses of this data across the many tasks and activities being undertaken by all personnel working on the program should focus management attention where needed and trigger early corrective action. "Earned value management" is not only a best practice, it is an OMB capital budgeting requirement.

The department included provisions for "earned value management" in the solicitation, and the program office is developing plans to start and implement the process. At the end of our review, the system was not in place. Until it is put in place, the department does not have a sound basis for its program cost estimates. Early, effective "earned value management" implementation will be key to understanding the effect that changes will have on the program, including trade-offs needed to balance progress across the many components of the program.

In addition to the prior mentioned steps, the SBInet program has taken the following steps to mitigate risks and avoid the problems encountered by other DHS programs:

- Unlike ISIS and Deepwater, CBP retained decision authority.
- SBInet included contract provisions ensuring government insight and involvement into subcontract management and make or buy decisions. The systems integrator is not necessarily the source of supply.
- Unlike Deepwater, SBInet adopted shorter contract terms and included off-ramps in the contract.
- SBInet is using concept demonstrations and incremental approaches before committing to a long-term solution and investment.

OIG Oversight Plans

The department's mission requires rapid deployment of new equipment, technology, and processes. These efforts frequently entail procurements with ambitious cost, schedule, and performance goals. For this reason, acquisition management is and will continue to be a priority for my office and an area where we focus considerable resources. Our plan is to continue examining crosscutting acquisition issues, in addition to individual programs, such as SBInet and Deepwater. For example, during this and the upcoming fiscal year, just for the areas of Deepwater and SBInet, we intend to:

- Review Deepwater's program performance and issue a "report card" on Coast Guard's management of the program;
- Perform additional follow-up on Deepwater program audits; and
- Perform a series of audits of the SBInet Program.

The first audit of the SBInet Program will address performance management and contract administration, and focus on the setting of an acquisition program baseline, use of performance metrics, and management of the systems integration contract with Boeing. The second audit of the SBInet Program will focus on tactical infrastructure aspects and oversight of Interagency Support Agreements with the Border Patrol's traditional sources of infrastructure construction, such as the Army Corps of Engineers and General Services Administration. The third audit of the SBInet Program will address information technology aspects of the program and focus on the Common Operating Picture and architecture. We also intend to follow up on our recommendations from the risk advisory report and ensure proper corrective measures are implemented.

I will conclude by restating that the OIG continues to be highly committed to the oversight of these and other major acquisitions within the department. We are working with the Coast Guard and CBP to identify milestones and due dates in order to assess the most appropriate cycle for reporting the program's progress.

Mr. Chairman, this concludes my prepared remarks. I would be happy to answer any questions that you or the Committee Members may have.

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Chairman WAXMAN. Thank you very much, Mr. Skinner.

Mr. Skinner, you testified about the structural problems with the National Security Cutter. This ship, which is 425 feet long, is the largest and most ambitious element of the Deepwater program. The Deepwater contract is supposed to provide the Coast Guard with eight of these ships, but the first ship has been plagued with problems. Your report last week found that it will not meet the performance specifications in the contract; it does not have an adequate fatigue life to serve the Coast Guard for 30 years.

The question of the ship's fatigue life has been a consistent one over the past several years. In 2002, technical experts at the Coast Guard warned of problems, sending emails and memos to the Deepwater program office. Three years later, the Coast Guard asked the Carderock Division of the Naval Surface Warfare Center to analyze the ship's fatigue life. In December 2005, the Navy prepared a preliminary report, as well as a summary in slides. These slides contained alarming conclusions that were highlighted in red letter, and I would like to put them up on the screen. We have provided them to you.

Here is one slide. It says, "Bottom line, stresses are too high for Cat E—meaning Category E—details to last 30 years" and the arrow points to the word "problem" with an exclamation point. Another slide said, "Bottom line, stresses are too high to allow details, longitudinal weld, or E details but weld, to last 30 years." Another arrow pointing to the word "problem."

These slides were provided to senior Deepwater officials in the Program Management Office who are responsible for the oversight and management of the entire program. Later, that Office created a briefing for the Commandant of the Coast. This briefing occurred just 6 days later. The Commandant's briefing had the same information, but the critical warnings were stripped. Let me show you on the screen. Page 8 of the original briefing has that clear red warning. Page 5 of the Commandant's briefing is identical except for the missing red type; it is gone.

Mr. Skinner, I would like to get your views about this. It appears that someone modified these slides to strip out critical warning information that was originally included. Do you agree?

Mr. SKINNER. It certainly appears that way. And I am not sure, I wasn't present when they briefed the Commandant concerning this, but I can say that we were aware of the Carderock study. We were aware that—we prepared slides for the Commandant briefing. We asked for those slides in early December of, I believe it was, 2005, and we waited a week, still didn't receive the slides. We were getting a little impatient; we pushed the issue. Our counsel talked to the Coast Guard counsel.

Later that evening—it was actually after 7:00—the slides were delivered to us. However, they were not the Carderock slides; the red lettering had been removed. In the interim, we received, backchannel, the actual copies of those slides and later that week or the following week we then received the originals that had the red lettering.

I think this was somewhat indicative of the Coast Guard's attitude with regard—at least at that point in time—with regards to the transparency of what was taking place. Throughout the entire

course of 2005—matter of fact, we had to cancel our—we had to delay our review, stop the audit for 5 weeks until we resolved some access issues to document some personnel and the rules of engagement for the audit. And throughout that whole course the Coast Guard and officials that we were talking to during that period of time were simply denying that there were any problems, and if they did say there were problems, they referred to them as just some small technical ambiguities that needed to be addressed.

Chairman WAXMAN. Well, were you concerned that the Commandant didn't get the full picture, they sent them slides with the information taken off?

Mr. SKINNER. I was not aware that the Commandant himself did not get the full picture. I was concerned that we did not get the full picture, that we had to push very hard and involve our counsels to be able to get access to documents so that we could proceed with our work.

Chairman WAXMAN. Do you know why the Program Management Office would delete this important information?

Mr. SKINNER. I beg your pardon, sir?

Chairman WAXMAN. Do you know why they would delete this important information?

Mr. SKINNER. I don't want to really speculate, but it would certainly appear that they did not want to admit to the fact that they were having flaws with the Cutter because of the commitment they had made, they had already invested a lot of money to proceed with the construction of the Cutter.

Chairman WAXMAN. Did you determine who actually doctored these slides?

Mr. SKINNER. No, I haven't.

Chairman WAXMAN. You don't know if it was one individual or——

Mr. SKINNER. No, I don't. We determined who delivered them to us, but I can't say exactly who doctored them.

Chairman WAXMAN. Surely, others at the——

Mr. SKINNER. If you want to refer to it as doctoring them. I don't know who changed them.

Chairman WAXMAN. Changed them. Surely, others at the Commandant's briefing must have noticed these major alterations. Do you know whether that was the case or not?

Mr. SKINNER. No. I wasn't present and I don't believe anyone in our staff was present during that briefing.

Chairman WAXMAN. Do you know whether any support contractors were involved in the preparation, review, or production of the Commandant's briefing?

Mr. SKINNER. That is possible, but I don't know.

Chairman WAXMAN. You don't know. And can you tell us how you ultimately found out about the changes in these briefing slides?

Mr. SKINNER. Officials from the Carderock advised us that they had completed—because we were monitoring—we were in the middle of an audit and we knew that Carderock was doing a study of the design, and they advised us that they had completed their work and they were preparing a slide or a brief for the Commandant or for Coast Guard officials, and we then went to the Coast Guard to

ask for those slides. The Carderock officials pointed out to us that they had serious concerns with the design.

Chairman WAXMAN. How unusual is it for you to ask for information and have this kind of—what—deflection—to be the nicest about it—deflection of giving you the answers?

Mr. SKINNER. This is highly unusual. I have been in the IG community long before the IG Act, 38 years. I have never experienced anything quite like this.

Chairman WAXMAN. Do you find it troubling?

Mr. SKINNER. Very troubling. So troubling that I did bring it to the attention of the Commandant, and I also went and brought it to the attention of the Deputy Secretary and I brought it to the attention of the General Counsel of the Department of Homeland Security.

Chairman WAXMAN. Well, sugar-coating the information may have made life easier for the program managers, but it is certainly a disservice to the Commandant and to you and to the taxpayers of this country.

Mr. SKINNER. Most certainly.

Chairman WAXMAN. Mr. Davis.

Mr. DAVIS OF VIRGINIA. Thank you very much.

Let me just start, General Walker, with you. The taxpayers do lose billions of dollars every year on contracting. It is for a lot of different reasons, isn't it? I have always argued that waste and fraud and abuse don't come in neatly tied packages together, they are layered throughout the bureaucracy in the way we do business, and contracting—Government has gone to more and more outsourcing. The way we contract, the way we oversee it—and that is a debate we should have, a full day of that, because I think there are some serious issues.

One of the difficulties, it seems to me, is the more transparency you build into it, sometimes, the more inefficient you become, too. So there becomes a tradeoff. We spend so much time in Government sometimes making sure nobody steals a dollar that you can't get much of anything else done. And we have had these constant debates through time, trying to find the right balance and the right type of contract, whether it is a services contract or whether it is a general production or the like.

Do you want to make any general comments about that?

Mr. WALKER. I do.

Mr. DAVIS OF VIRGINIA. You have been involved with this for years.

Mr. WALKER. First, I think we have to understand that there are many, many contracting arrangements that work very well for the taxpayers, that are very economical, that are very efficient. So I don't think we want to paint with a broad brush here.

At the same point in time, the fact is we are relying on contractors, for a variety of reasons, to a much greater extent than we ever have, in roles and responsibilities, in many cases, we never have before, and then that represents additional risk.

I would like to provide for the record, Mr. Davis, something that I was asked to do by Chairman Skelton of the Armed Services Committee, and that is to come up with a definition of waste, and to give specific examples of waste as it relates to contracting activi-

ties. And, quite frankly, it is a shared responsibility. In some cases it is because the executive branch doesn't do its job; in some cases because the contractor doesn't do its job; in some cases because the legislative branch does or doesn't do something. So I would like to provide that for the record, if I may.

Chairman WAXMAN. Is there objection?

[No response.]

Chairman WAXMAN. We would be pleased to receive that for the record.

Mr. DAVIS OF VIRGINIA. Thank you very much.

Mr. Skinner, let me just ask from your perspective, in this case what went wrong? Was it the Government that went wrong, the lack of direction? Was it the fact that in the initial design they knew there were some chances that were going to be taken, there were some risks involved? Is this the fault of the Government not appropriately overseeing this thing and giving appropriate direction to the contractor, or is this something where a contractor has run amok?

Mr. SKINNER. I think you have to go back to the contract itself, and at that time—this was a novel approach that we were taking here, to do a systems-of-systems approach, partnering with the private sector, incidentally, which I think was an excellent idea, because you really need, in projects like this, to partner with the private sector.

Mr. DAVIS OF VIRGINIA. Well, let me just ask you. There was no in-house capability to do this completely within Government?

Mr. SKINNER. None at all.

Mr. DAVIS OF VIRGINIA. Was there any in-house capability to properly oversee this?

Mr. SKINNER. Not—no.

Mr. DAVIS OF VIRGINIA. OK.

Mr. SKINNER. That was a problem that was reported in 2003, and it is a problem that we are having today.

Mr. DAVIS OF VIRGINIA. So, frankly, it is a part of looking at this, you are talking about at the governmental level we need to bring in more high level trained professionals in the procurement area, regardless.

Mr. SKINNER. Yes. And not only in just procurement types, but also program managers, engineers, and others to form a team.

Mr. DAVIS OF VIRGINIA. And I would opine from the pay scales we are offering now, are we even competitive with the private sector? Anybody think they can——

Mr. SKINNER. I would say not. And the reason I could say that is because I am in a recruitment mode in our office, and we are trying to hire procurement types, and it is very, very difficult.

Mr. DAVIS OF VIRGINIA. And once you train them, can you retain them, I mean, with the pay levels we have?

Mr. SKINNER. My goal is if I can get someone and train them and keep them 3 years, I am successful.

Mr. DAVIS OF VIRGINIA. Mr. Walker.

Mr. WALKER. Mr. Davis, I think you raise an excellent point. I think we have to understand what went wrong and why, and what are the systemic problems that we need to address in order to minimize the possibility of what happened before.

It is one thing to contract out more discretion and more responsibility, but when you do that, it means you have higher risks. You cannot totally contract out oversight responsibilities. And, therefore, it is really critically important that the Federal Government have enough people with the right kind of skills and knowledge to manage cost, quality, and performance.

We may need to change our compensation strategies for highly skilled people. We may need to change our recruiting practices and how we can bring people in. It will save the taxpayer a lot of money if we go about it the right way.

Mr. DAVIS OF VIRGINIA. Pay me now or pay me later, it just seems to me. I have always felt in these large procurements like this, if management brings this thing on time and under budget, you ought to bonus them. It is worth it compared to what you are paying them in the out years.

How much of this has been a problem with a change in terms of the needs, the requirements change that has come through, with these procurements?

Mr. SKINNER. I am sorry, I am not sure I understand.

Mr. DAVIS OF VIRGINIA. How much of the problem is created because of a change in requirements from the beginning, when this was envisioned, to where we are today?

Mr. SKINNER. You have to anticipate change. You have to expect that.

Mr. DAVIS OF VIRGINIA. But a lot of cost increases come from changes.

Mr. SKINNER. Yes, they do. And when this project was initiated, keep in mind it was before 9/11, so there were changes that were absolutely necessary.

Mr. DAVIS OF VIRGINIA. Were they significant changes?

Mr. SKINNER. I can't——

Mr. DAVIS OF VIRGINIA. Well, I guess we can ask the next group. I mean, it is one thing to say, well, this was going to be $3 billion and now it is $10 billion, or whatever, but you have to take a look at what the Government then changes along the way and that there are costs. I spent 25 years in procurement before I came to Congress. I mean, we recognize how this happens, and many times it is the Government's changes that build in these extra costs that weren't anticipated at the time.

Mr. Walker.

Mr. WALKER. That is an excellent point, in fact, it is one of the 15 items. You have already hit on a couple of the 15 items. The Government needs to do a much better job of defining the requirements up front, based upon needs versus wants, that are affordable and sustainable over time. It is one thing for there to be a change in requirements because of subsequent events. For example, 9/11 was a subsequent event. That caused certain types of needs to happen; not just with regard to Deepwater, but on the Capital Visitor Center. It caused a number of changes on that. That might be understandable.

On the other hand, all too frequently there are changes in requirements that have nothing to do with subsequent events that are based on preferences, wants versus needs; not necessarily here, but systemically.

Mr. DAVIS OF VIRGINIA. Thank you very much.

And also, Mr. Skinner, just to ask you, even when you outsource some of the oversight—and I think there are times when you may want to do it—you still need people that are overseeing the overseers——

Mr. SKINNER. That is correct.

Mr. DAVIS OF VIRGINIA [continuing]. To be highly skilled and trained, and at least know when to ask the right questions. Did they have capability in-house?

Mr. SKINNER. No.

Mr. DAVIS OF VIRGINIA. So therein lies the systemic problem.

Mr. SKINNER. At that point in time, in our opinion, no, they did not have that capability. That is the capability that they must build and that is the commitment that Admiral Allen has made to build that capability.

Mr. DAVIS OF VIRGINIA. So you have a contract, a huge contract, with a number of changes in there, and no in-house capability to really oversee it and ask the right questions, and no appropriate direction sometimes to the contractor because the people inside—no fault of theirs, but systemically we don't have people to even ask the right questions and give it the right direction.

Mr. SKINNER. That is correct. And we have to keep in mind this goes throughout the Deepwater program, not just dealing with the Cutters.

Mr. DAVIS OF VIRGINIA. Well, it is more than just Deepwater, isn't it? General Walker, isn't this across Government?

Mr. WALKER. This is a systemic problem throughout the Federal Government.

Mr. DAVIS OF VIRGINIA. Mr. Chairman, I would just say, as we work our way through, one of the purposes of these hearings—and what separates this from what some of the other committees are doing is we take a broader view at this, try to get at the policy implications, both from a Civil Service perspective and an outsourcing perspective, to try to save the taxpayers money.

Chairman WAXMAN. Would you yield?

Mr. DAVIS OF VIRGINIA. I would be happy to.

Chairman WAXMAN. It just seems to me what we are saying is that if there is no infrastructure, the money is not going to be well spent. If we find examples where they haven't thought through, in the Government, what exactly they want, so they outsource even thinking through what they want and then they outsource doing it, and then they outsource the oversight.

Isn't that what we are finding, Mr. Walker?

Mr. WALKER. That has been done, and that obviously provides additional discretion. With additional discretion means additional risk. And as was said by Mr. Davis, you have to have somebody to oversee the overseers if you have outsourced that.

Mr. DAVIS OF VIRGINIA. I think with a good in-house cadre this can work, but you have to have that, and then with the changes as you talk about. You get a good program manager or somebody there, you are lucky to keep them 3 years. For these longer projects it just doesn't work.

Chairman WAXMAN. Well, this was $30 billion.

Mr. WALKER. Right. And one of the challenges, one of the other items on the list of 15 is you need the right kind of program manager with the right kinds of skills and knowledge, and they need to stay on the job long enough, rather than being pre-programed to turn over, which is another accountability challenge.

Mr. SKINNER. That is another concern that we have as well, is the turnover rate. For the few they do have, there is a constant turnover; they are not committed to the project long-term. We are finding this in Deepwater. We are concerned about this in SBInet as well because the people working there now, most of them are detailees, they are not committed for the long-term. And we are finding this—well, like Mr. Walker said, this is a Government-wide problem, not just a DHS issue.

Mr. DAVIS OF VIRGINIA. One last question. Do you see this thing turning around at this point? Do you think this is heading in the right direction?

Mr. SKINNER. I do. I really believe in the leadership that is being provided by Admiral Allen. I know that they are making some real drastic changes right now with regards to the way that contract is going to be managed. My biggest concern now is getting the resources needed to manage it. That is as with regards to Deepwater, and it is also our major concern with SBInet. We learned lessons from Deepwater when we entered into the SBInet contract, but we still don't have the resources, in our opinion, to provide oversight and to ensure that funds are going to be spent efficiently.

Mr. DAVIS OF VIRGINIA. If I can just make one brief comment. I think that most of us can agree getting those resources is critical, and sometimes in Government's efforts to cut expenditures we are stupid, because we cutoff fingers and toes instead of losing weight throughout the system in the way we do business in that a few dollars up front could save us billions of dollars. Is that fair?

Mr. SKINNER. Yes, that is very fair.

Mr. DAVIS OF VIRGINIA. Mr. Walker.

Mr. WALKER. Real quickly, with your indulgence, Mr. Chairman, I think the other thing you need to focus on is I have a great deal of respect for Admiral Allen, and he is on the case. You know, time will tell, but I think we have the right person on the job. They may need your help. They may need your help with regard to authorities to be able to have additional flexibilities to be able to attract and retain the kind of people necessary to oversee the overseers. That might require legislative change in addition to financial resources.

Chairman WAXMAN. Thank you both. Even with good intentions, the job can't get done if you don't have the resources to do it.

Mr. Cummings.

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

First of all, let me thank you gentleman for being here and for your testimony. Let me say from the outset, and what I said before the Coast Guard Subcommittee on Transportation, that I have the utmost confidence in Admiral Allen. I believe that he is an honorable man and I know that he will do a great job.

But then that leads me to this set of questions.

Mr. Skinner, you wrote in your report that prior to the award of the Deepwater contract to the integrators, the Coast Guard con-

verted many of the design standards it had previously specified to guidance and did not incorporate a contractual mechanism to ensure that those alternative standards met or exceeded the original guidance standards it had developed. Is that true?

Mr. SKINNER. Yes.

Mr. CUMMINGS. And do you know why that was done? In other words, they changed their own standards, is that right?

Mr. SKINNER. It is hard to say if they actually changed their own standards. The contract was so vaguely worded, there was disagreement within the Coast Guard by the contractors, the contracting officer, the systems engineers. There was disagreement as to what those standards were. For example, from 2000 all the way through 2005, we thought we were building a ship to be underway for 230 days for 30 years. The 2005 is the first documentation—matter of fact, all evaluations done by Carderock and others of the Cutter did a base on that standard. The language in the contract said 230 days. The navigational rules define 230 days as anchors up, so to speak.

Mr. CUMMINGS. So we could have had some better contract attorneys putting this thing together?

Mr. SKINNER. The vagueness of the contract, the terms and the specifications in the contract were so vague, it gave the contractor discretion to define what those standards would be.

Mr. CUMMINGS. Speaking of vagueness, Mr. Walker, you know, you were talking about back in 2004, and in your testimony you said despite documented problems in schedule performance, cost control, and contract administration throughout the first year, the program executive officer—and who is that, by the way—awarded the contract an overall rating of 87 percent, which fell in the very good range. And this is what I am concerned about: and then it says this rating resulted in an award fee of $4 million of a maximum $4.6 million. That is like a bonus, is that right?

Mr. WALKER. That is correct.

Mr. CUMMINGS. Help me with this.

Mr. WALKER. Well, this is——

Mr. CUMMINGS. I mean, our constituents are looking, trying to figure out it would take them half a lifetime to make $4 million. We have boats that aren't even floating and they are trying to figure out why is somebody getting a bonus.

Mr. WALKER. This is another example of a systemic problem. The Government has a number of contract provisions that provide for incentive and award fees, but many times those provisions provide for those incentive and award fees based upon attitude and effort, rather than outcomes. And one of the things that has to happen is that we need to focus these incentive and award fees on cost, schedule, performance, outcome-based indicators——

Mr. CUMMINGS. I have to stop you there.

Mr. WALKER. No problem.

Mr. CUMMINGS. I beg you to tell me what do you mean getting a bonus based on attitude?

Mr. WALKER. Well, what I mean is——

Mr. CUMMINGS. Because I am sure a lot of people would like to know.

Mr. WALKER. What I mean by that is the contractor did what they were supposed to do, they produced this particular document, they did something that resulted in an output within the timeframes, they were cooperative, they worked together in a constructive fashion with the related Government officials, but not necessarily outcome-based. And that is the problem, clearly defining on what basis there are going to be incentive award fees paid.

By the way, I think we need two other things. We also need to have exit clauses in contracts. If things aren't going the way that they should be going, we ought to be able to pull the plug and the taxpayers shouldn't have to pay a dime.

Mr. CUMMINGS. If you had an exit—Mr. Walker, I want you to get to No. 2, but if you had an exit clause here, would you be recommending to the Congress that the plug be pulled? I mean, irrespective of somebody great like Admiral Allen.

Mr. WALKER. We are not—we haven't finished our work. We are going to be issuing a report on Deepwater in the near future. I don't really want to speculate on that.

The other thing that we need, Mr. Cummings, is in addition to incentive and award fees for good positive performance, we need penalties short of exit clauses. You need to have a balance. We don't have a balance.

Mr. CUMMINGS. So right now we have a lot of disputes, but we don't have the mechanisms contractually to even address them, is that what you are saying?

Mr. WALKER. In all too many cases that is true.

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

Chairman WAXMAN. Thank you, Mr. Cummings.

Mr. Shays.

Mr. SHAYS. Thank you, Mr. Chairman.

I would like to switch with Mr. Mica. Thank you.

Mr. MICA. Well, this isn't quite as bad as it all sounds. I mean, when I took this responsibility over the Coast Guard on the Republican side a month or so ago, I was absolutely petrified because the Coast Guard has such a great reputation of performance in Katrina and whatever else they do; it is a great agency. It is one of the darker moments. I tried to find out what went wrong.

First of all, this is a total of about eight new National Security Coast Guard cutters?

Mr. SKINNER. That is just——

Mr. MICA. That is the whole project?

Mr. SKINNER. Yes.

Mr. MICA. There are two of them here that were constructed and, actually, those are usable. They are not usable for the lifetime that they were looking at; they will have to be—there will have to be some upgrades for some reason, again, it didn't meet the specs in this design, as I am told. The three through eight will, is that correct?

Mr. SKINNER. It is my understanding that——

Mr. MICA. OK, so they may have taken corrective action and we can save those two. I don't even want to get into the eight that we tried to retrofit that are tied and moored to Key West. If Castro drops dead, I am still wondering what we are going to do, but I feel Allen has a plan, so I don't feel too bad about it.

The other thing, let's put this in perspective as well. First of all, somebody said Government is more efficient than the private sector. I heard it from the other side. That is unbelievable. This is a Government failure, it is not the private sector. The Government ordered this; the Government was to oversee it.

Also, this is a very unique project. This is development of a new class of Coast Guard cutter, correct?

Mr. SKINNER. That is correct.

Mr. MICA. OK. Never before built. Now, who were we going to have design it? They didn't have that capability. Did they have that capability in-house?

Mr. SKINNER. No.

Mr. MICA. OK. Could we get a committee in Congress to design it? God help us. The Government doesn't build anything. A lot of folks don't understand this. It is privatization, oh my God.

So there are parts of this, there is the development of the specifications, which I guess the Coast Guard should probably have better people.

And I even have to disagree with the ranking member here, Davis. Somebody told me the average life is 3 years—sorry, Mr. Davis—[laughter]—3 years for keeping one of these folks onboard. We can't pay them; you can't keep them onboard. This started in 2002; here are we in 2007. We would be through two of these project people. We ought to be looking at even instead of trying to do this in-house writing the specs, doing that in the private sector, because you cannot, you will not retain those people to do that. Again, folks here don't understand that.

Then you have not only the turnover I described from Collins to Allen and in between two agencies, and the changes in Congress—I got this baby about 4 or 5 weeks ago. So you have to have somebody who can set the specs, somebody who can design it. There are only two—really, if you look at who we have available, you have two vendors available, the best. They picked them, Northrop Grumman and Lockheed. They are the best, aren't they?

Then you start looking at shipbuilding, our shipbuilding capability. Sorry, Mr. Walker. Exit clause? They are not going to buy it because there is nobody else to go to. That is how limited our national capability is in even doing these projects. Of course, we could go to China, we could go to Korea, we could go to Scandinavia.

So we can sit around and bash and dash, but it is a little bit more complex than that.

Now, Admiral Allen was brought in—and you will hear from him later—some remedies. The sky is not totally falling; we will get those other eight done. These can be repaired and resolved.

We do need better oversight, but it can't all be done by Government or Government agencies in-house; some of it we are going to have to retain professionals. Am I correct or incorrect?

Mr. SKINNER. That is correct.

Mr. WALKER. If I can, but let me——

Mr. MICA. Don't argue with me.

Mr. WALKER. No, no, a couple of—no, I think it is important, Mr. Mica.

Mr. MICA. I am just kidding.

Mr. WALKER. Which, by the way——

Mr. MICA. I'll tell your father.

Mr. WALKER [continuing]. You are probably going to be my Congressman in the future, when I move back to Florida.

Deepwater is more than the eight National Security Cutters, it is a range of surface and air assets.

Second, it is a shared responsibility for where we are; it is not just the Government, but the Government has some responsibility.

Mr. MICA. Well, they had responsibility——

Mr. WALKER. No doubt.

Mr. MICA [continuing]. Under the contract.

Mr. WALKER. A lot.

Mr. MICA. And I've seen these contracts. I mean, we could spend the rest of the day. They do go south on us and then there is no resource for the Government. If it was the private sector, I would sue the bastards.

Mr. WALKER. My comment on exit clauses is a generic comment, not specifically here. We need to be doing that in general terms. Sometimes they are more viable than others.

And the last thing is, on structural integrity, there are two issues: how can you utilize and for how long will you be able to utilize that. Both are relevant.

Chairman WAXMAN. The gentleman's time has expired.

Mr. MICA. May I have just one——

Chairman WAXMAN. No, I am sorry. We have to move on to other people.

Mr. MICA. Would somebody yield me half a minute?

Chairman WAXMAN. The next one on the list is Mr. Tierney.

Mr. TIERNEY. Thank you, Mr. Chairman.

I want to thank our witnesses this morning as well.

Just as an introductory remark, there are many of us that worried about this whole situation of starting up the Department of Homeland Security and putting the Coast Guard in it, an agency that we really feel very strongly about and the good work that they have done, and then shorting them of all the resources that they need to continue to carry out their work.

Mr. Skinner, I think your remarks in that regard are well taken.

We also—this is shared responsibility. There are some Government failures here and there are some industry failures, and that is what the nub of this whole thing is: how are we going to work this out so we make improvements on that without trying to assign it just to one category or another. But I think the industry certainly has not done a great job on this, and Government's inability to oversee it has compounded it.

Mr. Walker, this morning you were quoted in the paper as saying, with regard to renewing a $16 million—a contract renewal and giving $16 million in bonuses, that you didn't even think it passed the straight face test.

Mr. WALKER. That was with regard to the payment of some incentive and award fees in the past that are based upon attitude and effort, rather than concrete outcomes, right.

Mr. TIERNEY. Exactly. You know, I think we have these contracts. You know, maybe the first thing we do is get all new lawyers here, because the contracts are ridiculous. But when you set it up so you have the fox guarding the hen house arrangements,

you know, it is not a good deal. Corporations have a business of the bottom line; Government has the business of making sure the projects get done and get done properly on that.

Have either of you gentlemen ever sat in a meeting with these teams and been uncertain as to who was the representative of Government and who was the representative of private industry?

Mr. WALKER. I have had a number of occasions where my staff has told me that they have been in meetings and you had no way of knowing who was a civil servant and who was a contractor.

Mr. TIERNEY. Mr. Skinner.

Mr. SKINNER. Yes, and I have had the same experience, as well as my staff.

Mr. TIERNEY. I mean, it just shows through here—I mean, we have been polite about this, I think. I am surprised there is not a little more intensity in outrage in some of these. But you talk, Mr. Skinner, about doctoring of documents. We showed some documents where things mysteriously disappeared, some warnings. But didn't you, at one point, have to suspend your investigation here?

Mr. SKINNER. Yes, for 5 weeks.

Mr. TIERNEY. This is a role that you, Mr. Walker, play. We rely on you gentlemen, the Inspector General's Office, the Government Accountability Office, to help Congress oversee. There has been a lot of criticism about Congress not doing enough oversight, and it is well taken. But when we are going to do our oversight, we are relying on your entities to help us with that.

Can you explain why you suspended your investigation, Mr. Skinner?

Mr. SKINNER. Just because of the rules of the engagement or the ground rules that were established by the Coast Guard as far as to how we would conduct our review. We had concerns that we were not getting unfettered access to documents. We did not have unfettered access to individuals during interviews. The Coast Guard insisted that if we interviewed anyone, their manager must sit in. They insisted that if we made contact with any of the employees, they had to report that back to their manager. All documents had to be vetted through a central source. It was taking—it created long delays for us to obtain documents. I felt that this was impeding in our authority, so, therefore, I stopped the audit and then start discussing a—requesting that we need to change the ground rules; you have to understand what our authorities and responsibilities are.

Incidentally, Admiral Allen did issue a waiver lifting the draft requirements that they had originally imposed, and over the last several months——

Mr. TIERNEY. Excuse me, Mr. Skinner. I understand apparently everybody at the table is very happy with Mr. Allen, and that may be well deserved, but the fact of the matter is there are guidelines existing for the Department of Homeland Security and the Inspector General's Act of 1978 that make it pretty darn clear that what they were doing was wrong, that you should have had access to that. Am I right?

Mr. SKINNER. Yes, that is my opinion.

Mr. TIERNEY. I mean, you had the whole Management Directive 0810.1, to be specific, that should make it clear and not even argu-

able by these people that they cannot restrict access to your entity for this. And I think that is an area this committee ought to go in, as to why do these companies who have these relationships with these private individuals—you can't even tell who at the table is the private contractor and who is the Government person—all of a sudden telling you you can't have access to documents about a contract that has gone belly up and then giving up $16 million in bonuses on that. That is something we ought to look at, and we need your help to identify those instances so we find out who in those agencies is doing it and put some systems in place so they can't get away with impeding the responsibilities that you have to help us. I thank you for that.

And I yield back, Mr. Chairman.

Chairman WAXMAN. Thank you, Mr. Tierney.

Mr. Souder.

Mr. SOUDER. Thank you, Mr. Chairman.

I want to say up front how important I think your mission is and how vital your mission is, and how both of you have been a great leader. By definition, auditors are a pain in the neck and oversight committees are a pain in the neck, but when you have a bloated monopoly system like the Federal Government, without the people in your services, we couldn't even begin to hold it accountable.

I have some criticisms today, but it is not about your work in general and not about your agencies. I have three questions that I want to put on the record. They derive some from our discussions yesterday of Homeland Security.

No. 1, you expressed concerns yesterday about the Coast Guard leaders wanting to sit in on all interview sessions when you were auditing—Mr. Tierney just kind of alluded to some of this—and how it potentially inhibits your ability to do oversight. Yet, when the minority asked to see information related to our ability to do oversight after the case of the jailing of two Border Patrol agents from their injury of a drug smuggler as he fled from arrest, your position was that only the chairman could have the documents. Why should you get full access for auditing purposes, yet deny it to Members of Congress in their ability to audit?

Second, Congressman McCaul, also a Homeland Security Ranking Member, was required to file a Freedom of Information Act to receive this basic oversight information that had been given to the majority. Now that we have read it, we more clearly understand why the Government wanted to conceal evidence. It raises grave concerns about the underlying border patrol policies as to how they protect the border, as well as how this report was mischaracterized to provide cover for the prosecution of Federal agents. Do you believe that depriving documents from Members of Congress increases the risk of coverup?

My third question is in the case of these agents, employees of the Inspector General made statements that have falsely defamed, possibly permanently, implying racist motives in a premeditated intent to murder, among other things. No such evidence exists in the reports, as was alleged.

Yesterday, Mr. Skinner, you stated that you were upset and that those false statements were also made to you, and that you reprimanded your employees. How were they reprimanded? Yesterday,

you also stated that the Border Patrol agents on a hill a considerable distance from the shooting, but were not prosecuted, had made false statements. Their discipline was that they were fired.

The question is do you believe there is a double standard for statements that are made in different agencies of the Government? I am not necessarily saying that your people should be fired for the false statements, but the Border Patrol people were fired and they weren't even in the immediate proximity of the thing. This raises fundamental questions, and I would be interested in your responses.

Mr. SKINNER. Thank you, Congressman, and I am glad you raised this issue.

First, I would just like to say that it is not—as far as the Border Patrol agents, the decision to prosecute versus take administrative action is not ours, that is the Assistant U.S. Attorney at Department of Justice.

But I made some notes here in anticipation of a question, and I would like to read from these notes because I want to be perfectly clear and I want to make sure I don't miss anything about the misrepresentations I think that are occurring with regard to this issue on this particular case.

First, at no time did any member of my staff knowingly and willingly lie to Congress about the investigation of Ramos and Campion, or any other matter. Anyone who states that my staff knowingly lied, willingly lied is slandering them.

Second, in a closed briefing on September 26th, members of my staff reported that Ramos and Campion said they wanted to shoot a Mexican. My staff reported that to me as well, and they reported it to Chairman McCaul and others in a closed briefing. At the time my staff made that statement, they believed it was true, although we later learned it was inaccurate. In fact, Mr. Campion had stated in a sworn statement that my intent was to kill the alien, and I think Ramos was also trying to kill the alien. The alien Mr. Campion and Mr. Ramos attempted to kill had come from Mexico and escaped back to Mexico.

The statement that Ramos and Campion supposedly wanted to shoot a Mexican was never reported in any document by my office or by the Department of Justice; never was introduced at the trial of Ramos or Campion, which had been completed 6 months earlier, March 2006; and never was reported by my office to anyone other than Chairman McCaul and other congressional members and staff in attendance at that particular briefing. The briefing my office provided to them, to Chairman McCaul and the other members, was initiated at his request in his capacity as chair of the subcommittee investigations. Chairman McCaul and the others understood that the information my office was providing was not public and was not to be made public; it was for official use only, for the committee's use in discharging their official business.

At the time of the briefing, Mr. Ramos and Mr. Campion had not been sentenced. Sentencing did not occur until October. At the time of the briefing, three other members of the Border Patrol who had engaged in misconduct, but were not prosecuted, had not been referred to CBS for administrative discipline; we were still preparing those documents. That did not occur until the last week of January

2007. Indeed, at the time of the briefing, my office had not even written its report of investigation, which is not unusual. Oftentimes, we don't even write a report of investigation. In this case we did because it involved three other Border Patrol agents and administrative action needed to be taken.

The ROI was not written until November 21st, 2 months after the briefing. The only reason the inaccurate statement that Ramos and Campion allegedly said they wanted to shoot a Mexican had become public is because Congressman McCaul and others had publicized this and reported it to the media. They have publicized inaccurate information and that was not used in the trial. None of that information that we briefed that was inaccurately reported to McCaul and other members was ever introduced in the trial, there is a misconception there. That played no role in the prosecution or sentencing of Ramos and Campion, and that was provided to them in confidence, with the understanding that it was not to be made public.

At the time Campion and Ramos attempted to kill the alien by shooting him in the back, he was unarmed and running away from them. Evidence introduced at the trial proved that. That is why they were convicted. At the time Campion and Ramos attempted to kill the alien and shoot him in the back, they did not even know that he was an illegal alien. They didn't know if he was an alien or not. At the same time, when they shot at him as he ran away, they did not even know if there were drugs in the van; they found that out after the fact, after they shot him.

Mr. TIERNEY. Mr. Skinner, we will take the rest of your statement on this issue. I gather you were prepared for this question, or make it part of the record.

Mr. SKINNER. It has been coming up at every hearing this week.

Mr. TIERNEY. It is a little off track of the hearing. I didn't want to interrupt you.

Mr. SKINNER. I understand.

Mr. DAVIS OF VIRGINIA. Sounds like he is giving the same answer, though, at every hearing, right?

Mr. SKINNER. Yes.

Mr. TIERNEY. Do you have much further to go?

Mr. SKINNER. No.

Mr. TIERNEY. OK. We will make the whole——

Mr. SKINNER. I do, but I will stop now.

Mr. TIERNEY. We will put it all in the record.

Mr. SKINNER. Thank you.

Chairman WAXMAN. Without objection.

Mr. TIERNEY. And send it to another committee. [Laughter.]

Chairman WAXMAN. Mr. Lynch.

Mr. ISSA. Mr. Chairman, could I ask unanimous consent that his statement be made available to us in real time, that copies be made so that we have them and not have to wait for the record?

Chairman WAXMAN. We will do our best.

Mr. ISSA. Thank you, Mr. Chairman.

Mr. SOUDER. I would also like to say for the record that I don't agree with some of the statements that were made, and the court record, if released, would contradict some of it.

Chairman WAXMAN. Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman.

I want to get back to what we were discussing before, especially in the discussion with Ranking Member Davis and Mr. Waxman about accountability about the whole function of oversight on all these projects, not just with respect to the Coast Guard or DHS.

Mr. Walker, are you familiar with the project management oversight program that is operated through the Department of—well, the Federal Transit Administration?

Mr. WALKER. Not personally I am not, no.

Mr. LYNCH. OK. What they do there—and it may suggest a model—is that at the very outset, when these projects are announced, there is an immediate process where an internal engineering firm is hired as a project management oversight consultant, and they are working for the owner. In this case it would be the taxpayer, essentially, but also the Department or the Coast Guard.

Basically what that engineering firm does—and I have seen it work on transit projects, and I don't know why we don't use it everywhere else—well, I know it is required under TEA–21—but we actually hire an engineering firm to work on the same team with the Government employees to make sure the taxpayer doesn't get robbed. And that is what I am seeing here.

I heard earlier one of my esteemed colleagues say this isn't as bad as it looks. Now, we have $774 million, two cutters with defective hulls, and with stress loads on those hulls that have compromised the safety of those vessels. Now, it may not look too bad from a hearing room, but if you are serving for the Coast Guard on those cutters, or if you are a family member of someone on one of those cutters, it does look pretty bad. Do you agree with that statement, that this doesn't look too—it is not as bad as it looks?

Mr. WALKER. Well, that is a personal opinion of one of the members. I think there are serious problems here that need to be addressed.

Mr. LYNCH. Mr. Skinner. If it doesn't look that—you know, I am just taken aback by that statement, it is not as bad as it looks. I can't imagine it looking any worse.

Mr. SKINNER. Those are the opinions of the shipbuilder. I am not an engineer, so I can't say one way or another. But it is my understanding that these ships are seaworthy today. The question is will they be seaworthy in 30 years——

Mr. LYNCH. Right.

Mr. SKINNER [continuing]. Under the conditions they have to be used.

Mr. LYNCH. Right. Look, again, why are we not adopting a process where there is actually an engineering firm working as a project manager oversight consultant for our side so that our position is not being co-opted by all these contractors that are working on the other side? I agree we need to use some, you know, private sector employees, but they have to be on our team, working to save the taxpayer money; they can't be—because the contractors, let's face it, they are out for more profit. We are trying to pay as little amount of money as possible as taxpayers; they are trying to make as much money as possible on their side. There is an adversarial relationship that has been set up here. But the way we have struc-

tured this whole deal is that they have all the expertise and all the weight on their side, and the treasury is being looted here, the taxpayer is being fleeced. And, you know, we have two defective cutters here. We knew that they were defective. We have documents that were edited to delete the red letter warnings that the hulls were not, you know, structurally stable with the original design. And yet I am hearing it is not as bad as it looks. I just—go ahead, I am sorry.

Mr. WALKER. Well, let me say that while I was not familiar and am not familiar directly with the Federal Transit Administration's approach, I am familiar generically with the approach that you are talking about. In fact, we have used it ourselves at GAO. I mean, when there are circumstances when we need highly scientific or technical expertise and we didn't have adequate capacity internally, we contracted independently and they worked side-by-side with us and for us. So there are ways to deal with this. But even when you do that, you have to have some expertise in-house so that you are not just totally turning it over.

Mr. LYNCH. Absolutely. I agree with that. I am just saying—I am sorry, Mr. Skinner, you——

Mr. SKINNER. And the Coast Guard, in fact, did have that expertise. They do have engineers there and they did review the design before the Coast Guard decided to move forward with the construction of those ships. And those technical experts, the Coast Guard's own people admitted we have problems here.

Mr. LYNCH. OK. Would it help—I know that Congress required that system to be adopted by the Federal Transit Administration. It has worked well. I have seen two projects in my district where one is $14 billion and it is way over budget, and that is under the system that we have seen working here with Deepwater and SBInet; the other was the system I just described, where there is actually an oversight project management oversight consultant hired. Would it help if we, as Congress, also required these projects to proceed under that same structure?

Mr. SKINNER. That could be one solution. But there is also alternative solutions as well.

Mr. LYNCH. OK.

Chairman WAXMAN. The gentleman's time has expired.

Mr. LYNCH. Thank you, Mr. Chairman. I yield back.

Chairman WAXMAN. Thank you, Mr. Lynch.

Mr. Duncan. Mr. Issa.

Mr. ISSA. Thank you, Mr. Chairman. And I will be brief. As I said in my opening statement, I look forward to this hearing because I think it is the opening salvo in what needs to be a broader look at how we get into these problems.

So, quickly, Mr. Walker, I want to followup a little bit. In your opening statement you talked about 15 percent—sorry, 15 similar—we will call them fiascos as a technical term—that are taking place within the Government that you have already identified. The question is you say they are systemic. Would you say that, in fact, how we are approaching recruitment and maintenance of expertise in the Federal Government—in other words, Federal employees—is part of the problem? And would you also say that the second

part of it is how we view contract relationships for out-of-house expertise? Not the production, but the expertise.

Mr. WALKER. Yes, I think they are both a problem. And what I said was there are 15 systemic problems that exist throughout Government. Those aren't particular projects, those are 15 recurring problems that apply to thousands of projects, and I am going to provide that for the record.

Mr. ISSA. I appreciate that. Now, this particular project—and I said I wasn't going to dwell on it, but at one point it was considered a possibility that the Navy would do this as a prime contractor, if you will, on the Government side because the Navy has built this class and larger ships in the past. From what you both have looked at, looking back, would that have fundamentally changed if this had either been a Navy lead or what we like to call a purple project, where the best were taken from all, if you will, naval sea assets both in the Coast Guard and Navy?

Mr. SKINNER. I don't want to speculate if it would have improved it, but I can say that the Navy does have a system command capability which the Coast Guard did not. So, in that regard, you would have better oversight and control over the shipbuilding and the design.

Mr. ISSA. So as Mr. Lynch might say, you couldn't do worse than we did; you could only likely do better had we done that.

Mr. SKINNER. Yes.

Mr. ISSA. Will you come back, Mr. Walker, to us, if invited, with concrete suggestions of career path changes and in-house Government procurement that would lead to a broadening of this capability that you are saying we lack, and with any solutions to de-conflict contractors who provide you expertise? Are you prepared to come back if invited?

Mr. WALKER. We would be happy to work with the committee on that, yes.

Mr. ISSA. Thank you. I look forward to that and I yield the balance of my time to Mr. Mica.

Mr. MICA. Just a couple of quick points on what Mr. Lynch was talking about.

First of all, we did catch this on the first two. This is a program of eight. The six will be built right. The others can be corrected; it is a diminution of the life service. OK?

If Mr. Lynch and others want to come and get examples of horrendous Government waste and abuse, I would be glad to spend hours with him.

I do have a question, though, that relates to the award of the fee, and this may concern me, it might be something we have to correct. They were given performance awards from time to time. Now, I have heard huge amounts of money given out here in testimony—at least from the dias, maybe not from testimony. But were the awards given as work was performed, No. 1? And, No. 2—because, again, they are given in, I think, 12 months or certain periods of time—was that work performed? The second part of it would be, is there recourse for sort of failure or recouping any of the awards that were given after we found out that there were in fact errors? Because certain work was performed according to the contract, as

I understand it. Could you answer that? And I would like to look at some mechanism for recouping taxpayer dollars.

Mr. SKINNER. Let me say first, if I may, David, go first, is that it is very unlikely you are going to recoup any of that money. Why? Because in the contract—the problem lies in the wording in the contract. The contract—the award fee, it is my understanding, was based on delivered assets. So the other problems that were existing during the period covered by that award fee—for example, the Fast Response Cutter, the 110, 123 conversion; the design problems that we experienced with the National Security Cutter——

Mr. MICA. But it wasn't lump sum, it was given in increments, as I understand it. Correct me if I am wrong. And then what work was performed, does anyone feel——

Mr. WALKER. Well, it is based upon efforts for a particular contract period, and it is based upon deliverables that were supposed to be delivered during that contract period. And, quite frankly, I would suggest that we shouldn't be paying incentive and award fees until we actually start getting some product. You know, cost, quality, performance. So, I mean, part of it is how do we design these contracts. You may want to give bigger incentive and award fees based upon successful experience when you are actually getting a product that is on time, within budget, meeting performance specifications.

Mr. MICA. We have no recoup, finally?

Mr. WALKER. To my knowledge, they are not designed for that. And that is another example of how we need to re-look at these contracting arrangements to provide for that.

Mr. SKINNER. That is exactly what the Coast Guard is doing now, is redesigning this particular contract so that they can do that.

Chairman WAXMAN. The gentleman's time has expired.

Mr. Cooper.

Mr. COOPER. Thank you, Mr. Chairman. The Chinese must be laughing now. I visited, last year, a Chinese shipyard, where they can build any ship in the world of any size in 6 months. We don't have that capability. And here we are arguing among ourselves, and some of it is ideology, some of it is practicality, some of it is just being new to Government.

I share the witnesses' concern that this is a Government-wide problem, and I look forward to tackling it on that basis. I would like to ask my colleagues to take a look at an IG reform bill that I have had in place for some time that would strengthen the position folks like Mr. Skinner so that he would have more clout to do his job properly within the Department, because we need to make sure that several problems with IGs are cured.

The fact that there has been no accountability so far in this is truly amazing, and I was about to ask Mr. Issa's question. When, in previous responses, people said, well, we didn't have the in-house capability, I immediately thought to myself, well, what about the U.S. Navy. And the choice here seems to have been to go private before we go purple, and that is truly astonishing to me because we are all on the same team. We are all here to protect taxpayer dollars and to protect the security of the United States. But neither was done in this case, for a multitude of small reasons.

There has to be a way to bring a new generation of craft on, and I appreciate Admiral Allen who is apparently held in very high regard, but this is so much larger than one person. This is a systemic problem that needs a systemic cure. And I hope that Government isn't viewed as the enemy here, and I hope that more private sector contractors care about hulls that last for 30 years, even if you use them 231 days a year or 179 days a year. I mean, to skimp on national security requirements like that is truly astonishing. Do you want to be aboard a craft that isn't rated for longer than a few years?

So I think as we tackle these systemic problems, we, as a committee, need to be open-minded and look toward all alternatives, including strengthening the Federal Civil Service so that we can hire and retain people who can help us do a better job—it sounds like in this case, particularly, Government lawyers—so that the obvious mistakes of this contract are not repeated in the future.

I commend you gentlemen. I look forward to the next panel.

Chairman WAXMAN. The gentleman still has some time. Would you yield to me?

Mr. COOPER. I would be delighted to yield.

Chairman WAXMAN. Some people asked us why we put a hearing about Deepwater and SBInet together, and the purpose was to see if we learned our lessons from past mistakes.

Mr. Skinner, in November 2006, your office issued a high-risk management advisory for the SBInet program. It said, "The Department does not have the capacity needed to effectively plan, oversee, and execute the SBInet program, administer its contracts, and control cost and schedule. The Department's acquisition management capacity lacks the appropriate work force, business processes, and management controls for planning and executing a new start major acquisition program such as SBInet."

Well, this is pretty sobering, considering that the SBInet program plans to spend $30 billion. Does the program office have the capacity to manage the SBInet program? And wasn't this the same problem as Deepwater?

Mr. SKINNER. Yes, initially at Deepwater. And the Department currently does not have the capacity, either the Procurement Office or CBP, the Customs and Border Patrol, to oversee a project like this if we go full throttle. As it now stands, there are about 90-plus people that are providing technical oversight in acquisition management, program management for this. What the Department is doing, which they learned from Deepwater, is not to enter into a 25-year contract and to go full throttle and try to get everything done at once.

Chairman WAXMAN. How many of those 90 are contractors?

Mr. SKINNER. In our opinion, way too many. Approximately 65. I don't have the exact numbers in front of me, but there are more contractors than there are Government employees. And many of the Government employees are just on detail.

We only have one major tasking right now. We can manage that tasking. There are several taskings, but we can manage the taskings that are now out there, that are being performed by the contractor. But as we grow, and particularly as we start to grow this spring and this summer, we are going to start getting very

tight. We need additional resources. This spring and this summer we intend to—the Department intends to issue additional taskings. With the 98 people, they are not going to be capable to manage the existing taskings as well as start preparing for the new awards and the new taskings. And if we don't get people on board quickly, we can get ourselves in a very poor position to where this thing can get out of control.

Chairman WAXMAN. Well, isn't that a recipe for hiring more private contractors?

Mr. SKINNER. I think we need a mix. You can't——

Chairman WAXMAN. But you are not happy with the mix we have now.

Mr. SKINNER. No, right now. But we are in the process of taking and looking behind the scenes at exactly what these people are doing, and we haven't made a determination what that mix should be or what the actual numbers should be. But on the surface it does not look like, in our opinion, that we have sufficient departmental officials assigned to this project.

Chairman WAXMAN. Thank you.

Mr. Duncan.

Mr. DUNCAN. Thank you, Mr. Chairman. First, let me say that I have long appreciated the work Mr. Walker has done in trying to warn the country about the dangers we face in future pension liabilities, and I appreciate, Mr. Walker, your recommendation about exit clauses in these contracts. I think that is a good suggestion. And I think the work that both of you are doing is very, very important.

Two years ago, the International Herald Tribune had a major article about what they called the revolving door at the Pentagon, and they said in there that in the decade of the 1990's, over 300 retired admirals and generals had been hired by the top 20 largest defense contractors. And we see that throughout the Federal Government. It used to be when private contracting by Federal departments and agencies really started becoming a big thing, it was being done because the private sector could almost always do these things more efficiently and more economically than the Government itself could. But as the Government has gotten bigger and bigger, we are seeing more and more multi-billion dollar contracts, and so many of these contracts we read about are just exorbitant, ridiculous profits or markups such as the contracts we heard about in here yesterday. Then we read about these ridiculous cost overruns.

When a Federal agency messes up, they almost always say they are underfunded or their technology is outdated. When a Federal contractor has a huge cost overrun, they say it is because the Federal agencies changed their requirements or specifications in the middle of the contract, or various excuses like that.

But what we are seeing more and more is that almost all these really big Federal contracts are sweetheart insider-type deals of one sort of another based on high-level Federal employees or retired admirals and generals who have been hired by these Federal contractors. And it is getting where we are really not saving any money by going to some of these huge contracts. So when I read, as I did in this article in the FederalTimes.com from yesterday,

where it says that Homeland Security officials previously said SBInet would cost between $2 billion and $5 billion, but Skinner said it could cost as much as $30 billion, when we are going so quickly from $2 billion to $5 billion up to $30 billion, and then when it says that the SBI Director, Giddens, says he couldn't even give a ballpark estimate of the cost of this program, that seems to me to be something that all of us should be very concerned about.

So I have really two questions. One is are we about to see exorbitant costs and profits in this program? Are we on top of it enough to each of your satisfactions? Or are we going to be here 5 years from now, seeing that it has cost even more? I mean, you know, I have been involved in other hearings and read about other contracts where the cost estimates were so low, and then we come back 5 or 10 years later and it has just gone crazy. So I am wondering about that.

And, second, I understand there is already some concern that much of the work that is being done in this program is work that is being duplicated by other sections of the Homeland Security Department or other parts of the Federal Government. And I would like your response to those two questions.

Mr. WALKER. Let me mention several comments.

One, I do think one of the things that we have to look at is the conflict rules and look at the revolving door rules, and whether and to what extent those ought to be modified. Second, we need to make sure that we have meaningful competition. You know, there has been a significant consolidation within the defense industrial complex because of market forces and a variety of other things, some of which are beyond our control.

Third, we need to really look hard at when we are doing cost-plus contracts. There are too many cost-plus contracts. And we need to focus on outcomes. We need to make sure that we are paying for, you know, on-time, on-budget, with the capabilities.

But some of the things you talked about are true. I mean, Government doesn't well define or keeps on changing its requirements, and that is a major, major contributor to a lot of these problems, and a lot of that is unjustified, it is not related to subsequent events.

Mr. SKINNER. I would just like to add that just the mere nature or the type of contract that we have entered into here, a performance-based type contract, a systems-of-systems type contract is very, very risky, and you are absolutely right, if it is not properly managed, the costs can get out of control. It is imperative that we are able to define what our operational requirements are. It is imperative that we have to associate those requirements with our budgets and monitor very, very closely the costs associated with a project like this.

Right now, SBI is proceeding with caution. I mean, we are doing a pilot down in Tucson, as you may know, and from that pilot, from those lessons learned, the Department speculates it will be in a better position to then define what its operational requirements and true costs will be throughout the Southwest.

But when we talk about right now we are only speculating—they are speculating it is going to cost $8 billion just for the Southwest. We are not talking about our northern borders yet. And there is

a whole different scenario, a whole different environment up there we have to deal with. It is not talking about a lot of the support that is required or the other personnel costs associated with doing what we are doing here. So, you know, those costs are going to rise as we go on if we don't monitor them carefully, do performance evaluations. Is it worth the cost as we proceed, or do we need to exit out and find alternative ways to secure the borders?

Mr. DUNCAN. Well, I hope you will make sure that the costs are justified by the work that is being done, and we really do need to look at the insider aspect of this revolving door throughout the Government, and this committee is the appropriate committee to do it, Mr. Chairman. And I know you share some of those same concerns. Thank you very much.

Chairman WAXMAN. Thank you, Mr. Duncan.

Mr. Hodes.

Mr. HODES. Thank you, Mr. Chairman.

Gentlemen, thank you for coming today and sharing your expertise. I want to get to the question of who is in charge here.

Yesterday, in the New York Times, there was an editorial and it talked about our Government becoming a government of the contractors, by the contractors, and for the contractors, something I am sure Abraham Lincoln never really contemplated. And the Deepwater debacle seems to me to be emblematic of problems that, before I came to Congress, I was seeing, and, frankly, the taxpayers and our constituents out there are very concerned about the capacity and capability of our agencies and our military to get it right when it comes to spending their money. I am hoping that this hearing and hearings like this are going to help reassure the taxpayers that we are now going to exercise real oversight over these issues.

Mr. Skinner, in your prepared statement, on page 7, you talk about the outsourcing of program management, and you point out that, under the Deepwater contract, ICGS was the systems integrator and given full technical authority over all asset design and configuration decisions, and the Coast Guard's role was limited to that as an advisor, but that the contract said that ICGS doesn't have to listen to the advisor, the Coast Guard, who are going to end up using these ships and our folks are going to go out on them and out on the seas.

If you give away the decisionmaking authority to the contractor, how can you ever be assured that you are going to get what you need to do the job?

Mr. SKINNER. Therein lies the problem, and you are absolutely right and that is exactly what we found, that the decisionmaking for the entire Deepwater program—not just for these cutters, by the way—rests with the contractor, and although the Coast Guard can advise, influence, and try to direct, they didn't have technical—they did not have the authority to override decisions made by the contractor. And that is one of the things I believe the current contract, the rewriting, as we speak, I believe, in redefining that, that we need to pull back that authority and give it back to the Coast Guard.

Mr. HODES. Mr. Walker, did you have something to add?

Mr. WALKER. I do. First, I think it is important that we recognize that there are a lot of high-quality contractors that do good work that we don't have problems, so I don't want to paint a broad brush, OK?

Mr. HODES. Absolutely.

Mr. WALKER. Second, I think we have to recognize the reality that civil servants have a duty of loyalty to the greater good, to the collective best interests of all. The private sector, which is the engine of growth and innovation in this economy, has a duty of loyalty to its shareholders. And we have good people in the private sector doing good work most of the time, who care about their clients, but, ultimately, civil servants have the duty of loyalty to the greater good, and there are certain things you must not delegate. Ultimately, responsibility and accountability has to come to civil servants, whether they be uniformed or non-uniformed. You should not delegate that.

Mr. HODES. I appreciate that. Let me just take it one step further with this question. I mean, we are aware of the difference between two single words—they are simple words—"may" and "shall" in contracts. And being aware of the law of unintended consequences and not wanting to inflict that on anybody, do you think it ought to be mandatory on military procurement contracts and this process that the contracting agency—whether it is the Coast Guard, the Army, the Marines, whoever it is—shall never delegate ultimate decisionmaking authority to a private contractor? Is that something that we ought to be looking at?

Mr. SKINNER. I think it is very important that the Congress provide this type of oversight. I think it is very important that we be asking those types of questions. I don't know if we want to jump in and just draw conclusions and possibly because of some incident or something that one occasion things went bad. We want to look at all the options and how we can correct this.

Mr. WALKER. My view is that you don't necessarily want to have a blanket, but I do believe that we need to have more restrictions than we have right now as to when and under what circumstances that is appropriate, similar to the fiduciary constructs that apply with regard to benefit plans and other——

Mr. HODES. Thank you. I appreciate it. That is what I was getting at.

I yield back. Thank you, Mr. Chairman.

Chairman WAXMAN. Thank you, Mr. Hodes.

Mr. Burton.

Mr. BURTON. Thank you, Mr. Chairman.

The latest GAO report gives high marks to program improvements, noting that communication and coordination between the Coast Guard and the contractors has improved, which should lead to better management and a sound Deepwater plan. Has it improved? And if so, to what degree? Do you agree or disagree with the GAO report?

Mr. WALKER. Well, first, Mr. Burton, there is no question that the Commandant is taking this matter very seriously, Admiral Allen. There is no question that a number of our recommendations have been adopted. But we are in the process right now of updating our work on Deepwater. We will be issuing something in the spring

on that, and that will be the most up-to-date information. But it has improved, but we will have a new report coming out in the near future.

Mr. BURTON. So they are heading in the right direction.

Mr. WALKER. I clearly think that it is being taken seriously and they are moving in the right direction.

Mr. BURTON. This Deepwater program is a 25-year, $24 billion program that was supposed to modernize the Coast Guard's air and surface assets. This program was started—do you remember what year it was started?

Mr. SKINNER. I believe the program actually started back in the mid to late 1990's. The contract itself was awarded in 2002.

Mr. BURTON. But the program was actually started under the previous administration, was it not?

Mr. SKINNER. During the—when it was with the Department of Transportation back in the mid-to late 1990's.

Mr. BURTON. But it was in the previous administration.

Mr. SKINNER. I don't track——

Mr. BURTON. According to my records.

Mr. SKINNER. I guess it was, yes.

Mr. BURTON. OK.

Mr. SKINNER. I can do the math in my head here.

Mr. BURTON. I guess the point I am trying to make is that, you know, I think both the previous administration and this administration thought they were heading this thing in the right direction, but obviously there has been some slipups and some miscues, so you are obviously correct that there have to be some improvements.

Let me just ask you. It was said by one of my colleagues that there has been a lot of consolidation among contractors; some of the big contractors have joined together. Are there certain contracts that are being let where there are not enough contractors who are capable of doing a job, so that you pretty much have to go with one set of contractors who have the expertise?

Mr. WALKER. There is absolutely no question that there has been a consolidation of major defense contractors, and in many cases you may only have a couple of choices.

Mr. BURTON. How do you control, you know, them getting away with excessive spending or excessive waste if you only have just one or two contractors that are capable of doing the job? I mean, how do you control that?

Mr. WALKER. Well, while clearly that means the fewer people that you have that can effectively bid, it means we have less competition. But there are a lot of things that we can and should do. We need to nail down our requirements; we need to make sure they are based upon needs versus wants; we need to make sure that we are changing how we are doing our contracts to make them outcome-based; we need to change with regard to what we are doing in incentive fees, with regard to exit clauses, with regard to penalty provisions. There are a lot of things that we can and should do no matter how many players are on the field, but obviously the more qualified players on the field, the more checks and balances there will be with regard to pricing.

Mr. BURTON. But it does make it a lot more difficult when you only have one or two contractors that are capable of doing a job,

because you have to deal with them, they are the only ones who can do it and you need to have the job done, so it is kind of difficult.

Mr. WALKER. Especially when you are dealing with national security assets. Obviously, when you are not dealing with national security assets, you have a little bit more flexibility. But when you are dealing with national security assets, it is even more complicated.

Mr. BURTON. But how would the—I don't want to belabor this point, but how would the Commandant of the Coast Guard deal with an intransigent contractor when he knew that was the only one that was capable of doing the job and had already gotten the contract?

Mr. WALKER. You would have to ask the Command about—I am not—I don't believe that there was only one contractor that was qualified to do this particular work, OK? I am not that familiar with the original award back there, but I am not sure that it was just only one that could do the work. But, again, there are things that could and should be done even if there was only one, some of the things I talked about before. And these aren't problems just with regard to Deepwater and they are not just problems with regard to DHS, I mean, they exist throughout Government.

Mr. SKINNER. There was more than one contractor and they did in fact choose the integrator based on some competition. I would like to point out that there are some laws and regulations dealing with fair pricing, and there are capabilities to go behind the scenes and to validate whether we are getting a fair price or are we being gauged. Simply because you are the sole owner or the sole contractor does not mean that you can gauge the Government.

Mr. BURTON. To illuminate this issue for some of our Members who may not be here now, can we get a list of suggestions that you might make on how you would deal with one or two contractors that have the inside track on getting these contracts because of their position and because of their size? I mean, if you have some ideas on how to do it, I think the committee would like to know how you deal with these guys, the big guys on the block that have the inside track on getting these contracts.

Mr. WALKER. Well, I think part of that goes back to my commitment to provide the 15 systemic problems and to work on the committee with dealing with it. Very capable staff says there were three teams that competed for this contract.

Chairman WAXMAN. The gentleman's time has expired.

Mr. Yarmuth.

Mr. YARMUTH. Thank you, Mr. Chairman.

Earlier, we heard from the other side the comment that characterized part of this hearing, anyway, as dash and bash or bash and dash, and that concerns me because I have heard nothing today other than a very sincere attempt by this committee to understand the contracting process and see how we can make it better.

Having just been elected in 2006 and having been among the electorate, I know that one of the things they are most concerned about is whether this Government knows what it is doing and is spending its money wisely, and I think that is why Mr. Waxman is holding the gavel this year, so I am not going to apologize in any

respect for the way this hearing has been handled and the objective. I want to talk a little bit about the SBInet program because that seems to me to illustrate possibly a little bit better some of the problems we have here.

In January 2006, at the beginning of the procurement process for SBInet, DHS Deputy Secretary Michael Jackson—I am sure no relation; I hope not—told potential bidders for the contract "We are asking you to come back and tell us how to do our business." Three months later, in the request for proposal, DHS still hadn't identified the specific Government needs; instead, they asked the private contractors—not Government officials—to figure out the right mix of technology, infrastructure, and personnel to secure the border.

Mr. Walker, what are some of the risks of beginning a multi-billion program without any defined requirements, essentially saying we want you to defend our borders?

Mr. WALKER. Well, it is one thing when you are providing flexibility to the contract to determine how best to meet the capabilities that you need. But ultimately you have to nail down the specific requirements; what type of platforms you are going to have, in what type of quantities, with what type of capabilities, with what type of timeframe. Those are examples of requirements and obviously need to go in more detail. It is essential that you nail that down. If you do not nail that down, no matter what size the contract is, you are going to have problems.

Mr. YARMUTH. An important part of managing a contract like this, like SBInet, is the development of program management plans, system engineering plans, and performance plans, outcome-based, as Mr. Walker might have referred to.

Mr. Skinner, in this particular case, who is developing these plans, is this the contractor or is this DHS?

Mr. SKINNER. This is DHS developing these plans. They are still in process, and we don't expect to see results of anything of real significance probably until early summer.

Mr. YARMUTH. In some of these cases—and correct me if I am wrong—it seems as though, or at least I got the impression, that we have, as part of the contracting process, the contractor is actually setting the performance standards, setting the reward guidelines. Is that true as well? And wouldn't that be a conflict of interest if that is occurring?

Mr. SKINNER. I am not aware of that occurring in either Deepwater or SBInet, or any other contract within DHS. And if it is occurring, it shouldn't be and it is occurring behind closed doors, not being talked about.

Mr. YARMUTH. Thank you.

I yield back.

Chairman WAXMAN. Thank you very much, Mr. Yarmuth.

Ms. Watson.

Ms. WATSON. I want to thank the Chair and Mr. Skinner and Mr. Walker.

It boils down to this: that we got into this contract and subcontracting without the management and the analytical skills available in Government, and you said they are working on it. Has anybody—since we are looking at waste, and probably some fraud and some abuse, and certainly conflict of interest—has anybody

been charged with any of this? Has anybody been let go? Has anybody been reprimanded? I mean, what are we doing? Are we just saying, as some of my colleagues think, oh, it is really not important, and when you look at it overall, this is small change, compared to the overall amount? You know, this cavalier attitude about the public's money in such a crucial kind of program. And we are giving bonuses out. That, to me, is bordering on criminal, because we are taking taxpayers' money to backfill and bonuses are being given out to people who have not performed.

So I am sure I am the last one here, probably. In conclusion, what would be your best recommendations, and can you let me know if incompetence has been replaced with competence? And I think that competence ought to be in Government, and not civilian contractors who don't have the best public interest in mind. It is too critical an issue—homeland security—to be so blase about it, and I just can't understand what is going on in this Government where this is the standard.

And thank you, gentlemen, for spending the time and having the patience and answering our questions. Thank you.

Mr. WALKER. Ms. Watson, I would suggest that you may want to ask the Commandant whether or not anybody has been held accountable or not; he would be in the best position to know that. Second, I think it is important to note that we are not asserting that there wasn't a basis to pay that $4 million incentive or award fee; we are questioning whether or not the Government should be structuring contracts in a way that allows for the payment of those type of fees and circumstances that aren't placed on outcomes.

Ms. WATSON. I got that.

Mr. WALKER. And, last, I will send up, as committed, the 15 systemic areas and will commit to work with this committee to try to address them, and I hope that the chairman decides to have a hearing on the systemic problem, because it clearly is deserving of it.

Ms. WATSON. I will conclude by saying this. I have been sitting here for hours. I stepped out for 5 minutes, came back in. I have heard everything that has been said, and I do get it. So we have to go up the line and down the line, Mr. Chairman, to find out what is being done. But the incompetence that we have heard about is just inconceivable to me.

So, with that—and we are going to be looking, because I have to go back to my taxpayer constituency and tell them that the moneys we are putting out for all of these programs are going to be secured because they are going to be accounted for.

Thank you so much, Mr. Chairman.

Thank you, gentlemen.

Mr. DAVIS OF ILLINOIS [presiding]. Thank you very much, Ms. Watson.

Mr. Sarbanes.

Mr. SARBANES. Thank you, Mr. Chairman.

A number of my colleagues have already kind of referred to the structural issues that we are talking here—Mr. Lynch and Mr. Hodes did—and that is the part that interests me the most. We are all talking about there being healthy tension between the procurer and the contractor, and the way I sort of envision that is it is sort

of like a tug of war, and you have the Government, in this case, on one side, you have the private contractor on the other side, and the project is in the middle. And the goal is to make sure that they are both sort of pulling enough on each side that the project stays within the appropriate bounds as it moves forward.

Now, what happens is if you get too many—if you get asymmetry in the resources on either side, or in the design or authority or scope of authority that is on either side, then it can pull too far in one direction or the other. You know, it can pull too far in the direction of the Government and you don't get what you need, and it can go in the other direction too. And when you don't have the right balance, parties are disserved and obviously the project doesn't get where it needs to go.

So one of the questions I had was about these integrated product teams, which I guess was a feature of this integrator model, and the design of those teams. If you could just describe that briefly, I would like to come back and ask you whether structurally there is something wrong with that design. And I guess we could start with you, Mr. Skinner.

Mr. SKINNER. I don't know if I am a position to actually describe its entire structure——

Mr. SARBANES. OK.

Mr. SKINNER [continuing]. But it was made up of both the staffing technical experts from the contractor as well as from the Coast Guard. The integrated teams were a mechanism in which decisions would be made or problems could be addressed. I believe it was chaired by the contractor, as opposed to being chaired by the technical authority of the Coast Guard. So as the Coast Guard brought problems up through that process, through that team, to discuss issues or where they were going to go, they could advise we have problems. But it was only advice and the ultimate authority rested with the chair of the team, which was the contractor. That is my understanding how it was working.

Mr. SARBANES. And what is your perspective on that kind of a structure?

Mr. SKINNER. We questioned the utility of—you need a strong integrated project team; you need to bring the different expertise everywhere from the budgeteers to the accountants to your procurement officials, your technical reps and others, they are essential to the implementation of a performance-based contract, one such as Deepwater or SBInet. But the important thing is who ultimately has technical authority or who ultimately has legal authority to make the final decision as to which direction the Government wants to go.

In the case of Deepwater, it is my understanding that ultimate authority rested with the contractor, not the Government.

Mr. SARBANES. Right.

Mr. SKINNER. We suggested that be changed.

Mr. SARBANES. Is the system integrator model, do you think, structurally flawed against this backdrop of what I said, of trying to kind of keep the project in the middle and make sure that you have—because you could have a situation—it doesn't appear to be the one here, but you could have a situation where you felt like you had sufficient resources on the Government side in terms of over-

sight, you know, procurement, a performance assessment, cost and schedule containment, all that kind of stuff—but because of a design feature in the way authority was ceded over to the contractor, all of those resources wouldn't make a difference. And I am trying to figure out whether, within this model itself, there are structural flaws and this is sort of, by definition, over the boundary.

Mr. WALKER. It is possible for the system integrator model to work if you have appropriate checks and balances in place in order to keep you on a reasonable path. It is very similar, quite frankly, to the Constitution, the checks and balances between the executive branch and the legislative branch: hopefully, both are focused on trying to do the right thing for the country, but there needs to be that check and balance. Same thing here, the contractors and the Government have a similarity of interest: we want positive outcomes for the benefit of the country. But there have to be adequate checks and balances, and you can't have an asymmetry too much. If you do, you are going to get in trouble.

Mr. SARBANES. Mr. Chairman, I just worry about whether the structure of it is such that there is just too much heavy lifting that has to be done to achieve those checks and balances on the Government end of this, and I think that is what we are trying to grasp here. Thank you.

Mr. DAVIS OF ILLINOIS. Thank you very much.

Chairman WAXMAN. The Chair will recognize himself. [Remarks made off mic.] Some of this is happening with virtually no guidance from the Government. A 2000 memo from a high-ranking Coast Guard official described it as giving the contractor a blank sheet of paper. We have seen the disastrous impacts of that approach in Deepwater, but now the Department is using the system integrator approach again, this time to secure the border in a contract called SBInet for Secure Border Initiative.

In the committee, we have been examining what steps the Department has taken to prevent a repeat of the Deepwater abuses, and what have we found? What we have found is alarming. The Department appears to be relying on contractors, not Federal officials, to plan, award, and manage the SBInet Contract program.

According to material provided to the committee by the Department, 13 individuals participated in the development of the acquisition plan for SBInet. The majority of these individuals, over 60 percent, were private contractors, not Government employees. When it came time to award the contract, DHS advised all the potential contractors that the Department would use private contractors to evaluate and analyze the bids.

And now, as of December 2006, over 60 percent of the positions in the SBInet program management office are contractors. There is a staff of 98 people currently overseeing the SBInet contract. Sixty of these individuals work for private contractors, not the Government. In other words, the office that is supposed to be overseeing the contractors is itself staffed by contractors.

Mr. Skinner, does this raise any concerns for you?

Mr. SKINNER. Yes, it does, and it is a concern we also shared with the Department, and it is an issue that we are currently looking at to see the impact that this could have on this acquisition.

Mr. DAVIS OF ILLINOIS. Thank you.

Mr. Walker, you addressed the issue of over-reliance on contractors in your testimony. Does this appear to be a case in which contractors are performing jobs that should be performed by Federal employees?

Mr. WALKER. Are you talking about the SBInet project, Mr. Davis, or Deepwater, or just in general?

Mr. DAVIS OF ILLINOIS. In Deepwater, as well as in general.

Mr. WALKER. That is an area where I think there are some roles and responsibilities where civil servants should be more involved in the decisionmaking. I will tell you we have a report that is going to be coming out next week on SBInet, and I do think that the Government doesn't have the right checks and balances in place and doesn't have the right division of responsibilities in order to fully protect the taxpayer interest.

Mr. DAVIS OF ILLINOIS. Just to followup, to rectify that, what do you think the Government needs to be doing?

Mr. WALKER. Well, among other things, we need to nail down the requirements; we need to re-look at the division of responsibility as to who has decisionmaking authority over certain types of critical decisions; we need to focus the contracting arrangements to delivering positive outcomes as it relates to cost, timing, and performance; we need to structure our incentives and accountability systems to either reward and/or penalize those who are not meeting those objectives. Those are just a few off the top of my head.

Mr. DAVIS OF ILLINOIS. Thank you. Thank you both very much.

Mr. WALKER. Oh, by the way, Mr. Chairman, we also need to make sure that we are taking steps to make sure we have enough people with the right skills and knowledge who can oversee whichever contractors are there. I mean, you know, you can contract out more and not have to have as many people to do the oversight of the overseers, but you have to have some, and they have to have the right skills and knowledge to be effective.

Mr. DAVIS OF ILLINOIS. Thank you very much.

And let me just ask, before we conclude, if Mr. Sarbanes has any further questions.

[No response.]

Mr. DAVIS OF ILLINOIS. Then thank you gentlemen very much.

Mr. SKINNER. You are welcome. Thank you.

Chairman WAXMAN [presiding]. We very much appreciated the testimony of this panel. Now we are honored to welcome our second panel, which includes officials from the U.S. Department of Homeland Security. On this panel we have Elaine Duke, who is the Chief Procurement Officer for the Department of Homeland Security; Greg Giddens is the Director of the SBI Program Executive Office at DHS; Admiral Thad Allen is the Commandant of the U.S. Coast Guard. He is joined by Rear Admiral Gary Blore, who is the Executive Officer for the Deepwater Program at the Coast Guard. We also have with us from the contractor community Jerry McElwee, vice president for SBInet Program at Boeing Advanced Systems; Leo Mackay, president of Integrated Coast Guard Solutions; and Philip Teel, president of Northrop Grumman Ship Systems.

We want to welcome all of you to our hearing today. It is unusual for this committee to have a panel with both agency and contractor

witnesses, but for this hearing we want to explore that very relationship, so we appreciate your flexibility and your cooperation.

It is the practice of our committee to swear in every witness, so if you would please stand and raise your right hands, I would like to administer the oath.

[Witnesses sworn.]

Chairman WAXMAN. Let the record acknowledge that each of the witnesses answered in the affirmative.

What I would like to ask each of you to do is to give a summary of your full statement within 5 minutes. Your complete statement, if it is longer, will be made part of the record.

Ms. Duke, let's start with you.

STATEMENTS OF ELAINE DUKE, CHIEF PROCUREMENT OFFICER, U.S. DEPARTMENT OF HOMELAND SECURITY; GREG GIDDENS, DIRECTOR, SBI PROGRAM EXECUTIVE OFFICE, U.S. DEPARTMENT OF HOMELAND SECURITY; ADMIRAL THAD ALLEN, COMMANDANT, U.S. COAST GUARD, ACCOMPANIED BY REAR ADMIRAL GARY BLORE, DEEPWATER EXECUTIVE OFFICE, U.S. COAST GUARD; JERRY W. MCELWEE, VICE PRESIDENT, BOEING SBINET PROGRAM, BOEING ADVANCED SYSTEMS; LEO MACKAY, PRESIDENT, INTEGRATED COAST GUARD SOLUTIONS (LOCKHEED MARTIN); AND PHILIP TEEL, PRESIDENT, NORTHROP GRUMMAN SHIP SYSTEMS

STATEMENT OF ELAINE DUKE

Ms. DUKE. Chairman Waxman, Ranking Member Davis, and members of the committee, I am Elaine Duke, the Chief Procurement Officer for the Department of Homeland Security. I am pleased to be here today with my other panel members. Thank you for the opportunity to appear before you to discuss DHS procurement practices, the management and oversight of complex acquisitions within the Department, specifically the Deepwater and SBInet contracts.

These programs are two of our most complex and visible contracts. The Secretary and Deputy Secretary, as well as other DHS leaders, are personally engaged in monitoring, planning, executing, and assessing these programs. We want to assure that these programs succeed in meeting our mission needs.

In fiscal year 2006, DHS obligated approximately $17 billion in contract dollars. Our preliminary small business accomplishments show approximately 34 percent were awarded under the various small business programs, exceeding the goal by over 11 percent.

My vision as Chief Procurement Officer is to create a high performance acquisition organization that is aligned with the DHS mission. My top priorities in implementing this vision are, first, to make good business deals. Meeting mission requirements while being good stewards of the taxpayer dollars involves the entire acquisition team. Second, to build and strengthen the DHS acquisition work force to manage risk. This requires developing and maintaining a work force that is the right size and has the requisite skill mix and talent. Third, to strengthen contract administration. The acquisition team can take proactive measures to make the deal work and ensure that products and services purchased meet con-

tract requirements and mission needs. Here, we can also leverage resources through partnering with technical experts in the Federal Government, such as the Defense Contract Management Agency and Defense Contract Audit Agency.

My initial focus in providing departmental oversight is to design an acquisition management infrastructure that will optimize our human capital talent in the program and contracting offices. Additionally, I will ensure that processes are in place to oversee the effective issuance and administration of task orders under these contracting vehicles. DHS, the U.S. Coast Guard, and Customs and Border Protection are committed to acquisition management and oversight of these contracts and programs.

In my oversight role, I am making sure that appropriate resources are in place. The fiscal year 2007 budget provided funding to hire additional acquisition personnel. Higher staffing levels will improve DHS's ability to monitor department contracts and effectively identify and correct poor contract performance.

My staff and I are specifically concerned with ensuring that adequate competition occurs throughout the life-cycle of our acquisitions, that small businesses receive their fair share, that the right people with the right skills are staffed in both the program and contracting offices, that there is a focus on contract management to ensure that acquisition and program offices adequately monitor contract performance, and processes are in place to control effective issue and administration of task orders. We have agreements with the Defense Contract Audit Agency and Defense Administrative agencies to provide specialized technical support to us in those areas. We also want to ensure that our contracting officer representatives and program and project staff are trained in monitoring contract performance.

My staff and I have been working closely with the Coast Guard and Customs and Border Protection to ensure good acquisition management. I actively participate in both acquisitions and will participate in the Department program review activities, including meetings of the Investment Review Board. I will be actively involved in reviewing both programs, and this entails regular reviewing the planning documents, the solicitations, the awards, and contract administration activities. Moreover, my office led the formation of a program management council which will develop the policies, procedures, and other tools needed for the DHS program managers to succeed. Finally, DHS has implemented earned value management with high priority programs and program management periodic reporting to assess performance of our major programs on a quarterly basis.

In terms of staffing this acquisition office, we are actively recruiting and forming an intern program, in addition to recruiting for more traditional sources. We have a strategy of developing relations with local universities that have accredited contracting curricula to attract collegiate talent at the junior level instead of waiting until graduation. We are devising a recruitment strategy to attract mid-level professionals that includes targeting military personnel who possess requisite skills, and including participating with the Department of Veterans Affairs program for hiring injured veterans.

We have taken the lead to create a centralized recruiting system and we have centrally funded a Department-wide intern program for 66 interns in the fiscal year 2006 budget submission.

With respect to the SBI contract, I concur with the Inspector General on staffing issues, and we continue to work on fully staffing the program and contracting offices in this area.

I appreciate having to be before the committee today and look forward to your questions.

[The prepared statement of Ms. Duke follows:]

TESTIMONY OF
ELAINE C. DUKE
U.S. DEPARTMENT OF HOMELAND SECURITY
CHIEF PROCUREMENT OFFICER
BEFORE THE U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
FEBRUARY 08, 2007

Chairman Waxman, Congressman Davis, and Members of the Committee, I am Elaine Duke, the Chief Procurement Officer (CPO) for the Department of Homeland Security (DHS). I am pleased to be here today with Admiral Thad Allen, U.S. Coast Guard Commandant and Mr. Gregory Giddens of U.S. Customs and Border Protection (CBP), who is the Director of SBI. Thank you for the opportunity to appear before you to discuss DHS procurement practices, and the management and oversight of its complex acquisitions, specifically the Integrated Deepwater System and the SBI*net* contracts.

My vision as CPO, is to create a high performance acquisition organization that is aligned with the DHS mission. My top priorities, in implementing this vision are:

- First, to make good business deals. Meeting mission requirements while being good stewards of tax payer dollars involves the entire acquisition team.

- Second, to continue to build and strengthen the DHS acquisition workforce to manage risk. This requires developing and maintaining a workforce that is the right size and has the requisite skill mix and talent.

- Third, to strengthen contract administration. The acquisition team can take proactive measures to make the deal work and ensure that products and services purchased meet contract requirements and mission needs. Here, we can also leverage resources through partnering with technical experts such as the Defense Contract Management Agency and the Defense Contract Audit Agencies.

My initial focus in providing Departmental oversight is to design an acquisition management infrastructure that will optimize our human capital talent in these program and contracting offices. Additionally, I will ensure that processes are in place to oversee the effective issuance and administration of task orders under these Indefinite-Delivery Indefinite Quantity contracts.

Integrated Deepwater System Program
The Integrated Deepwater System Program is a $24 billion acquisition program designed to modernize the Coast Guard's aging and deteriorating fleet of ships and aircraft. This program is intended to modernize all of these assets, to include everything from patrol boats and high endurance cutters to helicopters and C-130 aircrafts. The program uses a "system-of-systems" approach by which a private sector Systems Integrator is encouraged to develop an optimal mix of assets designed to accomplish all defined Coast Guard Deepwater missions.

Integrated Deepwater System Acquisition Overview
This is a performance-based contract that focuses on outcomes that are more competitive, entrepreneurial, flexible, and performance oriented, linking mission requirements to industry solutions. The Deepwater contract was awarded on June 25, 2002 to Integrated Coast Guard Systems (ICGS), which is a joint venture partnership between Northrop Grumman Ship Systems (NGSS) and Lockheed Martin Corporation (LM). This is a five-year contract with five separate award terms, exercisable up to 60 months per award term. The current contract expires in January 2011, and is based upon the first award term being awarded for 43 months.

SBI*net* Program
U.S. Customs and Border Protection (CBP) is the executive agent for DHS in the development of the SBI*net* solution. SBI*net* requires a comprehensive and aggressive strategy to deploy the optimum mix of personnel, technology, and infrastructure in a manner that will significantly reduce the probability of illegal entries and successful cross-border violations into the United States. The initial focus of SBI*net* will be where the most serious vulnerabilities to border security exist. It requires integrating a common operating picture (COP) of the border environment within a command and control center that will provide DHS components and stakeholders external to DHS an unprecedented level of interoperability. This comprehensive solution carries out the goal of securing the border, which requires that four key elements be met:

- Detect an entry when it occurs;
- Identify what the entry is;
- Classify its level of threat (who they are, what they are doing, how many, etc); and
- Effectively and efficiently respond to the entry, bringing the situation to an appropriate law enforcement resolution.

SBI*net* Acquisition Overview
CBP will use the SBI*net* contract to acquire, deploy, and sustain the technology and tactical infrastructure necessary to achieve control at and between ports of entry (POE). The SBI*net* Program incorporates acquisition best practices and lessons learned from previous border technology procurements to provide the most cost and operationally effective solution for securing the border. CBP selected an indefinite delivery, indefinite quantity (IDIQ) contract vehicle because the vastly different terrain, threats, and evolving nature of the operational environment require a solution that is flexible, adaptable, and tailored to specific needs.

The SBI*net* acquisition was conducted using full and open competition and resulted in a performance-based IDIQ contract being awarded to Boeing in September 2006. Several businesses submitted proposals that provided solutions for securing the borders and detailed the partnering relationships they intended to utilize to meet the Government's program objectives.

The contract has a base period of three years and three one-year option periods for a total of six years. The maximum that the Government may obligate under the contract covers the full panoply of supplies and services necessary to provide 6,000 miles of secure border. The Government has already met its minimum obligation under the contract (i.e., $2 million). It is expected that the supplies and services required for this effort are, for the most part,

commercially available. Major components consist of sensors, communication technologies and equipment, command and control systems and subsystems, infrastructure and response capabilities, and the integration of all of the above.

Task and delivery orders will be negotiated and may range from cost reimbursement to firm fixed price with appropriate risk-sharing between the Government and the contractor and award/incentive fee structures. It is anticipated that DHS will accept more of the risk during the design and development phases, which are expected to be cost reimbursement tasks. After the development phase has been completed, the contract task and delivery orders may shift to other types of arrangements. The SBI*net* contract, therefore, allows DHS to structure the acquisition into discrete, workable phases, implemented through task and delivery orders. This approach will provide the greatest amount of flexibility to respond to evolving requirements.

Further, the contract with Boeing is not an exclusive contract. DHS may at its discretion use other contract vehicles for the goods and services required for the SBI*net* Program. The Government reserves the right to compete SBI*net* requirements through the use of other contract vehicles or methods when it is in the best interest of the Government. This includes using other DHS contracts or Government-wide acquisition contracts, as appropriate. All such requirements will be carefully reviewed for small business set-aside potential. DHS will work with Boeing to ensure that requirements awarded under the contract are evaluated for make-or-buy decisions, i.e., subcontracting versus Boeing completing the work itself.

General Overview of DHS Procurement Practices
The Office of the Chief Procurement Officer (OCPO) is responsible for approximately $16 billion in contracts and $11 billion in financial assistance programs that provide products and services that are essential to the success of Departmental operations. Also, my office is responsible for overall management, administration and oversight of Department-wide acquisition, financial assistance, strategic sourcing and competitive sourcing programs.

Staffing
Historically, balancing the appropriate number of DHS contracting officials with the growth of DHS contracting requirements has been a challenge. The gap between DHS acquisition spending and acquisition staffing levels has placed increased demands on acquisition officials. The challenges stretch across the entire DHS acquisition organization and are not limited to one major acquisition program such as Deepwater and SBI*net*. Efforts are ongoing in implementing a strategic career development plan that addresses recruitment and retention issues. The cornerstone of this plan identifies location, training, experience and education requirements for the acquisition workforce and professional certification.

Within the Washington, D.C., area, competition for procurement personnel is intense. The FY 2007 Budget provided funding to hire additional acquisition personnel. Higher staffing levels will improve DHS' ability to monitor Department contracts and effectively identify and correct poor contractor performance. Other examples of our efforts to address contracting staff shortages are:

- As part of Departmental oversight, we intend to focus on contract management to ensure that acquisition and program offices adequately monitor contractor performance. With respect to oversight and management of contractors, the CPO has established agreements

with the Defense Contract Audit and Administrative agencies to provide supplementary contract audit and administrative support.

- We have also established training requirements for our Contracting Officer Representatives (COR) and program and project management staff to strengthen oversight and management of contractor performance

Acquisition Oversight

The Department, USCG and CBP are committed to acquisition management and oversight of the Deepwater and SBI*net* contracts. My senior staff and I have been working very closely with both USCG and CBP to ensure appropriate planning, execution, and management of the contract. From solicitation through contract award and task order issuance, my senior staff and I have been involved throughout the acquisition. My Acquisition Oversight Directorate will be actively involved in reviewing both programs. My office will participate in all Departmental program review activities, including the meetings of the Investment Review Board. Also, we will routinely review acquisition planning documents, solicitations, task order awards, and contract administration activities. The Deepwater and SBI*net* Programs will also be checked quarterly as part of the CBP Operational Assessment review in accordance with the DHS Acquisition Oversight Program. There will be a comprehensive acquisition management review of Deepwater and SBI*net* in conjunction with the Tri-annual Component review. Additionally, my oversight office has been, and will continue to be, available to consult with the Deepwater and SBI*net* Program Managers and Contracting Officers, respectively, as needed.

Program Management

DHS has formed a Program Management Council (PMC) as part of the Procurement Program Management Center of Excellence. The PMC is working to develop the policies, procedures, and other tool sets needed for DHS Program Managers to succeed. On a semi-annual basis, the current PMC Chairman, Gregory Giddens, and I will report to the Deputy Secretary on Department-wide progress in key areas of program management.

Conclusion

We recognize the critical role the acquisition workforce plays in successfully achieving the Department's missions, and I am committed to working with the Coast Guard and CBP to ensure effective oversight of these major programs. Mr. Chairman, I thank you and the members of the committee for your interest in our efforts, and I am happy to address any questions that you may have for me. Thank you.

Chairman WAXMAN. Thank you very much for your testimony.
Mr. Giddens.

STATEMENT OF GREG GIDDENS

Mr. GIDDENS. Chairman Waxman and Ranking Member Davis and other members of the committee, thank you for the opportunity to appear before you today. I am Greg Giddens, the Director of the Secure Border Initiative Program at Customs and Border Protection. I am a 27-year public servant and spent most of that time in the acquisition and program management field.

As Mr. Walker, I hope we can use this hearing as a springboard for real productive dialog on how to accomplish the goal I know we all share: getting the capabilities and capacities delivered to the operation user quickly and in a way that provides real stewardship for the American taxpayer. I welcome your and the committee's interest and believe it is critical we mature our ability to manage these large programs not just within the Department of Homeland Security, but across the Federal Government.

The Secure Border Initiative at the Department of Homeland Security is a comprehensive approach to both border security and immigration reform. The approach requires simultaneous progress on three different goals. The first is gain effective control of our borders, the second is to increase enforcement of our customs and immigration laws, and the third is supporting the passage of a temporary worker program.

The SBInet program supports the first goal, gaining effective control of the border. As part of the Department of Homeland's solution for border security, Customs and Border Protection will use the SBInet program and its prime contract to design, acquire, deploy, and sustain the technology and tactical infrastructure necessary to achieve control at and between the ports of entry.

In establishing this contract, Customs and Border Protection selected a vehicle that gives the Government the flexibility it needs when a solution is not repetitive and where risk changes throughout the program. The vastly different terrain, threats, and evolving nature of the operation environment require a solution that is flexible, adaptable, and tailored to the specific needs. This contract allows Customs and Border Protection to acquire border security solutions in discreet, workable phases, implemented through task and delivery orders, without committing the Government to acquire additional capability from the SBInet prime contractor.

We have applied a number of lessons learned to SBInet from other major acquisitions. They include mechanisms to ensure value at the subcontractor level, to allow Customs and Border Protection to separately complete work to support program implementation, and the establishment of the right number and type of resources to manage the effort with separate Government office and private contractor teams.

We believe that strong program management and contract oversight will ensure successful execution of SBInet. We will manage the SBInet in-house for greater connectivity to the operators and control the program through direct oversight. We have established a robust program management structure to oversee the successful implementation of the solution and we are rapidly building upon

that foundation. The SBInet project team includes certified program managers and senior contract specialists.

Let me make just one clarification. The Government provides management and oversight of SBInet. We do have support contractors on our staff, but they are support contractors, like Miter and others. They are support, they are not providing oversight for the Boeing prime contract. And they all sign non-disclosure agreements to be part of the Government team.

Quite simply, there is no risk-free approach to a program of this size and scope. As is appropriate with a program of this value and importance, the Government Accountability Office and the Department of Homeland Security Office of Inspector General have already begun evaluating SBInet and offering recommendations. The recommendations received to date have provided useful and collaborative improvement upon the SBInet program management and execution. Attention to enhancing organizational capacity, increasing requirement definition tailored to specific tasks as the program matures, and diligent oversight of cost, schedule, and performance are essential elements of program management embraced by both the Department and Customs and Border Protection.

Managing large programs is a difficult task, it is what some refer to as big "A" Acquisition; it involves orchestrating the intersection of requirements generation and management, budget formulation and execution, acquisition of procurement strategies, contract award and management, and science and technology explorations and development. There are lots of moving parts that must be managed in a cohesive, integrated fashion.

If we want a future where the Government is managing complex programs in a way that delivers value-based performance, we must work to make it so. I believe it will take us working together focusing not just on oversight, but on foresight, being able to see what the future can be, and then joining together to make it so. We should expect no less and we should accept no less on behalf of the American public. Without a dramatic shift in the way that we, as a Nation, protect our land borders, we leave ourselves and our citizens vulnerable. We recognize the challenges that lie ahead. By securing our borders with the right mix of personnel, technology, and infrastructure, we will fulfill our mission of protecting our country and its citizens.

Sir, I again thank you for appearing before the committee and look forward to answering your questions.

[The prepared statement of Mr. Giddens follows:]

TESTIMONY OF
GREGORY GIDDENS
U.S. CUSTOMS AND BORDER PROTECTION
EXECUTIVE DIRECTOR,
SECURE BORDER INITIATIVE PROGRAM MANAGEMENT OFFICE,
BEFORE THE U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
February 8, 2007

Introduction

Thank you, Mr. Chairman and Members of the Committee, for allowing me to appear before you today. I appreciate the opportunity to discuss SBI*net*'s urgent and essential mission, and how SBI*net* fits into the Secure Border Initiative (SBI), the Department of Homeland Security's (DHS) comprehensive strategy for securing America's borders and reducing illegal immigration. My testimony focuses on how the SBI*net* contract structure was developed, how the Department has leveraged lessons learned and best practices from similar contracts, and how we intend to conduct oversight of the SBI*net* program throughout its life cycle. My testimony provides you with the information necessary to conduct your oversight role in this endeavor.

Secure Border Initiative (SBI): The DHS Approach to Comprehensive Border Security

The challenge of securing America's land, air, and sea borders involves numerous interrelated objectives and the ongoing work of multiple DHS components. It also entails close coordination with other federal agencies, foreign governments, and State, local, tribal, and private sector partners. Four operating components at DHS have especially central roles regarding border security: U.S. Customs and Border Protection (CBP), Immigration and Customs Enforcement (ICE), U.S. Citizenship and Immigration Services (USCIS), and the United States Coast Guard (USCG). Other policy, intelligence, and support organizations within DHS also assist with this broader mission, including the Domestic Nuclear Detection Office (DNDO).

At DHS, our border security mission is motivated by a commitment to protect against, and prevent, terrorist attacks and other transnational crimes. In addition, DHS is tasked with ensuring the legal entry and exit of people and goods across our borders, as well

as the enforcement of immigration and customs laws at our borders, within the country, and abroad.

Secretary Chertoff created the Secure Border Initiative (SBI) to galvanize DHS actions across agencies in support of the President's three core objectives for comprehensive border security and immigration reform:

- Gain effective control of the borders,
- Strengthen interior enforcement and compliance with immigration and customs laws,
- Support passage of a temporary worker program.

Within this comprehensive DHS effort, CBP will execute the SBI*net* program to help accomplish the first SBI objective – achieving control at and between the nation's ports of entry by acquiring, deploying, and sustaining a targeted combination of technology, tactical infrastructure, and personnel.

CBP Overview

CBP is the executive agent for the contracting and implementation of SBI*net*, which is a piece of the holistic approach of SBI. CBP acts as the guardian of our nation's borders, safeguarding the homeland against the entry of terrorists and the instruments of terrorism and enforcing the laws of the United States while fostering the nation's economic security through lawful travel and trade. Within CBP's larger mission, the Office of Border Patrol and the Office of Field Operations' time-honored duty of interdicting illegal aliens and contraband and those who attempt to smuggle them across our borders at and between the ports of entry remains a priority. The CBP post-September 11th mission is clear: we must guard against the terrorists and violent criminals who may exploit our border to enter the United States unlawfully and do us harm.

To secure effective control of our borders, President Bush announced a plan to increase the number of Border Patrol Agents by 6,000 by the end of 2008. We are grateful that the 2006 Supplemental and 2007 DHS Appropriations have provided 2,500 agents as part of this plan. We are additionally grateful, that, as part of this plan, the President's FY 2008 budget requests funding for 3,000 more Border Patrol Agents. This plan, when completed, will bring the total number of Border Patrol Agents to over 18,000, doubling the number of agents since the President took office in 2001. These additional agents will serve as a tremendous resource in combating border violence and the organizations that prey on innocent people on both sides of the border.

There is no stretch of border in the United States that can be considered completely inaccessible or lacking in the potential to provide an entry point for a terrorist or terrorist weapon. Therefore, securing every mile of diverse terrain is an important and complex task that cannot be resolved by a single solution, such as installing fence alone. To secure each unique mile of the border requires a balance of technology, infrastructure,

and personnel that maximizes the government's return on investment and is tailored to each specific operational environment.

SBI*net* Acquisition Overview

As part of the comprehensive DHS solution for border security, CBP will use the SBI*net* contract to acquire, deploy, and sustain the technology and tactical infrastructure necessary to achieve control at and between ports of entry. The SBI*net* Program incorporates acquisition best practices and lessons learned from previous border technology procurements to provide the best value and most operationally effective solution for securing the border. CBP selected an indefinite delivery, indefinite quantity (IDIQ) contract vehicle because the vastly different terrain, threats, and evolving nature of the operational environment require a solution that is flexible, adaptable, and tailored to specific needs.

The SBI*net* acquisition was conducted using full and open competition and resulted in a performance-based IDIQ contract.

An IDIQ contract allows DHS to structure the acquisition into discrete, workable phases implemented through task and delivery orders, without committing the government to acquire additional capability from the SBI*net* integration contractor. This approach will provide the greatest amount of flexibility to respond to ever-changing conditions while minimizing risk to the Government.

Further, the SBI*net* contract allows DHS to use other contract vehicles for the goods and services required for the SBI*net* Program. Thus, the government reserves the right to compete some SBI*net* requirements through the use of other contract vehicles or methods when it is in the best interest of the government. This includes the right to use other DHS contracts or government-wide acquisition contracts, as appropriate. All such requirements will be carefully reviewed for small business set-aside potential.

Several large businesses participated in the full and open competition, submitting proposals that detailed the partnering relationships they intended to use to meet the government's program objectives and that provided solutions to securing the borders. The award of the SBI*net* contract to the Boeing Company (Boeing) was announced on September 21, 2006.

The awarded SBI*net* contract has a base period of three years and three one-year option periods for a total of six years. The government's minimum obligation under the contract is $2 million over the term of the contract. The government's maximum obligation is the full range of supplies and services necessary to provide 6,000 miles of secure border. The supplies and services required for this integration effort are, for the most part, commercially available. Major components consist of integration services, sensors, communication technologies and equipment, command and control systems and subsystems, and infrastructure and response capabilities.

Accountability

Drawing from previous experience, CBP used the IDIQ contract structure to select the company that offered the best overall strategy and value to the government for SBI*net* while allowing direct government oversight and decision-making authority to oversee implementation. The technical proposals submitted by each company were required to include:

- Overall concept of operations for the SBI*net* solution.
- Quality assurance plan, measures, and metrics for the overall concept, as well as those that will apply to task orders/individual deliverables.
- Detailed management plan, including a defined conflict of interest mitigation plan.
- Detailed subcontracting plan.
- Past performance information.
- Application of the concept, from both technical and cost perspectives, to the Tucson Sector.
- Differences in the application of the solution to the Swanton Sector.
- Defined deliverable to award with the master contract.

DHS has applied to SBI*net* a number of additional lessons learned from other major acquisitions. For example:

- To mitigate performance risk, performance metrics, targets, and goals at the system and task order level will be individually negotiated. Through these negotiations the government will evaluate realism and reasonableness as to metric development methodology and logic, and their impact on cost and price.

- To mitigate future cost risk, evaluations of teaming agreements and subcontracts will be conducted. This approach will provide DHS with the opportunity to ensure the agreements do not bind the government to long term pricing contracts that may not be competitive in future years. Comprehensive cost and price evaluations will be conducted on each task order to ensure competitive and current market rates.

- The contract and program management plans must give DHS visibility into make-or-buy decisions and ability to (dis)approve those proposals made by the contractor.

- DHS will retain the right and flexibility to separately compete work to support systems implementation.

- Although complex, DHS does not envision developing large capital assets to support the solution. The SBI*net* Program will generally procure commercial and/or currently available technologies.

  - The absence of major capital asset development, acquisition, and deployment reduces the overall risk level to the program.
  - The SBInet Program does not have the same likelihood of requirements and cost growth inherent in a developmental technology, system, or asset.

To ensure a clear scope for the over-arching SBI*net* contract, CBP selected stable top-level requirements, and we believe the selection of the Boeing proposal validates the approach for acquiring a low-risk technological solution. The requirements for the SBI*net* solution are:

- Detect an entry when it occurs;
- Identify what the entry is;
- Classify its level of threat (who the entrant is, what the entrant is doing, how many, etc.); and
- Respond effectively and efficiently to the entry, bringing the situation to an appropriate law enforcement resolution.

These requirements are enduring and fundamental to the task of securing the border at and between ports of entry.

Additionally, the government will evaluate each task order with measures and metrics. CBP will negotiate specific technical, operational, and performance requirements for each task order. This approach to task order management will provide CBP greater visibility into the overall success of the SBI*net* solution, not only from a budget and schedule perspective, but most importantly from a performance perspective. The SBI*net* Program Management Office (PMO) within CBP has developed a detailed Task Order Initiation process that incorporates Make/Buy decisions prior to project milestones. In particular, the design phase for each project presents alternative analyses that include Make/Buy evaluations to ensure that the government is receiving optimal value and that mission requirements are met. Each task order will be monitored with accredited Earned Value Measurement processes and will have a qualified and accountable Project Manager.

SBI*net* Oversight and Management

DHS believes strong program management and contract oversight will ensure the successful execution of SBI*net*. As part of the aforementioned lessons learned from a past acquisition program, CBP will manage the SBI*net* in-house for greater connectivity to the operators and control through direct oversight. CBP has established a robust program management structure to oversee the successful implementation of the

solution and is rapidly building upon this foundation. The SBI*net* project team includes seasoned certified program managers and senior contract specialists. The DHS Joint Requirements Council and Investment Review Board will oversee deployment of the system throughout its life cycle.

The CBP Commissioner has established an Executive Steering Committee (ESC) that meets weekly to discuss program progress against SBI*net* goals and objectives. The PMO provides regular updates to both CBP and DHS leadership.

Quite simply, there is no risk-free approach to an acquisition of this size and scope. To minimize the risk, we will employ a risk-based management approach. As is appropriate with an acquisition of this value and importance, the Government Accountability Office (GAO) and DHS Office of the Inspector General (OIG) have already begun evaluating SBI*net* and offering recommendations. Independent insight is essential for making continuous progress in improvements to program structure and management. GAO and OIG insight is helpful in identifying risks and in managing those risks accordingly. The recommendations received to date have provided useful and collaborative improvements in SBI*net* program management and contract execution. Attention to enhancing organizational capacity, increasing requirement definition tailored to specific task orders as the program matures, and diligent oversight of cost, schedule, and performance are all essential elements of program management embraced by DHS and CBP.

In conjunction with the recommendations from the GAO and OIG, CBP is pursuing the following areas of improvement to strengthen government program management and contractor oversight:

- Defining Program Management Structure;
- Providing Appropriate Staffing and Human Capital;
- Enhancing Definition of Operational Requirements; and
- Measuring Contractor Performance.

Defining Program Management Structure: The PMO finalized its Program Management Plan (PMP) in January 2007. The PMP applies a plan of action with performance milestones so as to develop the capacity to manage SBI*net*, administer its contracts and agreements, and ensure effective oversight and implementation. The PMP serves as the overall plan for managing SBI*net*. Included within the PMP are delineations of Program Organization and Responsibilities, an explanation of the CBP Program and Technical Management Approach, and Key Program Management Processes.

To solidify its capacity to manage SBI*net* and administer its contracts and agreements, CBP is employing best practices in project management. The organizational structure set up by CBP allows for the concentration of subject-matter expertise into appropriate directorates, creating a ready resource pool to staff Integrated Project Teams (IPTs) to execute projects under SBI*net*.

IPTs are cross-functional teams under the leadership of an accountable government manager. IPTs use the tenets of integrated process and product development to get the right people and skills involved in managing a project. Each IPT in SBI*net* will be formed with appropriate representatives to ensure a common understanding of the activities involved and to secure input from all relevant entities.

As CBP carries out SBI*net*, other organizations within DHS will carry out additional elements of the SBI. The Secretary has created a Secure Border Coordination Council that is chaired by the Deputy Secretary and includes six senior DHS executives responsible for border security. The Council was formed at the start of FY2007 and reports directly to the Secretary. Its permanent members include the Deputy Secretary (chair); ranking officials from CBP, ICE, USCIS, and USCG; the DHS Chief Intelligence Officer; and the Assistant Secretary for Policy. Other DHS officials participate as appropriate. The Council focuses DHS's leadership team on the progress required within SBI to achieve the comprehensive immigration reform and homeland security priorities described in the SBI Strategic Plan.

SBI*net* continues to develop an SBI*net* Program Plan that describes and documents the work breakdown structure, the Integrated Master Schedule, and the program budget. This plan is expected to be completed by the end of this Fiscal Quarter. SBI*net* continues to build program, project, and acquisition management competencies through the definition and institutionalization of core processes that provide predictability, repeatability, and consistency in program operations. The PMO has been vigilant in creating a process management infrastructure that supports the definition, measurement and control over key acquisition business processes to include Project Pre-Award and Project Execution. Using best practices from the Project Management Institute (PMI), the Software Engineering Institutes (SEI) Capability Maturity Model Integration® (CMMI), and the Defense Acquisition University (DAU), SBI*net* continues to build strong discipline and oversight capability.

Providing Appropriate Staffing and Human Capital: To achieve established staffing goals for 2007, the SBI program offices within CBP continue to actively recruit and hire qualified candidates. To date, 124 staff positions have been filled (55 government and 69 contractors) out of a planned total of 270 for 2007. The CBP Commissioner continues to be apprised of resource gaps through the weekly SBI Executive Steering Committee (ESC) meetings and weekly meetings with the SBI Executive Director and SBI*net* Program Manager.

Current staffing levels are adequate to manage the current program workload, administer task orders under contract, and ensure effective oversight and implementation. As the program matures and future task orders are awarded, CBP will continue to increase staffing levels appropriately.

Enhancing Definition of Operational Requirements: To continue definition of the top-level requirements provided during the contract solicitation, the PMO developed a

Mission Needs Statement that was approved on October 1, 2006. The Mission Needs Statement identifies capability gaps and certain needs of the SBI*net* Program.

In support of SBI*net,* the PMO completed a comprehensive requirements workshop with CBP operational stakeholders on October 13, 2006. The resulting Operational Requirements Document (ORD) will be finalized and approved by February 28, 2007. This document will be used to derive contract requirements and establish the appropriate performance metrics for each future task order.

In addition to the ORD, a System Engineering Management Plan (SEMP) has been developed to outline the technical management and processes for program requirements, design, and development. Testing will include an Independent Validation and Verification (IV&V) contractor who will test software and systems development. Test and Evaluation will also include Operational Test and Evaluation (OT&E), using an independent government organization to evaluate performance, effectiveness, and operational suitability of the installed solution.

Additionally, the PMO held a System Requirements Review in January 2007. Follow-on meetings will be held in February to baseline system requirements.

Measuring Contractor Performance: The plan of action and milestones (POA&M) currently in development will include measurable and meaningful performance metrics and controls. Additionally, SBI*net* will use Earned Value Management (EVM) as a technique to integrate cost, schedule, and technical accomplishments for SBI*net* task orders where appropriate. EVM is a best practice method for measuring performance, reporting and analyzing project status, and comparing actual costs and accomplishments to a baseline. EVM serves as an early warning indicator for effective management decisions and corrective actions. It supports effective "what-if," tradeoff and trend analyses; helps to highlight potential risks; and provides more accurate forecasts of cost and schedule performance. Using EVM on SBI*net* satisfies the acquisition requirements of OMB Circular A–11, Part 3, and the Government Performance and Results Act of 1993.

In November 2006, Boeing submitted to the PMO its Cost Management Plan, which describes Boeing's EVM reporting approach for SBI*net*. The Program Management Plan describes the PMO's approach to oversight of the EVM performance reporting for the SBI*net* Program. This oversight consists of PMO review of the monthly Contract Performance Reports (CPRs) submitted by the prime contractor; analysis of the CPR data and performance trends at monthly project reviews; and monthly Program Management Reviews (PMRs) in which cost and schedule performance trends are addressed by the PMO. Further, EVM data are also reported quarterly to CBP and DHS in the Periodic Performance Reports.

Issues related to EVM will be addressed and resolved, as appropriate, with guidance and support from the CBP Commissioner and Chief Procurement Officer (CPO).

Boeing will provide regular implementation status reports and reviews on the SBI*net* task orders. Specific requirements for reports and reviews will be detailed in the individual task orders and may include cost performance reports; schedule and planning reports and reviews; technical performance reports and reviews; management reports and reviews; Integrated Baseline Reviews; and project cost estimates.

CBP is currently working with Boeing to prepare the POA&M. It will be reviewed by the CBP Commissioner and the CPO, per the recommendation of the OIG, and recommended actions will be instituted and tracked to completion. To ensure continued attention and adequate provision of resources, the PMO will provide periodic updates to both CBP and DHS CPO leadership.

Regular Program Management Reviews (PMRs), which include the status of risks, action items and issues, key milestones, budget, and deliverables, are provided to the CBP Commissioner and CPO. The PMRs provide a forum to facilitate timely decision-making by presenting leadership with a thorough status of the SBI*net* Program while raising issues that need management attention. The last PMR was held on February 1, 2007, in Arlington, VA.

SBI*net* project managers will be responsible for assessing and reporting project status and the likelihood of meeting the scope, cost, schedule, and technical performance objectives through weekly reports to the SBI*net* Program Manager, PMO Directors, and other project stakeholders. Status reporting will begin as soon as a new project is initiated and will continue on a regular basis.

Conclusion

Without a dramatic shift in the way that we as a nation protect our land borders, we leave ourselves and our citizens vulnerable. We recognize the challenges that lie ahead. By defending our borders with the latest technology and infrastructure, as part of a comprehensive solution that also includes additional well-trained personnel, and by maintaining a vigilant interior enforcement of our nation's immigration laws, we will fulfill our mission of protecting our country and its citizens.

Chairman WAXMAN. Thank you very much, Mr. Giddens.
Admiral Allen.

STATEMENT OF ADMIRAL THAD ALLEN

Admiral ALLEN. Mr. Chairman, Ranking Member Davis, and members of the committee, my No. 1 goal today is to convey to you the critical importance of recapitalizing aging Coast Guard cutters, aircraft, and sensors.

Deepwater is essential to the future of the Coast Guard; we do not have the luxury to restart this program. Our aging platforms cannot sustain the level of operations required in the current threat environment. Each year new cutters and aircraft are delayed, we lose more mission hours and our capabilities eroded by failing or unsustainable equipment. We have to get this right and we have to do it quickly.

Getting it right means several things. First, internally in the Coast Guard, we must create the right organization and culture that focuses on effective management and contract oversight. We are doing that. When I was interviewed by Secretary Chertoff to be the Commandant, I proposed to create a single acquisition organization, improve program management, and align that organization with a new service-wide mission support structure. We are in the process of implementing those changes, and I will submit for the record our blueprint for acquisition reform.

I have strengthened the role of the Assistant Commandant for Engineering and Logistics as the Coast Guard's technical authority for acquisitions. I have issued a service-wide directive which states this individual is the authority responsible and accountable to establish, monitor, and approve technical standards, tools, and processes. I have assigned Rear Admiral Ron Rabago to lead the Deepwater Program Office. Rear Admiral Rabago is a distinguished naval engineer, former cutter commanding officer, and former commanding officer of the Coast Guard Yard.

We have sought external independent feedback on our acquisition process from the Defense Acquisition University and received a number of recommendations we are reviewing.

Second, we must collaborate effectively with our industry partners and, when appropriate, provide direction that preserves the Government's interest and ensures the performance of our cutters and aircraft. Are we doing that?

Since assuming my duties as Commandant, I have met and talked with both Mr. Stevens of Lockheed Martin and Mr. Sugar of Northrop Grumman on numerous occasions. We most recently held a meeting in January which was frank, open, and insightful. A team will provide recommendations to us shortly as to how we can best align and optimize the relationship for the next award term.

We will adjust the terms of the contract going forward to ensure proper emphasis on cost control, competition, and program management. Where required, we will play a larger role in systems integration.

Third, we must maintain cordial productive relationships with oversight bodies that have legitimate roles in this endeavor. We are

doing that. To the extent that we can improve or better provide guidance to our people, we will do that as well.

Two weeks ago I sent a personal message to every person in the Coast Guard, and it stated the following: External scrutiny from the Inspector General and other overseers will raise questions on the Deepwater acquisition throughout its life. As public servants, we are not only subject to their oversight, but it is a central feature of the appropriations process. I welcome external review, as it enables us to improve our process, be more effective stewards of taxpayer dollars and better serve the American public.

I have met regularly with the Inspector General. To the extent there is any ambiguity regarding our position on the NSC audit, let me clearly state that we concur and have implemented five or six recommendations made. Regarding the sixth and final recommendation, we are deferring to the Department of Homeland Security to establish policy.

In the past 10 years, the Coast Guard has acquired a number of assets on-schedule, below estimated cost. Examples include our coastal patrol boat, large buoy tenders, and the Great Lakes icebreaker. However, in each case it was a single platform and systems integration was not a challenge. Our current challenge is to transform our competency as a mid-sized Federal agency to one capable of effectively managing a large, complex systems integration contract like Deepwater.

And while there is current focus on two specific cutters, it should be recognized that Deepwater continues to provide new and valuable capability in the form of new fixed-wing aircraft, re-engined helicopters, and significant upgrades to our legacy cutters. I have flown in our helicopters; I have ridden our cutters on patrol in the Caribbean. Our people appreciate these tools. That is my promise to them as Commandant.

We acknowledge there are issues with the fatigue life of the National Security Cutter, and I must emphasize fatigue life only. We should also acknowledge that this is the most capable cutter we have ever provided to our people. The decision to continue the constructions of hulls one and two was based on the determination at the time that stopping the production line after design was complete and long-lead time materials were procured would create an unrecoverable schedule loss and increase cost.

We consciously evaluated its capability and elected to add additional critical post-9/11 capability that was reviewed and approved by the Department and the administration, and funded by the Congress. Costs associated with damages from Hurricane Katrina have also been funded by the Congress. These are not failed cutters.

I suggested to Chairman Cummings at the hearing held on January 30th under his leadership that a second hearing be held in 120 days to assess our progress, and that hearing be held onboard the Cutter Bertholf in Pascagoula.

We will resolve any remaining issues and have funding to complete the construction of hulls three and four in our fiscal year 2008 request.

This program must move forward, and it is my responsibility to get it right.

[The prepared statement of Admiral Allen follows:]

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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 1 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 I 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.

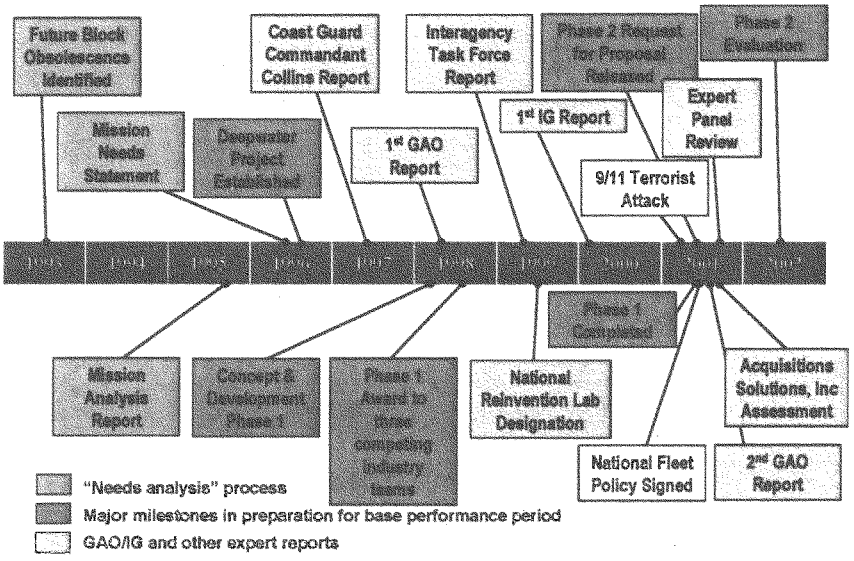
As I stated before, we knew there would be risks when we set out on this path. But, our critical mission need outweighed those risks then and continues to outweigh them. I'm grateful for the crucial support Congress continues to give to the Deepwater program, both in key oversight insights and recommendations 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.

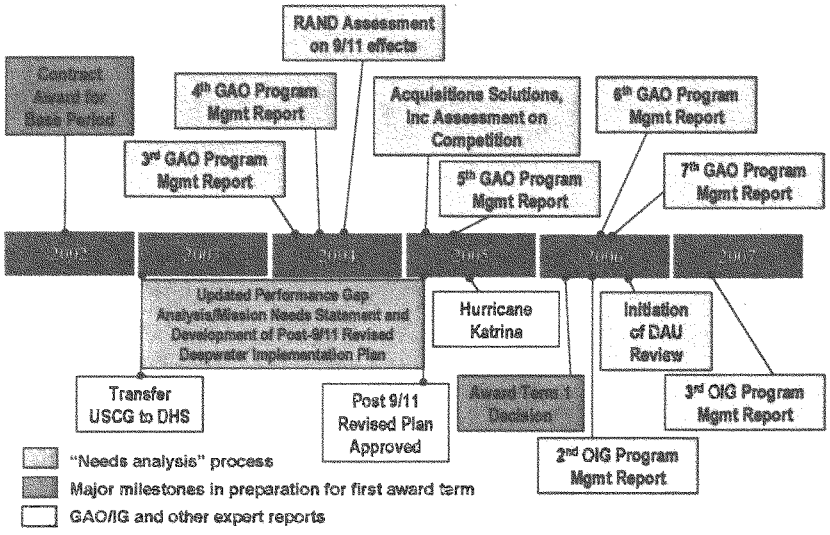
I am the Commandant of the Coast Guard, I am responsible, and I will do this right.

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)



Chairman WAXMAN. Thank you very much, Admiral Allen.

Rear Admiral Blore, do you have a statement you wanted to make?

Admiral BLORE. Yes, sir.

Chairman WAXMAN. OK. Please, go ahead.

Admiral BLORE. Yes, Mr. Chairman, if I could.

STATEMENT OF REAR ADMIRAL GARY BLORE

Admiral BLORE. Mr. Chairman, Ranking Member Davis, distinguished members of the committee, I am Rear Admiral Gary Blore, the Program Executive Officer of the Deepwater program. As you know, this $24 billion, 25-year effort is absolutely critical to the Coast Guard and our Nation's maritime security.

In the mid-1990's, we recognized the need to replace and upgrade our aging fleet of cutters, small boats, and aircraft. The enormity of that task demanded a mission-based approach to the acquisition. Our vision was to work with industry partners to create a system-of-systems to provide the right mix of platforms and capabilities to meet 21st century mission requirements. Sitting here today, the circumstances have changed and we need to evolve the acquisition program accordingly.

Recently, there have been a number of reports highlighting Deepwater projects. Some of what is being reported is true: we do face major challenges. But some of the reports include half-truths or facts taken out of context. Allow me to give you two examples to help separate myth from reality.

First, much has been said about the cost growth of the Deepwater program. The fact that overall cost projections have grown from $17 billion to $24 billion is true. But the assertion that the growth is due to cost overruns is false. Following the tragedy of 9/11 and the Coast Guard's transfer to the Department of Homeland Security, our mission requirements changed. After a detailed performance gap analysis, requirements for additional capabilities were approved by DHS. These new requirements are what drove most of the cost growth, not cost overruns.

The second myth is that there are few Deepwater successes. While we have experienced setbacks during these early years, we are also witnessing Deepwater assets making a difference in the fleet already. Last July, a hiker in the Olympic National Forest fell down the side of a mountain and owes his life to a daring rescue by well trained Coast Guard air crew flying a newly delivered HH–65 Charlie model helicopter recently re-engined by the Deepwater program. That rescue would not have been possible without Deepwater.

Also, censoring communications upgrades on 39 cutters are directly contributing to Coast Guard missions worldwide. As stated in operators' trip reports, "Secure chat is a leap forward in technological prowess. The possibilities of this application are staggering." Or from a joint maneuver by the Coast Guard Cutter Forward and the USS Doyle, "Doyle and Forward were able to communicate directly with each other. The time from granting the statement of no objection for warning shots to rounds out of the barrel was 6 minutes. If the statement of no objection had been 10 minutes later, the go fast would have eluded us."

We appreciate this opportunity to present the facts and we value oversight. The GAO and DHS OIG have provided us with key recommendations for improvement, and we are implementing them. I regret the assertion that we are not fully cooperative with the OIG, especially during the audit of the National Security Cutter. There was never any intention to impede the IG's critical work. During the 18-month-long audit, we provided thousands of pages of documents and direct access to our electronic program data base. To the extent that our coordination activities were interpreted as interference, we will work to resolve those issues to the IG's satisfaction.

While we are on the NSC, I would like to also reiterate there has never been a safety issue with the National Security Cutter, nor have any restrictions been placed on its operational performance. As I have stated, oversight by our Department, the OIG, GAO, and this committee is invaluable. So, you may ask, how, then, are we moving forward? With Admiral Allen's encouragement and guidance, we have already: strengthened the relationship between Deepwater and the Coast Guard's chief engineer; required the use of third-party independent expert analysis; engaged Defense Acquisition University to do a complete review of program management practices; increased use of written decision documents, along with creating an electronic data base in which to store them; begun major study efforts by third parties on both our unmanned aerial vehicle project and our composite patrol boat initiatives; re-established business case analysis as a fundamental cornerstone of the acquisition; and begun significant changes to our structure to create a single Coast Guard acquisition work force.

In summary, we in Deepwater's second generation of program management recognize the confidence you have placed in us to adjust our acquisition strategy based on lessons learned, funding realities, and current events. It is our duty to realize the program's original promise by recapitalizing the Coast Guard while integrating best practices, resulting from both past challenges and current successes.

Thank you again for this opportunity to appear before you. I look forward to answering your questions.

Chairman WAXMAN. Thank you very much for your testimony.

Mr. McElwee.

STATEMENT OF JERRY W. MCELWEE

Mr. MCELWEE. Good afternoon, Mr. Chairman, Ranking Member Davis, and members of the committee. I am pleased to have the opportunity to talk about our plans and progress on the important SBInet program. The Boeing team does welcome the interest of the committee and look forward to working with you in your oversight role. This program will not succeed without the support of you and your colleagues in the Congress.

This committee asked us to discuss how we developed our proposal, how we took lessons learned or problems from previous programs into account, and how we intend to interact with the Department on oversight activities.

As you may know, the Boeing team was formed with people from across the entire enterprise and from nine companies Those nine

companies plus Boeing have a collective 45 years of experience in working with Department of Homeland Security and in securing borders around the world.

Forming a 100-plus person team from disparate backgrounds into a cohesive team to accomplish a difficult task requires a unifying theme or concept. For SBInet, we developed two central themes. First, focus on the Border Patrol agent to give him or her the tools necessary to be more effective and to reduce their personal risks. Our second central unifying theme was that SBInet is not a development program, it is a design integration and deployment program. It is analogous to a homebuilder who hires first an architect and then a general contractor to design and build 17 homes or, in this case, 17 Border Patrol sector security solutions, all from a common design.

With these two unifying concepts, we then applied our Boeing systems engineering processes to develop our fundamental designs. These processes are Boeing core competency and are based on standard time-testing engineering principles for managing large, complex projects.

More importantly, they are continuously refined, as we learned both from our successful and our less-than-successful experiences. In the proposal phase, we performed several iterations of this systems engineering process using data provided by CBP and from our due diligence visits to both the Swanton and the Tucson sectors. We also talked extensively with former Border Patrol agents who helped our engineers understand the human dimension of how our borders are secured today.

Our conclusion was that the best value over the life cycle of the program was a ground-based system using proven technology, literally available off-the-shelf. This became the basis of our successful proposal.

We were certainly aware of the lessons learned from previous programs, and applied them both to our proposal and our proposed program management structure. First, we listened to our teammates and from their experiences. And we also, of course, learned from our experience with the Department of Homeland Security and with the TSA from our Boeing explosive detection system. The result is a program management structure that provides Customs and Border Protection and the Department of Homeland Security with virtually continuous and transparent insight into the health and status of the program.

In summary, for SBInet, the Boeing team will find, procure, and integrate the best value, technology, and services to secure our Nation's land borders and deliver them to CBP and, more importantly, to the Border Patrol men and women securing our Nation today. To guide our search, we have a 40 percent small business goal for this program, which we intend to meet. We have established the dedicated Web site for SBInet suppliers and have received information from nearly 650 interested companies already. We will need these companies, as you know, to maintain a competition in the program, providing new technology and giving us the increased capacity that we will need to complete the tasks that lie ahead.

In summary, we have made a good start on this important program. We are on track to meet the milestones and the task orders

that have been initiated, and we look forward to your help as our Nation faces the current and future challenges to our security on the borders.

Thank you, and I look forward to your questions.

[The prepared statement of Mr. McElwee follows:]

Statement of

Mr. Jerry W. McElwee

Vice President and Program Manager SBI*net*

The Boeing Company

Management of Large Homeland Security Contracts: Deepwater and SBInet

Committee on Oversight and Government Reform

U.S. House of Representatives

February 8, 2007

Good morning, Mr. Chairman, Ranking Member Davis, and Members of the Committee. My name is Jerry McElwee. I am the Boeing Program Manager for the SBInet Program. I am pleased to have the opportunity to talk about our plans and progress on this important program. I would like to say that we welcome the interest of the committee and look forward to working with you in your oversight role. This program will not succeed without the support of you and your colleagues in the Congress.

SBInet is a program of intense national interest, with a challenge to accomplish something that has never been done before. We have an outstanding team which is committed to delivering a system to the U.S. Government that will:

- support the U.S. Customs and Border Protection in detecting, apprehending, and processing people who cross our borders illegally,
- facilitate legitimate cross-border travel and commerce, and most importantly,
- provide the taxpayers with the best-value solution over the life of the program.

Even though it has been only four months since the contract was signed, I am pleased with the progress. On January 24, the first SBInet-funded vehicle barrier was installed on the Arizona Border to increase the safety and security of the Barry M. Goldwater Range. That work will continue until the entire range is secured with barriers and fencing.

The first mobile tower for Project 28, our Proposed Task Order centered on a 28-mile segment of the border at Sasabe, Arizona, has been delivered to one of our team mates and is currently being fitted with all-weather electro optic, infrared camera, radar, and digital communications equipment for testing. We are on track to have the initial capability for Project 28 up and running by mid June.

We think the government's acquisition decision to address border security in a comprehensive way, and utilize the services of a systems integrator was wise. This approach is most appropriate for challenges that are large, complex, and occurring in a rapidly changing environment. A systems integrator is a prime contractor working at the system-of-systems level. The responsibilities include assuring that all the complex systems work together in an integrated fashion to accomplish the contract objectives. The structure allows the integrator to bring to the project the "best value from across industry," not just the "best of the team," thus insuring the best value for the customer.

The RFP provided a basic description of the outcomes and objectives that had to be satisfied, and allowed industry to be creative in developing the ideal approach for meeting them. This provided the government with the widest array of technical and management options for consideration in selecting the winning team for SBInet. The resulting contract breaks the work into relatively small task orders over which the government maintains complete control. We intend to inject competition into each task order to the maximum degree possible to insure we have the best value as previously mentioned. Each task order is carefully monitored and evaluated by the government, and can be stopped or redirected in any way. No work is guaranteed, except as specified in a signed task order.

Our successful proposal outlined a comprehensive, open system solution utilizing proven technology and an architecture that will allow for continuous improvement as new technology comes on the market throughout the deployment. It is based on the systems engineering and design approach that Boeing has developed over time and used successfully on many other large, complex projects. An aspect of this approach is to continuously look for "lessons learned," or "best practices" as we call them, to incorporate into our process.

The first step in our systems engineering process, and the first step in each task order, is a rigorous analysis of customer requirements. Complete requirements definition sets the foundation for all other work, creates a baseline on which to measure progress, and is critical for the ultimate success of the program. This process includes performance requirements, design and operational constraints, mission definition, functional analysis, and system architectures. This is followed by extensive modeling and simulation to test the output of the requirements process and then a wide array of trade studies to look at potential solutions across the full spectrum of environments and border crossing threats. Following this process ensures that whatever technology or process is ultimately deployed will provide the government with the highest and best value.

It is important to point out however, that it is not the contractor who sets requirements for the program, but the government. We do collaborate extensively, as we did in our recently completed Joint Requirements Review, but the final decision is made by the government. In all our processes, we request continuous input from the CBP, Border Patrol Agents, and other stakeholders, because we know it will improve and refine our solution.

Our proposed solution is flexible to address terrain, threat and other concerns that vary significantly from sector to sector. Our system engineering process has identified a number of capabilities that must be present in each sector solution, but we understand that they will be deployed in differing combinations depending on the characteristics of each sector. We refer to these capabilities as a "tool kit." The tool kit includes a variety of sensors, communications systems, information technology, tactical infrastructure (roads, barriers, and fencing), and command and control capabilities with robust situational awareness.

The tool kit concept allows us to conduct competitions to find the best value for each product or capability, while maintaining a supplier base that is ready to respond to the task orders negotiated with the customer. Over time, the tool kit will be expanded and updated as new and proven technology becomes available from private industry and federal, state, and local governments.

Now let me describe our approach for keeping this program on cost and on schedule while meeting CBP performance objectives. Our management approach utilizes Boeing's proven best practices to create a transparent governance structure that combines the unique capabilities and strengths of our team with the oversight and knowledge of our

government counterparts. At the heart of our system is the Earned Value Management (EVM) system, which provides a well defined set of metrics to monitor program cost and schedule health at all levels of the organization, as well as early warning of potential problems. It is required by the contract and is being implemented. We employ many other tools to facilitate execution, insure quality, reduce risk, maintain cutting edge technology, manage assets, and otherwise create excellent management and control. These processes and support tools provide total program transparency to the government and our industry team mates.

Before I conclude, I would like to make a few quick points. First, as the integrator for SBInet, our job is to find the best mature technology available and make it work in the overall system. As I have said, we are looking for the best value solution, whether it is on the team or not. Under the current plan, Boeing will not provide any hardware for the solution, nor are any of our team mates guaranteed a specific workshare in the Task Order deployments beyond Project 28.

We have set a target of 40 percent participation by small and small disadvantaged business, higher than the government requirement, to ensure we have new ideas and capabilities available to the program. Boeing has a very robust small business program and has consistently attained the targets set in previous programs.

When we get beyond Project 28, we envision a substantial expansion of our team to increase capacity and bring in new technology. We have established a dedicated web site for SBInet suppliers and have received information from nearly 650 interested companies already. We have also conducted a few solicitations through the web site. We find using the internet a good way to communicate the opportunities in SBInet to the broadest possible audience and to create a level playing field for selecting the many additional suppliers we will need to complete the tasks that lie ahead.

In summary, we think we have made a good start on this important program. We are on track to meet the milestones in the task orders we have initiated, and we look forward to the challenges ahead.

Chairman WAXMAN. Thank you very much, Mr. McElwee.
Mr. Mackay.

STATEMENT OF LEO MACKAY

Mr. MACKAY. Thank you, Mr. Chairman.
Chairman WAXMAN. Pull the mic closer, and there is a button on the base.
Mr. MACKAY. Thank you, Chairman Waxman, Ranking Member Davis, and other distinguished members of the committee. Thank you for this opportunity to explain the progress being achieved in the U.S. Coast Guard's Integrated Deepwater System Program. Speaking for the men and women of Lockheed Martin, we are proud to be associated with this critical program.

Deepwater is modernizing the Coast Guard by recapitalizing aging assets, providing new assets, and expanding capabilities. Lockheed Martin is responsible for four of five Deepwater domains: first, aviation—including refurbishment and upgrade of existing assets such as the HH–65 Charlie helicopter and the HC–138 aircraft; production of new assets, the HC–144 maritime patrol aircraft, the Mission IC–130J aircraft, and unmanned aerial vehicles; and management of a service contractor, the MH–68A HITRON helicopters—second, C4ISR, the command and control network, third, logistics, the processes and systems to support fielded assets; and, four, systems engineering and integration, the process to make sure all Deepwater assets can work together as a system.

We work within the Integrated Coast Guard Systems joint venture with Northrop Grumman to ensure their communications, aviation, and logistics systems are properly coordinated with the program ships and ship systems. The purpose of ICGS is to provide for rapid allocation of work to the two companies and to ensure collaboration and cooperation between the two companies. Today, when I refer to ICGS or separately to Lockheed Martin, this means the role of Lockheed Martin as part of ICGS.

Together, Lockheed Martin and Northrop Grumman are using more than 600 suppliers in 42 States plus the District of Columbia. We maintain an active data base of more than 3,000 potential suppliers.

In assessing the program, it is important to maintain emphasis on implementation of the Deepwater command and control network. C4ISR, a very awkward acronym for command and control, computers, communications, intelligence, surveillance, and reconnaissance, is the network "glue" that permits various assets including ships, aircraft and shore stations to work together to achieve a common purpose. Modern civil, commercial, and military systems are dependent on the value delivered by the integrating power of the network. This is the core responsibility of Lockheed Martin. The initial system deployment has already resulted in measurable progress with the Coast Guard's rescue, enforcement, and interdiction missions on the high seas.

Lockheed Martin is accomplishing high rates of software reuse, as well as system commonality and integration by the rigorous application of proven systems engineering processes and capabilities. Overall, 65 percent of Deepwater software is reused from Government or commercial sources. In addition, the application of off-the-

shelf software permits Deepwater to take advantage of the rapid changes in the commercial marketplace and the investments which commercial firms make in their best-of-class technologies. This approach is the key to commonality, interoperability, efficiency, and effectiveness.

All of the Coast Guard's 12 high-endurance and 26 medium-endurance cutters have received two separate command and control system upgrades. As for shore sites, there are a total of 12 on contract to receive upgrades: two communication area master stations, eight districts, one sector, and one headquarters.

The first medium-range surveillance maritime patrol aircraft, the newly designated HC–144, has been transferred to the Coast Guard. It arrived at Elizabeth City, NC, on December 20, 2006, and it was 9 days ahead of its contractually scheduled delivery. It is now undergoing missionization that will be completed in April. The second aircraft was accepted by the Government on January 25, 2007, and the third aircraft is in flight testing.

We are working to complete re-engining and upgrading of HH–65 Charlie helicopters, with some 65 of 95 helicopters re-delivered to the Coast Guard to date. These HH–65C Charlies can fly faster, twice as far, and with twice the payload of their predecessor. The service contract for the Helicopter Interdiction Tactical Squadron (HITRON), based in Jacksonville, FL, has been renewed for a 4th year. These eight helicopters are equipped with airborne use of force capability and have had a significant impact on illicit drug interdictions, and last May they celebrated their 100th successful interdiction.

All of our designs and improvements are based on system engineering trade studies, analyses, and technical consideration. In addition, industry's performance has been closely supervised by the Coast Guard, with additional oversight by the Department of Homeland Security, the Congress, and the Government Accountability Office. Each of these multiple reviews has provided constructive recommendations as requirements continue to evolve.

Thank you again for the opportunity to present and explain the progress we are achieving on the Deepwater program. I look forward to answering your questions. Thank you, sir.

[The prepared statement of Mr. Mackay follows:]

Testimony before the U.S. House of Representatives Committee on Oversight and Government Reform

Thursday February 8, 2007, 10:00 AM, 2154 Rayburn House Office Building

Dr. Leo S. Mackay, Vice President and General Manager, Coast Guard Systems
Lockheed Martin Maritime Systems & Sensors
1530 Wilson Boulevard, Suite 210 Arlington, VA 22209
Telephone: 571 218 3418

Good Morning Mr. Chairman and distinguished Members of the Subcommittee.

Thank you for the opportunity to explain the progress we are achieving on the U.S. Coast Guard's Integrated Deepwater System program. Speaking for the men and women of Lockheed Martin, we are very proud to be associated with this critical program. The Coast Guard is a key national asset for assuring the security and safety of our country's maritime transportation system. Each of us, in accomplishing our daily tasks on the program, has a deep sense of the importance of achieving the very best for the Coast Guard and our nation.

Overview

The Integrated Deepwater System program is delivering both new and upgraded fixed wing and rotary wing aircraft; new communications systems that are making a significant contribution to improved mission performance; and, the logistics systems necessary to support fielded assets. We understand the Integrated Deepwater System will continue to evolve. To meet this ongoing challenge, Lockheed Martin is applying a disciplined system engineering approach to the program. This will continue to be vital for achieving more robust capabilities given fiscal realities – a one-asset-at-a-time recapitalization approach would be unaffordable. Lockheed Martin is committed to providing our best talent and capabilities for supporting the Coast Guard.

Lockheed Martin is primarily responsible for four Deepwater domains: System Engineering & Integration, C4ISR (the command and control network), Logistics and Aviation (refurbishment of existing assets and production of new assets). Lockheed Martin's goal is the full application of system engineering methodologies to establish the best mix of assets and introduction of new capabilities as well as implementation of the associated logistics systems. Most important is maintaining emphasis on the implementation of the Deepwater system-wide command and control network. C4ISR (Command & Control, Computers, Communications, Intelligence, Surveillance and Reconnaissance) is the network "glue" that permits various assets including ships, aircraft and shore stations to work together to more effectively and efficiently achieve a common purpose. Thus, the C4ISR domain is of particular importance as most modern civil, commercial and military systems are dependent on the value delivered by the integrating power of the network.

Key Achievements

We are making good progress and are delivering significant new and upgraded capabilities. At the same time, we recognize the system level effects of networking are essential to achieving the level of mission performance needed by the Coast Guard. Lockheed Martin is accomplishing high rates of software re-use as well as system commonality and integration by the rigorous application of proven system engineering processes and capabilities. In addition, we are managing implementation of support systems for all Deepwater program domains. The Lockheed Martin team is working closely with our Integrated Coast Guard Systems, LLC (ICGS) joint venture partner, Northrop Grumman, to ensure that electronic equipment developed and produced under the cognizance of the C4ISR domain is appropriately configured for installation on the ships.

Every one of the Coast Guard's 12 high-endurance and 27 medium-endurance cutters have received not one but two command and control system upgrades – giving the fleet markedly improved capability to seize drugs, interdict migrants and save lives. As for shore sites, there are a total of 12 on contract: two Communication Area Master Stations, eight Districts, one Sector and Headquarters. Use and reuse of Commercial-Off-The-Shelf, Government-Off-The Shelf and fielded maritime systems are being maximized for commonality and interoperability. The application of off-the-shelf software permits Deepwater to take advantage of the rapid changes in the commercial market place and the investments which commercial firms make in their best of class technologies. This will facilitate Coast Guard interoperability with civil and international systems, a key consideration given their mission mix.

The National Security Cutter is using 75 percent of the U.S. Navy's Open Architecture Command & Decision System. The Command & Control System for Maritime Patrol Aircraft employs more than 50 percent of the functionality of the Navy's P-3 Anti-Surface Warfare Improvement Program. The Operations Center consoles on the National Security Cutter utilize more than 70 percent of the design of the Navy's UYQ-70 display systems. Use and reuse of available software and systems is the key to commonality. In addition, this approach takes greatest advantage of the work undertaken with the Navy to establish the best Human System Interface including workspace ergonomics, viewing characteristics, input devices and overall system architecture.

The first medium-range surveillance maritime patrol aircraft, the newly designated HC-144, has been transferred to the Coast Guard. It arrived at Elizabeth City, N.C., on December 20, 2006 and is now undergoing missionization work that will be completed in April. The second aircraft was accepted by the government on January 25, 2007 and the third aircraft is in flight testing. The second aircraft will now be delivered to Elizabeth City for missionization and two crews are already in training. At the same time, we are working to complete re-engining and upgrading of HH-65 helicopters with 65 of 95 helicopters delivered to date. This project was part of the original Deepwater program plan. However, at the direction of the Coast Guard, it was rapidly accelerated due to safety of flight issues. Lockheed Martin and American Eurocopter working with the Coast Guard Aircraft Repair and Supply Center are now producing upgraded helicopters ("Charlies") that can fly faster, twice as far and with twice the payload.

Six long-range surveillance C-130J aircraft are undergoing missionization and will be delivered within 15 months after receipt of the contract with fully interoperable command, control and communications systems. The first aircraft was inducted for missionization at Greenville, S.C., on December 19, 2006. In addition, the service contract for the Helicopter Interdiction Tactical Squadron (HITRON) based in Jacksonville, Fla., has been renewed for a fifth year. These eight MH-68A helicopters are equipped with Airborne Use of Force and have had a significant impact on illicit drug interdictions. The squadron celebrated its 100th interdiction last May.

Industry's performance has been closely supervised by the Coast Guard with additional oversight from the Department of Homeland Security, the Congress and the Government Accountability Office. Each of the multiple reviews has provided constructive recommendations as requirements and funding levels continue to evolve. The results so far indicate that Deepwater has made a dramatic difference in the effectiveness of the Coast Guard with regard to the numbers of drug seizures, migrant interdictions and lives saved. Coast Guard statistics show double-and triple-digit percent improvements as Deepwater assets and upgrades enter the fleet.

Strategic Context of ICGS

The Deepwater program is modernizing the Coast Guard by providing new assets and expanding capabilities in aviation, ships, shore stations, logistics, and command, control and communications systems. The ICGS joint venture between Lockheed Martin and Northrop Grumman was designed as a low overhead contracting vehicle. Its purpose is to provide for rapid parsing of work between the two partners while at the same time achieving close collaboration and cooperation. It is important to note what it is not. The ICGS joint venture is not a systems integrator, nor is it a replacement for Coast Guard decision-making. All designs and improvements are based on trade studies, analyses, and technical considerations. But make no question about it – the Coast Guard is the decision maker and contracting authority and all major acquisition decisions are reviewed and approved by Coast Guard senior leadership. ICGS utilizes the depth of capabilities and experience of its partners to provide solutions in accordance with Coast Guard requirements. The joint venture partners are utilizing more than 600 suppliers in 42 states plus the District of Columbia. In addition, ICGS maintains an active database of more than 3,000 potential suppliers.

The Deepwater program began in 1997 as competing teams were established to develop proposed solutions for bidding the program. In fact, proposals were submitted to the government less than two weeks after 9/11. Since then, the ICGS team was awarded the Deepwater program and successfully accomplished a number of changes. Most significant were those resulting from the dramatically increased Coast Guard operating tempo in the post-9/11 environment. This means that legacy equipment began to wear out far more rapidly than had been projected. A good example is the HH-65 helicopters mentioned above. While the ICGS team's approach always included re-engining of this equipment, the original plan was to be accomplished over a longer time period. Nevertheless the team was able to process the urgent requirement for re-engining and more than two-thirds of the fleet have already been upgraded and returned to service. It is this inherent flexibility of the ICGS joint venture stemming from the deep capabilities of its partners that will facilitate our working with the new acquisition organization planned by the Coast Guard.

The Way Ahead

Our overarching goal is to provide more capability to the fleet, sooner. We are dedicated to analyzing and recommending approaches for maximizing the value delivered to the Coast Guard, in accordance with the customer's view of value, not that of industry. This requires the best talent from each corporation. ICGS works closely with Coast Guard personnel to assure constant communications and improved working relationships. The strategic policy changes that have occurred since 9/11 must be factored into problem solving. The Coast Guard and the Department of Homeland Security have needs that can be satisfied by the Deepwater program and its approach to value delivery. The way forward will be difficult, but given the capabilities of the participants and the strategic imperative to better outfit our Coast Guard so the safety and security of our nation is improved, the Deepwater program is eminently achievable.

Thank you again for the opportunity to present and explain the progress we are achieving on the Deepwater program, I look forward to answering your questions.

Chairman WAXMAN. Thank you, Mr. Mackay.
Mr. Teel.

STATEMENT OF PHILIP TEEL

Mr. TEEL. Good afternoon, Congressman Waxman, Ranking Member Davis, and distinguished members of the committee. Let me first apologize for the sound of my voice today; I seem to have caught a cold or something, so if you bear with me, I will struggle through it.

I am the vice chairman of the Board of Directors of Integrated Coast Guard Systems and, as you said, the president of Northrop Grumman Ship Systems. And on behalf of both organizations and all the men and women working in support of the Integrated Deepwater Program, I thank you for the opportunity to appear before you today and discuss the issues associated with Deepwater.

The Deepwater system consists of five domains, as Mr. Mackay said earlier: surface, aviation, C4ISR, integrated logistic support, and systems-of-systems, all compliment each other in a highly capable network of surface and aviation assets linked with the C4ISR systems. This system-of-system approach ensures the interoperability across all domains and avoids unnecessary redundancy in the systems.

In June 2002, the Coast Guard selected an integrated Coast Guard systems to manage the integrated Deepwater system following a rigorous competition. The ICGS is a joint venture between Northrop Grumman Ship Systems and Lockheed Martin. The ICGS business structure provides the Coast Guard with direct access and active management participation by Northrop Grumman and Lockheed Martin, two leading Defense and Homeland Security contractors. At the same time, the Coast Guard is provided with a single point of contact to address Deepwater program matters expeditiously.

The Coast Guard and ICGS jointly established a management structure consisting of working and governance teams. The working teams are comprised of Government and industry members, which are co-located in the Systems Integration Program Office in Rosslyn, VA, and at various productionsites around the country. Governance teams are comprised of executive level industry and senior Coast Guard personnel. Additional Coast Guard-composed teams provide oversight up to and including the Coast Guard acquisition executive, the Vice Commandant.

The IPT, or integrated product team, process is the means by which ICGS and the Coast Guard work together to accomplish the operational requirements of the Deepwater program. While IPT decisions are consensus-based, IPTs do not make decisions impacting schedule, cost, or contract requirements. Such decisions at all times reside with the Coast Guard. Moreover, if any IPT member believes that an issue is not being resolved in the Coast Guard's best interest, he or she may raise the issue through several reviews, up to and including the Coast Guard's senior acquisition executive.

As part of the IPT process, ICGS and the Coast Guard engage in programmatic and design reviews for each assets at various decision points. ICGS and the Coast Guard also work together on technical scoping reviews prior to the issuance of work orders under

this contract. The Coast Guard remains the decisionmaking and contracting authority, and has retained the traditional contract management functions, including the right to issue unilateral change orders, to stop or terminate work, to order or not order assets and supplies, and to accept or reject work. ICGS takes very seriously the oversight responsibilities of the Coast Guard, Department of Homeland Security, the GAO, and Congress.

ICGS has routinely provided support for audit team site visits to its facilities, has conducted management and technical staff meetings with audit teams, provided briefings and updates to auditors, and has supported document requests from the Coast Guard and independent reviewing bodies. In this regard, we remain committed to facilitating the important oversight responsibilities.

Thank you for the opportunity, and I stand by for your questions.

[The prepared statement of Mr. Teel follows:]

STATEMENT FOR THE RECORD

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Testimony Before The
House Committee on Oversight and Government Reform

THURSDAY, FEBRUARY 8, 2007
10:00 AM
2154 RHOB COMMITTEE ROOM

Good morning, Mr. Chairman, Ranking Member Davis, and distinguished members of the Committee.

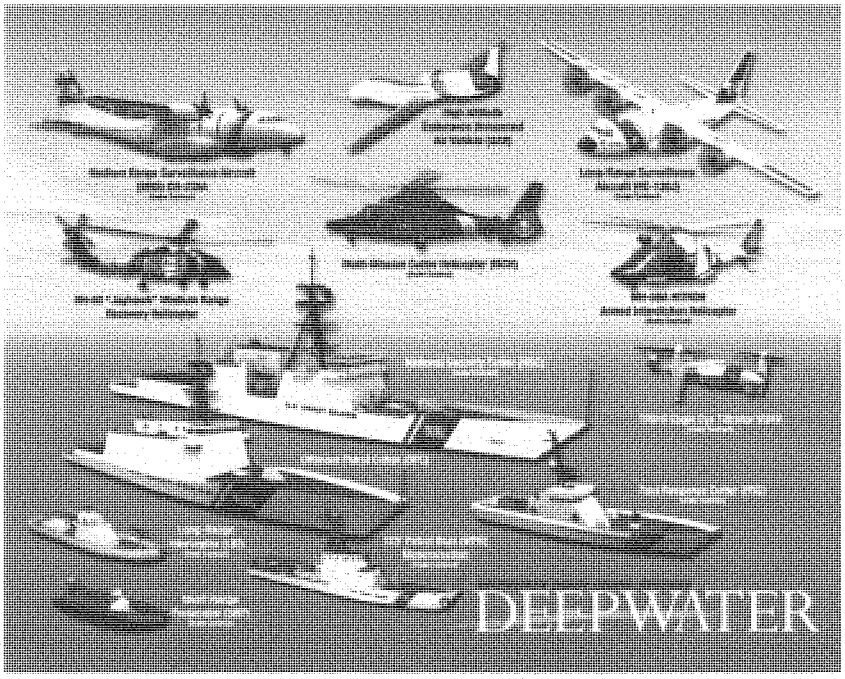
On behalf of Integrated Coast Guard Systems (ICGS), Northrop Grumman Ship Systems (NGSS)[1], and all of the men and women working in support of the Integrated Deepwater Program, thank you for the opportunity to appear before you today. The following statement contains information that I am submitting based on my current knowledge, information and belief.

The Deepwater Program began with the award of three Phase I concept exploration and development contracts in November 1998 for trade studies, and conceptual and functional designs of surface and air platforms, communications equipment, support systems, and the development of an implementation plan for deployment of new assets and disposal of legacy assets. The Phase I effort culminated with the preparation of a Phase II proposal. The 2001 Deepwater Phase II Request for Proposal (RFP) built on the prior concept development and sought a performance-based systems engineering approach applied to a "system of systems" capable of fulfilling all Coast Guard Deepwater missions. The RFP emphasized Deepwater-wide mission operational effectiveness and total ownership cost over individual asset performance.

[1] All references to NGSS in this testimony relate to the roles and responsibilities of NGSS within the ICGS structure.

ICGS developed its Deepwater proposal on the basis of a system-of-systems approach which represented the culmination of over four years of working with the Coast Guard. The ICGS solution balances the interrelated Program goals of maximizing operational effectiveness and minimizing total ownership cost. ICGS proposed an implementation plan to produce significant benefits in the five-year base Contract period over legacy systems. This 20-year implementation plan will provide increased and more cost efficient mission hours for the Coast Guard over its existing systems.

As part of its winning proposal and Coast Guard-approved system of systems analysis, ICGS submitted a planned asset mix to be delivered over the anticipated 20 year program:



ICGS is presently executing a series of contracts to meet this objective. While the capabilities of the individual assets have evolved in light of new post 9/11 requirements, the basic asset structure of the IDS program remains intact.

In June 2002, the Coast Guard selected ICGS to manage the Integrated Deepwater System following a vigorous competitive acquisition process and ICGS was organized accordingly to carry out its Deepwater management duties. ICGS is a joint venture comprised of NGSS and Lockheed Martin Corporation. ICGS is governed by a Board of Directors with three directors from each member and three independent director positions. ICGS personnel remain employees of either Northrop Grumman or Lockheed Martin; ICGS has no employees of its own.

ICGS is a business structure designed to fulfill the objectives of an innovative Coast Guard acquisition. As the Deepwater competition confirmed, there is no single contractor possessing the necessary expertise and systems integration capability for all four program domains. The ICGS structure provides the Coast Guard with direct access to NGSS and Lockheed Martin, a teaming approach that allows the Coast Guard access to the full support of two of our nation's leading defense and homeland security contractors. At the same time, through ICGS the Coast Guard is provided with a single point of contact to address all Deepwater challenges in an affordable, efficient and cost effective manner. The ICGS approach also reduces the cost structure normally associated with traditional prime contractor/subcontractor arrangements, thereby permitting more program resources to be devoted to the procurement of Deepwater assets.

The Deepwater System consists of five Domains: Surface, Aviation, Command, Control, Communications and Computers, Intelligence, Surveillance and Reconnaissance (C4ISR), Integrated Logistics Support and System of Systems. At full implementation, the Surface Domain will comprise three classes of new cutters and their associated small boats, and upgraded legacy cutters. The Aviation Domain will comprise a new fixed-wing manned aircraft fleet, a combination of new and upgraded helicopters, and both cutter-based and land-based unmanned air vehicles. All of these highly capable assets will be linked with state-of-the-art C4ISR systems, and will be supported by an integrated logistics regime. This systems acquisition approach ensures interoperability across all Domains and avoids unnecessary redundancies within the system.

ICGS serves as the systems integrator for the Deepwater Program. As systems integrator, ICGS: (1) plans, coordinates and executes all Program asset procurements within a system of systems implementation plan; (2) ensures overall integration (program management, systems engineering, production and operations, and life cycle support) within the Program; (3) oversees systems engineering, system architecture development, operational effectiveness analysis, total ownership cost management, and enterprise level requirements management; and (4) complements Coast Guard capabilities while providing a depth of core integration experts drawn from NGSS and Lockheed Martin. Of course, these management responsibilities require a continuous interface between ICGS and the Coast Guard.

ICGS and the Coast Guard have established a day-to-day management structure consisting of Integrated Product Teams (IPT), Domain Management Teams (DMT), and a Program Management Team (PMT). These teams include government and industry

members, who are charged--both individually and collectively--with collaborative achievement of documented team objectives outlined in formally approved charters. Additional Coast Guard oversight is provided above the PMT by the Integrated Matrix Team (IMT), Overarching Matrix Team (OMT), and Agency Acquisition Executive (AAE). The chartering authority, individual structure, and team-level roles and responsibilities for each are summarized below:

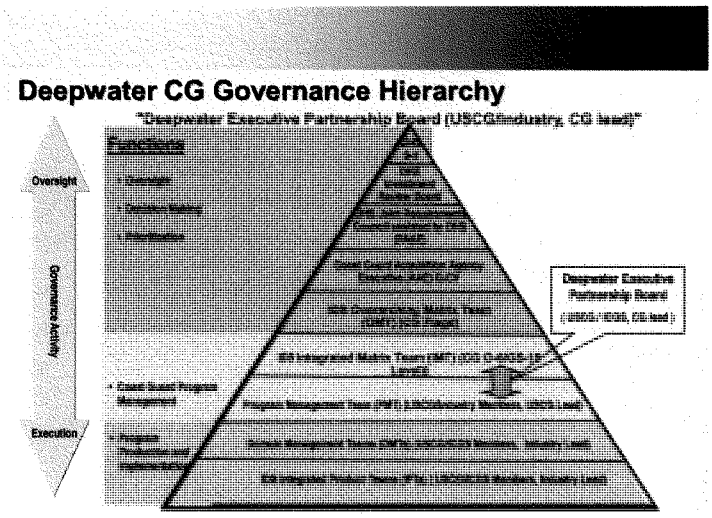
- The 14 IPTs are formally chartered by and report programmatically to their respective DMTs. IPTs are comprised of mid-level Coast Guard and ICGS personnel and possess joint responsibility for IPT-level management, administration, and execution of IPT-specific work. IPTs participate in technical and design discussions in a collaborative effort to ensure that developing assets meet contract objectives. Except for the Test and Evaluation IPT chaired by the Coast Guard, all other IPTs are led by an industry member.

- The five DMTs are formally chartered by and report programmatically to the PMT. DMTs are composed of mid-to-senior level Coast Guard and ICGS program management, systems integration, engineering, and contract administration personnel and possess joint responsibility for domain-level management, administration, and oversight of domain-specific work. The DMTs are led by an industry member.

- The PMT is formally chartered by and reports programmatically to the Deepwater Executive Partnership Board, which includes the Program Executive Officer (PEO), Deputy PEO and ICGS President and Executive Vice President. The PMT consists of senior Coast Guard and ICGS program management and contract administration personnel and is jointly responsible for management, administration, and execution of the Program. The PMT is led by a Coast Guard member.

- The IMT, OMT and AAE oversee the PMT and provide successive levels for Coast Guard review and approval of significant programmatic decisions. These teams are led by O-6 level personnel/GS-15 level personnel, Flag Officers/SES level personnel, and the Vice Commandant, respectively, and meet weekly or as required to address industry and Coast Guard related issues. The AAE issues programmatic decisions to the PEO, which are converted into contract language and provided as direction to ICGS.

The Deepwater management structure is depicted on Page 5 below:



This hierarchical approach ensures active Coast Guard/ICGS involvement in all aspects of program management and execution.

ICGS and the Coast Guard have entered into a partnering agreement which further defines the IPT process. Under this agreement, IPTs are (with one exception) chaired by either Northrop Grumman or Lockheed Martin subject matter experts and decision making is consensus based. The Test & Evaluation IPT, led by Coast Guard personnel, monitors the test plan supporting asset delivery and the verification process designed to ensure that the performance specifications are met. It is within this IPT structure that ICGS and the Coast Guard work together in executing and overseeing the Deepwater development effort.

It is important to note that IPTs cannot make decisions impacting schedule, cost or Contract requirements; these decisions at all times reside with the Coast Guard. Moreover, if any IPT member believes that a material issue is not being resolved in the Coast Guard's best interest, he or she may raise the issue through a review process. The final authority on issues is the Coast Guard's Senior Acquisition Executive (Vice Commandant).

In testimony before the House Subcommittee on Coast Guard and Maritime Transportation, Commandant Allen said that he has directed Coast Guard personnel to raise all unresolved technical issues with the Coast Guard technical authority. This will further ensure more proactive Coast Guard participation in decision making at every level. ICGS fully concurs with and supports this approach.

As part of the IPT process, ICGS and the Coast Guard engage in programmatic and design reviews for each asset, including Preliminary Design Reviews, Critical Design

Reviews and Production Readiness Reviews. ICGS and the Coast Guard also work together on "technical scoping reviews" prior to the issuance of Contract DTOs. These reviews include a checklist on which the Coast Guard and ICGS agree regarding the DTO statement of work, contract data requirements lists and other requirements. These reviews minimize confusion and reduce the potential for performance ambiguities arising after issuance of a DTO.

Despite the collaborative nature of the design review process, the Coast Guard remains the decision making and contracting authority, and has retained the traditional contract management functions, including the right to issue unilateral change orders, to stop or terminate work, to order or not order assets and supplies, and to accept or reject work.

When technical or cost issues have arisen, ICGS has worked diligently with the Coast Guard to resolve these issues as quickly and comprehensively as possible. Joint ICGS and Coast Guard technical discussions have resulted in numerous technical enhancements and improvements to the assets. For example, through the IPT and design review process, NSC enhancements were added including upgraded steel, additional Hovgaard bulkheads (for longitudinal strengthening), thicker steel and a design change to the fashion plates and re-entrant corners. These enhancements are contained in the NSC Bertholf design and are therefore already built into the ship.

There have been many technical changes to the assets in the wake of September 11. For example, post 9/11 requirements changes have resulted in significant capability improvements to the NSC, including an extended flight deck, chemical, biological and radiological protection, and a 26% crew accommodation and berthing expansion to accommodate an increased operational tempo. As a consequence, the ship's light weight tonnage increased by 40%, HVAC and power generation capacity increased by 160% and 23% respectively, and the number of mast antennae from 11 to 36. On the FRC, post 9/11 requirements resulted in a ship design that is non-traditional for a patrol boat. Indeed, no other existing patrol boat in the world meets these requirements. A composite hull form has been proposed to meet this demanding set of requirements with a potential to save over $1B in lifecycle cost. Post 9/11 requirements changes and the effects of Hurricane Katrina comprise the bulk of cost growth for the Deepwater surface assets.

Currently, ICGS is working closely with the Coast Guard to resolve technical questions related to cause of the buckling and hull deformation on the 123 converted patrol boats. The Coast Guard and ICGS have performed finite element analyses, strain gauge testing, and modeling, and are investigating potential and multiple contributing factors to the structural condition of the boats. ICGS is also working with the Coast Guard to come to a technical resolution of the approach to calculating the fatigue life of the NSC. The Coast Guard and contractor technical experts are engaged in a meaningful dialogue which will lead to final agreement on fatigue enhancements.

ICGS takes very seriously the oversight responsibilities of the Coast Guard, the Government Accountability Office (GAO), and the Department of Homeland Security (DHS). In response to concerns raised by the GAO, ICGS has gone beyond contract management requirements and in December 2004 established Earned Value Management

System (EVMS) metrics to ensure the quality of EVMS data. Specifically, on a monthly basis, the Coast Guard provides an objective assessment of the EVMS data quality by measuring 22 factors in the areas of baseline management (including integrated baseline review action items), variance analysis, administration (timeliness, errors), and Integrated Master Schedule (IMS). Government reviewers have consistently rated the EVMS and IMS products as outstanding.

As part of the EVMS process, integrated baseline reviews (IBRs) are conducted following every significant contract award with the Coast Guard by ICGS and the first tier contractors. IBRs establish a mutual understanding of the project performance measurement baseline and assess program risk against the baseline. This critical review verifies earned value methods and establishes detailed schedules and budgets for the work being performed. The IBR process is intended to ensure an additional level of Coast Guard programmatic oversight of ICGS and the tier-one contractors.

ICGS, in conjunction with the Coast Guard IDS team, has also developed quantifiable metrics to measure and grade IPTs. ICGS has implemented a Program Maturity Approach to facilitate the establishment, training, and continuous evaluation of the multidisciplinary IPTs tasked with development and delivery of a large number of highly complex, inter-related system-level assets. To this end, the Deepwater Program Maturity Approach was developed at contract inception and has been continuously upgraded based on three fundamental principles: (1) definition of key collaborative behaviors and practices, (2) periodic measurement and evaluation, and 3) overall team maturity.

In addition to GAO audits, ICGS and its member companies have supported and participated in reviews by the Defense Acquisition University, and the Coast Guard Program Management Team. In connection with these audits and reviews, ICGS routinely provided support for audit team site visits to ICGS facilities, management and technical staff meetings with audit teams, briefings and updates to auditors, and support for multiple Coast Guard and independent ICGS data call responses. In addition, ICGS has provided access to and training on the ICGS electronic document system and numerous files and documents.

Consistent with our participation in these audits, and consistent with the Generally Accepted Government Auditing Standards (GAGAS), ICGS offered to facilitate the Department of Homeland Security Office of Inspector General's (OIG) audit in order to make personnel available for interviews in a manner consistent with standard audit practices and procedures. Not knowing the subject of the audit or whether the audit related to or focused on ICGS or its member companies, ICGS requested in its February 17, 2006 letter that the OIG clarify the purpose and scope of the audit and, depending on its nature, to allow management or legal representation at interviews. The OIG neither acknowledged these requests nor sought to discuss how ICGS might facilitate their audit. Regardless, ICGS remains committed to supporting the Coast Guard, this Committee and other agencies in their Deepwater oversight efforts.

Since Contract award, there has been an extraordinary degree of transparency in program management and execution between ICGS and the Coast Guard. ICGS remains

committed at the highest levels to continuing this cooperative approach. Recently, Coast Guard Commandant Thad Allen met with Northrop Grumman CEO Ronald Sugar and Lockheed Martin CEO Robert Stevens in the first of a planned series of meetings to discuss near and long-term objectives and goals for the Deepwater Program. Their discussions focused on recent initiatives to strengthen program management and oversight, ways to capitalize on proven Deepwater successes and defining a way forward in resolving outstanding challenges. As a result of the meeting, ICGS and the Coast Guard are renewing their commitment to provide executive level Program oversight at all times, and specific direction when warranted. To that end, senior executive leadership in each of our organizations will meet regularly to be informed of progress on the Program to ensure our collective success in recapitalizing the Coast Guard.

Thank you for this opportunity to discuss ICGS management and oversight on the Deepwater Program.

This is the end of my statement. I welcome your questions.

Chairman WAXMAN. Thank you. Thank you all for your testimony. We very much appreciate it. It has been very helpful.

I am still trying to figure out about this change in the direction of the information that came from the test that was done in Carderock, and it seems like the findings from the Navy about the new Coast Guard cutter were changed by the Deepwater Program Office, and I want to return to that issue.

Admiral Allen, I recognize you were not the Commandant when the Navy findings were altered. Do you know anything about what happened?

Admiral ALLEN. Mr. Chairman, I had a discussion with the IG in the last couple weeks; it is the first time I had seen the two sets of slides. I told him I was going to take a look at it and get back to him with information. I would just provide a couple pieces of background information.

The information provided by Carderock for that briefing was a status briefing that led to a final report that wasn't issued until August 2006, so it was a status report on the findings to that date, which had to be refined. The report was scheduled to go to the Coast Guard's technical authority, our chief engineer, who would then interpret it and provide input to the Deepwater project for what needed to be done to address the issues raised by Carderock.

To the extent that there was concern that somehow the fatigue service life was not well known or that information was not provided, there were other slides in both briefs that say it in another manner; not in red ink, but the information remains in the brief, aside from the caveats that you showed us. So my commitment is to go back, look at that; I will give you the information. But I can provide you the slides or the information that was provided elsewhere in the brief.

Chairman WAXMAN. Then why did they delete those red letter words?

Admiral ALLEN. I made a commitment to the IG to look into it, sir, and I would be happy to get back to the committee. I was made aware of it in the last couple of weeks.

Chairman WAXMAN. Mr. Giddens, you are running the SBInet program, but you previously helped run the Deepwater program, which I guess raises a question, since we put the two together as two problem programs. Do you know anything about these doctored slides? Were you aware of the Navy findings of serious problems with the Coast Guard Cutter?

Mr. GIDDENS. I was not aware of the slides or any particular slides being doctored. I do remember that issue was discussed, as Admiral Allen indicated it was; in the briefing package the issue was raised.

Chairman WAXMAN. But you weren't aware of it?

Mr. GIDDENS. I was not aware of the changing of the markings, but the issue was raised in the briefing package.

Chairman WAXMAN. And what is that briefing packet? That was the briefing to Admiral Allen?

Mr. GIDDENS. It was a briefing. I believe it might have been to the Commandant. I am not sure who the——

Admiral ALLEN. Mr. Chairman, if I could elucidate there a little bit. The briefing was held around December 8, 2005, a little over

a year ago; it was a status briefing to the Commandant. It was on the status of the Carderock review, and at that point it was generally well known throughout the Coast Guard that there was a fatigue life issue that had to be addressed, sir.

Chairman WAXMAN. Mr. Giddens, did you have a role in preparing the slide presentation to the Commandant that excised the Navy's most damaging findings?

Mr. GIDDENS. Sir, as Admiral Allen indicated, that briefing was December 2005, and I was working, at that time, for the Department of Homeland Security.

Chairman WAXMAN. Do you know who did it?

Mr. GIDDENS. No, sir.

Chairman WAXMAN. OK. Do you know whether any of the contractors were involved?

Mr. GIDDENS. Sir, again, I was not working at the Coast Guard at that time. I don't have any additional information.

Chairman WAXMAN. Do you know why they might have deleted that information?

Mr. GIDDENS. No, sir.

Chairman WAXMAN. Does anybody on the panel—well, let me—rather than open it up—well, let me ask. Anybody on the panel know what happened, why it happened, and who did it?

Admiral BLORE. Mr. Chairman, if I could, I was not the Program Executive Officer then, but I was starting to transition into the Deepwater program. First, let me just say for context, it was never—it is not the same brief. The brief that was given to us by Carderock was a brief to the Deepwater program and our technical authority to understand specifically some structural and fatigue issues. The brief that was prepared for the Commandant was an update on the National Security Cutter. So when we use words like the slides were changed, none of the slides were transitioned directly over; the brief was recreated to brief the Commandant. And I would say——

Chairman WAXMAN. They were the same slides, though.

Admiral BLORE. Some of them are the same slides because we were using the same information because it was an update on national security.

Chairman WAXMAN. Why would somebody go to the trouble of deleting those words on those slides so that what was given in that briefing was not exactly the same as Carderock had originally submitted?

Admiral BLORE. Can't answer that question directly, sir, other than to say the seriousness of the issue is covered in the brief.

Chairman WAXMAN. The seriousness of the issue is covered in the brief?

Admiral BLORE. The seriousness of the issue with the National Security Cutter, in the sense that we needed to do a fatigue structural enhancement upgrade for it, is covered in the brief.

Chairman WAXMAN. Well, the timing of the deletions is important. Several months after the Navy findings were removed, the Coast Guard made a decision to renew the Deepwater contract with the same contractors. I don't know how the problem with the ship could be ignored when the renewal decision was made. When I read the Coast Guard's announcement of the renewal, it is full of

praise for the contractor; there is no mention made of the huge problems uncovered by the Navy and no corrective action. That may be great for Lockheed and Northrop, but it is costing the taxpayers billions. Do you have any comment on that?

Admiral ALLEN. Sir, first of all, I don't believe it will cost the taxpayers billions, and——

Chairman WAXMAN. Well, let's hope not, but it is troubling. Mr. Skinner said it was very disturbing to him, and as we saw when this contract was renewed, there was no mention of any of this.

Admiral ALLEN. Yes, sir. First of all, I think we need to be careful not make the fatigue issue on a National Security Cutter a surrogate measure for the entire acquisition, as was stated in the opening statements. The decision on the new award term—I will let Admiral Blore fill in any holes that I fail to cover here.

The criterion for the award of the next award term was embedded in the contract and was awarded in 2002 and locked in at that time. Moving forward, we will change the award criteria for future awards to focus on performance, cost control, and project management, but the decision on how that would be awarded based on operational efficiency—and at that point the National Security Cutter had not been in service yet—did not impact that determination. We are changing that for the next award term. But the original criteria were locked in in 2002.

Chairman WAXMAN. Well, it sounds like you are saying you made a decision that wasn't based on cost or performance.

Admiral ALLEN. It was based on the criteria that was contractually agreed to in 2002, sir. That was the contract.

Chairman WAXMAN. Maybe Rear Admiral Blore can further explain this, but——

Admiral BLORE. Yes, sir, it was based on——

Chairman WAXMAN [continuing]. This wasn't great performance, was it? You did have a problem. You wanted them to build a ship and the ship was not going to meet your standards for 30 years, and that is what the people at Carderock had reported. Maybe it was known, maybe it wasn't known, but then the contract was renewed with all sorts of praise.

Admiral BLORE. Yes, sir. First off, it was not for the National Security Cutter, it was for the Deepwater program. The criterion that were on contract at the time——

Chairman WAXMAN. This Cutter is part of the Deepwater program, isn't it?

Admiral BLORE. Yes, Mr. Chairman.

Chairman WAXMAN. OK.

Admiral BLORE [continuing]. Was total ownership cost, operational effectiveness, and customer satisfaction. That was the contractual way that their past performance would be reviewed. And the contract has not been renewed. The contract was not renewed for 43 months. What was offered was the opportunity for an additional period of performance for 43 months. We are currently working with our industry partners to negotiate a contract. If we negotiate a contract, that would be put in place in June 2007.

Chairman WAXMAN. The week before—there was a document that says "ICGS/NGSS participation, energy focused on deflecting governmental technical analysis and reinterpreting contract re-

quirements, a little interest yet displayed to partner for solutions. Technical response, gradual back-peddling away from NGSS 2004 fatigue technical positions. No interest yet expressed to assume technical leadership." Are you familiar with this document?

Admiral BLORE. Yes, Mr. Chairman, I am.

Chairman WAXMAN. Well, why all the praise for the contractor when this document seems to be critical?

Admiral BLORE. Sir, I can't speak to the praise for the contractor; I can speak to that document, which reflected the work that was going on between the Coast Guard, which, at the time, was proposing structural enhancements to get a 30-year fatigue life on the National Security Cutter and our relationship at that time with industry. Integrated product teams were mentioned before IPTs, and I think that reflects a lot of the atmosphere in the IPT at that time. The IPT is actually the lowest level these things are negotiated at——

Chairman WAXMAN. Let me stop you right there, because I only have a few minutes, even less than a minute, but I want to ask Mr. Giddens a question before my time is up.

As of December you had hired 98 people to oversee the SBInet contract. That sounds good, but the problem is that 65 of these people don't work for the Government, they work for the contractor, as we were told earlier. During the first panel, we heard repeatedly about the problems with Deepwater contract. One of the features of Deepwater was your reliance on contractors to perform this oversight. My staff tells me you hired 135 people to oversee Deepwater and that over half of them, 76 of the overseers, are themselves contractors. It seems to me this was the same mistake in SBInet.

We asked for a list of these contract employees working in the SBInet office, as well as the identities of the private companies they work for, and some of the individuals work for Booz Allen Hamilton, one of the Nation's largest consulting firms. But Booz Allen apparently has a number of ties to Boeing, the prime contractor. In fact, on Booz Allen's own Web site the company touts a business relationship with Boeing going back to 1970. Here is what it says: Booz Allen has a "solid working relationship" with Boeing with "deep knowledge and personal relationships from the group president to the people on the shop floor."

What is going on here, Mr. Giddens? Why are you hiring contractors with conflicts of interest to provide contract oversight?

Mr. GIDDENS. First, sir, as I tried to state in my opening statement, support contractors do not provide oversight for Boeing, the prime contractor. That is a Government responsibility. The support contractors are just that: They are support.

For this particular example, what Booz Allen Hamilton is doing in the office in this regard, they are supporting our mission engineering group. And they're going out, and working with the fill sectors, and gathering requirements so that we can bring those back, compile those, and then go back to the field and brief those requirements to make sure that we have correctly captured the operational conditions in the field.

Chairman WAXMAN. Well, a majority of the people in your office are private contractors. You're relying on them to do the function that a Government ordinarily would do, yet it's contracted out and,

in this case, contracted out with a company that may have a conflict of interest.

Mr. GIDDENS. We have currently 56 percent of the staff, the support contractors, working for the Government. Those staff have to sign non-disclosure agreements, so they do not share the information that they see in the program office. We have a structure to support that.

I would echo the concerns of the first panel that hiring Government employees in the program management acquisition world is a difficult task. We are looking to get to the end of this fiscal year to a balance of 48 percent to 52 percent in 2008 and have more Government employees than we do support contractors. But again, they are support contractors, they do not provide an oversight function for Boeing. That is the Government's responsibility.

Chairman WAXMAN. Mr. Davis.

Mr. DAVIS OF VIRGINIA. As I look at this, it seems to me that there are really more problems associated with the ships as opposed to the airplanes and the C4ISR. Anyone want to comment on why that is the case?

Admiral BLORE. Let me say, sir, first, I agree with you, that we have tended to face most of our major challenges on the surface side. A lot of them are much more complex platforms than we are getting, for example, in aviation; as opposed to buying a CASA and converting it in aviation, we are building a ship from scratch.

One thing I would say, though——

Mr. DAVIS OF VIRGINIA. Do you attempt to be more innovative on the ship side than perhaps——

Admiral BLORE. I just think it is a much more complex structure. We do participate openly with the Navy; we do use NAFC. We have a Government regional office for the Coast Guard in Pascagoula, and we use the Navy's regional office in Pascagoula. So we do try to use—it came up before—Navy resources whenever we can.

Admiral ALLEN. I would say I would separate out the 123 conversion, which has been an issue for us, from the ships that are being designed from scratch. You normally will encounter some issues with the first in class that will require a retrofit, and then changes made for the subsequent hulls. That is something we are finding out with the National Security Cutter.

The failure of the platforms on the 123s, which were extended 110 hulls, is an issue where we need to go back, and we are taking a look at it.

Mr. DAVIS OF VIRGINIA. OK, thank you.

Ms. Duke, let me ask you did the Coast Guard make the right decision in using a private contractor as the systems integrator for the Deepwater program? As we sit here today.

Ms. DUKE. I don't see using a systems integrator as the issue. A system integrator is a contract choice; it is appropriate where you have a large program. They had a huge amount of asset recapitalization that needed——

Mr. DAVIS OF VIRGINIA. So with what you had at the time, you think it was the right decision.

Ms. DUKE. Yes.

Mr. DAVIS OF VIRGINIA. At the beginning, the Coast Guard was obviously limited in their ability to manage a large program like

that, and the previous panel has spoken on that to the GAO and the IG. What about today, do you have the ability to manage this today, or would you need more assets?

Ms. DUKE. I think that Admiral Allen has recognized the need for more assets in both the number of people and the structure and the consolidation of the authority and the decisionmaking, and his restructuring of the acquisition program within the Coast Guard is going to address those staffing and skill mix problems and authority problems that were present in the start of the contract.

Mr. DAVIS OF VIRGINIA. This is a Coast Guard program, but what role does DHS play? What role is your organization playing in overseeing this?

Ms. DUKE. We are working with Admiral Allen in both his plan for restructuring the acquisition function within the Coast Guard and we are working with the restructuring of the—his implementation plan for the new vision for the new Deepwater program. So we consult and we work with him, and he is very cooperative.

Mr. DAVIS OF VIRGINIA. Yes, Admiral Allen?

Admiral ALLEN. Consistent with my interview with Secretary Chertoff, when I was interviewed to become the Commandant, I said that we had internal reasons why we needed to look at the acquisition program, but a side benefit to all that, it aligns us organizationally and functionally with the Department of Homeland Security and achieves better functional integration for the Department.

Mr. DAVIS OF VIRGINIA. OK. Let me ask the same question I asked Ms. Duke. There are those who criticized your acquisition approach, particularly using the private contractor to act as the systems integrator. In hindsight, as you sit here today, recognizing you weren't there at the beginning, was this a good decision? If you could do it all over, would you make that decision any differently?

Admiral ALLEN. Given the conditions that existed at the time, I would have made the same decision. The problem we had was block obsolescence of our cutter and aircraft fleet that we needed to basically recapitalize them all at once, a limited funding stream, and a service that had recently been downsized by 4,000 people and $4 million a year as part of making Government smaller. We were forced to make some tradeoffs in how we would move ahead with the vessel and aircraft recapitalization. I think the original proposal was sound. I think the approach was sound. What happened was the same month that we received the proposals for evaluation there were the 9/11 attacks. That was a major intervening variable. And when you start taking apart the requirements, as they said in the first panel, what should have been just a menu of items that we could pick that were already priced out within a contractual structure, all of a sudden had to be rewickered, and that is where you start getting behind in terms of the amount of people that are on the problem and resolving technical issues.

Mr. DAVIS OF VIRGINIA. If you could go back to that stage, right after 9/11, when you were reconfiguring it, when the requirements changed, how would we do that differently?

Admiral ALLEN. Well, that was the devil's dilemma that they had at the time. We could have pulled the solicitation back and resolicited new proposals with a new set of requirements.

Mr. DAVIS OF VIRGINIA. That would put it out.

Admiral ALLEN. You would have pushed it out and then you would have failing cutters and aircraft out there. So the question is do you proceed and make the adjustments, because this is a considerable change in requirements. Normally, we would not have done that.

Mr. DAVIS OF VIRGINIA. But in hindsight, seeing where we are now—and this is hindsight, I am not criticizing the original decision—might that not have been a better way to go?

Admiral ALLEN. It would have, but you would have run the risk at that time of facing block obsolescence or being able to have a capability gap where a platform would have failed and you would not be able to replace it.

I would note today, on February 8th, we are retiring the Coast Guard Cutter Storis at age 65 that had World War II service.

Mr. DAVIS OF VIRGINIA. GAO notes that the Coast Guard has declined to implement their recommendation to establish a baseline to determine whether the system-of-systems approach is costing more than the traditional acquisition approach. Seems reasonable. Could you explain your reasons for rejecting that recommendation?

Admiral ALLEN. I will let Admiral Blore comment in a minute, but I think the original premise was that it is impossible, until we have the system up and operating, to generate the information by which we could do a comparison, and, technically, we didn't think it would be feasible at this time. It is not—we don't object to the basic premise.

Admiral BLORE. I would agree, sir. There is not a conceptual difference, it is just a matter of workload. We are trying to move more Government personnel into program oversight. This might be something that would be valuable to develop once Deepwater is a little further along and basically try to do an apples-to-apples comparison, but we just didn't have the resources to do it right now.

Mr. DAVIS OF VIRGINIA. OK. Let me turn to the contractors. I will confess I am kind of a Northrop Grumman alumnus, having been general counsel at PRC, which is now part of the Northrop Grumman empire, and been a senior VP there before I came to Congress. But let me ask the contractors on this. Can you give us an example of how Deepwater's use of the systems integrator approach specifically benefited the Coast Guard? Because that seems to be a concern that has been raised by some of the Members today.

Mr. MACKAY. Well, Congressman Davis, where we—as I mentioned in my opening statement, we are pushing interoperability, commonality, the glue that holds the network together. With regard to that, we have been able to achieve about 65 percent software reuse, where we are using GOTS, Government off-the-shelf, and commercial off-the-shelf software, and we have also achieved some notable commonalities. For instance, the mission system of the HC–144, the new twin engine maritime patrol aircraft, uses about 50 percent or about 23,000 lines of code from the Navy's AIP program for the P3, and there is about a 90 percent commonality between the mission system for the AC–144 and the mission system for the missionized C–130J, which we will redeliver to the Coast Guard here in September and we will complete that program by the end of calendar year 2008.

Also, about 75 percent of the Aegis Open Architecture Command and Decision System from the U.S. Navy's very successful Aegis program is reused in the command and Op center of the National Security Cutter, and the displays and consoles that we use in that Op center are derived from the UIQ–70 series that we use on the CVN–77 proposal. So we are getting a lot of commonality, a lot of reuse, starting to make the national fleet concept for the Coast Guard and the Navy and all the maritime services have common standard and common equipment and interoperability. I think the story that—not the story, the operational report that Admiral Blore quoted from, where you had a Navy frigate and a Coast Guard cutter operating together, talking on the same net, sharing technical data is indicative of that.

Mr. DAVIS OF VIRGINIA. Information sharing.

Admiral BLORE. Yes, sir.

Mr. DAVIS OF VIRGINIA. Admiral Allen, do you agree with that?

Admiral ALLEN. Wholeheartedly. My good partner, Mike Mullen, and I have made a commitment to achieve commonality to the extent that we can. The deck gun on the LCS, the deck gun on the National Security Cutter are the same. The air search radars are the same. In fact, we are training Navy personnel at Coast Guard training commands on the operation of the radar.

Mr. DAVIS OF VIRGINIA. Let me ask the contractors again. As we look back—I don't know if you were there at the beginning, but as you just take a look over the history of the program, what lessons have you learned from the early years of the Deepwater program? What could you have done differently? Recognizing you didn't write the requirements, but seeing some of the problems the program has had as it has moved down. From a contractor perspective. I have asked the Government what they would do different. What would you do differently?

Mr. MACKAY. I will let Mr. Teel comment as well, although neither of our tenure start back in the 2000 timeframe; we both joined the program in our respective roles in the middle of 2005.

I think——

Mr. DAVIS OF VIRGINIA. For the record, I don't think anybody on this panel had anything to do with the original part of it. You are part of the solution, but you are familiar with what happened early on.

Mr. MACKAY. Yes, sir, fairly familiar.

I think where we—there was just an ineluctable problem or an issue that has been brought up with respect to the timing of a very large exogenous event with 9/11. In fact, changing departments for the Coast Guard, the generation of a new mission needs statement, the refining of the requirements that went into platforms like the National Security Cutter or the VUAV, the requirements for those had a long gestation period that was affected by many of the factors that we have talked about today. In fact, the new mission needs statement was not generated for the program until July 2005, some 3 years after the original contract award; just a long period to look at all of the cross-cutting issues and the new capabilities that are generated when a service gets—not only changes home departments, but also picks up three discreet new national security and homeland security missions that revolve around tough

things like counterterrorism. It is a joint problem. Working the requirements, I don't know how they could have been done more expeditiously, but that certainly would have helped.

Mr. DAVIS OF VIRGINIA. Mr. Teel.

Mr. TEEL. Yes, sir. I would just add that in our governance model as it is associated with ICGS, both Leo and I and others in that leadership chain have recognized that the chart that was shown earlier is part of the dynamic tension that one sees within the IPTs, and we collectively believe—and part of what is being addressed by the Coast Guard and the changes that we are making within ICGS—are to allow those issues to get quicker access to decisionmaking outside the IPTs. I think there are some structural issues, and we are dealing with those and, in fact, have already made the changes to begin that process. So there are certainly changes there to get issues vetted more quickly.

Mr. DAVIS OF VIRGINIA. Thank you very much.

Thank you, Mr. Chairman.

Chairman WAXMAN. Thank you, Mr. Davis.

Admiral Allen has to leave fairly shortly to go to another meeting. I just wonder if members have questions of that.

Mr. Cummings.

Mr. CUMMINGS. Yes.

Chairman WAXMAN. Anyone else? If not, it is Mr. Cummings' time anyway, so I am going to recognize him and then, after he is finished, Admiral Allen, you would be free to go.

Mr. CUMMINGS. Was my timing running? [Laughter.]

I see a green light and a red light. I just want to make sure. I will take the green. I mean, I will take the red. OK, I got the green.

Admiral, first of all, as you know, I have the utmost confidence in you, I really do, and the Coast Guard. My concern, though, goes to several things that have taken place today. The chairman asked you some questions about the changed slides, or whatever, and I was thinking to myself if I had that situation, if I were you, and I had the situation where the civil equivalent of the FBI sat at that desk and said that he had received some altered documents during his investigation, I would be doing everything in my power to find out who did it, because it basically—it taints the operation.

Admiral ALLEN. Yes, sir.

Mr. CUMMINGS. And that is a very, very serious—I have not seen that, by the way, since I have been here in the Congress, that an IG, to sit there and say something like that.

Admiral ALLEN. Yes, sir. If I could clarify just a little bit.

Mr. CUMMINGS. Yes.

Admiral ALLEN. First of all, I was not aware of it either, until the last couple of weeks. Mr. Skinner came to me directly and showed me the slides. What he presented were copies of slides that were used in briefs, OK, that we then provided to the IG. And the brief to the Commandant that doesn't have the red ink on it was part of a larger brief to the Commandant that contained other items. Now, why that was removed for the purpose of briefing the Commandant I have committed to Mr. Skinner to finding out.

Mr. CUMMINGS. Thank you.

Admiral ALLEN. And I am committing to the committee to do that too, sir.

Mr. CUMMINGS. Yes. I just want to make sure you understand that is a very serious matter for us.

Admiral ALLEN. I have to state, though, that the same information is included in a later slide that indicates the 30-year service life is a problem. It is not in red, but the information wasn't totally removed from the brief.

Mr. CUMMINGS. But my concern is that the IG didn't get it from the Coast Guard, he had to go—the Coast Guard apparently would not give him that information, he had to get it through some other source.

Admiral ALLEN. Yes, sir. And I have committed——

Mr. CUMMINGS. That really bothers us.

Admiral ALLEN. We will get to the bottom of it and we will find answers.

Mr. CUMMINGS. Thank you. I have a limited amount of time.

Let me go back to something else that is also of concern. This bonus thing, there is no one single Member of this Congress that if they had evaluated the performance of an employee, where the scheduled performance was not good—well, it wouldn't be cost control was bad, contract administration was not good, we would give them a bonus. And I am wondering what is the criteria for bonuses as we go forward and how are we going to determine that? And I am not trying to take anything away from anybody if they earn it, but, you see, our responsibility, if we don't—see, our constituents hold us accountable, so we have to hold you accountable. So I am just wondering—I would really like to know how we are going to go forward with bonuses. And if there are going to be bonuses, I would love for this committee to know that they are coming up so at least we can hear about them.

Admiral ALLEN. Yes, sir. Let me give you a high level answer, and I will have Admiral Blore expand on that.

The parameters by which these folks are evaluated, as we said earlier and as David Walker said earlier, are included in contractual agreements for a set period of time. What we need to do is take a look at the criteria and the period of time and restructure the contracts. We have already done that for the period that is starting in January, and that will be restructured in the new contract if we move forward to the new award term. But I will let Admiral Blore expand.

Mr. CUMMINGS. And I hope attitude isn't the criteria, because if that were the case, everybody sitting behind you would have a $4 million bonus.

Admiral.

Admiral BLORE. Yes, sir. Attitude is not one of the criteria. And to give this kind of context, just in rough terms, the Deepwater program is about $1 billion a year. Within that $1 billion there is $40 million in a systems engineering bucket, so to speak. Of that $40 million, 10 percent is set aside for management reserve, which is $4 million. That $4 million is divided in half for an award fee program that occurs every 6 months.

When I became the program executive officer, the criteria was already established. I professionally don't think the criteria is at a

high enough bar. I think I am hearing that from you also. I recently awarded a fee, so you should be aware of that, last week of 82.4 percent, so that would give them, monetarily, $1.6 million. That was the lowest award they have ever received from the Coast Guard in the history of the award fee.

I do feel ethically bound to honor the criteria that was on contract. I was not able to change the criteria to January 1, 2007; it has been changed. I would be happy to provide for the record the old criteria and the new criteria, which talks about cost control and competition.

Mr. CUMMINGS. Thank you. I would love to have that.

Admiral BLORE. Yes, sir.

Mr. CUMMINGS. Admiral Allen, just one other thing. During our Coast Guard Subcommittee hearing, you said that you would compete the Fast Response Cutter contract. And after hearing—and I know you are already familiar with what Mr. Walker might have to say and the IG might have to say, but after hearing all of that, do we have clear standards for the Response Cutter? Do we have penalties; do we have an exit clause? Do we have anything—any kind of warranty? And, again, as I said to you in that other hearing, one of the things that Americans understand are warranties. Almost everybody buys a car. And the thought that we could spend money and not have any kind of guarantee is a major problem. So I was just wondering.

But I want you to address all those things.

Admiral ALLEN. Yes, sir. Regarding the Fast Response Cutters, it is really a two-part answer.

Mr. CUMMINGS. All right.

Admiral ALLEN. The Fast Response Cutter A Class was being considered for construction as a composite hull design. We have done a risk assessment on that and we feel we need to resolve some technical issues before we go forward. To mitigate that acquisition, the Undersecretary for Science and Technology is going to be teaming with Northrop Grumman to produce a technology demonstrator to see if the technology works before we go to production of that vessel. So that will mitigate risk for the composite hull.

In the meantime, as you know, we have a patrol at Hour Gap that has been exacerbated by the performance of the converted 123 for cutters. We are moving at best speed there to award a contract under a parent craft design, and that means taking an existing design that is already out there, making minimal modifications to it, and getting it into production as fast we can to start filling that gap. That is what I referred to in the hearing. That is going to be openly competed, and it will also be a third-party certification through American Bureau of Shipping for standards.

Mr. CUMMINGS. Now, what happens when—you know, one of the things I am concerned about is there was some discussion, I think, by the Rear Admiral about cost overruns, and basically he told us that there were certain things that were not accurate. Let me just say this. What happens when it is discovered that there is a problem and then it costs money to repair, to do the repair? I mean, in other words, we had some—with the National Security Cutter, who pays that? In other words, the American people don't want to be paying twice. They pay for it and then folks come back and say,

OK, it didn't work, so then they pay again. So I am just wondering who pays for that.

Admiral ALLEN. Again, I will give you a high level answer and I will pass it to Admiral Blore to expand upon.

The way the Deepwater program is structured, there are a series of delivery task orders that are issued, and these are various contractual arrangements. Some might be cost-plus, some may be for a firm fixed price, depending on the particular instrument by which the asset was ordered would carry a different duty on the part of the contractor and the Government and a different level of risk. But all of those infer a certain level of performance that the contractor is held to under the conditions of that contract, and they are enforceable, sir.

Admiral BLORE. Yes, sir, the short answer is if we couldn't work it out in other means, we would ask the contracting officer to enforce the terms and conditions of the contract or, if necessary, a lawyer to enforce the terms and conditions of the contract. I think what both the IG and GAO spoke to, which is accurate, is we need to pay more attention to our contracts, what is specifically written and what the terms and conditions are, and we are doing that now.

Mr. CUMMINGS. Thank you, Mr. Chairman.

Mr. COOPER [presiding]. I thank the gentleman.

I believe our friend from California, Mr. Issa, has a few questions for the Admiral.

Mr. ISSA. Thank you, Mr. Chairman. I will direct primarily to the Commandant, because I understand you have to go.

Sort of the big picture question, Admiral, do you believe that joint is the preferable way, in other words, that we should have both the uniformed armed forces and the Coast Guard, even in peace time, be as purple as possible?

Admiral ALLEN. Yes, sir, I am in favor of joint. I am also in favor of interagency, and I would be in favor of plaid if it made us work better, sir.

Mr. ISSA. So if—and we are back to Monday morning quarterbacking, but let's just assume that 9/11 was the beginning of the second cold war and that for the next 50 years, in various States, we are going to be dealing with some of the problems we are dealing with here today around the world. What would you say this committee needs to—how can we empower you and your brothers and sisters in the other uniformed services to be able to work more jointly, to be able to create common platforms, take advantage, leverage each other's expertise and, of course, we would hope for cost savings in addition to maybe more reliable results?

Admiral ALLEN. Sir, I would say that is embodied in the current national fleet policy statement that has been jointly signed by Mike Mullen and myself. It is a commitment to looking at joint interoperability. If you look at the Navy as the high-end fleet of this country and the Coast Guard, in closer to shore, maybe smaller, how we seam up together to create a national fleet is of extreme importance. Our contractors just spoke about how much code is being reused in our command and control systems in the Deepwater system, it is also used in Navy aviation and surface platforms. We have commonality of air search radars between the LCS

and the NSC, and we are both using the 57 millimeter deck gun across.

I meet with Admiral Mullen probably every 2 or 3 months in war-fighter talks. We have people who focus exclusively on how we can get greater synergies. And we are constantly talking about their shipbuilding programs and our shipbuilding programs, and I also have met regularly with the Secretary of the Navy on shipbuilding programs. So we are focusing on it. We actually have a vessel out in San Diego that is being jointly crewed by Coast Guard and Navy folks in a test and evaluation period, the high-speed craft.

Mr. ISSA. The sea fighter?

Admiral ALLEN. Yes.

Mr. ISSA. So-called X craft previously?

Admiral ALLEN. Yes. And another good example is the great cooperation we got out of the Navy that allows us to extend the use of the 179-foot patrol craft to fill our patrol boat gap while we get the new Fast Response Cutter built. But we are side-by-side developing strategy together, and where we can we work together.

Mr. ISSA. Well, following up on the sea fighter, you know, it was commissioned I guess now it is going on 2 years ago. It spent a lot of time dockside. How much more do you have to go through to find out what the advantages of this high-speed ferry, its air landing capability, fueling, etc., how much more is there before you know whether to build unit two?

Admiral ALLEN. Well, if I could, I would like to get together with Mike Mullen and give you an answer for the record on that, sir, because I am just not up to speed on the current data from the testing and so forth, and my answer may not be current. But happy to answer for the record.

Mr. ISSA. OK, I will put you on the spot where I can, though. How do you like it as a ship? How do you like it as a new category?

Admiral ALLEN. I think it has some intriguing potential uses in our mission set. The question is we have to look at life cycle cost, the propulsion and so forth. I have had some discussions with Admiral Mullen about it, and I think at some point we are going to need to sit down and discuss what is the way forward and the potential utility for the Coast Guard. Obviously, large deck space can accommodate a lot of our missions. We have situations in the straights of Florida where we get in a position where we have a large number of migrants on the deck of a cutter that is really not designed to do that. But those are the things we might talk about.

Mr. ISSA. I appreciate that. I certainly recognize that the air conditioned down below capability is very good.

Switching to Ms. Duke, now, you work for the Secretary of Homeland Security, is that right?

Ms. DUKE. Yes.

Mr. ISSA. How do you interface—the Commandant made it clear that he feels he has the authority to have these liaisons and joint operations, but you work for a single cabinet officer who has a budget. What is it that you can do in your daily life, or can't do, that allows you to leverage other hundreds of contracts and contractors in the rest of the Federal system?

Ms. DUKE. Well, as the senior contracting person for the Department of Homeland Security, I am part of the Office of Management and Budget Chief Acquisition Officer Council, so all the leaders in the contracting community, the Federal Government, are part of this, and we take on Federal initiatives from the contracting perspective. That is chaired by the OFPP Administrator, Paul Denett.

Mr. ISSA. OK. But does it have shortcomings? You know, today we are talking about whether or not there should have been a better integration of fleet Navy assets in this acquisition. Your organization was certainly part of the process of looking at your brethren in other procurements and saying, you know what, they have some expertise we should bring in to reduce the chances of exactly what has happened here happening. So what went wrong?

Ms. DUKE. Well, our focus from the contracting perspective is the business deal, not the technical aspects. The technical aspects are handled by the program management lead. So in terms of the business deal, what we have to look—the main thing we are doing at the Federal level is trying to rebuild the skill set of contracting and being able to bring the business deals to fruition.

Mr. ISSA. OK, Mr. Waxman, just one final followup.

So if you are looking at the deal to contract and an admiral and a chain of command are looking at whether or not to go out of their chain of command for expertise, then where is the incentive to do so within a typical, you know, chain of command? Isn't there in fact a problem of not having an independent decisionmaker that says, wait a second, I believe we can do better if we go purple on this project? It doesn't sound like that was inherent in the system.

Ms. DUKE. I do think it rests with the Coast Guard, as Admiral Allen said, right now with the jointness of the military operations. I do know that he has the relationship with the Secretary, as I do, as one of the major components in the Department, and the Secretary has an interest in the jointness too, not only for the coast part, for preparedness, disaster response under our national response plan. So I think that is both shared by the component heads and our Secretary.

Ms. ISSA. Thank you for your indulgence, Mr. Chairman.

Chairman WAXMAN [presiding]. Thank you, Mr. Issa.

Mr. Cooper.

Mr. COOPER. Two quick questions for the Admiral before you have to leave.

Your understanding of the contract for the National Security Cutter, what was the fatigue life and what were the days underway that you thought were specified by the contract?

Admiral ALLEN. Yes, sir. That is a great issue. Thank you for asking, because there is ambiguity in the contract. I think we need to be perfectly clear about what we are talking about.

In the report produced by Carderock, it indicates a standard of 230 days. When we awarded the work order to them, we did not specify a number of days, and they inferred that from the performance specification that was awarded to ICGS. The understanding by the Coast Guard is that the vessel will be away from home port, not in home port, 230 days a year. If you discount transit times, places where you might be in a shipyard away from home port and

so forth, that will yield somewhere around 180 days on mission, on-site.

So the question is what should you use for accumulating the number of hours in the sea state for the purpose of the fatigue modeling. Both the Coast Guard and our contractors agree that the model is 230 days away from home port, but 185 days on mission or 180 days on mission, and that is what should be used to do the fatigue life calculations.

Mr. Skinner and I now agree that is the interpretation. I have a legal opinion of what the contract language says, and Admiral Blore has actually made a contractual change to make that clear to everybody.

Gary, you want to add anything?

Admiral BLORE. No, sir. We made the contractual change yesterday so there would be no more—it is our fault for introducing the confusion because in the performance specification, which is the reference, sometimes it is referred to as 230 days underway, but on page 8 there is a table that explains it. So we have changed it to make it clear that it is 230 days away from home port.

Mr. COOPER. How about fatigue life, years of service?

Admiral ALLEN. What you do then is you take the number of days that you are going to be operating in the North Pacific environment or the Atlantic environment, and you use that for your calculation on the repetition of stresses on the hull, and the number in the contract, as adjusted, is what has been used all the way along, it is a commonly understood standard for both the Coast Guard and the contractor.

Mr. COOPER. For non-sailors, non-coastees, how does this compare with old ships that we might be familiar with? You mentioned you are retiring a World War II ship today that lasted 65 years.

Admiral ALLEN. That is another very good point, sir. The current High-Endurance Cutter that is deployed by the Coast Guard is deployed away from home port 185 days a year as a standard. That is a personnel tempo restriction. We can operate the ships longer than that, but we don't want our people gone any more than 185 days a year. That would yield us something on scene, after the transit times, down around 125, 130 days, or something like that.

The goal with the National Security Cutter is to take three National Security Cutters and four crews, multiple-crew them and get 230 days away from home port with them and actually increase the capability of the cutters. That is the reason we are placing 12 High-Endurance Cutters with only 8 National Security Cutters.

Mr. COOPER. But the length of life is 30 years, 40 years?

Admiral ALLEN. Thirty. Thirty years, sir.

Mr. COOPER. And that is the contractor understanding now too?

Mr. TEEL. Yes, sir.

Mr. COOPER. But there had been confusion before that.

Admiral ALLEN. To the extent—and I would agree with Admiral Blore there was some ambiguity because terms were used in different areas of the contract, and we have straightened that out.

Mr. COOPER. What was the lawyer's name on the original contract?

Admiral ALLEN. I would have to go back and look, sir.

Mr. COOPER. If you could supply that for the committee, that would be helpful.

I thank the chair.

Chairman WAXMAN. Thank you very much.

Admiral, I know you have to go to another appointment, so we are going to excuse you.

Mr. Souder, do you have questions of the panel?

Mr. SOUDER. I have questions for Mr. Giddens.

Chairman WAXMAN. OK.

If Mr. Souder would permit, just one quick question, and then we will get back to you.

Ms. NORTON. Just a short question.

I want to thank you, Admiral Allen, for your work in the Gulf Coast, very much so. I was there and saw it firsthand. I want to just ask you one question. Do you think we are going to get a Coast Guard Headquarters this time?

Admiral ALLEN. We hope so, ma'am.

Ms. NORTON. The President has put the money in his budget once again. I certainly appreciate that.

Admiral ALLEN. We know it is a priority for the Secretary and the Deputy Secretary, and, as you know, we support the Secretary in this endeavor.

Ms. NORTON. Thank you.

Chairman WAXMAN. Yes.

Thank you very much, Admiral.

Mr. Souder.

Mr. SOUDER. Thank you, Mr. Chairman. Without Deepwater, there is no maritime security, and the new planes, which I saw before and after, and the upgraded boats are really critical to our mission, but I think all of Congress, as a whole, would be highly preferable if the new boats would work, and that just has been a very frustrating process for those who went way out on a limb to push this. The debate here and in the articles we have seen have been very discouraging. I appreciate, through my time as chairman, I have had a Coast Guard detailing and others and just have done whatever I can to boost it, and the type of—what I view as a lot of nitpicking in the sense of we knew what we were looking for in length, we knew what we were looking for in service, that they were going to be out in the Eastern Pacific for extended periods. And this type of stuff should have been clear from the beginning, and it has been incredibly exasperating.

But I particularly wanted to focus on SBInet with Mr. Giddens, and I have some questions first. Do you believe that the entire land border will be secure by December 2008?

Mr. GIDDENS. No, sir.

Mr. SOUDER. Do you know what the cost to secure the entire land border would be?

Mr. GIDDENS. Our cost estimate for securing the southwest border is approximately $8 billion, and our timeframe for that is in fiscal year 2013.

Mr. SOUDER. You think it will be $8 billion to secure all the southwest border?

Mr. GIDDENS. Yes, sir.

Mr. SOUDER. You don't agree with the $30 billion estimate?

Mr. GIDDENS. No, sir. For the southwest border, our current cost estimate, based on independent Government estimate, is $8 billion. That includes the acquisition, as well as some of the integrative logistics and sustainment support through the year 2013.

Mr. SOUDER. And the current program that Boeing has is for 6 years?

Mr. GIDDENS. The current program that Boeing has is a 1-year contract that is renewable for up to 6 years.

Mr. SOUDER. So, presumably, you think this is at least going to take 6 years and $8 billion?

Mr. GIDDENS. Yes, sir, for the southwest border.

Mr. SOUDER. Do you know, in this study—here is my concern, and the concern of many of us who have supported and understand we need immigration reform, that in your statement—but suspect that there is not really a commitment to a secure border or secure IDs. And in your statement today there is a bold political statement mixed in with what you do as Homeland Security. It says gain effective control of the borders, strengthen interior enforcement in compliance with immigration and customs laws, and support passage of a temporary worker program, which is a political goal. And my question is you attributed that to Secretary Chertoff and then said your challenge is to execute SBInet. What in the world is a political goal doing in the Department of Homeland Security? At the very least it would be over in the Justice Department.

And here is my question. If the political goal is for this administration to pass a bill which, quite frankly, I am favorable toward, by December 2008, but you just said that the land border won't be secure in 2008, that SBInet is working on a proposal that is renewable for up to 6 years, that there is a huge disparity and debate about the cost—I personally disagree with the $8 billion—how do you reconcile the political goal that has been stated here to implement a work permit program when you, yourself, just said under oath that you are not going to have the border secure?

Mr. GIDDENS. Yes, sir. The statement that I made was focused on the southwest border, that is where our initial focus is for the SBInet program. That does not mean the Department, nor Customs and Border Protection, is not doing anything on the northern border. We have quite a bit of activity focused on the northern border, but——

Mr. SOUDER. Do you believe the southwest border will be secure by December 2008?

Mr. GIDDENS. No, sir. I still stand by my statement that the projection for that is 2013.

Mr. SOUDER. My time is about to run out. Have you looked at—because if we do a work permit, they are time-limited work permits. That means they are going to have to go back across the border wherever they came from for a work permit. But if the border isn't secure, how does work permit work? What if somebody gets fired? What if somebody gets laid off? What happens to a work permit then? Have you had research into that and trying to figure out how in the world you would even manage an exit program? I know from talking to U.S. visit they haven't even been asked yet for an exit program, quite frankly, because they are looking at 2009 for

airports, 2014 for maritime. The land border isn't going to have an exit program. How can you come before us and say that you can't have the border secure, but you have the political goal of passing a bill by 2008?

Mr. GIDDENS. Sir, while we may not be complete with the southwest border until 2013, we will be making lots of progress even over the next couple of years in securing the southwest border. The purpose of my statement was try to set in context the SBInet program and how it supports the overall goals that the Department has that relate to secure border and immigration reform. It is part of a larger comprehensive Department of Homeland Security strategy.

Chairman WAXMAN. Thank you, Mr. Souder. Your time has expired.

Mr. Clay.

Mr. CLAY. Thank you, Mr. Chairman.

I would like to ask Ms. Duke about why DHS did not follow proper procedures in awarding the SBInet contract. For example, the DHS Inspector General has testified that he is concerned the SBInet proposal did not go through the DHS's Investment Review Board or through its Joint Requirement Council. My understanding of these reviews is that they would have helped the SBInet program define their scope and acquisition strategy, which would give the SBInet program office a better ability to oversee the activities of the contractor.

Ms. Duke, why did the Department feel the need to bypass these two boards?

Ms. DUKE. The SBInet program did go through the DHS Investment Review Board chaired by the Deputy Secretary.

Mr. CLAY. And through its Joint Requirement Council?

Ms. DUKE. The Joint Requirement Council is a subordinate board, it is, as being currently implemented, a preparatory board, and I do not know if it went through the JRC, but the IRB is the decision board, it is the DHS homeland security investment decision board, and that decision was formally made.

Mr. CLAY. OK.

Mr. Giddens, do you have anything to add about the procedure?

Mr. GIDDENS. No, sir, I believe Ms. Duke characterized that correctly.

Mr. CLAY. OK, let me say something to both of you, then. You know, I don't understand why the Department of Homeland Security failed to follow these practices in awarding the SBInet contract. These procedures are in place for a reason: to ensure that the interest of the Government and the taxpayers are protected.

Let me ask a question of both of you. How many taxpayer dollars have to be wasted before we learn the lesson of being an efficient steward of taxpayer dollars? I guess neither one of you wants to tackle that one.

Ms. DUKE. Well, I think no taxpayer dollars have to be wasted. I think—I don't agree with the statement that procedures were not followed to award the SBInet contract, and I——

Mr. CLAY. Now, you just said they didn't go through the review.

Ms. DUKE. No, it didn't go through——

Mr. CLAY. It didn't go through the Joint Requirements Council.

Ms. DUKE. The investment review process under DHS is under revision, and that preparatory board for the IRB is a discretionary step. The investment review decision was made by the Deputy Secretary.

Mr. CLAY. All right.

Let me go to Mr. McElwee. I would like to thank you for joining us, Mr. McElwee, and before I begin my questions I would like to say that, as of the present, I don't know of a single instance of waste or management on your end of the SBInet contract. Nevertheless, I would like to ask a few questions about why the DHS chose to entrust this crucial program to Boeing.

In a hearing before this committee last summer, we heard a number of auditors and contract experts tell us about the problems with DHS contracts, and one of those problem contracts was a contract to install baggage screening machines in airports. Mr. McElwee, that contract was held by Boeing, wasn't it?

Mr. MCELWEE. Yes, sir, it was.

Mr. CLAY. The original cost for the contract was estimated to be $508 million, but according to a DHS Inspector General report, costs for that contract ballooned to at least $1.2 billion and the performance period was extended by an additional 18 months. What is more, according to media reports, the baggage screening equipment installed under the contract has suffered from high false alarm rates and GAO has reported that the machines suffer from a variety of operational inefficiency.

How do you respond to these problems?

Mr. MCELWEE. Sir, I wish I had the background details. I have not been associated with the EDS program. I have in fact worked other programs, but SBInet is the first one that I have worked with the Department of Homeland Security. I am sure we can provide you the background information on that.

Mr. CLAY. You sure you will?

Mr. MCELWEE. Yes, sir.

Mr. CLAY. Can you provide me some background information——

Mr. MCELWEE. Yes, sir.

Mr. CLAY [continuing]. To tell us about the ballooning of the cost and extending the additional contract period? I mean, look, you all bid on these contracts and then you come back and say, oh, we need more time and it costs more than twice as much.

Mr. MCELWEE. Sir, I do have——

Mr. CLAY. Are you gaming the taxpayers here?

Mr. MCELWEE. No, sir.

Mr. CLAY. Or gaming DHS?

Mr. MCELWEE. The one comment I can make based on my understanding of the contract is that we were awarded the contract in nearly June 2002 to provide the baggage—yes, sir.

Mr. CLAY. My time is thin, and thank you for that response.

Let me ask Ms. Duke one last question, Ms. Duke. The investment review process required by Department directive were bypassed and key decisions about the scope of the program and the acquisition strategy were made without the proscribed review and analysis or transparency. Do you agree with that statement?

Ms. DUKE. No, I do not.

Mr. CLAY. You do not.

Ms. DUKE. No.

Mr. CLAY. Well, this is in a report from your——

Unidentified SPEAKER. No, it is from the Inspector General.

Mr. CLAY. This is from the IG. This is from the IG. You don't agree with what the IG said from DHS?

Ms. DUKE. Not in that specific case, no.

Mr. CLAY. You don't? Why? Why? Your own IG said it.

Ms. DUKE. Because the investment review board decision was made before the award of the SBI contract properly.

Mr. CLAY. Maybe DHS is gaming the taxpayers. You think that is possible?

Ms. DUKE. I can only answer——

Mr. CLAY. My time is up.

Thank you, Mr. Chairman.

Chairman WAXMAN. I think that question was rhetorical.

Let me just, in conclusion, today, private for-profit contractors are woven into the fabric of every Federal agency. In fact, it is difficult to think of any area in which the Government does not rely on contractors, including for inherently governmental functions. For example, we held a hearing yesterday on private security contractors in Iraq. Today's hearing is about contractors running our Nation's borders and building ships to protect our ports and coastlines. We have had contractors interrogate detainees, we have even had contractors collect our taxes. I think anyone who has attended the sometimes bureaucratic meetings especially in the executive branch has had the experience of shaking hands around a table, but not necessarily knowing which person is a Government employee and which person is a contractor.

Is that something you have seen, Ms. Duke, when you have been at meetings, that some are contractors and some are Government employees?

Ms. DUKE. Yes, that is true.

Chairman WAXMAN. And Mr. Giddens, is that your experience as well?

Mr. GIDDENS. Yes, sir, they are both at the meeting. I won't say it has never happened. The bulk of the meetings I remember we go around and introduce so everybody knows what the roles are at the meetings. So I don't agree with the assertion that there is not clarity about who is in control and who at the meetings are Government or support contractors.

Chairman WAXMAN. And to your experience there has not been a problem?

Mr. GIDDENS. Yes, sir. We go around the room and introduce to make sure everyone understands the role and the representation that they are there.

Chairman WAXMAN. Well, you have private contractors working alongside Government employees in your office, right?

Mr. GIDDENS. Yes, sir.

Chairman WAXMAN. And, Ms. Duke, you must have private contractors, support contractors working in your office as well, don't you?

Ms. DUKE. Yes, we do.

Chairman WAXMAN. OK.

And, Rear Admiral Blore, I am sure the Coast Guard has some arrangements with private contractors who provide support services, is that correct, and, for the record—well——

Admiral BLORE. Yes, sir, it is correct. It is also true that on our ID badges we identify support contractors. But I won't argue the point that if a coat is on or the badge is turned around, you may not know you are speaking with a support contractor.

Chairman WAXMAN. Do you know how many private support contractors are working alongside Government employees in the Deepwater Program Office?

Admiral BLORE. In the Deepwater Program Office, as was previously—somebody mentioned, sir, we started with 75, approximately, military and civilian, with a little bit more than that in contract support. This is not ICGS, this is direct contract support to the Government. We now have about 133 military and civilian and about 80 support contractors, and we are in the process of building by about 40 more Government positions this fiscal year.

Chairman WAXMAN. Which brings me to my larger question. Does anyone know how many contract employees are working at the entire Department of Homeland Security? Has anyone calculated that?

[No response.]

Chairman WAXMAN. We will see if we can get an answer to that.

Does anyone know how many contract employees some of these large contractors have, Booz Allen, Miter, and others, in various offices throughout the Department? Anybody have an answer to that?

[No response.]

Chairman WAXMAN. We heard at yesterday's committee hearing that our own Department of Defense has no idea how many for-profit security contractors it has hired directly or indirectly through self-contracts in Iraq. I gather we may have a similar experience here at DHS. Well, because of our committee's broad jurisdiction, we might be uniquely suited to investigating the pervasiveness of contractors throughout the Department of Homeland Security, and that is something I just want to put out there, because I think we need to get more information.

Anybody else a concluding statement? Mr. Cooper.

Mr. COOPER. Mr. Chairman, along the same lines, I would like to know how many retired military work at Boeing, Lockheed, and Northrop, and I am particularly interested in general officer level retirees who work directly related to the procurement process. I think that would be very helpful because I think one of our colleagues, Mr. Duncan, mentioned the possible revolving door problem earlier.

Chairman WAXMAN. We will send a letter and hope we can get an answer to that question.

Mr. Souder.

Mr. SOUDER. Thank you, Mr. Chairman.

I wanted to ask Mr. Giddens again, because I am not sure I heard it correctly, and I want to give him a chance to correct the record, and it ties to a broader point that we are doing with this hearing. You believe that $6 billion will secure the entire southwest border?

Mr. GIDDENS. No, sir, I believe my answer was $8 billion.

Mr. SOUDER. $8 billion will secure the entire southwest border?

Mr. GIDDENS. For the southwest border. That is the technology and the tactical infrastructure. That does not include salaries for Border Patrol agents or field officers, that covers the acquisition and sustain cost to get us coverage on the southwest border.

Mr. SOUDER. Basically, to complete the SBInet type program.

Mr. GIDDENS. Correct. Yes, sir, the technology and the tactical infrastructure for that program.

Mr. SOUDER. Isn't it true that we don't know what that is yet?

Mr. GIDDENS. We have, since we awarded the contract last September, internally completed an independent Government cost estimate and that we have in the program office Boeing as part of the source selection activity completed their overall concept design and how they would lay it out, and we used that to form our initial estimate. But, sir, I don't want to tell you I can sit here today and, with pinpoint accuracy, project the cost of something that is going to happen in 2011, but we have to start with a baseline and then we have to manage that baseline, and our baseline is the $8 billion.

Mr. SOUDER. Mr. Chairman, my concern with this is that, in looking at Government versus contractors, that when we review this and realize that it is much more likely to be a larger figure, that it doesn't get laid at the foot of the contractor. I believe there has been, for lack of a better word, low-balling in the administration of the real cost. I believe the American people should know what the cost is, we ought to implement that cost; that there is a political will to do it.

I believe we need comprehensive immigration reform, but we need to understand that part of that is making sure we have secure IDs and a secure border, and we ought to be up-front about the cost. And I just do not believe that any outside evaluation, anybody who has worked the border believes that is a realistic figure, and I am not going to embarrass Boeing right now to ask them what they think is a realistic figure. But part of the problem here is when the Government heads into a project, we should have a broader kind of context for what we are going into here and what it really requires, and that is my concern. I know that is the current administration's position, but I don't believe it is realistic.

Thank you, Mr. Chairman.

Chairman WAXMAN. Well, that is a good point. Of course, the question is if you have a southwest border, is that going to stop all illegal entry into this country? Because there are other parts of the country where people can come through, in the northern border. People often get off on airplanes and have a visa and then overstay their visas. And if there is such a tremendous magnet for people to come into the United States, they are going to be pretty creative. So after we spent $8 billion and we see that sealed off, let's see how far we are in solving the problem. There might be a lot more that will have to be done.

But that is a topic for another hearing and we will save it for them. Thank you all very much. That concludes our business. The committee is adjourned.

[Whereupon, at 2:15 p.m., the committee was adjourned.]

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