DEEPWATER: CHARTING A COURSE FOR SAFER WATERS

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON BORDER, MARITIME, AND GLOBAL COUNTERTERRORISM

WITH THE

SUBCOMMITTEE ON MANAGEMENT, INVESTIGATIONS, AND OVERSIGHT

OF THE

COMMITTEE ON HOMELAND SECURITY HOUSE OF REPRESENTATIVES

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DEEPWATER: CHARTING A COURSE FOR SAFER WATERS

Thursday, May 17, 2007

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON HOMELAND SECURITY,
SUBCOMMITTEE ON BORDER, MARITIME, AND
GLOBAL COUNTERTERRORISM,
JOINT WITH THE
SUBCOMMITTEE ON MANAGEMENT, INVESTIGATIONS,
AND OVERSIGHT
Washington, DC.

The subcommittees met, pursuant to call, at 2:23 p.m., in Room 311, Cannon House Office Building, Hon. Loretta Sanchez [chairwoman of the Subcommittee on Border, Maritime, and Global Counterterrorism] presiding.

Present from the Subcommittee on Border, Maritime, and Global Counterterrorism: Representatives Sanchez, Jackson Lee, Langevin, Cuellar, Green, Souder and Reichert.

Present from the Subcommittee on Management, Investigations, and Oversight: Representatives, Carney, Clarke, Perlmutter and Rogers.

Ms. SANCHEZ. The Subcommittee on Border, Maritime and Global Counterterrorism and the Subcommittee on Management, and Investigations and Oversight will come to order.

The two subcommittees are meeting today to receive testimony on Deepwater: Charting a Course for Safer Waters. Good afternoon, and I thank the witnesses for joining us and for their testimony on the Coast Guard's Deepwater procurement program.

We are interested, of course, in the Deepwater Program because we all recognize that the Coast Guard desperately needs new and modernized assets.

The Coast Guard has a wide variety of challenging missions, and the list seems to get longer. These missions include intercepting illegal migrants and drug smugglers, securing our Nation's ports, providing assistance to recreational boaters, and we are also very proud of the Coast Guard's excellent operations during Hurricane Katrina, which was one of the highlights in, I think, one of the situations where our government response was not so great.

Given the Coast Guard's critical role in our Nation's security, they must ensure that they receive air and sea assets needed to perform their missions. And unfortunately, we have heard and we know some of the Deepwater program has encountered serious setbacks. And over the past several years, many investigations have been conducted, findings have been reported, and recommendations

for change have been made, and I believe that these situations are valuable because it is really a way for the program to be able to be turned around for us to fully understand the problems that occurred, what caused them, and how we can better get back on track.

We all have to be vigilant in overseeing the progress of the Deepwater program and ensuring that it operates effectively and delivers to the Coast Guard its much-needed assets. And I hope this hearing actually assists in that process.

I have a number of questions about the setbacks in the Deepwater program and what is being done to identify the root of those problems so we can learn from the mistakes, of course, specifically the 123-foot patrol boat conversions that we still seem to be a little hazy on what is going on and how we are going to get those assets back into the water. We need to fully understand what happened so that our engineers can use that information in the future.

I am also interested in implementing—in what is going on with the procurement process for the Coast Guard for future programs because, of course, this is a very, very big program.

I am looking forward to having the dialogue and to listening to my colleagues, of course, bring up their issues. We are all concerned about it, and I would like to thank the Ranking Member Souder and the Chairman and the Ranking Member of the Subcommittee on Management, Investigations, and Oversight for their interest in this important issue.

Ms. SANCHEZ. And the Chair now recognizes the Ranking Member of—is that true? No. The Ranking Member of the Subcommittee on Border, Maritime, and Global Terrorism, the chairman from Indiana.

Mr. SOUDER. The largest and most complete acquisition effort of the Deepwater proposal includes 91 cutters, 124 small service craft and 244 new or converted airplanes, helicopters and unmanned aerial vehicles.

We are here today to look at what has been accomplished to date, where the needs remain, how contract mismanagement is being addressed, and what additional resources are necessary to ensure the Coast Guard is able to continue its missions while waiting for the delivery of Deepwater assets.

I think we are all aware we are dealing with a 25-year acquisition program with a $24 billion price tag; that challenges, anticipated and unforeseen, will always arise. However, we have seen a significant amount of money expended on Deepwater and are now looking at eight 110 patrol boats that are now useless because of a flawed modification proposal, delays in the Fast Response Cutter, and hull problems with the National Security Cutter, in addition to other problems.

I also want to talk to the witnesses about the Deepwater air assets, including problems with the vertical UAV and what air support is available to continue the hit-run counterdrug mission.

I would like to provide a special welcome to Captain Steven Baynes, a Chief of the Major Cutter Forces for the Atlantic Area. Captain Barnes formerly commanded the Coast Guard Cutter Decisive, a legacy 210 that faced a multitude of operational and quality-of-life issues. This included fuel pump leaks, faulty radar in global positioning systems and an inability to deploy the over-the-horizon small boat farther than the line of sight due to poor radio communications. Many of these problems were chronicled in the U.S.A. Today article where the reporter described the list of the ship as in shambles.

I ask unanimous consent to place the article in the record.

[The information follows:]

PREPARED OPENING STATEMENT OF THE HONORABLE MARK SOUDER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Thank you Madame Chair. The largest and most complex acquisition effort in Coast Guard history, the Deepwater proposal includes 91 cutters, 124 small surface craft, and 244 new or converted airplanes, helicopters, and unmanned aerial vehicles.

We are here today to look at what has been accomplished to date, where the needs remain, how contract mismanagement is being addressed, and what additional resources are necessary to ensure that Coast Guard is able to continue its missions while waiting for the delivery of Deepwater assets.

I think we are all aware that when dealing with a 20–25 year acquisition program with a $24 billion price tag, challenges—anticipated and unforeseen—will arise.

However, we have seen a significant amount of money expended on Deepwater and are now looking at eight 110 patrol boats that are now useless because of a flawed modification proposal, delays in the Fast Response Cutter, and hull problems with the National Security Cutter, in addition to other problems.

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I think that Captain Baynes' testimony will provide us a better picture of the state of the Coast Guard's legacy assets and reinforce why Deepwater modernization is critical.

I would also like to take an opportunity to thank Captain Baynes for his service and the work of the crew of the Decisive in the aftermath of Hurricane Katrina. While many of the crew had lost homes, belongings and had displaced families, they helped distribute food and water and provided other critical services.

I hope at the end of this hearing, we have a better understanding of how the Deepwater problems occurred and what is necessary to move the program forward to ensure that the Coast Guard has robust and reliable capabilities. The Nation needs these assets to protect its citizens from illicit drugs, illegal migrants, and terrorist threats. Congress has a responsibility to ensure that resources are available and that taxpayer money is spent responsibly.

Thank you Madame Chair. I yield back the balance of my time.

FOR THE RECORD

Sailing far from smooth on Coast Guard's Decisive
By Mimi Hall, USA TODAY
Posted 7/5/2005 11:18 PM
KEY WEST—The 210-foot Coast Guard cutter Decisive is an imposing figure on the horizon as it slices through turquoise waters 10 miles off the Florida shore.

But from the bridge above the deck to the bilge below, Cmdr. Steve Baynes' ship is in shambles.

It's week three of a six-week patrol, and the Decisive has a fuel pump leak, a broken water heater, haphazard radar and global-positioning system, faulty air conditioning, a major hydraulic leak in a patrol boat, high-frequency radios that don't work and a broken anchor winch.

When they're not racing to make emergency repairs, members of Baynes' crew, some suffering from mold-related respiratory problems, replace the saturated rags tied around cold-water pipes that drip onto their bunks at night. They also mop up sewage that routinely backs up and floods their quarters.

In their spare time, they lift weights in a tiny laundry room where rusty washers and dryers hum and a wall-mounted thermometer reads 100 degrees.

And they labor over machine tools, making parts from scratch for mechanical equipment so old that the manufacturers have long since gone out of business.

Coast Guard officers such as Baynes and the men and women they lead have been contending with such problems for years.

FLEET SHOWING ITS AGE
Many of the Coast Guard's primary oceangoing vessels and planes are nearing the end of their projected life, and millions of dollars in scheduled maintenance is needed.

Aircraft	Projected life	Fleet average age	Maintenance cost
HC–130	30 years	21.9	$17.4 million
HU–25	20 years	22.1	$0.2 million
HH–60	20 years	12.6	$35.9 million
HH–65	20 years	17.6	—
Ships	**Projected life**	**Fleet average age**	**Maintenance cost**
378-foot	40 years	35.3	$13.7 million
270-foot	30 years	17	$2.9 million
210-foot	49 years	37.3	$1.9 million
110/123	20 years	15.4	$4.1 million

Source: Government Accountability Office

While the average age of the Navy's frigates, destroyers and other "surface combatants" is 15.2 years, and the average age of its supply and refueling ships is 20.5 years, the Coast Guard uses ships nearly twice as old, according to the Government Accountability Office. The average age of the Coast Guard's 14 210-foot cutters is 37.3 years, and the average age of its dozen 378-foot cutters is 35.3 years.

"It's just getting more and more difficult to keep these old dogs going," says Baynes, commander of the Decisive's 75-member crew.

The Coast Guard's unofficial motto is "We can do more with less."

"As admirable as that stance is," Sen. Olympia Snowe, R–Maine, says, "the cold, hard truth remains that the Coast Guard is experiencing a record number of casualties and mishaps like never seen before, and it's becoming simply unsafe for our young men and women to serve aboard these aging assets."

Given the Coast Guard's new anti-terrorism duties, "it's a disgraceful state of affairs," says maritime security expert Stephen Flynn, a former Coast Guard officer.

With homeland security added to the Coast Guard's responsibilities, security experts and members of Congress say it's time to give the Coast Guard the tools it needs to help protect the nation. They're pushing to speed up a 20- to 25-year, multibillion-dollar program to replace the Coast Guard's "deepwater" fleet, the 88 large ships and 186 aircraft capable of operating many miles offshore.

New mission
The Decisive has been patrolling U.S. waters for nearly 40 years. In the 1970s, it enforced fishing zones in the frigid waters off northern New England. In the 1980s

and 1990s, it was based in Florida, where the crew seized more than 125 tons of cocaine and marijuana and rescued more than 2,500 Haitian and Cuban migrants trying to get to the USA.

Today, the Decisive mostly patrols Caribbean waters, sometimes a few hundred miles offshore, as part of what has become the Coast Guard's most important mission: protecting the nation from terrorism.

That work is being compromised by a fleet that was well beyond its prime even before the Sept. 11 terrorist attacks.

Last summer, the 9/11 Commission reported, "While commercial aviation remains a possible target, terrorists may turn their attention to other modes. Opportunities to do harm are as great, or greater, in maritime or surface transportation."

The Coast Guard, which became part of the Homeland Security Department in 2003, is responsible for stopping terrorists who could try to smuggle weapons of mass destruction into the USA through its ports.

In addition to its traditional missions of boat safety, migrant and drug interdiction and fisheries enforcement, the maritime military service must board and inspect cargo ships bound for U.S. ports, share intelligence about threats and possible efforts to smuggle terrorists or weapons into the country, and conduct surveillance on the high seas.

Like much of the Coast Guard's "deepwater" fleet, the Decisive is in very rough shape.

Baynes says its problems affect its new mission:

• About half the time, he can't send his 24-foot "over-the-horizon" boat on night patrols to look for migrants, drug smugglers or anyone trying to illegally enter the USA because the ship's high-frequency radios and Global Positioning System devices aren't working. To send six-man teams out of sight of the ship without radios and GPS would put them in too much danger, Baynes says.

• His ship often can't detect other vessels even a couple of miles away because its radar system is old and temperamental. When it goes down—which it does at least once a day—Baynes' crew relies on a small, inexpensive radar system available at any marine supply store for use by recreational boaters.

"We're pretty limited in figuring out who's out there and what they're doing," Baynes says.

• The communication systems are so primitive that "half the time, we can't even talk to other Coast Guard ships," he says.

• "Crewmembers have to spend so much time on repairs and maintenance—often 18 hours a day—there's no time for training or safety classes.

• "Crew fatigue is one of the biggest things I'm worried about," Baynes says.

Chief engineer Lt. Greg Tarpey says he can't even begin to catalog all the things that have gone wrong on the Decisive since it set sail May 31.

Migrant rescues

While contending with all the breakdowns, crewmembers have had to handle scores of migrants plucked out of the perilous waters. In mid–June, on the 18th day of the Decisive's latest patrol, Baynes and his crew took on 99 Cuban migrants. One group of 26 had been floating on a ramshackle boat for 21 days. When the Coast Guard found them, two were unconscious.

Baynes is mindful of what probably would have happened to the migrants if his cutter hadn't been patrolling the area. He's also mindful of the new stakes after 9/11. After 20 years in the service, he's used to the "do more with less" approach.

But the problems have become "a constant drain on us," he says. "It's going to get to where one day, I'm just going to have to call my commanders and say, 'I can't sail.'"

Mr. SOUDER. I thank Captain Baynes. I think his testimony today will provide us with a better picture of the state of the Coast Guard's legacy assets and reinforce why Deepwater modernization is absolutely critical.

I would also like to take the opportunity to thank Captain Baynes for the service and work of the crew Decisive in the aftermath of Hurricane Katrina. While many of the crews had lost homes, belongings, and had displaced families, they helped distribute food and water and provided other critical services.

I hope at the end of this hearing we have a better understanding of how Deepwater problems occur and what is necessary to move the program forward to ensure that the Coast Guard has robust and reliable capabilities.

The Nation needs these assets to protect its citizens from illicit drugs, illegal migrants, and terrorist threats. Congress has a responsibility to ensure that resources are available and that taxpayer money is spent responsibly.

Thank you, Madam Chair, and I yield back the balance of my time.

Ms. SANCHEZ. The Chair now recognizes the Chairman of the Management, Investigations, and Oversight Subcommittee, the gentleman from Pennsylvania Mr. Carney for an opening statement.

Mr. CARNEY. Thank you, Madam Chair.

I am glad we could work together to hold these hearings. I would also like to commend Chairman Thompson for his hearings on these issues. Also, I would be remiss if I didn't recognize my friends, Ranking Members Mr. Souder and Mr. Rogers, for your cooperation here as well.

The problems afflicting Deepwater are clearly nonpartisan. We must examine and correct Deepwater as a matter of national security and of fiscal responsibility. I am glad to know that we have also—that we also have a full slate of experts with us today from the Coast Guard, the Office of the Inspector General, DHS, as well as industry partners involved in Deepwater contract.

Before I came to Washington, I was shocked to learn about the compounding problems with Deepwater. Between election day and my swearing in, eight Coast Guard cutters were dry-docked as a result of significant and potentially catastrophic flaws that were part of the Deepwater modifications. I don't want to dwell on this, but not having eight ships patrolling our Nation's shores is a serious issue, especially at a time when we could have a mass exodus out of Cuba. As a lieutenant commander in the Navy, I was happy to learn that the service was able to fill some gaps with six of its own patrol boats. That said, using Navy patrol boats to fill the Coast Guard mission is robbing Peter to pay Paul. We don't have the naval capacity between the Coast Guard and the Navy to be sharing boats right now as much as we would like to.

I was relieved to hear last month that the Coast Guard was taking over the role of lead systems integrator from the Lockheed Martin and the Northrop Grumman team. That relief, however, was short-lived. It was replaced by a simple but overriding concern: Can the Coast Guard and the Department of Homeland Security successfully manage the Deepwater project themselves? There was apparently a lack of ability when the contract was first awarded, and I think we all want to ensure that the appropriate number of qualified staff are now in place to provide the management this project so desperately needs.

I think there is now a common understanding, even with the Coast Guard, that to date the Coat Guard relied too heavily on contractors to run the Deepwater program and provide services that the Coasties should be performing themselves.

I want to assure that the Coast Guard and DHS have the necessary resources to manage Deepwater to a successful completion. The shortage of qualified procurement staff and contract officers at DHS and the Coast Guard worries me. The staff currently in place may be talented, but they are overburdened, which undoubtedly led to the Coast Guard to delegate so much of its responsibility to ICGS.

Also, we have heard about the problems afflicting the naval aspects of Deepwater, but what about the aviation piece? Are there problems that have yet to surface with older equipment that is being upgraded similar to the issues with the 110-foot cutters that were upgraded to the 123-foot that is now dry-docked?

The Coast Guard's role has certainly expanded since the Deepwater deal was struck. Congress needs to ensure that all aspects of the program are managed well and completed successfully. We don't have the luxury of hoping that all of this will work itself out on its own. Our national security is on the line. So is $24 billion of taxpayers' funds. We have to be careful with that. We need to ensure that we are getting a return on that investment. Sitting here today, I don't think we are.

I look forward to hearing your thoughts on Deepwater so far, as well as your answers on what I am sure will be some tough questions. Thank you.

Ms. SANCHEZ. Thank you to the gentleman from Pennsylvania.

Ms. SANCHEZ. The Chair now recognizes the Ranking Member of the Subcommittee on Management, Investigations, and Oversight, the gentleman from Alabama Mr. Rogers, for an opening statement.

Mr. ROGERS. Thank you, Madam Chair.

Since we have just been notified we are going to be called for votes in about 30 minutes, in the interest of time, I would ask unanimous consent to offer my opening statement for the record and take this opportunity to welcome our witnesses, and I look forward to hearing from them.

Ms. SANCHEZ. Great.

[The information follows:]

PREPARED STATEMENT OF THE HONORABLE MIKE ROGERS, RANKING MEMBER, SUBCOMMITTEE ON MANAGEMENT, INVESTIGATIONS, AND OVERSIGHT

Thank you, Chairwoman Sanchez.

Today this joint Subcommittee hearing will examine financial and operational problems associated with the Coast Guard's acquisition program, known as Deepwater.

First, I also want to welcome our witnesses—and welcome back the Inspector General, who has testified often before the Management Subcommittee.

Deepwater began in 1998 as a 24 *billion* dollar acquisition over 25 years to repair or replace the Coast Guard's air and maritime fleet.

In 2001, the Government Accountability Office identified Deepwater as quote—"risky"—close quote—and susceptible a waste, fraud, and abuse.

The folks at the GAO were right.

Six years later, audits by the GAO and Inspector General have uncovered extensive mismanagement, lack of oversight, operational failures, and millions of dollars wasted.

Unfortunately, this sounds way too familiar to what we found in the border security camera program.

In the 109th Congress, the Management, Integration, and Oversight Subcommittee, examined the camera system on our borders known as the Integrated

Surveillance Intelligence System, or ISIS, and found extensive mismanagement, financial waste, and operational failures.

Last September, DHS announced the award of the new Secure Border Initiative contract, known as SBI*net*.

This multi-year, multi-*billion* dollar program is intended to cover both the Northern and Southern borders with an extensive network of cameras, sensors, and other technologies.

We held a hearing on the contract, where the Inspector General testified and questioned whether DHS can effectively manage a new major acquisition program like SBI*net*.

A number of problems in the Deepwater program appear to be similar to those we found in ISIS and, unfortunately, to those that appear to be developing in SBI*net*.

DHS must get both contracts right.

At stake is not only safeguarding billions of taxpayers' dollars, but also the security of our country's land boders, ports, and coastlines.

Therefore, I look forward to hearing form the Inspector General today about the similar problems facing *both* Deepwater and SBI*net* and what steps need to be taken to ensure their proper management.

I also look forward to hearing from our witnesses about what went wrong and what lessons were learned that can be used to improve *both* programs.

Thank you, Chairwoman Sanchez.

I yield back.

Ms. SANCHEZ. And the Chair will advise members of the committee that they if they have opening statements, they could submit them for the record.

Ms. SANCHEZ. So we will get started. And I hope we have a little bit more than 30 minutes so that we can get through this first panel. As you know, we are going to have two panels. The first panel—and I welcome our witnesses.

Our first panel consists of Rear Admiral Gary T. Blore, the program executive officer of the Coast Guard's Integrated Deepwater System. There is a lot of biography and background on this, but in the interest of time, I think I will try to cut through that.

Our second witness is Mr. Richard Skinner, inspector general for the Department of Homeland Security. Welcome. We have seen you before our committee and before the overall committee. So we welcome you.

And the third witness is Captain Steve Baynes. Captain Baynes is currently the Chief of the Coast Guard's Atlantic Area Response Enforcement Program. You have a long biography also.

I will cut it short here and thank you gentlemen for being before us. You each will have 5µminutes to summarize your testimony, whatever it is you really want to tell us, and then we will begin the questioning.

So I will begin with Admiral Blore.

STATEMENT OF RADM GARY T. BLORE, PROGRAM EXECUTIVE OFFICER, INTEGRATED DEEPWATER SYSTEM, UNITED STATES COAST GUARD

Admiral BLORE. Thank you.

Good afternoon, Mr. Chairman, distinguished members of the subcommittee. I respectfully request that my written statement be entered into the official record.

I am grateful for the opportunity to discuss with you what your Coast Guard is doing to strengthen the Integrated Deepwater System program. I am also pleased to be here with my departmental colleague Mr. Skinner, and to note how valuable it is to have Cap-

tain Steve Baynes at the table to represent the operational perspective on this issue.

In regards to our Coast Guard operations, we must always bear in mind that the Deepwater program is not an academic exercise. Rather, Deepwater is about giving real people the real tools they need to do real-world missions, securing our maritime borders, saving lives, ensuring national security and protecting natural resources.

The Coast Guard awarded the Deepwater contract in June of 2002 to Integrated Coast Guard Systems, a joint venture of Northrop Grumman and Lockheed Martin. From the beginning, Deepwater's scope was broad, encompassing recapitalization, modernization and sustainment of legacy cutters, aircraft and command and control, and communication systems.

In 2005, the Department of Homeland Security approved a revised post-September 11th mission needs statement and implementation plan for Deepwater. That revised plan, as mentioned, represents a 25-year, $24 billion program, the largest in Coast Guard history.

In preparing to come before you, I considered whether to highlight the challenges that we have faced and the hard lessons we have learned and are building upon, but your hearing theme, charting a course for safer waters, leads me to direct these opening remarks towards our efforts to develop and implement a plan of action as we move forward.

As you know, the Commandant has led the charge in our efforts to strengthen Deepwater. In fact, Admiral Allen's first action as Commandant was to direct a consolidation of all Coast Guard acquisition functions, aggregating the 15 Deepwater projects with the service's other acquisition programs under a single management organization.

With the Commandant's full support, we have begun to implement the blueprint for acquisition reform, our plan for restructuring and reprioritizing the service's acquisition enterprise. The plan will strengthen our capabilities and program execution, support, contracting and human capital management.

On July 13th, I will transition to lead the consolidated directorate, as Rear Admiral Robbigo, seated behind me, will have stepped into my place as Program Executive Officer of Deepwater.

Fundamentally, the acquisition consolidation is aimed at balancing our program's approach to cost, schedule and performance. Of course, I agree with the inspector general that lower risk in each of these areas is best, but in the Coast Guard, holding out for the lowest risk solutions or approaches hasn't always been the option. I believe the inspector general would agree with me that we have real-world requirements to meet today even as we are executing programs to deliver future capabilities. This doesn't mean that the tyranny of daily activities should allow us to compromise good acquisition program management, but rather that the importance of mission execution should inform acceptable risks.

Regarding program management, by incorporating recommendations from the Department of Homeland Security and DOD senior leadership, OMB, GAO and this Congress, and under the direction of our Commandant, the program has incorporated 12 significant

initiatives during the last year. These include government transitioning into the role of systems integrator, independent third-party assessments, a more robust relationship with NAVSEA and NAVAIR, reinvigorating the business case analysis and strengthening acquisition training.

In conclusion, while I believe the Nation continues to be well served by its Coast Guard, I also believe recapitalization is paramount to our ability to conduct future missions.

As you will hear from Captain Baynes, our crews have seen firsthand the advantages Deepwater equipment brings to the fight, and they want and deserve more. We have assembled a team of dedicated personnel who are revitalizing our acquisition forces to reinstitute project and process discipline.

I ask for your continued support for the Deepwater program to enable us to build on the progress made in recapitalizing the Coast Guard.

Thank you. I look forward to your questions.

[The statement of Admiral Blore follows:]

PREPARED JOINT STATEMENT OF RADM GARY T. BLORE AND CAPT GARY STEVEN BAYNES

Introduction

Good afternoon, Chairpersons Carney and Sanchez, and distinguished members of the Subcommittees. 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 the Coast Guard's proposed way forward.

It is my goal this morning to provide you the facts related to this program and reassure you of the Coast Guard's absolute commitment to sound stewardship, robust oversight and to review the corrective actions the Coast Guard's is taking to ensure this critical recapitalization program is able to effectively re-outfit our fleet to meet 21st-Century threats and requirements.

Our ability to save lives, prevent and respond to terrorist attacks, interdict drugs and alien smugglers, and protect ports, waterways and natural resources depends on our successful accomplishment of that goal. We have to get this right: the Coast Guard's future readiness depends on it. America depends on it. I echo the commitment of our Commandant, Admiral Allen, to do just that.

Past as Prologue

Before I discuss the current state of Deepwater and the program's way ahead, I ask you to bear with me briefly to consider how we got here. 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. Some of our cutters are old enough to be eligible for Social Security! In light of a looming aviation and surface fleet block obsolescence, it wasn't sensible to attempt piecemeal, one-for-one replacement of each class of assets. We also didn't have the capacity in the late 1990's 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.

This wholly-integrated acquisition strategy called for *progressive* modernization, conversion and recapitalization using a mix of new and legacy assets, replacing those that are obsolete, while upgrading existing ones until a new fleet is acquired. This complex strategy, and the fact that the Coast Guard had not built a ship the size of the National Security Cutter for more than three decades, drove our decision to engage the services of a commercial systems integrator with proven technical ex-

pertise in the acquisition of large systems. Following a rigorous, multiple year selection process, the result was our contract with Integrated Coast Guard Systems (ICGS), a joint venture of Lockheed Martin and Northrop Grumman.

Adding to the program's complexity was adoption of an innovative performance-based acquisition strategy. Compared to more traditional methods, performance-based acquisition is designed to promote innovation and spread risk more evenly between government and industry.

Following nearly ten years of planning, beginning in 1993, the Coast Guard moved toward contract award believing that we had addressed many of the concerns likely to arise from this transformational acquisition strategy. However, like most Americans, we never expected the larger challenge that lay ahead for the Coast Guard and the nation in the wake of the terrorist attacks of September 11, 2001. Following the Service's transfer to the Department of Homeland Security in March 2003, we conducted a Performance Gap Analysis, drafted a new Mission Needs Statement, and developed a revised, post-September 11th Implementation Plan to ensure Deepwater capabilities would support new mission sets assigned to the Coast Guard. All of these steps were carried out in full consultation with the Administration and Congress. As Deepwater requirements were expanded in the post-September 11th environment, the program's timeline expanded and its overall projected cost increased from $17 to $24 billion.

Where we are Today in Deepwater

Last month, I completed my first year at the helm of the largest acquisition program in Coast Guard history. Five years into this 25 year acquisition we've achieved many successes, but also faced daunting challenges—and indeed learned some lessons the hard way—but I assure you that education has not been wasted. As a result of those lessons learned and with the full support of the Commandant and the Department of Homeland Security (DHS), we are taking aggressive action every day to strengthen program management and execution and to ensure past mistakes will not be repeated.

While acknowledging that we need to learn from past mistakes, we also need to leverage off the positive experience of significant recent accomplishments. Deepwater assets are in the fleet today, contributing to the successful execution of an array of Coast Guard missions.

Phase 1 of our three-phase conversion of our workhorse helicopter, the HH65, is on schedule. As of the end of March, all air stations with HH–65 Dolphin helicopters are now flying the "C" model with new Turbomeca Arriel 2C2 engines and upgraded gearboxes, installed as part of our legacy asset modernization program. With a 40 percent power increase and greater reliability, the HH–65C has re-established itself as the deployable mainstay of our helicopter fleet and played an invaluable part during the Coast Guard's response to Hurricane Katrina. And, just 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 a well-trained Coast Guard aircrew, flying a newly delivered HH–65C helicopter—recently re-engined as part of the Deepwater program. That rescue would not have been possible without Deepwater.

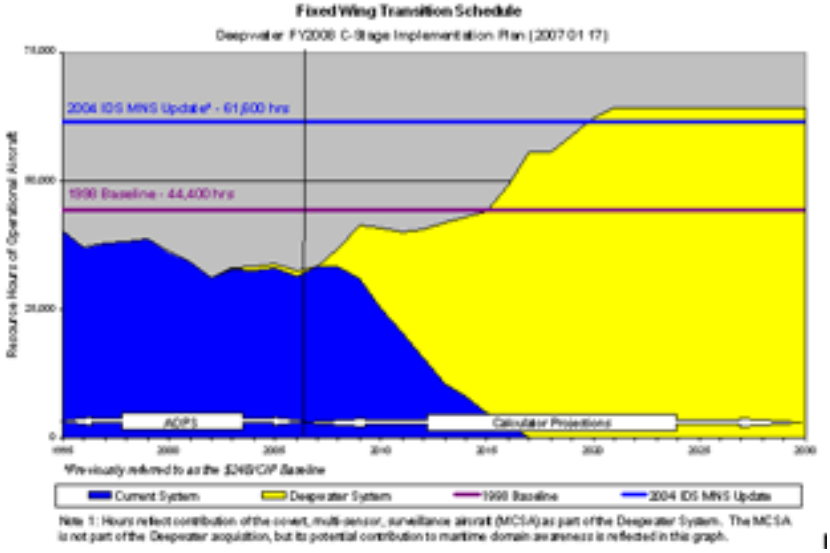
We have also recently marked crucial shore-based facility milestones. During a ribbon cutting ceremony on March 14, a new Deepwater training facility was dedicated at the Coast Guard's training center in Petaluma, CA. The facility houses high-tech shipboard operation simulators and state-of-the-art radar and electronics systems and will provide critical command, control, communications, computers, intelligence, surveillance, and reconnaissance (C^4ISR) training for Coast Guard and U.S. Navy crews. And, the Coast Guard Communications Area Master Station Atlantic (CAMSLANT) in Chesapeake, VA is being remodeled and upgraded to support Deepwater's interoperable systems. Specifically, the 22-year old building is being outfitted with High Frequency Automatic Link Establishment (HF–ALE) systems, Automatic Identification Systems (AIS), and a Global Positioning System/Differential Global Positioning System (GPS/DGPS). This new Deepwater-funded equipment will allow CAMSLANT to execute its core mission to maintain and deploy contingency communications and provide command and control support for disaster recovery, special operations, and other emergencies.

Also in late March, the crew of CGC SHERMAN made use of Deepwater-enhanced command and control capabilities while seizing more than 42,000 tons of cocaine from the Motor Vessel GATUN off the coast of Panama. SHERMAN's commanding officer noted that this largest bust in Coast Guard history would not have been possible before the service's high—and medium-endurance cutters were equipped with Deepwater-provided upgraded tracking capabilities and the ability to communicate securely over great distances, which was provided by Deepwater.

On April 26, 2007, the first 110-foot Island Class patrol boat to enter the Deepwater-funded Mission Effectiveness Project (MEP)—CGC TYBEE—was returned to the fleet following a very successful year-long MEP process. This project includes refurbishing and replacing aging and obsolete equipment on the ships and is improving operational effectiveness across the fleet. The goal of the MEP is to maintain effective missions for legacy cutters and patrol boats until those vessels can be replaced by new and more capable Deepwater assets such as the Offshore Patrol Cutter (OPC) and the Fast Response Cutter (FRC).

This is an exciting time, with two National Security Cutters (NSC) under construction in Mississippi and HC–144A maritime patrol aircraft Nos. 1 and 2—the first new aviation assets acquired under Deepwater—being missionized at the Aviation Repair & Supply Center in North Carolina. Aircraft No. 3 is expected to be delivered for missionization later this year and Nos. 4 and 5 are already in production. Aircraft Nos. 4 and 5 were contracted for in January 2007 at a cost of approx. $34.89 million per aircraft. Earlier this month, we put aircraft Nos. 6 thru 8 on contract, at a price of approx. $33.99 million per aircraft. This is a cost reduction of almost $900,000 per aircraft between Nos. 4 and 5 and Nos. 6 thru 8. These are but a few examples of the program's progress and results.

These milestones and successes just begin to illustrate the tremendous need for Deepwater. As Deepwater's system of assets continue to be delivered, we'll meet or exceed not just capability requirements, but patrol and response capacity needs as well.



Room for Reflection

As I indicated earlier, we are committed to benefiting from lessons learned. Obviously, one area where we are very disappointed is the 123-foot patrol boats. Based on initial budget constraints, the conversion of these cutters was planned as a bridging strategy until we could deliver the more capable Fast Response Cutter (FRC). The decision to proceed with these conversions was based on consideration of limited resources, a growing gap in patrol boat hours, and identified risk associated with the conversion design. At the time, the conversion was seen as the lowest risk option given available resources and operational requirements.

But, early hull deformation led the Coast Guard to re-examine the plan for the 123-foot patrol boats and halt conversions in May 2005 at just eight hulls, instead of 46 as originally planned. When repeated efforts to repair the hulls proved unsuccessful and even more significant structural problems surfaced, last November Admiral Allen suspended operation of the cutters until a comprehensive engineering solution was identified. When a feasible solution couldn't be found, the Commandant announced his decision last month that these eight cutters will be permanently de-

commissioned. As the Program Executive Officer for Deepwater, I have worked with the Commandant, DHS OIG, GAO, and this Congress to ensure that adequate managerial and oversight changes have been made in this acquisition program to prevent false starts, such as the 123-foot patrol boat program, from being repeated.

I'd also like to take just a moment to discuss the National Security Cutter (NSC). The Inspector General reported his findings earlier this year from an audit of the NSC earlier this year. That report highlighted concerns with our approach to potential fatigue structural integrity issues with the NSC hull. The issue here, which we have communicated to the 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.

I want to be very clear that there has never been a question of crew or ship 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. An early Coast Guard review of the design of the NSC indicated that the ship might experience fatigue-level stresses sooner than anticipated. Because we want to ensure that all of our ships meet the service and fatigue life requirements our missions demand, we are implementing changes and enhancements to the design of the NSC.

Some have wondered why we didn't suspend construction of the first NSC when we learned of these concerns. The Coast Guard's decision to continue production of the NSC reflects more than simply the naval engineering perspective. It also encompasses 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 No. 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 No. 1 and 2 during post-delivery availabilities and design the fix into future hulls' production. In fact, through ongoing meetings and negotiations between the Coast Guard and CEOs from Northrop Grumman and Lockheed Martin, we've recently reached agreement on the engineering solution to resolve all fatigue concerns with NSCs No. 3–8.

Moving Beyond

As the Deepwater program has evolved, we have reinvigorated our workforce planning process and continue the effort to increase staff to the appropriate level to allow effective government oversight and ability of the government to perform as the system integrator. I appreciate Congress acting to authorize additional billets for this endeavor. As a direct result of these efforts, the Coast Guard will have 52 full-time government personnel at our Gulf Coast PMRO by the end of this fiscal year. The Navy's Supervisor of Shipbuilding Office (SUPSHIP) also assigned 12 people to our PMRO in Pascagoula, Miss., where they are supporting construction of the NSC at Northrop Grumman Ship Systems. During a trip to Pascagoula last month, I had a chance to visit with many of these acquisition and technical professionals and I am confident their active oversight of contractor performance during NSC construction will pay dividends.

Obtaining more appropriate staffing levels also means the Coast Guard is able to better respond to contractor requests for deviation and waivers. These requests demand intense scrutiny from the government prior to any action being taken; to facilitate this, we've developed a new Class I Engineering Change Proposal (ECP)/Request for Deviation (RFD)/Request for Waiver (RFW) review process, a recommendation of our DHS OIG. This process requires that, prior to implementation; each ECP/RFD/RFW is reviewed in detail by a board of technical experts and contracting officers, based on pre-determined guidelines. It also mandates thorough documentation of each contractor request, the formal review process, and decision of the Coast Guard in regard to each request. This will facilitate timely and consistent handling of each ECP/RFD/RFW.

The Coast Guard will use the American Bureau of Shipping (ABS) to certify Deepwater equipment and vessels according to High Speed Naval Craft (HSNC) and Naval Vessel rules as appropriate. Specifically, the Coast Guard is working with industry to maximize the use of HSNC standards for our patrol boats and smaller surface assets and Naval Vessel rules for the National Security Cutter and Offshore Patrol Cutter. By implementing this certification expectation, we can ensure that equipment and assets meet requirements and that standards are enforced consistently. There is a growing market today for external rules and standards bodies, and we'll use those rules and bodies to assist with certification in the future. But, the government needs to be the final arbiter of those standards.

Leading Change

The lessons we have are being applied across the program. In fact, these lessons are improving acquisition management throughout the Coast Guard.

The role of the Coast Guard's technical authority has been reaffirmed and the dynamic relationship between the technical authority and acquisition programs has been strengthened. This means that for all vessel designs and design changes, the Coast Guard will not proceed with contract award or contract changes without agreement from the technical authority. Fatigue enhancements to the National Security Cutter are an illustration of this constructive relationship. While contractors follow direction from program and contracting officers, those officers don't give direction until first consulting and reaching agreement with the Coast Guard technical authority.

We are also improving the effectiveness of our Integrated Product Teams (IPTs). These teams can serve a useful function by enabling regular oversight of the contractor and by providing an avenue for resolution of non-major technical concerns or, where concerns persist, an avenue for them to be raised to program managers and contracting officers. Our IPTs were previously chaired by Integrated Coast Guard Systems (ICGS) and haven't always functioned as envisioned. That needed to change. So, based on direction to all program managers, each IPT is now led by a government employee and IPT charters are being examined to determine if/where additional changes should be made.

The complexity of the Deepwater program and the diverse missions of planned assets makes design review a crucial element of the successful execution of this program. To ensure that designs and assets will meet Coast Guard needs, we have increased our use of independent, third-party review and analysis for all new starts or substantial design changes. Inherent in this initiative is a renewed commitment to utilize full business case analyses for all new acquisition decisions to instill confidence that we are building and buying the right tools for our Coast Guard men and women and at best value for taxpayers.

Of particular note, we recently contracted with the Defense Acquisition University (DAU) 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 contract with ICGS. The Coast Guard's Research and Development Center has also completed a study of the planned Deepwater Vertical-Launch Unmanned Aerial Vehicle; in the study's second phase, we are re-examining the way ahead for unmanned vehicles based on recommendations from that analysis. And, we've initiated an independent review of workload and workforce management issues. Based on findings and recommendations from these and other independent reviews, we will make "course corrections" where needed in order to guarantee successful execution of the Deepwater program.

Our ongoing and positive relationship with the Naval Sea and Air Systems Commands have provided the Coast Guard with valuable third party assessments. It is the preference of the Coast Guard that future third party assessments be kept within the government whenever possible. Specifically, NAVSEA's Carderock Surface Warfare Center has provided us with valuable design reviews and recommendations. As funding allows, we will continue this exchange to the maximum extent possible.

Our partnerships and cooperative relationships with the U.S. Navy and others extend beyond third party assessments. The Coast Guard is leveraging sound principles of systems engineering and integration to derive high levels of sub-system and component commonality, improve interoperability with the U.S. Navy and other agencies, and achieve significant cost avoidances and savings. This approach conforms with and directly supports the National Fleet Policy.

As the Program Executive Officer of Deepwater, I have a formalized collaborative partnership with my Navy counterparts in order to identify common systems, technologies and processes for improved interoperability. By incorporating common and interoperable Navy systems into Deepwater assets, the Coast Guard has also avoided paying unnecessary costs.

As examples, the National Security Cutter (NSC) and Off-Shore Patrol Cutter (OPC) will use 75 percent of the Navy's AEGIS Command and Decision System. Deepwater assets also will incorporate Navy Type/Navy Owned systems, including the 57mm deck gun, selected for major Deepwater cutters and the Navy's Littoral Combat Ship and DD(X) programs. The Operation Center Consoles on the NSC use 70 percent of the design of the Navy's Display Systems (AN/UYQ–70). And, by using more than 23,000 lines of software code from the Navy's Antisubmarine Warfare Improvement Program (AIP) in the CASA Maritime Patrol Aircraft's command and control systems, we are maximizing the use of mission systems that are installed on more than 95 percent of the world's maritime surveillance aircraft. The CASA

Maritime Patrol Aircraft will utilize more than 50 percent of the functionality of the Navy's P–3 Aircraft Improvement Program system. For example, the U.S. Navy and Coast Guard personnel routinely train side-by-side at the Coast Guard's training facility in Petaluma, California.

A Consolidated Coast Guard Acquisition Directorate

One of the most significant changes we are making in the Coast Guard's acquisition community is bringing together all acquisition-related activities—traditional programs as well as system-of-system, policy, and research and development—under one organization. Consolidating our acquisition efforts will provide immediate benefits, including better allocation of human capital assets (such as contracting officers and acquisition professionals) along with an integrated "product line" approach to our management of acquisitions, thereby allowing projects to be handled by knowledgeable and experienced personnel with the same linkages to the technical authorities.

Defense Acquisition University's (DAU) Quick Look study report of the Deepwater program concluded that our recently developed *Blueprint for Acquisition Reform plan,* which outlines many of the change management efforts related here, "is comprehensive and responsive to the human capital, organization, process and governance related findings and recommendations."

Along with our analysis to right-size staffing levels, we have reinvigorated our acquisition training and certification process to ensure that technical and support staff, program managers and contracting officers have the requisite skills and education needed to manage complex acquisitions. Our desired end state is to become the model for mid-sized federal agency acquisition and procurement, in full alignment with the Department of Homeland Security acquisition objectives.

Other Insights

Some insights gained over the past year and during the program's first five years, may not be as intuitive as the need to increase staffing or refine oversight processes. In that vein—and this has particular relevance to the 123-foot patrol boats—we must consider the ever-present tension between the trend in government agencies to seek to purchase Commercial Off-the-Shelf (COTS) equipment and the sometimes conflicting requirement to certify that equipment to federal agency standards. Often, these competing desires cannot be reconciled without making trade-offs from one or the other. The fact is, while COTS equipment is often less expensive, easier to buy and more available, it seldom meets the sometimes very long list of federal agency performance requirements. The practical impact is that contracting officers and program managers are left trying to balance affordability, schedule and risk in meeting contract requirements.

The requirement on the 123-foot patrol boats for low-smoke cabling is one example of this challenge. When this safety-related requirement is pitted against the competing requirement to use COTS equipment in onboard systems, program and contracting officers must consider trade-offs. If COTS equipment contains pre-fabricated circuitry that utilizes non-low smoke cables, the cost to modify that equipment can be very steep—not to mention schedule impacts from such modifications. Often, COTS equipment may even have components that meet certification standards but that lack manufacturer testing data to the needed level of specificity. Program and contracting officers must thus seek to balance performance, cost, and schedule factors and make decisions based on perceived risk. The federal government needs to balance using COTS equipment and certifying that equipment to all federal agency standards, in order to best serve the public.

We've also learned a great deal about performance-based contracts, especially as they relate to complex acquisitions like a Coast Guard cutter. When Deepwater was developed it was envisioned as a purely performance-based acquisition. The thought was that we'd simply lay out performance requirements of our assets and then allow industry the freedom to design and build assets that met those requirements. What we've found is that this approach doesn't work in our complex system acquisition.

While there may be some elements of performance-based acquisition that we would wish to retain, we have concluded that our Deepwater ship contracts should be much more specification-based. That means the government has a responsibility to establish specifications, including certification requirements, and to not change them mid-stream without good cause. Requirements are dynamic and the need for detailed specification and constant collaboration and oversight from the government is intense. Based on this realization, we're working with industry to redefine future procedures and contract development to ensure more adequate, detailed specification and oversight. In fact, Admiral Allen recently signed a joint letter of strategic intent with the CEOs of Lockheed Martin and Northrop Grumman to encourage further alignment as we move toward the new award term.

This leads me to a final, critical point—one which perhaps seems obvious on the face of it, but which has been brought home to me in more ways over the last 12 months than I can enumerate. *The contract is the key to a successful acquisition.* It's while the contract is being developed and negotiated that the government maintains the greatest influence in the acquisition process. Granted, the government must always be heavily involved in contractor oversight to ensure that assets are designed, constructed and delivered to meet requirements. But, those requirements and specifications must be clearly established within the contract document. In fact, while the contract is the key to a successful acquisition—stable requirements are a key to a successful contract. It is absolutely essential that the contract be precise. Specifications must be clear. Requirements must be documented. Construction parameters must be defined. Expectations must be understood. And swift and appropriate action must be taken to enforce contracts when contractor performance falls short of our expectations.

In Summary

All of the program management changes I have described are positioning the Coast Guard to take on more responsibility as the system integrator for the Deepwater program, and to be sound and effective stewards, regardless of who the integrator is.

In conclusion, I want to assure you we are listening to concerns of the Inspector General, the Government Accountability Office, Congress, and this committee, and are benefiting from their recommendations. We've learned from our past and are making changes to successfully step out into the future. Open and honest dialogue between the Coast Guard and our stakeholders is essential and we'll continue to advise you of challenges and successes, and to make additional changes where needed.

This is an exciting time for the Coast Guard and for Deepwater. Our past challenges have made us stronger today. All one has to do is look at the operational capabilities already being provided to the fleet to see the tremendous impact Deepwater is making. From the Coast Guard's record drug seizure in March to the enhanced rescue and response capabilities demonstrated in Olympic National Forest and during our response to Hurricane Katrina, Deepwater-upgraded assets are contributing to overall mission success. Deepwater is helping to build a 21st Century Coast Guard. The capabilities and capacity we are delivering will better enable the service to push out and secure our maritime borders and protect Americans all along our shores.

Together, we're going to deliver those capabilities. We are making the changes necessary to propel the program to ultimate success and provide the critical cutters, aircraft and sensors needed to meet our dynamic mission requirements. We are all anxious for positive results. We are on the path to change and I am confident that it is the correct path.

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

Ms. SANCHEZ. Mr. Skinner.

STATEMENT OF RICHARD L. SKINNER, INSPECTOR GENERAL, DEPARTMENT OF HOMELAND SECURITY

Mr. SKINNER. Good afternoon. As always, it is an honor to be here. I am especially pleased to have the opportunity to be able to testify side by side with Admiral Blore and Captain Baynes. I believe together we can paint a clearer picture of the challenges facing the Deepwater program and the efforts under way to improve the management and oversight that is very important in this complex acquisition program.

Over the past 2–1/2 years, my office has completed four audits, including the Deepwater program. They involve one 123-foot cutter extension, the National Security Cutter, the command-and-control information technology systems, and reengining of the HH–65 helicopters.

Four common themes and risks have emerged in each of these audits. The first, the dominant influence of expediency, that is schedule concerns, trumped performance concerns. It is best illustrated by the National Security Cutter procurement. The Coast

Guard proceeded with the construction of the NFC knowing well in advance that its technical experts had engineering design and future performance concerns. The Coast Guard repeatedly told us that the decisions regarding the NFC reflected more than simply the naval engineering perspective. Rather, they also encompass considerations of cost, schedule and performance. However, the Coast Guard has been unable to provide any documentation to support this. The design and performance concerns still remain outstanding today, and the cost to mitigate these concerns has yet to be determined.

Second, the terms and conditions of the contract were flawed. Under the Deepwater program, the Coast Guard essentially agreed to ride shotgun, turning the reins over to the systems integrator. Consequently, the Coast Guard was reluctant to exercise its authority to influence the design and production of its own assets. This was demonstrated in all four of our audits over the past 2–1/2 years.

Third, our reviews have raised concerns with the definition and clarity of operational and performance specifications. This has compromised the Coast Guard's ability to hold the contractor accountable for its performance. For example, the performance specifications associated with the upgrading the information systems on the Coast Guard's 123-foot cutter did not have a clearly defined expected-level performance, causing the Coast Guard to accept delivery of assets that did not meet its anticipated requirements.

And finally, and simply put, the Coast Guard does not have a sufficient staff or sufficient number of staff in the mix of expertise to manage an acquisition as large and complex as the Deepwater program. This is most evident in the areas of program management, acquisition management and financial management.

Also, many of the staff who have been assigned to the Deepwater program have little experience or training in such a large, complex, performance-based contract.

As you heard today from Admiral Blore, the Coast Guard recognizes these challenges, and, through its recently published blueprint for acquisition reform, has taken aggressive action to strengthen program management and oversight. The blueprint outlines the Coast Guard's plans for reorganizing, rebuilding its acquisition workforce, including such actions as reasserting the technical authority of the Chief Engineer, its Chief Engineer; using independent, third-party assessments of performance; consolidating acquisition activities under one directorate; and redefining the terms and—the contract terms and conditions, including provisions to ensure that the government involvement in subcontract—to ensure government involvement in subcontract management in make or buy decisions.

Furthermore, and most importantly, I believe, Admiral Blore has pointed this out, the Coast Guard is increasing its staffing for the Deepwater program and reinvigorating its acquisition, training and certification processes to ensure that staff has the requisite skills and education needed to manage the program. However, many of these corrective measures will take time, such as building an acquisition or procurement workforce to manage the broad scope and complexity of the program. Until this is accomplished, the Coast

Guard needs to proceed with caution, taking advantage of all of the tools at its disposal to mitigate risk and avoid future problems. The devil is in the details.

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

I would like to conclude just by simply pointing out that our office is highly committed to the oversight of this program. We have embedded auditors and inspectors in the Deepwater program and will continue to provide that oversight as they proceed over the next several years, just like other procurements that we have within the Department; for example, the SBInet and the FEMA acquisition programs.

This concludes my remarks. I will be happy to answer any questions.

Ms. SANCHEZ. Thank you.

[The statement of Mr. Skinner follows:]

PREPARED STATEMENT OF RICHARD L. SKINNER

Introduction

Good afternoon, Chairwoman Sanchez, Chairman Carney, and Members of the Subcommittees. I am Richard L. Skinner, Inspector General for the Department of Homeland Security (DHS). Thank you for the opportunity to discuss the challenges facing the United States Coast Guard, in particular, its Deepwater Program.

My testimony today will address the contract and program management challenges associated with the Deepwater Program and how these challenges have impacted specific Deepwater assets. I will also address the actions and challenges associated with the Coast Guard's decision to reorganize its acquisition workforce as outlined in their *Blueprint for Acquisition Reform.*

I want to note that Admiral Allen has been very responsive to our audit recommendations and has begun to institute changes that, if fully implemented, should improve program delivery. I have imbedded OIG staff into the Deepwater Program and will continue to monitor the effectiveness of these corrective actions and other aspects of the Deepwater Program. Given the broad scope of Deepwater, we have also prepared a scorecard summarizing the overall status of the program. We will release the scorecard soon as part of our Semiannual Report to Congress. The scorecard summarizes our existing work, supplemented by interviews with Coast Guard officials to update their efforts to enhance the Coast Guard's acquisition management system. We plan to produce this scorecard on an annual basis, along with scorecards covering other key management challenges throughout the Department of Homeland Security.

Deepwater Program

The Integrated Deepwater System Program (Deepwater) is a $24 billion, 25-year acquisition program designed to replace, modernize, and sustain the Coast Guard's aging and deteriorating fleet of ships and aircraft. The Deepwater acquisition strategy provided for private industry to not only propose and develop an optimal system-of-systems mix of assets, infrastructure, information systems, and people solutions designed to accomplish all of the Coast Guard's Deepwater missions, 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 provided the program management support needed to oversee the administration of the contract.

In June 2002, the Coast Guard awarded Integrated Coast Guard Systems (ICGS) with a 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 5-year award terms. In May 2006, the Coast Guard announced its decision to award ICGS an extension of the Deepwater contract for 43 out of a max-

imum 60 months for the next award term beginning in June 2007. 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.

Deepwater Program Management and Oversight

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

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

However, there was no contractual requirement that the Systems Integrator accept or act upon the Coast Guard's technical advice, regardless of its proven validity. Furthermore, there are no contract provisions ensuring government involvement into subcontract management and "make or buy" decisions. The Systems Integrator decided who is the source of the supply. Also, 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) to resolve the Coast Guard's technical concerns, has been called into question by both the Government Accountability Office (GAO) and my office.

Contractor Accountability—Our reviews have raised concerns with the definition and clarity of operational requirements, contract requirements and performance specifications, and contractual obligations. For example, in our National Security Cutter (NSC) report, we reported that the Coast Guard and the American Bureau of Shipping jointly developed standards that would govern the design, construction, and certification of all cutters acquired under the Deepwater Program. These standards were intended to ensure that competing industry teams developed proposals that met the Coast Guard's unique performance requirements. Prior to the Phase 2 contract award, the Coast Guard provided these design standards to the competing industry teams. Based on 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.

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

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

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

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

Impact on Coast Guard Operational Capabilities—Short and Long Term

The problems the Coast guard is experiencing with the Deepwater Program could impact the Coast Guard's short and long-term operational capabilities. For example, while the re-engining of the HH–65B helicopters resulted in aircraft with significantly improved capabilities, the program has experienced schedule delays and cost increases. The delivery of the first 84 re-engined HH–65Cs will be completed by the end of this month, 11 months beyond the Commandant's original July 2006 deadline. Extending the delivery schedule unnecessarily exposed HH–65B aircrews to additional risk due to the rate in which in-flight loss of power mishaps were occurring.

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

Not having VUAV capability would significantly reduce the long-range surveillance capability of the NSC and the Offshore Patrol Cutter (OPC) from 58,000 square nautical miles to that of the Coast Guard's Hamilton class high endurance cutters (13,500 square nautical miles). This represents a 76% reduction in Deepwater surveillance capability. The Coast Guard's Revised Deepwater Implementation Plan of 2005 called for the acquisition of 45 VUAVs at a total cost of approximately $503.3 million. As of March 31, 2007, the Coast Guard had obligated $113.6 million (76.9%) of the $147.7 million to the project. According to the Coast Guard estimates, it would take an additional $50 million and 18 months to deliver the first two VUAV systems.

The increased cost, schedule delays, and structural design problems associated with the 123-foot patrol boat have further impacted the Coast Guard's patrol boat operational hour and capability gap. The Coast Guard is attempting to mitigate the problem by extending an agreement with the U.S. Navy to continue the operation of the 179-foot "Cyclone" class patrol boats from 2009 to 2011, and to extend the operational capability of the 110-foot Island Class fleet through the use of multiple crews. While the increased operations tempo will help in the short-term, it will further increase the wear and tear (e.g., equipment breakdowns and other unscheduled casualties, etc.), on these aging patrol boats in the long term. As a result, we expect the maritime patrol boat gap (which has been reported to be in excess of 20,000 hours) to increase rather than decrease until which time the service life extensions on the 110's are completed and the FRC–Bs deployed.

Recent OIG Reports

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

- the re-engining of the HH–65B helicopter;
- the acquisition and implementation of Deepwater command, control, communications, computers, intelligence, surveillance, and reconnaissance (C^4ISR) systems;
- the acquisition of the national security cutter, and,
- the modernization of the 110/123-foot maritime patrol boat.

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

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

Our review of the HH–65 re-engining project determined the replacement of the HH–65 engines with the Ariel 2C2 engine would resolve the safety and reliability issues that had plagued the HH–65 fleet for much of the past decade. Our report also determined that it would be timelier and more cost-effective to have the re-engining performed at the Coast Guard Aircraft and Repair Supply Center (ARSC) rather than to have responsibility for the re-engining placed under the auspices of ICGS. The Coast Guard's Assistant Commandant for Operations made a similar recommendation in May 2004.

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

C[4]ISR Systems Review—We also reviewed the Coast Guard's efforts to design and implement C[4]ISR systems to support the Deepwater Program. We determined that the Coast Guard had limited influence over contractor decisions toward meeting information technology requirements. The lack of discipline in change management processes provided little assurance that the requirements remain up-to-date or effective in meeting program goals. Certification and accreditation of Deepwater C[4]ISR equipment was difficult to obtain, placing systems security and operations at risk. Further, although the Deepwater Program had established information technology testing procedures, the contractor did not follow them consistently to ensure the C[4]ISR systems and the assets on which they are installed performed effectively.

Recently, the Coast Guard provided an update regarding the progress being made to implement the recommendations contained in our report on C[4]ISR systems. In its response, the Coast Guard stated that the language contained in the Deepwater contract, including the contract's "award term" criteria, will be revised to further clarify contractor responsibilities for developing Deepwater C[4]ISR systems.

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

The Coast Guard's technical experts first identified and presented their concerns about the NSC's structural design to senior Deepwater Program management in December 2002, but this did not dissuade the Coast Guard from authorizing production of the NSC in June 2004, or from its awarding the systems integrator a contract extension in May 2006. We were unable to ascertain the basis underlying the Coast Guard's decision to proceed with the production of the first two cutters that had known design flaws. To mitigate the effects of these deficiencies, the Coast Guard has advised us that it intends to modify the NSC's design to meet the service and fatigue life requirements specified in its contract. However, this decision was made after the Coast Guard authorized production of 2 of the 8 cutters being procured.

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

We recommended that the Coast Guard ensure the NSC is capable of fulfilling all performance requirements outlined in the Deepwater contract and improve the level of Coast Guard technical oversight and accountability. Although the Coast Guard has concurred with these recommendations, their written responses (to date)

have not provided the requisite details. For example, the Coast Guard's 90-Day response did not specify whether the Engineering Change Proposals (ECPs) prepared by the Coast Guard and ICGS to address the structural design and performance issues associated with the NSC, would be fully-evaluated by an independent and qualified third party (e.g., U.S. Navy's Surface Warfare Center—Carderock Division). The response also did not include a detailed and verifiable plan (e.g., timelines, quarterly reporting requirements, identity of responsible parties, or the cost) as recommended in the final NSC report. We believe that such details need to be forthcoming before the Coast Guard goes ahead and authorizes construction of NSCs 3 through 8. In the meantime, we plan to monitor the Deepwater Program closely and report on the effectiveness of the Coast Guard's corrective actions.

110'/123' OIG Hotline Allegation—In response to an OIG Hotline allegation, we reviewed certain deliverables under the Coast Guard's 110/123-foot Island Class Patrol Boats (123-foot patrol boats). Specifically, the complainant alleged that:

- the safety of the 123-foot patrol boat's crew was compromised by the contractor's failure to utilize low smoke cabling;
- the contractor knowingly installed external C4ISR systems aboard the 123-foot patrol boats that did not meet specific environmental requirements outlined in the Deepwater contract;
- the cable installed during the upgrade of the 123-foot patrol boat's C4ISR system represented a security vulnerability; and,
- the video surveillance system installed aboard the 123-foot patrol boat did not meet the vessel's physical security requirements.

We determined that low smoke cabling was not installed and that there were instances where the contractor installed C4ISR equipment aboard the 123-foot cutters that did not meet the design standards set forth in the Deepwater contract.

Our review raised many concerns about the Coast Guard's program and technical oversight of the Deepwater contractor responsible for the 110'/123' Modernization Project. For example, the contractor purchased and installed hundreds of non-low smoke cables prior to Coast Guard's approval of the Request for Deviation. In effect, the Coast Guard accepted delivery and operated four 123' cutters without knowing the extent of the hazards associated with the use of the non-low smoke cabling. The contractor also purchased and installed hundreds of C4ISR topside components aboard the 123' cutter and prosecutor knowing that they either did not meet contract performance requirements or compliance with the requirements had not been verified. Had the Coast Guard reviewed the contractor's self-certification documentation more thoroughly, it would have determined that the contractor had not complied with the specified weather environment standard. For these reasons, we are concerned that similar performance issues could impact the operational effectiveness of C4ISR system upgrades recently installed aboard its legacy fleet of cutters.

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

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

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

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

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

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

The Coast Guard is beginning to take aggressive action to resolve some of the management oversight issues identified in recent OIG reports. In the long term, if all goes as planned, the Coast Guard's reorganization of its Acquisitions Directorate will be fully implemented during fiscal year 2010. But in the meantime, the Coast Guard is planning to move ahead with the second phase of the Deepwater contract with Award Term I, which will entail the estimated expenditure of more than $3 billion dollars over a 43 month period starting June 2007.

Conclusion

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

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

In conclusion, we remain committed to the oversight of the Deepwater Program and other major acquisitions within the department. We are working with the Coast Guard to identify milestones and due dates to assess the most appropriate cycle for reporting the program's progress. If properly and fully-implemented, Coast Guard's steps should significantly increase its level of management oversight over the air, surface, and C^4ISR assets that are acquired or modernized under the Deepwater Program. We look forward to working closely with the Coast Guard to continue the improvement of the efficiency, effectiveness, and economy of the Deepwater Program.

Chairwoman Sanchez and Chairman Carney, this concludes my prepared remarks. I would be happy to answer any questions that you or the Members may have.

Ms. SANCHEZ. And now Captain Baynes, 5 minutes.

STATEMENT OF CAPTAIN STEVEN BAYNES, CHIEF, ATLANTIC AREA RESPONSE ENFORCEMENT BRANCH, U.S. COAST GUARD

Captain Baynes. Good afternoon, Chairwoman Sanchez and distinguished members of the subcommittees. I am Captain Steve Baynes of the U.S. Coast Guard, Chief of Major Cutter Forces for the Atlantic Area. It is an honor to be here to discuss my experiences as a commanding officer of a major cutter and also to discuss in my present assignment some of our efforts in sustaining the legacy major cutter fleet.

During my tenure as commanding officer of an almost 40-year-old 210-foot cutter, Coast Guard Cutter Decisive, from 2004 to 2006, we experienced numerous engineering and communication casualties mainly dealing with antiquated or obsolete systems. A large part of the crew's efforts were geared toward emergency casualty repairs, routine preventative maintenance. Only due to the

extraordinary efforts of the crew were we able to successfully complete all our assigned missions. In many instances, my engineers had to manufacture parts from scratch to effect repairs because the equipment was so old, the parts no longer existed.

However, Decisive was also the benefactor of several Deepwater upgrades, and I personally observed firsthand some of the positive contributions of these upgrades during real-time operations.

For example, during Katrina, Decisive pulled into Gulfport, Mississippi, 4 days after landfall and successfully coordinated the maritime response along the entire Mississippi coastline and inland waterways. This coordination of over 20 interagency assets was only made possible due to the numerous Deepwater command-and-control upgrades that the Decisive had received which greatly enhanced the cutter's capabilities.

In my present assignment as Atlantic Area Chief of Major Cutter Forces, which includes 30 major cutters on the east and gulf coast, my main concern is their readiness. Over the years, these legacy assets have experienced declining readiness to perform their assigned missions due to obsolete, unsupportable or maintenance-intensive equipment. We have seen an increased trend of casualties to our aging systems on board these cutters. The increased use of the cutters' routine maintenance funding to cover the cost associated with these increased casualties creates an additional burden on our engineers by further limiting the use of these funds for preventative maintenance.

In order to counter this trend, the Deepwater program funded a comprehensive Mission Effectiveness Project, MEP, for medium endurance cutters that was started in 2005 to bridge the gap between our legacy fleet and our Deepwater fleet. This extensive maintenance project will provide these cutters with capability enhancements and replacement of antiquated and labor-intensive equipment. Therefore, our engineers can get back to conducting routine preventive maintenance vice emergency repairs.

However, due to funding constraints, we are not replacing all major systems on board, only those having a high rate of casualties. Therefore, we still continue to be challenged with sustaining our legacy cutter fleet until a Deepwater fleet comes on line.

In conclusion, the Coast Guard men and women on board our cutters continue to do an exceptional job maintaining equipment on hand and successfully completing all assigned missions. But in order for us to push out our borders, keeping all maritime threats as far away from U.S. soil as possible, the Coast Guard is going to need more modern, more capable and more reliable assets. Therefore, it is imperative that the new fleet be delivered on time.

Thank you for the opportunity to testify before you today.

Ms. SANCHEZ. And in the interest of time, Mr. Carney, if you are ready with your questions, I will let you go ahead.

Mr. CARNEY. Thank you, Madam Chair.

And Inspector General Skinner, in your prepared testimony, you spoke of, quote, the Deepwater human capital gap, unquote. Very interesting phrase, I think. Can you explain what you mean by this, and tell me what impact it is having on the program now and how you think it should affect the Coast Guard's plans?

Mr. SKINNER. One of the issues that we are concerned about is the impact that it is going to have on the Coast Guard as it assumes additional responsibilities as the systems integrator. In their acquisition reform, the blueprint for acquisition reform, the Coast Guard has announced that it intends to start assuming those responsibilities and, by the year 2010, to have complete control or to act as a systems integrator for this major acquisition.

If you look at the workforce that is currently within the Coast Guard, they do not have right now adequately—an adequate number or adequately trained staff to provide oversight over its acquisition programs, particularly something as large and complex as the Deepwater program.

Mr. CARNEY. I know in your report that you encountered significant difficulties obtaining information that you needed to do your work, and, Admiral Blore, I know that the Coast Guard has done a complete turnaround and is now cooperating well with the IG, and I want to commend you on that. But as I recall, there were also difficulties getting information from ICGS and its parent companies.

Inspector General Skinner, has this improved?

Mr. SKINNER. No, it was not. I must say that our relationship with the Coast Guard itself has improved very noticeably. There are some issues out there that we are still negotiating with. But with—so far as our relationship with the contractor, that we are not getting the access to people or records that we think we should have.

Mr. CARNEY. Will you include clauses in any future contracts requiring your contractors to comply with the inspector general?

Admiral BLORE. We would certainly look at that. I think—it is the government's intent to fully cooperate with the IG. I think where we are taking the Deepwater acquisition, there would not be any information that companies would hold that we wouldn't share. I would have to check directly with the contracting officer, and I would be happy to get back to your question as far as a specific clause, but we are diligently and aggressively enforcing all of the clauses in the Federal acquisition regulations, and any information that is due to flow to the government will be shared with the IG at the same time we get it.

Mr. CARNEY. So that is a maybe?

Admiral BLORE. I would just like to ask the technical question of the contracting officer, but it is certainly our intent that any information that the inspector general needs, the inspector general would have, because, one, it is his benefit to do his research, and it is to our benefit to see his recommendations.

Mr. CARNEY. Mr. Skinner, can you detail the problems you have had?

Mr. SKINNER. Right now let me give you the examples that we experienced with the National Security Cutter review. We asked to interview to get a full perspective. We had the Coast Guard perspective. We wanted the contractor perspective as to the issue that we were raising with the cutter, the problems with the design of the cutter. We asked to have access to some of their employees so that we could interview those employees.

The contractor would not allow us direct access to those employees. We were first asked or required to document or submit a list of questions, every question we wanted to ask the employee; plus the employee, the contractor insisted that a supervisor, manager or legal counsel sit in on all of the interviews, violating confidentiality issues, and that is totally unacceptable in our perspective.

Mr. CARNEY. Is that standard procedure?

Mr. SKINNER. No. This is the first time that I have ever encountered anything like this in 39 years of business.

Mr. CARNEY. I yield my time.

Ms. SANCHEZ. I go to our Ranking Member Mr. Souder for 5 minutes.

Mr. SOUDER. You say you haven't seen this in 39 years. Have you been in a similar situation where there might be legal liability? In other words, we have got cracked ships. I mean, it wouldn't seem illogical to have an attorney present, but denying access would seem to be pretty extreme.

Mr. SKINNER. I have to go through my memory here, but I am—the access that we are asking for here in no way would interfere with any type of criminal liability or any other form of liability that may lay ahead as a result of the negotiations going on right now to mitigate or to find who caused the problem, or where the problem first was discovered, and who was responsible for it.

Mr. SOUDER. You are saying none of these interviews would affect the—

Mr. SKINNER. No. They would not have. What we were trying to get, a set of facts from people that were working on this, information dealing with the cost, information—getting their perspective as to any issues that may have been raised during the course of the construction or the design of the ships.

Mr. SOUDER. If information was concealed.

Mr. SKINNER. If that was ever an issue, Congressman, we would have vetted that through appropriate channels within the Department as well as our own office to obtain legal counsel review.

Mr. SOUDER. Is it possible that you could find in this information something that had been concealed, and then wouldn't it all of a sudden become—

Mr. SKINNER. Yes, it could.

Mr. SOUDER. I am not defending the company.

Mr. SKINNER. Yes. It could. And then in that case we may have opened a criminal or civil investigation.

Mr. SOUDER. We come back to a fundamental question I have been having difficulty understanding, trying to read everything I can and track this. That is how much of this—I mean, clearly you made a statement that the criteria for what was expected wasn't clear. How much—I mean, clearly one of the things is don't have cracks in the ship. It has to float. Helicopters have to fly. Presumably that was in the guidelines.

What wasn't in the guidelines and how much is—is this—the length of how long it was supposed to go until a potential crack would appear, but that wouldn't necessarily be why you would have to dry-dock it immediately. How much of this looks like it was conceptually flawed from the beginning, and how much of this could be actually either rushing too fast, not clearing logical engi-

neering things? I mean, some of this stuff just seems kind of incredible.

Mr. SKINNER. Before the construction, the task order was given to the integrated—systems integrator to begin construction. The Coast Guard's own engineers spotted problems with the design. The Coast Guard—

Mr. SOUDER. You mentioned that a couple of times. By "problems," do you mean there is a 5 percent chance that something could be here, or where we think that this thing may actually crack?

Mr. SKINNER. Over the lifetime, we entered into a contract to build a cutter that would have a 30-year lifetime under certain conditions. The Coast Guard's own engineers studied the design and expressed concerns that the design would not meet the specifications of that contract; that is, a cutter that would work under severe conditions for 30 years.

Mr. SOUDER. Admiral Blore, why wouldn't—if your own engineers were questioning whether these boats were going to, in effect, repeat what we are seeing in the old boats—I mean, I have been out on so many of these boats, they are trying to stitch these things together, trying to figure out how to catch a cocaine dealer while they are trying to figure out how to get the radio to work, how to have the engine not die, the amount of time they have been spending in ports trying to stitch this stuff together.

Why wouldn't there have been an absolute panic inside the Coast Guard if your own engineers were saying, hey, we don't think these new boats were going to work?

Admiral BLORE. I understand the question. Just one comment before I start in regards to the inspector general comments on criminal activity.

If the Coast Guard thought a company was withholding information from us, we would turn it over to the Department of Justice. I just want to make sure, you know, while we would expect the inspector general to do that also, you don't need the inspector general to do it, we would do it because that would be—if they engaged in that sort of activity.

I think it is important to separate the National Security Cutter from the 123s, and sometimes in the conversations, since we have been speaking about both of them, I think we are primarily talking about the National Security Cutter, which did have an issue as far as the Coast Guard was concerned with fatigue life, meaning that within the 30 years of its use, we would have to do some major repairs. We don't want to do major repairs within the 30 years of its life because it is always more expensive when the cutter has already been built, and we have to pull the cutter out of service to do that. So that is why we have an enhancement. We have technical agreement with the company on how that enhancement will be done.

In regards to did our engineers know this, yes, they did. There were numerous changes made in the design from the original submission in 2002. Many changes were made to the National Security Cutter. Both I and the Commandant have testified that in the period of 2004, 2005, we should have taken more aggressive action on what our engineers presented us. We did take action. We work

with the Chief Engineer of the Coast Guard. We worked with a division of NAVSEA called Carderock, to develop a solution typical referred to as the one-break solution, so that the National Security Cutter will meet its performance requirements.

So we are very aware of it. We just feel that we have in place the necessary changes so that it is not an issue.

Mr. SOUDER. Wasn't it in the contract that they had to float for 30µyears without major overhaul?

Admiral BLORE. The contract specification was for a 30 year service life. I think industry's perspective on that—you may want to ask directly of industry. My understanding of that is they felt the design attributes that they were using which met naval standards would infer the 30-year fatigue life. We disagreed with that primarily because we don't use the naval combatant as a naval combatant. We use a naval combatant as a Coast Guard cutter, which puts different strains on it, puts different times under way, different days under way per year on a different ocean environment.

And that is why we feel there are certain enhancements that need to be made, as the inspector general said, so it can be used for 30 years without a major repair.

Ms. SANCHEZ. Ms. Clarke for 5 minutes.

Ms. CLARKE. Thank you very much, Madam Chair.

Thank you, Mr. Chair.

Madam Chair, I would like to ask that my statement be placed—my opening statement be placed into the record.

Ms. SANCHEZ. Without objection.

Ms. CLARKE. Thank you.

[The information follows:]

PREPARED STATEMENT OF THE HONORABLE YVETTE D. CLARKE, A REPRESENTATIVE IN CONGRESS FROM STATE OF NEW YORK

Madame Chairwoman and Mr. Chairman:

Although I have been a member of this committee for only a short time, I have quickly come to learn that one of the most pervasive problems within the Department of Homeland Security is how it handles contracting. Although the Coast Guard's Deepwater program was begun prior to the creation of the Department, this program appears to epitomize these problems at DHS.

The Coast Guard provides an invaluable service to America by securing the waters around our country. When I travel back home, I regularly see Coast Guard boats patrolling the waters and keeping New York City safe.

Deepwater was expected to provide the new equipment necessary for the Coast Guard to continue this mission into the 21st century. Instead, it has provided some unusable boats and a great lesson in how not to handle government procurement.

I hope recent changes to the program will turn the Deepwater program around and provide the Coast Guard with the equipment they need to protect our nation.

Ms. CLARKE. I just want to get straight to a question for the rear admiral and captain. With less equipment currently available to the Coast Guard, and with much of its current equipment aged, has there been any, any reduction in the ability to operate; and if not, do you believe that the Coast Guard would be forced to reduce its operations in the future if Deepwater maintains its current pace?

Admiral BLORE. I am going to let Captain Baynes jump in here in a minute.

From a more global oversight, one of the tensions we have in Deepwater, which the Inspector General alluded to, is we have attempted to advance some things in the Deepwater program for the

very reasons you stated, and there is always the tension of not making it so fast that you don't do the necessary prudence and due diligence to have good program management for acquisition. So we struggle with that on a daily basis.

I do believe, and the Commandant has testified, that we have sufficient resources. We have a transition plan. The Coast Guard, since 1790, has developed the ability to surge resources where necessary. I guess for specific examples in Atlantic area, I am sure the captain probably has some examples.

Captain Baynes. Yes, ma'am.

We haven't seen any decline in operations in the Atlantic area mainly due to—we are—we have the bridging strategy for—called MEP, Mission Effectiveness Project, which is replacing a lot of the antiquated and obsolete systems on board our cutters.

So again, like I said in my opening statement, the engineers can get back to the business of doing routine preventative maintenance rather than—I mean, routine preventive maintenance rather than emergency repairs.

Also, we have received numerous Deepwater command-and-control upgrades that has greatly enhanced the cutters' capabilities out there. So we are still able to do our job.

Ms. CLARKE. Notwithstanding the fact that you sort of have to double up because you are missing eight cutters?

Captain Baynes. What we are doing right now trying to mitigate the loss of those eight cutters is we are multicrewing eight of our 110s down in south Florida. We are also surging other capabilities out of other districts to the area. Like the 87-footers. We have buoy tenders down there we use for migrant holding platforms, and also the WPCs, the 179-foot patrol craft. We just extended the lease with the Navy to extend them 3 more years. We have those crafts for—until 2011.

So we are doing things to cover the gaps for those loss of eight 123s until the FRCs come on line.

Admiral BLORE. I think the captain would agree with me. You are absolutely correct in your assertion we are missing patrol boat hours. That is a critical concern of the Coast Guard's. What we are talking about is our ability to compensate for that.

Ms. CLARKE. It is my understanding that the Navy is going to be taking their ships back shortly?

Admiral BLORE. The original agreement we had with the Navy was to operate the five 179s to the end of fiscal year 2008. The Commandant has just recently renegotiated, because we are going to lose all five of them at the end of 2008 for three of them to remain with the Coast Guard. So again, just one of many actions we are trying to take to compensate for further loss of patrol boat hours.

Ms. CLARKE. And let me just ask Captain Baner—I am sorry. Captain Baynes.

It is my understanding that Coast Guard engineers were really alerted to, you know, the challenges that were being faced in Deepwater, and one would wonder, you know, why we would go forth knowing that the technicians who really understand how all of this stuff works have flagged it.

I want to know whether you have heard of any instances of retribution of Coast Guard members and officers who may be forthcoming with information that are germane to all of our concerns here today.

Captain Baynes. No, ma'am. I haven't heard of any retribution whatsoever.

Ms. CLARKE. So if you were directly contacted by the IG, you would have no trepidation or fear of complying with the IG's inquiry?

Captain Baynes. No, ma'am.

Ms. CLARKE. Thank you, Madam Chair. I yield back.

Ms. SANCHEZ. Admiral, I just have a quick question for you.

So you took these eight ships, and they are out. You have six out in the Persian Gulf or somewhere out there, I am assuming, I think I heard. And then you were supposed to have five that are going to expire, but now you are going to get three of those back. You are still down quite a few ships.

Admiral BLORE. Yes, ma'am. We are. We are short on patrol boat hours. The things that the captain referred to are used sometimes of oceangoing buoy tenders in place of a patrol boat. Not an ideal replacement, but it provides us some hours. The Navy has also provided some assets. They are doing their own submarine security patrol in Puget Sound. And some of the main—where the main submarine bases are. The Coast Guard used to provide that. The Navy is picking it up so that we can use those patrol boat hours in the Coast Guard.

Ms. SANCHEZ. So when you say you are double-crewing, does that mean instead of having 10 people on the boat, you have 20 on the boat; or does that mean that one ship goes out, and then they come in, and they use the crews to go out for a second ship or the third ship?

Admiral BLORE. Yes, ma'am, or the latter. Some people have referred to it as like blue-gold crews. In the Coast Guard we are blue and white, so it would blue and white crews. But the idea that one crew takes it out; once they are at their endurance for 4 days, they bring it back. The next crew takes it out.

And as the Captain mentioned, the challenge then really becomes an engineering challenge. You have a lot more personnel in the crew and can take the vessel out. But the vessel has limits. It needs more maintenance, more deep-level maintenance. You need to put more money into it.

Ms. SANCHEZ. Thank you.

To the Ranking Member Mr. Rogers.

Mr. ROGERS. Thank you, Madam Chair.

I want to follow up on Ms. Clarke's question, Captain. I didn't hear you answer the first part of her question. That is. Why do you think that the Coast Guard didn't react to the warnings by the engineers about the structural problems?

Captain Baynes. Sir, that is not in my area of expertise, but I will pass that to Admiral Blore.

Admiral BLORE. Because the acquisition program wasn't operating as well as it should have been back then. I think the inspector general has done us a great service by reviewing that era and making recommendations to us that we have incorporated.

There is no reason that we shouldn't have been following more of the guidance of our own engineers, and that is not the way we are or organized today. Today we have a unique distinctive role by commandant instruction for the Chief Engineer and technical authority and Naval Administrator. He wears three hats of the Coast Guard. That is my colleague, Admiral Gabel, and we work with him on a daily, sometimes hourly, basis.

Mr. ROGERS. So in your opinion, this wouldn't happen now if you had those same warnings either by your engineers or by the outside experts?

Admiral BLORE. In my opinion, it would not happen now. It would not be repeated.

Mr. ROGERS. Why do you think the Coast Guard didn't act?

Mr. SKINNER. I do agree with Admiral Blore.

Under the current organizational structure, it is a lot better today than it was 2 years ago in 2005 when we were conducting our review. And the Commandant made it very clear by—with a policy memo going out to everyone, not only the Coast Guard, but to others that are working on the Deepwater project, that reasserts the technical authority of its Chief Engineer.

And now we have the acquisition folks that were also sitting outside of the Deepwater box are now part of the project management team. Also, the integrated project team head was at one time lead by the systems integrator. That is now being lead by a Coast Guard official. So that there has been some major changes in that regard.

Mr. ROGERS. Okay. Thank you.

That is all I have.

Ms. SANCHEZ. And thank you to the gentleman from Alabama.

And the next one will be Mr. Perlmutter from the great State of Colorado.

Mr. PERLMUTTER. Thank you, Madam Chair. Just a quick question.

Admiral you said there was a difference—we were confusing the 123 and the National Security Cutter, and you sort of went halfway into it and didn't quite finish it. Can you give me the 20-second distinction?

Admiral BLORE. Sir, I don't think I have a reputation for ever answering a question in 20 seconds, but the distinction I was trying to make is the National Security Cutter is a new construction, new design. It was primarily an issue of fatigue. So over a 30-year life, it was never an issue of structural strength or that sort of issue. The 123 issue is an old cutter, older cutter, that was being converted. So there is some legacy, what kind of good shape was it in as you did the conversion. There is the conversion itself, and the characteristic that it showed was deformation of the hull, which means the outside of the hull was actually wrinkling, and buckling of the deck; not actually a crack, but a deformation, which alerted the crews to the issues that was going on.

So it is two different situations. I didn't mean to suggest anybody was confusing it, but they are just different.

Mr. PERLMUTTER. Okay. What resource does the Coast Guard have for this ICGS or the loss of the eight ships, and what actions are you taking?

Admiral BLORE. Let me answer the second part, sir, if I could, because I think it answers the first part.

We are frustrated in our attempts to bring the eight 123s back on line. We are disappointed in the acquisition. We are disappointed that we had to decommission eight Cutters.

During the life of the program, several modifications were made to the cutters to bring those back on service—in service that did not work. Now that we have taken them out of service, we have formed a team. It has a lawyer on it, technical individuals, and contracting officers. They are basically going through a discovery period. We are coming to the end of that discovery period where they are basically presenting all of the facts that can be gathered so the government can build its case.

I hope you would appreciate if I don't go into too much detail since industry is here, but the next logical step would be for us, if we determine the consideration is owed us in whatever form, to issue a letter of revocation which basically is the government saying we no longer accept the cutters; that you delivered them to us, we accepted them at the time, but we no longer accept them, knowing what the condition is, and we issued that letter this morning.

Mr. PERLMUTTER. Okay. Thank you. So let us go forward then.

The Defense Department has this stopgap. You know, if it goes over a certain percent, there is a cost overrun or delay, I don't know, Nunn-McCurdy. Do we have anything like that? I would ask you or Mr. Skinner for Coast Guard acquisitions or Coast Guard, you know, construction and new products or boats.

Admiral BLORE. In the Coast Guard we use the Major Systems Acquisition Manual, and we go by Department of Homeland Security regulations, which we call it a breach, which I think is the same term DOD would use, and we use 10 percent. So basically we are due to alert the Department at 8 percent. I think 10 percent is technically called a breach. And then they report that to the Office of Management and Budget.

But we have a similar structure. I don't know if it is exactly the same as the Department of Defense.

Mr. PERLMUTTER. Have you looked at sort of your personnel approach to this Department of Defense? And I noticed there was something in the notes from Homeland Security from Mr. Skinner, that DOD, you can actually have a kind of a career track in acquisitions, whereas opposed to you, as under—in the Coast Guard, you move—you know, you basically are assigned to one area and then maybe another area, then another area. You said you are moving out of this particular field. Are you making any changes in that respect?

Admiral BLORE. Yes, sir. And the inspector general and I are actually very close in the sense that human capital is an issue today, it is going to be an issue tomorrow, and we need to address it. I think it is important to have a matter of perspective. We are not the United States Navy. We don't intend to be. Naval Sea Systems Command is the same size as the Coast Guard. So the entire Coast Guard has as many employees as the Naval Sea Systems Command.

Mr. PERLMUTTER. How many employees do you have?

Admiral BLORE. We have about 41—, 42,000 within the Coast Guard. Within the Deepwater program and within acquisition, we started at about 250. We have built that up to 450. We have a human capital plan that grows at about 10 percent per year. But, more importantly, and it is the way we are really investing in the inspector general's comment, is in the very beginning of Deepwater, the concept was a partnership between government and industry, which I think we have demonstrated has a lot of room for improvement.

Really where we are today is a partnership between government and government. We are partnering with the United States Navy. We have a—I have NAVSEA embedded in my office. I have NAVSEA embedded in Pascagoula, Florida, in Mississippi at the shipyard. So we have heavily leveraged NAVSEA technical advice, contracting advice, naval engineering, naval architecture, and I think that is why we feel maybe a little more comfortable that while we still need to grow at 10 percent per year, do the training, and do the certification, where we lack bench strength, we will depend on our partners in the Navy.

Mr. PERLMUTTER. Thank you, Madam Chair.

Ms. SANCHEZ. Thank you from the gentleman from Colorado.

Let me ask a quick question before I kick it over to the gentleman from Seattle. You are patterning in a sense to what the Department of Defense does in acquisition as far as you have—I believe you have captains slated to go in this arena.

Do you have a career path, and aren't you worried that with no career path, people are going to get out, and then you are going to be in the same place you are where you have all of this turnover, and people don't really acquire the skills and have the ability to really do a Deepwater program and the type that you have?

Admiral BLORE. Well, I am always worried. That is my assignment here, to worry about acquisition.

We are different in the way we are set up in that DOD, the Navy, does have a career path for their military personnel, and they do put those military personnel in program management positions.

If you look at—and I would be happy to submit this for the record—the new organization that we are building for acquisition, we basically partner a military with a senior civilian. So if you have a military program manager, we have a senior civilian deputy. If you have a civilian program manager, we have a senior officer as a deputy. And that is one way we are leveraging the experience of our senior civilians and cross-training into the military.

We are not large enough to have a career path within acquisition. We can certainly have it as a specialty where officers, such as the way we use our lawyers today, rotate in and out of legal, go back to a ship, back to legal, back to a ship. We will do that within acquisition. And there actually is some benefit to keep infusing that operational experience back into acquisition.

But, Madam Chairwoman, you are absolutely correct that we don't have a career path, and we will always keep that partnership with our civilian corps so that we can have the right expertise in the right place.

Ms. SANCHEZ. As the performance auditor, Mr. Skinner, do you have any comment on what the admiral is thinking about doing?

Mr. SKINNER. The proposals that they have in their blueprint most certainly come with a lot of risk. Our concern is if you have a military type that does not have acquisition management skills in charge, they have the authority, they are partnered with a civilian type that has the responsibility, and neither one has—the civilian does not have the authority, although they may have the responsibility. That is a concern that we have. It doesn't mean it can't work or won't work. I think it is something that we need to watch very, very carefully.

I would like to applaud the Coast Guard for what—the actions they are taking to do the stopgap, that is, partnering with the Navy until they can build their resources, because right now they need to obtain additional resources, human capital, and the right mix of resources. By partnering with the Navy right now, it gives them an opportunity to do this. And because it is going to take years to do this, and it is the just reorganization itself is going to cause cultural change, and you just don't do this overnight or in 1 year. It is going to take 2 to 3 to 5 years to do this.

Ms. SANCHEZ. I began my career as a performance auditor, so I have a little bit of background in it.

Mr. Reichert for 5 minutes.

Mr. REICHERT. Thank you, Madam Chair.

First of all, I am going to guess during the history of the Coast Guard, you had major equipment changes and major acquisitions and changes over the years?

Admiral BLORE. Yes, sir.

Mr. REICHERT. Did you have trained people in that area prior to this?

Admiral BLORE. I can only speak for the last 20, 25 years. At one point we did have a larger acquisition corps than we did about 2 or 3 years ago. I think we are about the largest acquisition corps other than like maybe during World War II, that sort of thing. But I don't know before World War II if we had acquisition corps.

Mr. REICHERT. So how many trained acquisition officers do you now have?

Admiral BLORE. Again, it is a specialty, not a career path, and if you will permit me, I will submit it for the record. It is again 450 total civilians and military working acquisition, but I will give you a breakout on the difference in numbers, and if you would like pay grades, too, so you can tell the difference between captains versus lieutenants and 15s versus 12s.

Mr. REICHERT. And there was a mention of reassigning personnel to cover these positions. Where would those people come from, what assignments?

Admiral BLORE. It varies quite a bit, sir.

You are speaking of the military?

Mr. REICHERT. You are going to be reducing some services somewhere else. You are taking these people from some other job to put in these jobs?

Admiral BLORE. No, sir, Because the overall Coast Guard is growing through the support of this Congress through the fiscal year 2007 budget and also the fiscal year 2008 budget. So there

is—not a cutter there is missing a deck watch officer because they have been assigned to acquisition. We are fortunate in the fact now that our entire agency has grown.

Mr. REICHERT. How does the loss of these eight boats and your redeployment of your resources affect your air mission, helicopters; is there any affect there?

Admiral BLORE. I don't know that there is a direct effect, because the patrol boats are smaller and don't directly embark. The helicopters, certainly helicopters and fixed-wing work with the patrol boats and often, you know, direct or provide the actual intelligence for the patrol boats to respond. So in that sense, you know, that team still needs to be supported.

Captain Baynes could probably talk more directly about how he is doing that, how he is moving assets to the right places.

But there is still that team that needs to take place. A C–130 can identify somebody doing something wrong, but the C–130 itself can't put a boarding team on board. That has to be done by a patrol boat.

Mr. REICHERT. And specifically to the Northwest, you mentioned there was some realignment on resources there. Can you touch on that again since I am from the Seattle area?

Admiral BLORE. I don't know that I meant to say there was a realignment of resources there. What I indicated was the Navy has picked up some of the submarine security patrols that previous to this was done by the Coast Guard. In fact, they, in a partnership with the Coast Guard, actually joined us on a contract for the 87-foot coastal patrol boat and bought coastal patrol boats specifically for the Navy so they can use in that mission.

It is a very important mission, but it is a very specific mission to escort the submarines as they go back to base.

Mr. REICHERT. And Mr. Skinner mentioned that during your audit, you discovered that there was no clear defined expectation. Why was that? Why was there no clear defined expectation of performance?

Mr. SKINNER. It was just the way the contract was written, and also I believe you can attribute this to the fact that the Coast Guard at that point in time did not have the right expertise to ensure that the contract had the specification needed to ensure that they can measure outcomes.

Mr. REICHERT. And you also mentioned there was a—is it—scheduling concerns took priority over quality concerns. Why did that happen?

Mr. SKINNER. Well, since 9/11, the Coast Guard has tremendous demands being placed on them right now, and they have a deteriorating fleet. They needed to get something out there right away. It is not one of these things where we wanted to sit back, study it, study it, study it, and just put it out for years.

And I believe—and I was referring to the National Security Cutter. While we knew there was design problems, we were told that we needed to get a ship on water as soon as possible, so they chose to expedite the construction of the ship before they studied the problems to see if—what the cost/benefit analysis would demonstrate, whether it would be worthwhile just fixing it before we started building it.

Mr. REICHERT. One last question.

The National Security Cutter 1 and 2 went for a combined cost of 517 million to 775—. Who pays for that? Is the contractor on the hook for some of that money?

Mr. SKINNER. I believe right now we are paying that.

Mr. REICHERT. The Federal Government?

Admiral BLORE. And if I could, I think it is important to understand what the increase was for. Basically it has three large components. One component is requirements changes the government ordered in the cutter post-9/11. We did major changes to it. We lengthened the flight check. And we changed putting an intelligence center on and did some other things, really reflecting the post-9/11 environments. So we are paying for those changes that we made.

There was Hurricane Katrina, which affects about 123—or 124 million of that to the direct damage to the yard and the facility being used by the Coast Guard at the time.

And the third, which is going to be an ongoing issue, is inflation and labor rates, because while in government we typically inflate contracts at about 1.8 percent. In naval shipbuilding, and I know my colleague Admiral Sullivan testified to this, we are seeing more than 5 to 6 percent inflation in shipbuilding construction. And the labor rates are affected both by higher rates in the gulf region and the fact that there is a lot more grade labor now than there was before because there was a lot of people that moved in and out. So that will be a challenge that we will have to keep dealing with.

Mr. REICHERT. Thank you both for your service.

Ms. SANCHEZ. Mr. Langevin for 5 minutes.

Mr. LANGEVIN. Thank you, Madam Chair, and I want to thank the panel for the testimony here today.

Some of the things I want to ask have already been touched on. You can have an opportunity to expand on them.

Like many of my colleagues, I am concerned by the fact that the lengthening of the 100 ships, the 10-foot ships to 123 feet, the Coast Guard literally cut them in half and added 13 feet. I understand that in some cases this may have worked in the past. When the Navy attempted this method, I understand that they took much longer ships and added a much smaller portion to lengthen them, and another portion was added at the end of the ship, not in the middle. And I also understand that the Navy warned the Coast Guard that this extension would cause problems.

So my question is what due diligence was done to suggest that this was going to work in the first place? And also—and I know Mr. Rogers had touched on this, and I will give you an opportunity to expand here on your answer—what systems are in place to ensure that a mistake of this magnitude isn't going to happen again? And also, what mechanisms are in place to ensure in the future that all warnings are actually heeded?

Mr. LANGEVIN. Beyond that—again for Mr. Skinner-the ships that were that length and had a life span of 15 years, they pretty much reached this point in time when they were lengthened.

On top of that, it is my understanding that many of these ships may have also been put through, you know, enormous stress over the course of their lives. We all understand that when the Coast

Guard needs to rescue someone, they go far above and beyond the call of duty, which is certainly commendable. However, I would imagine that these extreme conditions would take a toll on the ships. Can you explain if these and other factors were taken into account when the decision was made to lengthen the 110-foot ships versus buying new ships?

Mr. SKINNER. I think, Admiral Blore, if you could answer that question. That is something we didn't look at as far as the decisions to convert or not to convert.

Admiral BLORE. And, sir, to be brief, if I could submit some of this for the record.

Admiral BLORE. But, basically, the situation is the Navy has a patrol boat. The Coast Guard has a patrol boat. The Navy's patrol boat is 60 feet longer than the Coast Guard's patrol boat. They were basically built by the same company, similar designs. The Navy cut theirs close to the stern. The Coast Guard cut theirs close to the stern. The Navy had initial problems with their lengthening, which they overcame. The Coast Guard had problems, which we didn't overcome.

The Navy did advise us at the time of the problems they did have. I will give you somewhat of a technical dissertation on why the problems the 123 has because of its size are different than the problems the 179 had.

So it wasn't that we didn't hear from our colleagues in the Navy. We just feel it was a different situation. We have looked at it and run models of the changes they have proposed, would have been made if it would have affected the ship. But it does not. It does work for the 179, though, if you have a greater length.

Mr. LANGEVIN. So, just so I understand, you are saying that the place where they cut the ship is different for the Coast Guard—I mean, it was the same—

Admiral BLORE. I think it is similar. I am not as familiar with the 179 program.

Mr. LANGEVIN. It was my understanding that the ship was going to be cut in half, but the Navy's portion was that they are cutting them a much smaller section.

Admiral BLORE. Again, sir, I am not an engineer. I would be happy to provide that for the record. But I think the cut is actually reasonably close to the stern.

Mr. LANGEVIN. Let's go to the issue of how we ensure this is not going to happen.

Admiral BLORE. Yes, sir. Well, I think, as the IG mentioned, it is very, very important that we recognize the role of the technical authority and the chief engineer and the Coast Guard. So that is our primary means, because I go to him or her in the future for any technical opinion, ability to proceed with a new design or a major change.

And we have those instructions out in a place, and I would be happy to provide those for the record as well.

The other kind of combination of that is either the technical authority or I, on my own, can go out to an independent third-party review. We could do that either commercially or our method of choice is to go to NAVSEA, primarily the Carderock division, or we

go to Dahlgren for weapons, but the standard structure of the Navy and ask for an independent third-party opinion.

In this case, if we were doing it again, if we were going to take the 210, the Decisive, and make it longer, we would go to the technical authority and we would go to Carderock and ask for their naval architecture and naval engineering opinions.

Mr. LANGEVIN. Thank you.

I yield back the balance of my time.

Ms. SANCHEZ. I thank my friend from Rhode Island, and I believe that Mr. Souder had another question.

Mr. SOUDER. I wanted to ask Mr. Skinner—and maybe the Admiral has an answer to this. It may have been in your technical answer there.

In the bigger ships that are docked, there was a question in the contract why the Coast Guard didn't have it clear that—what they expected in 30 years. There was a lack of clarity in the contract. Looking at the contractor's questions here, that is one.

But in the ships that are kind of—their sides are curving and their decks are buckling, I understood I think Mr. Skinner to say—that—and maybe it was Admiral Blore—that there wasµa disagreement about the state the boats were in when they were given to the contractor. In standard practice in government contracting, wouldn't that be sorted through? I mean, how did these things start to curve and buckle and why wouldn't that have been specified? It seems like just kind of like Contract 101.

Admiral BLORE. Yes, sir. If I implied that, I didn't mean to. There was an inspection done by the contractor and the government upon transfer of the vessel to the contractor to do the change. What I meant to say, if it didn't come across clearly, was there is a certain amount of unknown about the structure of vessels. There are voids in areas of the ship that you just do not access during the life of the ship unless it has a problem.

So especially with the Matagorda, which was the first one, what you don't know is what you don't know; and after the initial opening up of the Cutter, there was a long inspection, there was more work done and added to that contract than had originally been intended. But none of it suggested that there was going to be long-term buckling or deformation issues with the Cutter.

Mr. SOUDER. Mr. Skinner, do you agree with that?

Mr. SKINNER. Congressman, we didn't actually review the circumstances surrounding the decision to extend the 110 to the 123. We looked at other issues dealing with the actual equipping the ship.

Ms. SANCHEZ. Admiral, so they took the first ship and they opened it up and they found that fatigue or what have you. The hull was worse than the company had envisioned. And the company's story is we were just told to enlarge the ship. We were not told to handle the defects that we found once we went in there.

Who handled those defects? Did the company then get more contract to do that, to fix it to the point where they thought that they could begin to enlarge it?

Admiral BLORE. If I could submit an answer for the record.

I actually worked in the budget shop then, but I remember that we did expand the contract. I can't remember right now if we expanded it with them or somebody else.

But when we saw the conditions of the vessels, you know, some of the terms that are used—and help me here, Captain—some of the terms that are used are the replacement of plate, for example, on the hull. There had been an estimate in the contract of how much plate needed to be replaced. Well, we increase that because we saw that there were other parts of the Cutter plate that needed to be replaced.

If I could, ma'am, I will submit for the record whether that was with ICGS or through a different company.

Admiral BLORE. There were stringers and stakes that were replaced. But, again, none of these gave the Coast Guard at the time or, I am assuming, the contractor, or they would have notified us, an indication that there would be long-term problems once you made those repairs.

Ms. SANCHEZ. Okay. And the Coast Guard accepted the 123s with numerous defects, known defects.

How have you changed this process for the National Security Cutter.

Admiral BLORE. Well, I don't know whether we accepted the 123 with known defects or not. It is not unusual when you sign a DD250, which is the form that transfers custody from the contractor to the government, that there are some open discrepancies. I don't know that we would accept something with defects. Again, I would have to check that.

But with the National Security Cutter, that is done by a technical team we have within Deepwater, by our contracting officers; and, once again, the chief engineer will be there. We have a variety of both builders' trials that it will go through. Then we are hiring, again, our colleagues in the United States Navy to come and do ship trials with it; and they will give us a complete list of everything. Every discrepancy that they feel needs to be worked off, that will be documented. And then the government will either work those off or often, again, on a complex project like this, there may be some things that are accepted by the government for later workoff.

But, again, the important thing there is to not accept things that are very difficult to fix. But that is how it is done. There is going to be a long process starting—it has actually already started, but it really hits momentum starting in about November of this year through about April-ish of next year where the ship will be put through trials, and that is when all that will be documented. Everything from the paint is chipped on a particular door to the radar doesn't work, which obviously would be a much bigger discrepancy.

Ms. SANCHEZ. It is like taking a new home when you get to do the walk-through and figure it out.

Mr. Carney, do you have another question.

Mr. CARNEY. I do, madam. Thank you very much.

Admiral given that it was Carderock and not the Coast Guard that identified the serious hull girders issues associated with the NSC, is Carderock going to do independent third-party evaluations from here on out? Are they going to do the structural—

Admiral BLORE. Well, it won't always be Carderock; and let me just correct if I inferred it that way.

We asked Carderock—they are in contract with us. We paid for the services we received from our sister service. So we hired Carderock to join our technical experts and help us since they had more familiarity with major ship construction. They consulted with us. We developed a technical solution. We have agreement with Northrop Grumman Ship Systems now on how that technical solution will be deployed. We are currently in contract negotiations over the cost.

Once that solution is completely identified with cost and materials and all the red lining to the blueprint, which is typically what it is referred to, I know my chief engineer's intent is to go back to Carderock and say, this was our final solution; how about one more review?

Beyond that, the chief engineer is actually going through the entire design with Carderock again with a standing contract that the chief engineer has with them for review of naval design.

Mr. CARNEY. Could we get a timeline on when we expect all this process to be complete? That would be really useful.

Admiral BLORE. Yes, sir.

Mr. CARNEY. In 2002—this is going back to the 110s 123s now. In 2002, we understand the Navy's combat craft department predicted there would be problems with the plan to stretch these boats the recommended significant—lengthening the hulls, et cetera. Why were the—they weren't—these recommendations were followed, is that correct?

Admiral BLORE. Well, again, sir, if I could submit it for the record.

There is a difference in what I believe they call the section module that is between 179-foot Cutter and 123-foot Cutter on where the stresses appear both on the hull and on the keel section.

Mr. CARNEY. But isn't it true that when they did the 179s they reinforced the girders or strengthened the girders on the 179s and that was not done in the 110s, 123s?

Admiral BLORE. I don't know whether it was done on the 110s or 123s. I know there was a discussion between the Coast Guard naval engineers and the NAVSEA naval engineers as to whether the solution that they used to be applicable to a smaller patrol boat.

Mr. CARNEY. Mr. Skinner, are you aware of that?

Mr. SKINNER. No, sir.

Mr. CARNEY. Okay. It is our understanding that the Navy offered to do a very detailed analysis of your plan for about $60,000. Why was that not done?

Admiral BLORE. I have heard that also, sir. That is not correct. The Navy offered to start a process of reviewing some documents we had, and I think they estimated it would take a week or two, and they said we could do that for $60,000. It wasn't to go through all the engineering diagrams and blueprints, analyze it, run it through their computer models, propose a solution, implement a solution in the blueprints. It would be much more than that, but they did offer for $60,000 to start the process.

Mr. CARNEY. All right. Thank you. Nothing further.

Ms. SANCHEZ. Thank you, gentlemen.

I would just ask the Admiral, when you submit that information of opening up the hull and figuring out what wasn't at the level that was anticipated for the contractor to do his or their work, if you would—if there are different pieces, major pieces—I am not talking about the paint chips on the door. But if there are major pieces and if there are different contractors, if you could give us that array, I would prefer it that way.

I believe Ms. Clarke has one last question before we let the panel leave.

Ms. CLARKE. Thank you very much, Madam Chair.

Because I just wanted to get a sense—we have heard a lot about the collaboration between the Coast Guard and the Navy at this very crucial time, and it seems to be a real heavy reliance right now. How soon, Rear Admiral, do you project to resume your autonomy under Homeland Security, given the current situation?

Admiral BLORE. Ma'am, first off, kind of as a philosophy the Coast Guard doesn't necessarily pride itself on autonomy from the Navy. We are a naval service. We will always be working with the Navy. Again, when you look at the size of NAVSEA and the Coast Guard, we will always be somewhat dependent of their services; and for the taxpayers' benefit, there is no reason to duplicate some of the services that the Navy has.

What we have started laying out is a transition plan of about 12 to 18 months. In some areas of the Coast Guard we have much greater depth and acquisition, primarily in hull and machinery, and in some areas like the command and control C4ISR, the electronics, we have less. So you will see us reaching out to our Navy colleagues more on the electronic side and less on the hull and machinery side. That will be a balance as, you know, we go through life here for the next 10 or 15 years when we are short on something, we will go to the Navy; and they do come to us for, frankly, patrol boat expertise and some other things that we have some strength in.

Ms. CLARKE. Back to General Skinner, do you have some comments on that?

Mr. SKINNER. It is my understanding that their reliance—the areas we are looking at, we weren't looking in the construction or the operational side of the house. We are more interested in the actual management side of the house, in managing these contracts. And the Navy is now—they—I know the Coast Guard has said that they have turned to the Navy to get some technical expertise in the management, acquisition management, program management, those types of things to help support them until they can bring their own people on board, which is going to take time.

I believe the blueprint Admiral Blore says—

Ms. CLARKE. He said 12 to 18 months.

Mr. SKINNER. I thought it said 2010.

Admiral BLORE. Right. Well, there is a difference between the human capital plan, which is in the blueprint which the IG is referring to, and when we think we can fully function as a government system integrator, which is what I was referring to. So we are not stopping our capital improvements at the end of 12 or 18 months, but that will be the first time that we will be—I wouldn't call it

autonomous but semiautonomous of being completely a government system integrator. Until then, we will depend on our other partners in government to help us.

Ms. SANCHEZ. Thank you, Ms. Clarke.

We have one vote, the budget vote, on the floor. It is a 15-minute vote. It already started. I suggest that we go—that we recess for a few minutes, 10 minutes, 15 minutes, whatever it takes. We will get over—we will take the vote, and those who return—I hope you all will—we can return for the second panel.

I would like to thank the first panel of witnesses for their valuable testimony and the members for their questions. The members of the subcommittees may have additional questions for the witnesses, and we will ask you to respond quickly in writing to those questions.

We are in recess, to return in about 10 to 15 minutes. Thank you.

[Recess.]

Ms. SANCHEZ. The committee is now back, and we have before us our second panel of witnesses.

Our first witness is Fred Moosally, President of Lockheed Martin Maritime Systems and Sensors. He is a graduate of the United States Naval Academy, served the Nation for 24 years, during which he commanded a guided missile destroyer and a battleship. He is no stranger to Capitol Hill as he also served as the Navy's Deputy Chief of Legislative Affairs. He joined Lockheed Martin in 1997 and was appointed President of Lockheed Martin Maritime Systems and Sensors in October of 2002. He also serves as the Chairman of Integrated Coast Guard Systems.

Our second witness is Mr. James E. Anton, the Executive Vice President of Integrated Coast Guard Systems. He is also a board member of ICGS, the Vice President and General Manager for Coast Guard Programs, Northrop Grumman ship systems. He is responsible for managing all aspects of the surface asset and surface support elements, the integrated Deepwater system for ICGS. He has also served in the United States Navy on a nuclear submarine and is a graduate of the Naval Nuclear Power School. He also holds a BS in business administration an MBA from the University of Southern Mississippi as well as a master's degree in computer science technology from the University of South Alabama. He joined ICGS management as second in command in April of 2003.

Welcome, gentlemen.

Ms. SANCHEZ. Without objection, the witnesses' full statements will be inserted into the record; and I now ask each witness to summarize his statement for 5 minutes, beginning with Mr. Moosally.

STATEMENT OF FRED MOOSALLY, PRESIDENT, LOCKHEED MARTIN MARITIME SYSTEMS AND SENSORS

Mr. MOOSALLY. Thank you. Good afternoon, distinguished Chairs and members of the Border, Maritime and Global Counterterrorism and Management, Investigations and Oversight Subcommittees. Thank you for allowing me the opportunity to discuss Lockheed Martin's role in Deepwater, the significant progress we are achieving and how together we can ensure the success of this program.

A major recurring subject of Deepwater congressional oversight committee hearings has been the patrol boats and Cutters, specifically the effort to extend and refurbish the 110-foot patrol boats. Based on the terms of the ICGS joint venture, Lockheed Martin had no role with respect to advising the Coast Guard, providing it information or the actual work of refurbishing these vessels except as those decisions involve command, control, communications equipment. There are issues, however, that have been raised with respect to the C4ISR that Lockheed Martin installed on these vessels; and I would like to address these issues in my statement.

The DHS Inspector General's report discusses four issues: surveillance cameras uses part of the vessel's security system while in port, shielding of electronic cabling for preventing remote electronic eavesdropping, use of certain electronic cables coated with conventional material rather than materials that would yield lesser amounts of smoke in the event of fire, and operation of the C4ISR equipment in certain extreme weather conditions.

The Inspector General did not find a basis for concern regarding the first issue.

For the second issue, the government determined that the installed C4ISR system was not a security vulnerability; and the system was subsequently approved to operate in a classified environment. Accordingly, I will focus my remarks on the last two issues.

Early in the 110-foot patrol refurbishment program, Lockheed Martin, working with the Coast Guard, acknowledged that certain off-the-shelf equipment would require a low-smoke cable deviation. It did not make sense on one hand to use commercial off-the-shelf equipment whenever possible to provide best value to the Coast Guard and then unnecessarily replace non-low-smoke cables that posed no safety threat to the crew or impaired operational performance. Replacing cabling on the off-the-shelf equipment with cabling that met general specifications would have jeopardized warranties on equipment and very possibly reduced its reliability and functionality.

The Coast Guard elected to waive the requirement for certain cables as the best solution because they amounted to only a small portion of the cabling on the vessel and were largely located in exterior or well-ventilated locations.

I want to make this very clear to the committee. This problem was already being actively worked with the customer in December, 2003, prior to the delivery of any vessel. Although we received verbal approval working collaboratively with the Coast Guard, paperwork for the request of deviation approval was delayed through administrative contract processes. The Coast Guard formalized the decision to approve our request for deviation on December 21, 2004.

The actions in 2003 and 2004 are documented in communication which I have available for the committee.

We made the right choices with the Coast Guard, but we had the wrong process. The process has been fixed.

We have a similar situation regarding the requirement for the operation of C4ISR equipment in extreme weather conditions. In July, 2005, a Lockheed Martin engineering review in preparation for C4ISR engineering for the National Security Cutter was conducted. We came across information that led us to question wheth-

er the environmental specifications applied to the 110-foot patrol boat refurbishment program were sufficiently clear and, in certain instances, contradictory.

Much of the available off-the-shelf equipment was built to function in extreme weather conditions. However, because it was commercial equipment, it had not been tested to determine whether it would meet the general specifications referenced in the Cutter classification matrix that was invoked after contract award.

This information was presented to the Coast Guard, a collaborative joint working group evaluation was conducted, and a decision was requested as to whether off-the-shelf equipment should be used or, alternatively, equipment should be built to meet general specifications. The Coast Guard decided the most effective course of action was for Lockheed Martin to submit a request for deviation.

Congress has led the effort to require the military and other elements of the government to rely more heavily on commercial off-the-shelf-products where appropriate. As a result, we have fewer examples of absurd requirements being mandated, resulting in expensive purchases such as $600 hammers.

But there are always trade-offs in terms of unique requirements and interpretations of general specifications. Those trade-offs must put the safety of personnel first and then balance mission effectiveness levels versus cost. In both the application of low-smoke and environmental regimens we believe the Coast Guard made the right decisions in selecting commercial off-the-shelf equipment with no impact of safety or mission effectiveness.

We have learned many lessons in the startup of the Deepwater program and have implemented contract and program management process improvements throughout the program so that mistakes will not be repeated.

I look forward to answering your questions.

[The statement of Mr. Moosally follows:]

PREPARED STATEMENT OF FRED P. MOOSALLY

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.

The Deepwater Program

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 Deepwater program has successfully accomplished a number of changes. Most significant were those resulting from the dramatically increased Coast Guard operating tempo and new capability requirements in the post-9/11 environment. An excellent example is the HH–65 helicopters as legacy equipment began to wear out far more rapidly than had been projected. While the plan 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 most of the fleet has already been upgraded and returned to service. It is this inherent flexibility that will facilitate our working with the new acquisition organization planned by the Coast Guard.

Lockheed Martin is primarily responsible for four Deepwater domains: system engineering & integration, C^{4}ISR (the command and control network), logistics and

aviation (refurbishment of existing assets and production of new assets). Implementation of the Deepwater system-wide command and control network, C4ISR (command and control, computers, communications, intelligence, surveillance and reconnaissance), is important as this 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. 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 the Deepwater program 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 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 and decision system. The command and control system for the 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 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 common architecture deployed across multiple types of assets allows for commonality of equipment and software systems and supportability of the entire Deepwater system. In general, the Deepwater C4ISR architecture ensures an 'open systems' approach for design and implementation, providing a true web-enabled infrastructure. The Deepwater architecture adapts to technology insertion and enables the progression to future Coast Guard-wide C4ISR architectures. In ports and coastal areas, one of Deepwater's most significant capability enhancements will be its robust C4ISR system. This fundamental building block will improve the Coast Guard's ability to maintain maritime domain awareness focused on meeting the needs of decision makers engaged in operations at sea, ashore, and in the air. The network-wide system will ensure the Coast Guard possesses and maintains seamless interoperability with the forces and agencies of the Department of Homeland Security, the Department of Defense, and other federal and regional agencies—a true force multiplier in the fullest sense.

I would like to specifically address concerns about competition as Deepwater continues to perform well in this area. The Federal Acquisition Regulations stipulate that a contractor is responsible for awarding and managing subcontracts as well as determining whether to make or buy particular items to ensure the lowest overall cost and technical risk to the government. The applicable regulations also require competition to be assessed regularly via formal government-conducted purchasing system reviews. These government audits evaluate the degree of price competition obtained and the treatment of affiliates.

Lockheed Martin is currently subcontracting with nearly 350 suppliers in 28 states. More than 200 of these are small or small disadvantaged businesses. In the period from September 2003 through December 2006, Lockheed Martin placed more than $606 million of orders with these suppliers. Competitive procurements in accordance with our government-approved procurement system total 43 percent of the subcontracts awarded. To assure price reasonableness to the government, the Competition in Contracting Act of 1984 excepts from the otherwise applicable requirement for competition follow-on procurements for continued development, production or highly specialized services, unique supplies or services available from only one source, or an unusual and compelling urgency that precludes full and open competition. When these are appropriately applied to each subcontract, the qualified percentage is raised to 94 percent of the subcontracts awarded.

In fact, of every $100 of Deepwater funding obligated to the prime contract:

- $27 is used by Lockheed Martin for engineering and program management
- $37 is subcontracted by Lockheed Martin to third-party suppliers for goods and services
- $36 is used by other Deepwater partners (ICGS, Northrop Grumman and Northrop Grumman's third-party suppliers)

We continually search for the most appropriate products, services and technology to assure best value to the Coast Guard customer. We have participated in six Innovation & Industry Days across the country and have more than 3,000 prospective supplier-product applications in our purchasing database.

Lockheed Martin Deepwater Program Progress

Working with our Coast Guard customer, Lockheed Martin has enabled deployment of more than 80 upgraded HH–65 helicopters featuring more powerful engines; delivered two new HC–144A maritime patrol aircraft with six more in various stages of contracting and construction; progressed through developmental test and evaluation of the HC–144A electronic mission system; commenced mission system and sensor installation on all six J-model HC–130 long range search aircraft; and sustained service of the eight MH–68A armed helicopters comprising the Coast Guard's helicopter interdiction squadron.

We have upgraded command and control systems aboard all of the Coast Guard's 39 medium—and high-endurance cutters resulting in significant increases of illicit drug seizures. An important program milestone was recently achieved. The Coast Guard issued full authority to operate the Deepwater command and control system at its district command center in Miami. This system provides enhanced mission planning tools and facilitates rapid exchange of information through a common operating picture among Coast Guard commands, cutters and aircraft. The system is now being installed in San Juan, Puerto Rico, soon to be followed at major Coast Guard commands in Massachusetts, Virginia, Alaska, Washington, Hawaii, California and Louisiana.

The Deepwater program is delivering and is making a real difference—impacting drug seizures, migrant interdictions and lives saved. In Washington, earlier this year, the Coast Guard performed a rescue utilizing an HH–65C helicopter under conditions that would have been impossible for the aircraft it replaced. This month, the cutter Sherman utilized its Deepwater-installed electronics to passively track a ship of interest, to board her without alerting her, and to coordinate the seizure of a record 21 tons of cocaine, with a street value of $300M, via secure satellite communications.

Recent customer statements show how well the upgrades, equipment and new capabilities are being received:

- *HH–65 Helicopter Re-Engining*—"Restoring this kind of reliability and stability to our HH–65 fleet is a crucial milestone in improving readiness. The fact that it's being accomplished ahead of schedule reflects a true team effort by industry and our engineers, acquirers and operators." Coast Guard Chief of Aviation Forces
- *Legacy Cutter C4ISR Upgrades*—"The Deepwater Upgrade provides vastly improved communications and interoperability. In the past year this ship has operated from above the Arctic Circle to well below the equator. We have enjoyed 24/7 real time links to operational commanders and data base management regardless of our physical location. The upgrades have proven to be tough, dependable, and easily maintained." Commanding Officer of the USCGC Morgenthau
- *National Security Cutter C4ISR Training Center*—"The contrast between our tools of 1983, and the tools of the future ships like the BERTHOLF is significant. I remember analog radar, message traffic by teletype, paper charts and maneuvering boards, Polaroid cameras, and slow criminal history checks by EPIC. No cell phones, no email—imagine that. I remember a true sense of independent operations. We were proud, but probably not as effective as we might have been if we had the tools of today. By contrast, our new National Security cutters will train. . .on computerized digital sensors, radar and charts, live sharable digital video, message traffic by PC, voice communications with anyone, clear or secure, and real time criminal histories and intelligence checks. They will benefit from a sense of connectedness and systemic information sharing making their days at sea safer and more efficient. The Coast Guard will have increased Maritime Domain Awareness to identify threats, and a Common Operating Picture to act when necessary—all to protect our coastlines and our citizens." Commanding Officer Coast Guard Training Center
- *Maritime Patrol Aircraft*—"Today's delivery of the first MRS MPA is a critical milestone in our ongoing efforts to acquire and deliver more capable and interoperable assets and systems to our Coast Guard crews. When this aircraft and others like it enter operational service, they will help to narrow our existing gaps in maritime surveillance in many important ways." Deepwater Program Executive Officer

Deepwater C4ISR is the enabler for the integrated system and is the major contributor to improved performance. It permits the Coast Guard to operate effectively with DoD, DHS, state and local government agencies. C4ISR provides coordinated tactics, multi-agency interoperability and common situational awareness necessary to achieve mission success. These capabilities are needed for all Deepwater assets including ships, aircraft, and shore site command centers.

Commitment to Congress and the Coast Guard

We have deep respect for Congressional oversight and are committed to achieving our very best for our nation and the Coast Guard. We have continually sought to improve on this program. In particular, we are attentive to the concerns that have been raised by the DHS Inspector General, the Government Accountability Office and Members of this and other Committees with Coast Guard oversight responsibilities. As such, we are continuing to improve engineering and program management processes to better meet the needs of the Coast Guard customer.

I would like to take this opportunity to address the concerns raised by the DHS Inspector General. We have carefully reviewed each of the findings, and, where appropriate, have made improvements to Deepwater program processes to avoid past mistakes being repeated. I address each of the issues raised by the DHS Inspector General.

Low Smoke Cables

During a Lockheed Martin review of 123-foot Patrol Boat C4ISR specifications, it was determined that 85 out of approximately 490 cables per ship could not be confirmed as having low-smoke properties. Many of these 85 "cables" are not large electrical cables. They are small cables such as those linking personal computers to printers. Others were small cables located inside commercial equipment, purchased as a result of the mandate to use as much commercial product as possible. The remainder of the 85 cables extend outside onto the mast or deck, and pose no threat to the boat or its personnel. Consistent with other military programs, a collaborative analysis of the non-low smoke cables determined that their use did not pose an undue safety risk. During the process of certifying the 123-foot patrol boat C4ISR design to the cutter certification matrix, the Coast Guard recommended submission of a 'request for relief' from the low smoke requirement for specific cables. The program proceeded to make progress with a reasonable expectation that the request for waiver would be approved. As the Inspector General determined, approval of the request for waiver was secured after four 123-foot patrol boats had been delivered. Collaboratively, with our Coast Guard customer, we have established additional process controls to help avoid a future recurrence of such a documentation issue.

C4ISR Environmental Requirements

A Lockheed Martin engineering review in mid-2005 identified a potential issue regarding C4ISR environmental requirements. We immediately informed the Coast Guard of this issue, and a joint Coast Guard and Lockheed Martin working group was established to resolve this issue. Rather than embark on a costly and continuous certification test process, Lockheed Martin engineers evaluated each of the components and the associated environmental performance information. Where possible, Lockheed Martin obtained ruggedized components, such as a de-icing capability for the FLIR sensor. After the joint working group's consideration of the mission criticality of each component, its specification compliance, and its function aboard the boat, a request for waiver was jointly determined the best choice given customer imperatives and objectives. This approach permitted reconciliation of the program's acquisition strategy to maximize the use of ruggedized off-the-shelf commercial and government equipment with a multitude of military standards incorporated into the requirements. By submission of a contractor requested waiver, the Coast Guard was afforded the ultimate decision as to a course of action. Much like the findings regarding low-smoke cabling, the Inspector General recommended that the Coast Guard develop and implement a plan to improve the process for reviewing and adjudicating contractor requests for deviations and waivers to ensure that all requests are resolved and fully documented prior to implementation. We are actively supporting implementation of this and other Coast Guard program oversight process improvements.

TEMPEST

Next, in response to concerns regarding C4ISR TEMPEST capabilities, we note that the government determined that the installed C4ISR system is not a security vulnerability. In fact, an independent third-party, the U.S. Navy Space and Naval Warfare Systems Center (SPAWAR), performed a visual inspection and instrumented testing. All identified discrepancies were resolved to the customer's satisfaction and the 123-foot patrol boat C4ISR system was subsequently approved by the Coast Guard to operate in a classified environment. Lockheed Martin engineers chose a particular type of cable that was fully shielded and securely mounted to preclude compromising emissions as well as potential shielding degradation over time. Furthermore, SPAWAR determined that the system did not have compromising emissions and it was approved by the Coast Guard to operate in a classified environment. Based on input from the Coast Guard, the C4ISR system on the 123-foot

patrol boat operated effectively and securely during the time the patrol boats were operational and was highly regarded by their crews. The capabilities provided by the C4ISR system enabled the crews to develop new and highly-effective operational techniques for intercepting drug traffickers and illegal immigrants.

Before the February 2007 report of the Inspector General, we improved the C4ISR design process for the National Security Cutter. Electronic equipment cabinets have been designed with improved electro-magnetic interference, cryptographic system configuration and cable shielding. Classified network designs were provided to the certified TEMPEST test authority prior to customer design reviews to facilitate risk mitigation early in the design. Representatives of industry, the customer and an independent reviewer, Craig Ocean Systems, participated in a number of technical interchange meetings to review current designs and make changes prior to equipment production efforts. During cabinet production, integration and test, periodic technical interchange meetings were conducted with the customer to review all emergent TEMPEST issues and correct the associated documentation. Prior to system testing, the customer conducted a final design review with government experts to identify potential issues and make any necessary design changes. We believe the approach of mitigating potential problems before customer visual and instrumented testing is essential. Close customer involvement, including early reviews of the design documentation and delivery schedules will continue to assure that Congressional and customer interests are best served.

Surveillance Cameras

Finally, as the Inspector General found, the camera system on the 123-foot patrol boats fully complies with the video surveillance system requirements. It was designed as part of an overlapping series of measures, including sentries and an intruder detection system. Lockheed Martin did not consider it prudent to unilaterally increase costs by providing functionality that the customer did not want or need.

The Way Ahead

We agree with the Coast Guard that the oversight has provided important recommendations for improvements to the Deepwater program. We are working with the Coast Guard as they have already begun to take the necessary steps to ensure successful execution of the Deepwater program. Our goal is to provide more capability to the Coast Guard 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. Lockheed Martin will continue to work 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 challenging, 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.

FOR THE RECORD

LETTER SUBMITTED BY THE HONORABLE LORETTA SANCHEZ, CHAIRWOMAN, SUBCOMMITTEE ON MARITIME, AND GLOBAL TERRORISM

May 25, 2007

Representative Loretta Sanchez, Chairwoman
Subcommittee on Border, Maritime and Global Counterterrorism
U.S. House of Representatives
Committee on Homeland Security
Washington, D.C. 20515

and

Representative Christopher P. Carney, Chairman
Subcommittee on Management, Investigations, and Oversight
U.S. House of Representatives
Committee on Homeland Security
Washington, D.C. 20515

Dear Chairwoman Sanchez and Chairman Carney:

I am writing to request that this letter be included in the record of your May 17, 2007 hearing on the Coast Guard's Deepwater program, "Deepwater: Charting a Course for Safer Waters." At that hearing, you received testimony from Mr. Fred Moosally, President of Lockheed Martin Maritime Systems and Sensors. As a former employee of this division of Lockheed Martin who had personal experience implementing this program, I am writing to point out that several of the representations Mr. Moosally made at the hearing were not correct. I urge you to continue your oversight activities and stand ready to assist in your efforts to hold the Coast Guard and Lockheed Martin accountable for their failures. My comments here are listed by issue:

Low Smoke

- Mr. Moosally suggests the COTS (Customer off the Shelf) directive overrode the Low Smoke requirement.
  - The fact of the matter is that we built almost all of the 490 cables – very few were non-COTS. In all of the cases where we built cables the parts were available to make Low Smoke cables. Waivers in those rare cases should have been no problem. Lockheed Martin didn't use Low Smoke cables in most of the cases because they were missed in the design and later not fixed for cost and schedule reasons. Also Moosally states there is no impact because the cables are small and that they connect to peripheral equipment such as printers. The requirement does not differentiate the need based on size or device they are connected to – it is based on use, location and potential hazard. According to the Department of Homeland Security Inspector General (DHS IG) the waiver the Coast Guard granted was inappropriate. Lockheed Martin put cost and schedule concerns over safety of the crew.

Ext Equipment

- Mr. Moosally says the Coast Guard was immediately notified of problems in mid-2005 there was a potential issue.
  - The Coast Guard was not immediately notified. Lockheed knew in late 2003 there were problems. The first item we looked in to was the FLIR systems which did not meet specifications (something Moosally admitted to in his statement). Management directed me and my team to not look

in to whether or not the equipment beyond the FLIR met environmental requirements. Even though I submitted an Integrated Coast Guard Systems (ICGS) problem report on this and specifically requested it be fixed or included as a deficient item on the DD-250 (the contractual acceptance document) Lockheed purposefully left it off that document. As a result of these actions Lockheed purposefully hid the true impact from the Coast Guard.

- The DHS IG stated that 30 items on the 123-foot patrol boats (123s) and over a dozen on the Short Range Prosecutors (SRPs) did not meet contractual requirements.
- The DHS IG stated that fulfilling these requirements was critical given the operational environment these boats operate in.
- The DHS IG stated the requirements were clearly defined.
- The DHS IG also stated that Lockheed Martin originally self-certified the systems as meeting the requirements. When questioned on why they self-certified these systems as passing when they actually failed Lockheed originally said these requirements did not exist and later recanted that and stated that certification was "not really beneficial".
- Lockheed did not notify the Coast Guard of the true extent of the problem until August 2006. Even at that point Lockheed stated that the equipment either did not or may not meet requirements. Lockheed then stated that checking to see if they met requirements would be "time consuming, expensive and of limited value". The truth of the matter is that verifying this can be done in several minutes by checking the vendor data on line or calling the vendor.
- Lockheed Martin actually submitted requests for waivers against these requirements stating that the 123s would most likely not face the adverse conditions in the requirements. This is a very reckless comment and request. Lockheed based this on the location of the first 8 123s. All 8 were sent to Key West - which would not expose the boats to extreme temperatures for example. This is a red herring. These were only 8 of 49 123s. A significant number of those other 123s were destined for places that experience extreme weather. Additionally the 8 boats mentioned could have been sent on duty outside of their originally intended home ports. The IG admonished Lockheed in the report along these exact lines.
- The IG closed on the issue by stating that these waivers should not be granted given the safety impacts of doing so.
- This example clearly demonstrates the lengths Lockheed Martin would go to avoid accountability. They went from incompetent in the beginning to willfully withholding information from the Coast Guard to actually advising and recommending that the Coast Guard waive the requirements because they overstated their need in this area. Lockheed was willing to deploy not only 49 123s with this problem and 91 SRPs but every other boat it built over the life of the contract. This is due to the commonality requirement built in the System of System design approach. Lockheed was directed to deliver like systems with common implementations. Lockheed's plan was and still is to continue down this road. If they succeed the Coast Guard will be crippled for decades to come as its critical systems will fail in adverse conditions.

TEMPEST

- Mr. Moosally states the DHS IG stated that even though the optimal cables were not used and there were visual TEMPEST failures that the acceptance of the systems - through the instrumented tests - was acceptable.
  - The fact of the matter is that the Navy failed the TEMPEST tests relative to the instrumented failures and that the Coast Guard improperly waived those failures (this includes having used many of the wrong type of cables). The waivers were improper because the person who waived those failures was not qualified to do so and those failures were too critical to waive according to the 232A TEMPEST requirements in the contract and government best practice norms. The IG erred in its findings on this issue. I would expect if asked they would now confirm that.
- Lockheed signed a self-cert document for the Matagorda saying it did pass 232A when they knew it did not.
- These failures pose extreme communications security risks. Not only can these boats be easily eavesdropped on they can inadvertently transmit clear classified information for hundreds or thousands of miles. For example the SIPRNET circuit - the government's classified internet - is used by many organizations in the government including DoD, the Coast Guard the FBI and DEA. Any compromise of this circuit compromises all of the users. Lastly - given Adm Collins own press release detailing a mission near Cuba several years ago - the Matagorda did in fact use the SIPRNET circuit. This action severely compromised the nations secure communications in two ways. One - anyone who was listening could clearly here or read what was transmitted. Second - one could compare the inadvertent clear communications against the intended encrypted communications and be able to tell how our crypto equipment was scrambling the information.
- The actions of Lockheed Martin have put the nation at risk. They were warned of this exact scenario in mid-2003 by not only myself but an internal TEMPEST expert and an engineer who worked for the Coast Guard. Lockheed Martin purposefully continued down a road that put the nation at risk to avoid accountability and to minimize coast and schedule impacts.

Cameras

- Mr. Moosally says the IG found the cameras fully comply.
  - This was an incorrect conclusion on their part. There is a 2 camera requirement in the Northrop specifications, not the Lockheed specifications.
  - There was a 360 degree requirement as shown by the official Coast Guard test lead who stated he checked for 360 degree coverage when he tested the system and the fact that the Coast Guard wrote the requirement the way they did to get the exact same solution they currently had on the 270-foot cutters.
- He says the blind spots are acceptable because the cameras are part of a multi-prong solution involving sentries and an intrusion alarm.
  - The system was requested to specifically eliminate sentries in port and help save money on personnel.
  - The intrusion alarm only works if you try to gain access to the inside of the boat. More importantly it does not stop

someone from putting a charge on the side of the hull or gaining access short of entry to the interior. One can still walk around the deck
  - The IG report criticized the Coast Guard and Lockheed Martin for knowingly installing a system with blind spots.
- Mr. Moosally says it wasn't prudent to fix the system because it was too costly.
  - The cost for one more camera, installed, was less than $1000 per boat.
- Like the issues before this, Lockheed has demonstrated its willingness to say and do anything it can to avoid accountability and to minimize cost and schedule impacts while it ensures the highest return possible for its shareholders.

In closing, I would like to make some comments on Mr. Moosally's testimony and his overall performance in these matters. In 2004, as I worked my way up the chain in order to find satisfactory resolutions of these matters I attempted to schedule a meeting with Mr. Moosally. He would not accept that request. I was especially discouraged at the time given not only the gravity of the issues but the fact that he was a former Navy officer – which should have heightened his sensitivity to these types of maritime safety and security issues. This, combined with the events on the USS Iowa in 1989 when he was the CEO, give me great cause for concern that I am especially disheartened and wary of his performance and ethical conduct.

Sincerely,

Michael DeKort

Michael DeKort

Ms. SANCHEZ. Now Mr. James Anton, please, for 5 minutes or less.

***ERR11*STATEMENT OF JAMES E. ANTON, SECTOR VICE PRESIDENT AND GENERAL MANAGER, U.S. COAST GUARD PROGRAMS, NORTHROP GRUMMAN**

Mr. ANTON. Good afternoon, Chairperson Sanchez, Chairman Carney, and distinguished members of the committees; and thank you for the opportunity to appear before you to discuss the Deepwater program.

I am the Executive Vice President of Integrated Coast Guard Systems and the Vice President of the Deepwater program for Northrop Grumman Ship Systems. As you may know, Northrop Grumman Ship Systems has nearly 70 years of experience designing, constructing, and maintaining ships of all types. In that time frame, NGSS' gulf coast operations has produced a total of 534 ships and has built nearly a quarter of the Navy's fleet.

On behalf of Northrop Grumman and all the men and women working in support of this program, I would also like to thank these subcommittees for their strong support of the Coast Guard and the Deepwater program.

The 110-foot patrol boats have seen extensive duty since their entry into service some 20 years ago. The 123 conversion was intended as an interim measure to enhance the capability of the aging patrol fleet until the new vessel, the Fast Response Cutter, was available to replace it. The conversion work was performed by Bollinger shipyards, the original builder of the 110s under subcontract in Northrop Grumman. The conversion project underwent a traditional design and review process with contractor and Coast Guard personnel.

After being awarded the patrol boat conversion work but before beginning the actual conversion work, the Coast Guard ICGS, NGSS and LM and Bollinger, with our joint venture partners, en-

gaged in design reviews, including a preliminary design review, a critical design review and a production readiness review. During these reviews, the 123-foot conversion design was presented to the Coast Guard in increasing levels of detail.

Although not a contract requirement, ICGS conducted the preliminary design review, or PDR, as part of the PDR process. Drawings and analysis were submitted to the Coast Guard for consideration and review. Half of the attendees at PDR were, in fact, Coast Guard personnel.

The next phase was the critical design review, or CDR. In connection with CDR, the Coast Guard reviewed a series of design deliverables. CDR presentations included results from a number of design tests. The Coast Guard represented nearly half of the attendees at CDR.

CDR was then followed by a production readiness review, and during the PRR the production process, procedures and state of the design to convert the 110 vessel into the 123 where were presented. As with the design reviews, the Coast Guard fully participated in the PRR process.

Four days later, the Coast Guard delivered the Matagorda to Bollinger for conversion in Lockport, Louisiana.

In addition to these various reviews with the Coast Guard, during the conversion of the first vessel, the Matagorda, the American Bureau of Shipping examined the design of the hull extension and new deckhouse and monitored key elements of the work being performed. The Coast Guard had a Program Management Resident Office on site at Bollinger to oversee the 123 conversions. At the completion of each conversion and as part of the acceptance process, the Coast Guard, similar to what the Navy does, established an INSURV inspection board to examine the performance of the converted Cutter and make a formal recommendation of acceptance. At the conclusion of the Matagorda work, ABS issued a letter of approval for the conversion work and expressed no reservations with the feasibility of the conversion. Based on all these reviews and actions, the Coast Guard accepted delivery of the Matagorda. This same process was applied to each of the other seven patrol boats delivered to and accepted by the Coast Guard.

To date, the problems associated with 123 conversion include buckling and hull deformation as well as shaft alignment problems. Neither the Coast Guard engineers nor our engineers have been able to determine the root cause for the 123 patrol boat structural problems.

On April 13, 2007, Admiral Allen decided to decommission the eight 123-foot patrol boats converted under the Deepwater program.

We are committed and determined to identify the root cause of the structural problems. Reviews and analysis of the data available to industry on the 110 and 123 patrol boats continue in an effort to better understand the cause or causes of both hull buckling and shaft alignment problems; and we will continue to support the Coast Guard's effort to address its mission needs.

Thank you again for the opportunity to discuss with you the Deepwater program.

Ms. SANCHEZ. Thank you so much for your testimony.

[The statement of Mr. Anton follows:]

FOR THE RECORD

PREPARE STATEMENT OF JAMES E. ANTON

Good afternoon Chairperson Sanchez, Chairman Carney and distinguished members of the Subcommittees.

Thank you for the opportunity to appear before you today to discuss the Deepwater Program. As you know, within the Integrated Coast Guard Systems (ICGS) structure, a joint venture established by Northrop Grumman and Lockheed Martin, Northrop Grumman Ship Systems (NGSS) is responsible for hull, mechanical and electrical design construction, installation of Command, Control, Communications and Computers, Intelligence, Surveillance and Reconnaissance (C^4ISR) equipment provided by Lockheed Martin, and overall support of the surface assets, such as the 110 foot to 123 foot converted Island Class Patrol Boats. References in this statement to ICGS or separately to Northrop Grumman or NGSS should be construed to mean the role of Northrop Grumman Ship Systems as part of ICGS.

Northrop Grumman has nearly 70 years of experience designing, constructing and maintaining ships of all types. In that time, NGSS's Gulf Coast operations has produced a total of 534 ships—351 ships at Ingalls and 183 at Avondale—and has built 24 percent of the Navy's current fleet of 276 vessels. In just the last 30 years, we have completed 15 new designs representing a diverse group of military and commercial seagoing ships: LSD 49; CG47, DDG993, LHD1, LHD8, LSD41, LMSR, USCGC Healy (Polar Icebreaker), 2 Classes of T–AO (Kaiser & Cimarron), Polar, NSC, LPD17, Saar5, and DDG1000.

On behalf of Northrop Grumman and all of the men and women working in support of this program, I would like to thank these Subcommittees for your strong support of the Coast Guard, and of the Deepwater Program. We look forward to working closely with you and the Coast Guard to ensure the success of this important modernization. The following statement contains information that I, on behalf of Northrop Grumman, am submitting based on my current knowledge, information and belief.

The Coast Guard's current 110 foot patrol boats were built in the 1980s and early 1990s by Bollinger Shipyards, Inc. These boats have seen extensive duty in support of the Coast Guard mission to save lives, interdict aliens and seize drugs. ICGS and its teammate, Halter Bollinger Joint Venture (HBJV), proposed to convert the 110 foot boats to 123 foot boats as an interim measure to improve the capability of this vessel until its FRC replacement entered operation in 2018.

ICGS proposed the conversion concept as a means to provide the Coast Guard with the capability to continue to meet its mission objectives while remaining within the confines of program funding requirements. Deepwater competitors were required to propose a "system of systems" solution that did not exceed the funding limitation of $500 million per year. With new assets such as the National Security Cutter (NSC), Maritime Patrol Aircraft (MPA) and the Vertical Unmanned Air Vehicle (VUAV) being developed early in the program, it was not possible to design, develop and construct new patrol boats at program inception while keeping within annual funding limitations.

Bollinger had designed and built the original 110 foot boats and was very familiar with their construction. Bollinger was awarded a contract for 16 110' Island class boats in August 1984 and another contract for 33 more boats in 1986. The design of the 110' Island class was approximately 20 years old and was based on an existing patrol boat developed by a British firm, Vosper Thornycroft (UK) Ltd. The 110' Island Class boats were commissioned between November 1985 and 1992. Notably, after the first boats came into service, it was discovered that the 110s suffered from hull problems when operated in heavy seas. As a correctional measure, heavier bow plating was added to hulls 17 through 49 during construction and additional stiffeners were retrofitted to earlier hulls.

Under the proposed Deepwater conversion plan, HBJV added a 13 foot extension to the 110', which was similar to the 9 foot extension they had successfully added to the Cyclone patrol boats starting in 2000. This extension accommodated a stern ramp for the launch and recovery of a small boat, used primarily to support boarding and rescue operations. In addition, the conversion installed an improved pilot house, enhanced C^4ISR capabilities, and extensively improved habitability and maintenance. During the conversion process HBJV identified and renewed hull plating in areas where an ultrasonic thickness inspection indicated that the existing plating was deteriorated.

At the time the proposal was submitted, some general knowledge about the condition of the 110s was available, and ICGS believed that replacement of the hull plating would adequately address and offset their deteriorated condition. This is consistent with the findings of the Coast Guard's 110' WPB Service Life Extension Board, published in March 2002, which recommended a program of systematic hull repairs, predominantly in documented problem areas, to address the hull deterioration problems that were impacting the operational availability of the 110s.

As is typical of ship construction projects, periodic reviews of the 123' conversion design were held. Prior to each review, the contractors submitted numerous design documents, including engineering data, calculations and model test results, to the Coast Guard for its review and comment. Coast Guard comments were received in conjunction with each of the three primary design reviews, all of which included Coast Guard, NGSS, ICGS and HBJV representatives.

The first such review was the Preliminary Design Review (PDR). The Preliminary Design Review was not a contract requirement, but was conducted by ICGS as part of the 110' to 123' design process. As part of the PDR process, approximately 43 contract-required data items (CDRLs), including 23 drawings and 14 analyses were delivered to the Coast Guard for consideration and review. During PDR, the Coast Guard was provided with an overview of procurement, model testing procedures and schedule, as well as the planned hull/structure inspection process, which included blasting the hull to the main deck, ultrasonic and visual inspection, as well as bulkhead Ultra Sonic Testing allowance. The Coast Guard represented 23 of the 46 attendees at PDR.

The next phase was the Critical Design Review (CDR). In connection with CDR, the Coast Guard reviewed 47 design deliverables. In addition to 123' conversion design information and drawings, CDR presentations included design tests such as model basin testing for bare hull resistance, propeller and open water cavitation, self propulsion, planar motion maneuvering and course keeping, numerical simulations of turning circle and course keeping, and sea keeping. The Coast Guard represented 34 of the 75 in attendance at CDR.

CDR was followed by a Production Readiness Review (PRR). During the PRR, the production process, procedures and state of the design to convert the 110' vessel into a 123' were presented. Following the PRR, ICGS received notification from the Coast Guard that "ICGS had presented a comprehensive assessment of the state of the design development and readiness for production." The Coast Guard did not identify any risks associated with hull deformation or buckling. Four days later the USCG delivered Matagorda to Bollinger at Lockport, Louisiana for conversion.

In addition to these various reviews with the Coast Guard, during the conversion of the first vessel, the Matagorda, the American Bureau of Shipping (ABS) examined the design of the hull extension and new deckhouse and monitored key elements of the work being performed. The Coast Guard had a Program Management Resident Office on site at Bollinger to oversee the 123' conversions. At the completion of each conversion and as part of the acceptance process, the Coast Guard established an INSURV board to examine the performance of the converted cutter and make a formal recommendation of acceptance. At the conclusion of the Matagorda work, ABS issued a letter of approval for the conversion work and expressed no reservations with the feasibility of the conversion. Based on all of these reviews and actions, the Coast Guard accepted delivery of the Matagorda. This same process was applied to each of the other seven patrol boats delivered to and accepted by the Coast Guard.

The Performance Specification requirement calls for the 123' to be capable of unrestricted operation up through sea state 3, or seas averaging approximately four feet or less. Coast Guard operation restrictions are imposed beginning at sea state four, or seas less than eight feet, where the boats are to be able to sustain limited operations, altering course or reducing speed as required to maintain a ride which does not damage the boat or its machinery or overly fatigue the crew. The Performance Specification requires the 123' to be able to survive sea state 5, or seas averaging between eight and 13 feet, maneuvering as necessary to minimize damage or injury to the crew, and then be capable of returning to port under its own power once the seas have subsided.

In September of 2004, after all 8 hulls had entered the conversion program and the first 4 hulls had been delivered, the Matagorda was forced to conduct a high speed transit to avoid Hurricane Ivan. This operational necessity forced the Coast Guard to transit in a sea state and speed where the cutter was operating near or above the design limits of the 123' conversion. Upon arrival at their destination, the crew discovered buckling of the side shell and main deck on the starboard side near midship. An engineering tiger team was formed consisting of Coast Guard and NGSS personnel. This team was dispatched to investigate the problem where it was

discovered that the Matagorda had an inherent workmanship issue in the baseline 110' that existed prior to the conversion and contributed to the hull buckling. Specifically, a hidden, unwelded aluminum deck stringer was discovered immediately beneath the area where the failure occurred. Other boats were examined, and this unwelded stringer was also found on one additional hull undergoing conversion. When modeled using finite element analysis, the stresses in the panels which failed on Matagorda were significantly higher than the stresses shown when the model was run with this stringer intact. Based on this finding, the team believed this to be the primary cause of the buckling on Matagorda, and repairs were made accordingly.

In addition, a reconstruction of the engineering analysis of the 123' structure was conducted. Based on this, it was also discovered that an early calculation overstated the strength margin for the boat. A revised calculation using a common, agreed to set of assumptions by a Coast Guard, Northrop Grumman and Bollinger engineering team showed the 123' would still meet the required operations defined in the Performance Specification.

In an effort to further improve the structural integrity on the 123s, three stiffener bands were installed; one at the upper edge of the side shell, one below this one and another on the edge of the main deck to increase the overall structural strength. While the finite element analysis and conventional calculations both agreed that the original hull, with the stringer under the deck intact, should be sufficient throughout the operating range of the 123', these additional stiffeners were considered to provide an added margin of strength.

By March, 2005, 6 of the 123s had received the structural upgrade and had been delivered. Certain operational restrictions imposed on these boats by the Coast Guard following repairs to the Matagorda had been lifted. Then, during a transit from Key West to Savannah, Georgia, the Nunivak experienced hull deformation in an area aft of the new reinforcing straps. This deformation occurred in a different area from that of the Matagorda. Further, this was not an area which had indicated potential for high stresses under any conditions modeled in the earlier finite element analysis.

An outside engineering firm, Designers and Planners, was engaged by the Coast Guard to perform a more detailed finite element analysis of the 123' hull, which showed that the overall hull structure design was adequate under all expected operating conditions up to the worst operating condition modeled. The analyses were not able to replicate the deformation seen on Nunivak. A more detailed look at specific regions on the hull showed an area with high potential for localized buckling in a section of the side shell where the original 110' hull had been constructed of exceptionally thin four-pound plate. Despite this finding, no actual failures had ever been experienced in this area on 110' or 123' patrol boats. As a precaution, this thin plate was replaced with heavier plating on those cutters undergoing the Post Delivery Maintenance Availability, with plans to eventually upgrade all the boats. Lastly, a metallurgical analysis of the deck material determined that the particular grade of aluminum used on the 110s is prone to corrosion and cracking in elevated heat and marine conditions. We provided that information as input to the testing and analysis that was being conducted by the USCG.

In July 2005, then Coast Guard Commandant Admiral Collins' written testimony before Congress outlined the twofold reason for stopping the conversion process as follows: "As the first eight 110' to 123' conversions were conducted, the Coast Guard found that the 110' WPB hulls were in much worse condition than anticipated. This extended the conversion timeline and would have increased projected costs for conversions after the first eight (the first eight were negotiated under a firm-fixed-price contract). An operational analysis of the 123' WPBs also identified high risks in meeting mission needs, particularly in the post–9/11 environment." Based on the deteriorated condition of the 110' hulls and post 9/11 requirements, the Coast Guard accelerated FRC design and construction by ten years to meet the shortfall in patrol boat hours.

On April 13, 2007, Admiral Allen decided to decommission the eight 123 patrol boats converted under the Deepwater Program. To date the problems associated with the 123' conversion include buckling or hull deformation and shaft alignment problems. In addition to the actions previously described, additional and substantial work has been (and continues to be) done to determine cause or causes. In addition to the repairs and reviews of structural calculations, the review process has continued by conducting two independent finite element analyses, modeling both the original and the upgraded hull, and completing metallurgical testing that revealed an issue in the main deck which exists on both the 123s and across the legacy 110 fleet. Extensive strain gage testing has been conducted on a 123' hull to validate the finite element model and to identify potential problem areas which the model may not

show. The parent craft designer, Vosper Thornycroft, was engaged by the Coast Guard to evaluate the 123' hull and provide recommendations. Data has been collected on shaft alignment and maintenance procedures both during the conversion and since, so that the procedures for checking and correcting alignment can be validated for both the 110' and the 123'. Elements of the 123' design, including the propellers and the SRP stern-launch system are being reexamined and validated.

We are committed and determined to identify the root cause of the structural problems. Reviews and analyses of available data on the 110' and 123' patrol boats continue in an effort to better understand the cause or causes of both hull buckling and shaft alignment problems. Until these efforts are complete, it is premature to speculate on the final cause.

I want to assure the Subcommittees that Northrop Grumman will continue to work with the Coast Guard to address its mission requirements throughout the life of the Deepwater Program.

Thank you for this opportunity to discuss with you the progress of the Deepwater Program.

Ms. SANCHEZ. I will remind each member that he or she has 5µminutes to question the panel.

Mr. Carney, would you like to go ahead and take your 5µminutes?

Mr. CARNEY. I would. Thank you Madam Chair.

Mr. Moosally, first of all, thank you very much for your service to this Nation, distinguished career indeed. I am very, very proud to know you, sir.

I was also very pleased to read in your statement that, quote, you have deep respect for congressional oversight, end quote. But I will say to both of you that I am concerned that ICGS's parents do not seem to have that same level of respect for oversight conducted by the DHS Inspector General.

I was very disappointed to learn from the IG's audit report of the National Security Cutter, the ICGS, in concert with both Northrop Grumman and Lockheed Martin, sought to put onerous restrictions on the IG's ability to review this troubled program.

Specifically, the IG was asked to submit all requests for documents in writing along with a detailed description of both the purpose of the request and the topics to be addressed. Because of these unacceptable preconditions, the IG conducted no formal interviews with ICGS, Northrop Grumman or Lockheed Martin personnel.

Gentlemen, that is not how oversight is supposed to work. Will you commit today to providing the IG the access to documents and personnel it needs to perform the oversight function for which you express your respect?

Mr. MOOSALLY. If I could respond, Chairman Carney.

First of all, let me say that I don't agree with Mr. Skinner's characterization. In his 39 years, he has never been asked for what is the subject. That is standard practice in industry when you have an IG ask you a question, that what is the subject, what is the topic; and we as a corporation have the responsibility to protect the rights of our people. That is why we would ask for our lawyer to be present. So I don't agree with this characterization.

To my knowledge—and I will go back and check this—we were only asked one time to provide people; and we went back and I said, okay, what is the topic, what is the subject, and we would like to have a lawyer present. And we were never asked again.

So to characterize that as this has been a continuous problem in my mind is not correct. And if asked properly under the right—absolutely.

And, by the way, I think we have had like I don't know how many other investigations. We have had no problem having our people available for investigations. That is not a problem.

Mr. CARNEY. Are lawyers always present, company lawyers always present?

Mr. MOOSALLY. If it calls for it, yes, we would like to have the lawyer present to protect the rights of our people.

Mr. CARNEY. Understood. Okay.

Mr. ANTON. Could I just add one thing?

Mr. CARNEY. Yes, please.

Mr. ANTON. I would also like to support what Mr. Moosally said.

But I would also like to inform the committee that we have supported other Office of Inspector General audits, and those audits followed this very same process that Mr. Moosally characterized. We also put our request in writing. We never refused the audit, so to speak. We put our request in writing, and we never got a response.

So I just wanted to add that for clarification.

Mr. CARNEY. Thank you.

Mr. Moosally, I believe the NSC 1 is due for visual inspection in June and the C4ISR TEMPEST inspection in July. Are there any potential problems with the systems that you are now aware of that have not been disclosed to the Coast Guard?

Mr. MOOSALLY. Mr. Chairman, we are working very closely with the Coast Guard. We did learn some lessons on the 123s, although I believe the outcome was very positive. It passed the TEMPEST inspection and was certified by the Coast Guard.

What we are doing now I think is getting more collaborative, working together. It is kind of like the production line of the automobile industry where you put quality in from the start throughout the whole process.

So we are working now with the Coast Guard. We have third-party people looking at what we are doing for TEMPEST and all the equipment; and I think you will see a much better outcome here, you know, because we do this all the time. We have got a 30-year history of working with Ingalls and Bath Iron Works building DDG–51s and CG–47s. We know how to do this. When the requirements are laid down and we get together with the customer and work this out, we know how to do it; and I think you will see a much better outcome here as we go forward on the National Security Cutter.

Mr. CARNEY. Thank you. Yield back.

Ms. SANCHEZ. Mr. Souder, for 5 minutes or however much time you may consume.

Mr. SOUDER. Mr. Moosally, when you said "a lawyer present if it calls for it", what did that mean?

Mr. MOOSALLY. We like to have a lawyer present to protect the rights of our people.

Now if the people—excuse me, sir. Go ahead.

Mr. SOUDER. Go ahead.

Mr. MOOSALLY. If the people decide they want to go on their own, don't want a lawyer, they can do that. We are not holding people back. We are not preventing—as you well know, if an individual in a company decides he wants to go talk to the IG, he can go do it.

Mr. SOUDER. Have you had cases talking to the IG where you haven't had an attorney present?

Mr. MOOSALLY. I can't say 100 percent that that is true.

Mr. SOUDER. Is the fact there is a potential economic dispute here more or less to protect company interests? What interests of the employee would you be protecting separate from the—

Mr. MOOSALLY. Well, I think if—there could be a possibility of individual culpability, that that would be what we would be protecting.

Mr. SOUDER. And is it standard practice that you have to seek questions in advance?

I would think one of the things an Inspector General would need is not necessarily organized response but would want to talk to the individual non-synchronized. The obvious reason the company lawyer is there is because you need to be able to put it in context.

Mr. MOOSALLY. Right. We usually ask—it is usually standard practice to ask what is the standard subject of your inquiry.

Mr. SOUDER. So do you believe the Inspector General will come back if we ask him a follow—up question and say there was only one inquiry?

Mr. MOOSALLY. To my knowledge, to the best of my knowledge, I think that is the case.

Mr. SOUDER. Well, one thing I also want to say is that it is important when we look at Deepwater, those of us who have really supported Deepwater, that in fact there have been many upgrades that they have worked on. You mention Morgenthau in your written testimony, which I have been on last summer and it has dramatically changed, as have a number of the other upgrades, particularly just on the ice cutter Mackinaw; and to watch the new technology on these boats compared to the old technology is amazing.

But, Mr. Anton, there is this fundamental question of, if the—kind of the decks buckling and the hulls curving and the shaft isn't working right, that those are pretty significant things in a boat. My understanding from your testimony is that you still haven't figured out what triggered that. Do you believe it was the boat wasn't in as good a condition? Do you believe it wasn't clear in the contract? Where do you think the source of the problem is? I mean, for a boat, these are pretty much it, other than the engine isn't working.

Mr. ANTON. Let me take a minute and roll the tape back a little bit to what the commandant said when he took them out of commission. He basically said that they had done multiple analyses from various experts around the country and that they, the Coast Guard, cannot find a root cause.

We have not given up on that. We just completed ship check of the vessels back, I believe, a month or so ago. We have requested—when the commandant made that request in April or made that statement in April, we requested immediately the analysis from the Coast Guard that they had.

We received that analysis last week. That analysis is probably six to eight inches, whatever—wherever my hand is here is how thick that analysis is. So we have an ongoing investigation into the root cause, because we need to find the root cause. Because when we do we will understand where the accountability lies.

Mr. SOUDER. Aren't there multiple potential root causes here? It sounds like—

Mr. ANTON. There could be. And for me to speculate on them, it just wouldn't be the right thing to do.

Mr. SOUDER. Have you had this problem with other ships you have built?

Mr. ANTON. No, sir.

Mr. SOUDER. Have you had one of the three, either deck or hull or shaft?

Mr. ANTON. Maybe I didn't hear the last question. Let me—

Mr. SOUDER. I wondered how common this is to have this series of problems, where the boat basically is not useable; and, in this case, there were multiple reasons that appeared to be triggering it. The 30-year life figure is one question which may have been a specs question. The other, smaller boat seemed to have a whole different complex.

Mr. ANTON. Well, you know, I think you are right. It is a very complex problem, and there may be more than one contributing cause.

Again, we have not given up on sorting that out. We are continuing our analysis. We are not going to rest until we exhaust what we can to figure this out.

Mr. SOUDER. One of the things in the written testimony was that in one hurricane-type condition they were running at near capacity. But from my impression of studying the Coast Guard, they run it as high as they can—as they are chasing someone that is in a cocaine boat, they are going to be using all their assets at maximum to even try to keep up. If they are out in Alaska, and the waves are going to be big out there where the fisheries are, they are going to be on the edges of hurricanes. Was that not in the tolerances, that they might be working at maximum level for much of the time even?

Mr. ANTON. There is a misperception that the 123s, once converted, would be able to operate unrestricted and in the same environment as the 110s. The performance spec did not require for the 123 to operate unrestricted in sea states greater than 3.

Mr. SOUDER. So in a misconception—was the misconception—you mean by that the Coast Guard thought that they would, and you didn't have it in your specs?

Mr. ANTON. No. There has been some of the testimony in previous hearings where the comment was made that the 123s were spec'd to be or something of that nature—and, again, I am operating from memory—that the 123s were spec'd to operate in the same environments as the 110; and that is not the case. The performance spec clearly annotates that it is unrestricted operations in sea state 3; and in sea state 4 and 5, there are restrictions placed on the operation of the vessel.

Mr. SOUDER. Thank you.

Ms. SANCHEZ. Gentlemen, I just received a copy of the letter sent to ICGS from the Department of Homeland Security, the contracting officer for the U.S. Coast Guard, with respect to the letter we talked about earlier today. I would like to submit it, with unanimous consent, for the record.

I am trying to figure out how y'all did this. So your companies have a long history of working on the defense side, in particular on projects, and you have a long history of partnering with different companies; and even though some might call you competitors, on this particular one you are partnering together in a sense and, I am assuming, with Bollinger Shipyards and others. So you put this contracting together through a holding company or what have you, and you are the chairman—and you are the vice chairman or board member?

Mr. ANTON. Executive Vice President.

Ms. SANCHEZ. Right. So you are used to working with each other, and you have got all this experience of doing ships and air and integrated systems and everything. Am I correct? I mean, you have done this before?

Mr. MOOSALLY. Certainly. That is our business. We put combat systems on ships.

Ms. SANCHEZ. Okay. This contract had indefinite delivery, indefinite quantity, and it was performance-based, which I am told means as long as we think you are doing a good job we are going to be open-ended and keep you on and keep you doing things and decide how many or whatever we want and this is the way we are going to go. Am I correct? Is that more or less the type of contract you had?

Mr. MOOSALLY. More or less.

Ms. SANCHEZ. Is this standard? Is this the type of contract you see? How often do you see that type of—nebulous-type-looking contract? Ten percent of the time? All the time?

Mr. ANTON. I don't believe that—and I would have to go back and check because Northrop Grumman is a very large corporation, but I do not believe that we have a performance-based award term contract at Northrop. I would have to go back and look, okay? Because when you—I just don't think we have one, okay? So that is the answer.

Ms. SANCHEZ. You don't have—this one is not that? Or you don't have another one?

Mr. ANTON. This one is an award.

Ms. SANCHEZ. So you have really never seen something like that? This is a strange animal?

Mr. ANTON. I am not going to say it is a strange animal. What I am going to say is I would have to go back and look. I don't believe—you know, I am really from the shipyard, so I can tell you that the shipyard to my knowledge does not have an award term performance-based contract. But I have to go back and check the rest of Northrop Grumman.

Mr. MOOSALLY. For Lockheed Martin, we do have some performance-based IDIQ contracts; and a lot of our contracts are based on incentive fees or award fees. It has to do with performance, but, you know, there is a lot of service-type companies but none IDIQ.

Ms. SANCHEZ. What I am trying to get at, this is not a norm for the industry. You know, we are looking at this and we are trying to figure out—and I am sure you all probably will litigate this in the courts for a while, I would assume, with the government or whatever. But we are trying to decide what do we need to do with the Coast Guard to change its procurement system to make sure

we get back on track. You know, was it a problem with the engineering? Was it a problem with the actual ships, that they just weren't good enough to even be upgraded? I mean, these types of things.

So when I ask you about the contract, I am just trying to figure out, is this a very abnormal type of contract that we would see coming out? Which in a sense means the Coast Guard wasn't necessarily capable of handling this procurement.

Mr. MOOSALLY. I wouldn't call it abnormal, and I can't answer whether the Coast Guard is capable or not, you know.

What it comes down to, we talk a lot, as I said in my opening statement, about the 110, 123 conversion. If you look at the other parts of the program, aviation side—you heard Captain Baynes talk about the C4ISR and what a great thing that has been for the Coast Guard down there, and Congressman Souder talked about it. So if you get outside of this specific program, there is a lot of good things that we are, I think, doing in the Deepwater program.

Ms. SANCHEZ. Mm-hmm.

Mr. MOOSALLY. You know, the aviation side, the re-engining of HH 65.

There is an example of when the prior commandant came to me and said, you know, Fred, we have engines shutting down while we are out rescuing people. We had to leave a swimmer in the water for 3 hours because they didn't have enough lift on the helicopter. He asked, could we re-engine these helicopters real fast; and we said yes. So now we have 80 of those helicopters out there that served in Katrina and have, you know, twice the power and so forth.

So I wouldn't look at this thing, hey, there is a totally broken acquisition here. There is a problem, obviously. You have the letter up there. The 110, 123s have been the focus of this problem. And for these hearings, in my view, for the most part, I talked about the allegations here.

Ms. SANCHEZ. Well, it happens to be that way simply because, as you know, it is just like with us. When we are the government, the taxpayers don't look at all the great things they are getting. They generally look at where did you mess up? Where did you get the $600 toilet seat or what have you?

And part of oversight is that—I mean, my part from my subcommittee is to figure out, how do I get this back on track? You know, if we are going to keep the same players, how do they play well together so that we can get this done? Because absent the eight and the six and the five to three—I mean, I am not only short—not only not augmenting my Coast Guard where for homeland security I need to be doing that, but it is actually hindered at this point because it is down so many ships. So I am trying to figure out how do we move forward.

But oversight, obviously, their job is, I would think, to look at what went wrong and how did it happen and who was asleep at the wheel or who didn't know what they were doing.

Now having to deal with that kind of contract, would you look at a different way to do that kind of contract to deliver?

Mr. MOOSALLY. I think we have made suggestions to the Coast Guard in how to improve the contracting, the acquisition model

that we are using. We certainly could provide something for the record, Chairwoman Sanchez, if you would like this.

Ms. SANCHEZ. That would be great.

Ms. SANCHEZ. Mr. Anton?

Mr. ANTON. We do—you know, as both—Lockheed Martin, Northrop Grumman have both made recommendations to the Coast Guard, and the Coast Guard is changing themselves, and so we—you know, I think I agree fully; and I am happy to take that for the record.

Ms. SANCHEZ. Thank you.

Ms. SANCHEZ. Ms. Jackson Lee, do you have any questions for our panel?

Ms. JACKSON LEE. I do.

PREPARED STATEMENT OF THE HONORABLE SHEILA JACKSON LEE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

I thank the Chairman and Ranking Member for the opportunity to participate in this important hearing today. I look forward to hearing from the witnesses about this important issue of ensuring that we are employing the most effective and efficient safety measures and mechanisms necessary to keep our waters safe and secure. I am also pleased to welcome our distinguished panel of witnesses: Rear Admiral Gary T. Blore, Inspector General Richard Skinner, Captain Steven Baynes, Mr. Fred Moosally, and Mr. James Anton.

Mr. Chairman, it is a great opportunity for all of us to be here for the purpose of discussing and considering the future of the Deepwater program and whether the Coast Guard has the sufficient program management capacity to run the program effectively. We certainly need to be informed as to whether we are using the optimal performing and most cost efficient tools to keep our waters safe from potential threats to the citizens of this country.

In the mid-1990's, after realizing that many of the Coast Guard's aircraft and cutters were reaching the end of their operational lives, the Coast Guard decided to replace all of these assets in a single procurement program—the Integrated Deepwater System program, otherwise referred to as Deepwater. It is my understanding that the Coast Guard implemented Deepwater to replace or modernize the approximately 90 ships and 200 Coast Guard aircraft used for missions typically taking place more than 50 miles offshore. I also understand that the primary missions carried out in this "deepwater" zone are drug and migrant interdiction operations, search and rescue, homeland security, and fisheries law enforcement.

The contract called for new ships, aircraft, and command and control systems to be delivered within 20 years, though the contract with ICGS could extend to up to 30 years. Deepwater was a pre-9/11 project, but post-911 the demands placed on the Coast Guard changed are dramatically different. Consequently, the cost estimate increased from $17 billion to $24 billion, and the mix of assets was altered to reflect the Coast Guard's greater role in homeland security.

From its inception, Deepwater included funding to maintain the Coast Guard's existing air and sea fleet until new ships and aircraft came online. Unfortunately, in recent years additional funds have been required to maintain the existing fleet, while at the same time delivery schedules for new equipment has slipped. Hence, the efficiency of cost and proficiency of performance is now under question. Hopefully, we can gain some helpful insights from this hearing to help move us in the direction of remedying these apparent inefficiencies. Yes, we need to use whatever measures necessary to keep our waters secure, but at the same time we want to make sure we are not operating in an unnecessarily subpar manner, whether financially, or otherwise.

Unlike the Department of Defense, which always has large systems under development and has an acquisition infrastructure in place to support these efforts, historically the Coast Guard has not purchased major assets with regularity. Thus, their acquisition and program management structure was—and is—not as well developed and mature as that at the Department of Defense.

Performance based contracts have almost universally not worked well without a robust program management and oversight structure to support them, as well as a clear understanding that it is the government in charge, not the contractor. The troubles with Deepwater bear this out—the Coast Guard deferred excessively to ICGS and did limited oversight. The Coast Guard now acknowledges that it was

"naive" and "too reliant on the integrator"; in the Inspector General's words, the Coast Guard "abdicated" decisions to ICGS and failed to monitor to ensure that ICGS was not performing inherently governmental functions. The Inspector General said that there was a perception both within and without the Coast Guard that ICGS, not the government, was running the program.

As I understand it, despite myriad problems, the Inspector General believes that Deepwater must go forward because of the problems the Coast Guard has in terms of its operational assets, and stopping Deepwater would set it backwards. If Deepwater remains in place, it is clear to me that Deepwater needs to be better managed and needs ongoing oversight—both from the Inspector General, and from Congress. I look forward to hearing from all of our witnesses today and hope to gain some valuable information to provide pertinent solutions to this very important homeland security concern.

Thank you, Mr. Chairman, for convening this hearing. Again, welcome to the witnesses.

I yield back the remainder of my time.

Ms. SANCHEZ. You are recognized for 5 minutes.

Ms. JACKSON LEE. Thank you.

For many of us on our committee, this hearing has a direct impact. I represent a portion of the Houston port; and, frankly, being one of the more unique ports in the Nation and around the world, inasmuch as it is somewhat man-made, it was a brainchild of many of our founding fathers and mothers of Houston to dredge an area and to allow us to grow a port, if you will.

So when I first came to the understanding of the inception of Deepwater, which included funding to maintain the Coast Guard's existing air and sea fleet until new ships and aircraft came online, that was a good thing. But we find out in recent years that additional funds have been required to maintain the existing fleet, while at the same time delivery schedules for new equipment has slipped.

The chairwoman and chairman—and I want to thank them both for this hearing. I think the chairwoman has just indicated that there is a letter from the Coast Guard that referred to the revocation of a contract and the dry docking of a certain number of ships because they are not able to function on rough seas. It seems to be that the Coast Guard's whole mantra, among their many other duties, is about making sure they are able to sail the seas and to be the kind of front line of defense there. To me that is horrific. That is horrible. That is certainly a cause for our concern.

Let me raise this question. Do you agree with the Inspector General's assessment that the Coast Guard abdicated decisions to the ICGS, allowing the ICGS to perform inherently governmental functions? The Inspector General said there were no benchmarks. The Inspector General said that he had not seen in 39 years this kind of blocking. What is your response to that?

Let me ask a second question so that you can both answer, and this will go to Mr. Anton.

Mr. Anton, please tell me about the mitigation plan for the National Security Cutter. In particular, I would like to know what third parties you intend to bring in to certify that it will be done—that it will work, if you will. The first question.

Mr. MOOSALLY. Madam, I will answer the question on the—as I did earlier on the IG's allegation that in 39 years he has never seen somebody blocking talking to the IG. I don't agree with that statement as far as our invoking what we believe is the right kind of

process to have, understand what the subject of the IG's questions are and to protect our people with a lawyer present.

As far as the Coast Guard—I know a lot has been made about the Coast Guard basically abdicated their responsibilities to the ICGS team to Lockheed Martin and Northrop Grumman. I don't agree with that either. Because we have been involved with the Coast Guard in every part of this program and the IPTs that were—the Coast Guard was involved in. There was final decisions made by the Coast Guard that we ran through on equipment, et cetera. So I don't necessarily agree with that statement.

I don't believe that they fully abdicated their responsibility to us, and we were kind of running around doing things on our own. I don't agree with that.

Ms. JACKSON LEE. I hope this committee will fix it, but, obviously, this program is wracked with problems. Obviously, the Inspector General had problems; and I think the Inspector General found gaping holes. That really speaks to the fact that we have got ships being dry docked because this program doesn't work.

Mr. Anton, the mitigation question, please.

Mr. ANTON. On the National Security Cutter, there are some 978 standards which are on contract. Those standards go from anywhere from structure to distributed systems to electronics and on to armament.

Ms. JACKSON LEE. My time is short. My question is whether or not you looked at any mitigation plan and was it not true that it was the Navy's CCD at Carderock, not the Coast Guard or you that found the problems? The defects?

Mr. ANTON. The CCD is the 110s, 123s. In relation to your question on certification of the National Security Cutter, we are required by contract to have ABS certify the structure of the National Security Cutter, to approve the design of the National Security Cutter structure, that it is in accordance with the specifications. We are also on contract for the Navy to come in and conduct the in-service inspection of the National Security Cutter at acceptance trials.

We are on contract for 46 separate certifications from third-party agencies. For those that are not done by third party, we are required by contract to assemble all of the artifacts which demonstrate that we have met that standard and submit those to the Coast Guard, and we have begun that process today.

Ms. JACKSON LEE. And is that, in your mind, a mitigation plan for the structural defects?

Mr. ANTON. The National Security Cutter is designed in accordance with the contract specifications, and let me tell you what those entail.

The contract specifications for the National Security Cutter have been in use in ship design since World War II. Those specifications were modified by the Coast Guard to cause this ship to be stronger than a ship that you would design using those specifications. We made modifications to the structure along the way at the Coast Guard's request; and, as a result, that ship is—not only was it designed to be stronger, the outcome of that ship is that it is stronger than the specification calls for.

The issue is fatigue. And fatigue is how—the outcome of the model that you use to forecast when something is going to crack.

There are two methodologies that are in use. One methodology is you calibrate the model using a known source, something that has operated for 30 years and has not cracked. Or you build the model up from the ground up. When you use the model and calibrate the model, the fatigue life of the vessel becomes greater than 30 years.

Mr. ANTON. When you build the model from the ground up is when the prediction comes in short of 30 years. But when you then use that same model to predict what you know, the DDG 2 class that lasted 30 years without a crack, it predicted that class would crack in 8μyears. So the model is a science that is yet to be proven.

The Coast Guard has opted to—because there is a degree of difference in those two answers, the Coast Guard has opted to implement a fatigue enhancement on a National Security Cutter.

Ms. JACKSON LEE. I think the system shows that we have failed equipment. I appreciate the gentleman's answer, but it gives us a roadmap for greater improvement in this program, and I thank you for holding this hearing.

Ms. SANCHEZ. Thank you to the gentlelady from Texas.

To my ranking member.

Mr. SOUDER. I wanted to make one brief comment for the record, because it appears that, at least in the 110, 123 Cutter question, that the crux of the question is what conditions should these be sustained under.

Now, obviously, buckling of the shaft, sides, vibrations, other types of questions are major flaws, particularly if they are severe, but the Coast Guard isn't like the Navy that goes out on time to target. The Coast Guard goes out when things are bad. And that sailboats and things don't tip over when the sea is flat. They tip over when the waves are biggest. And the commander has to have a flexibility on a 123, if he has got a 123 out instead of a 110, to be able to do that.

I have worked narcotics. I have met drug runners from Columbia and elsewhere. They watch to see what our conditions are when we aren't there, and they look for those conditions when they are going to move or right at the edge of those. And if our boats are out of position because we couldn't get there, because there are vibrations if the waves get over 8 feet or over 12μfeet, it is not just the category of a hurricane. It is the level of the seas and their ability to move. It is whoever designed the concept and agreed to a concept or however it would work that says that the 123s can't operate in high-risk conditions for extended periods means that cocaine is going to come into this country, heroin is going to come into this country, people are going to drown because we had a conceptual flaw. And I think that is what is a lot under this debate.

I thank the chairwoman.

Ms. SANCHEZ. Thank you.

I am going to give Mr. Carney some extra time to finish up here.

Mr. CARNEY. Thank you, ma'am.

Mr. Anton, who built the original 110s?

Mr. ANTON. Bollinger Shipyards.

Mr. CARNEY. Do you know the original plating on the 110s—the original 110s—was on the same source?

Mr. ANTON. Same source as—

Mr. CARNEY. Of all of the platings on the original 110s. Are they all from the same manufacturer?

Mr. ANTON. I can take that for the record. I don't know that answer.

You are talking about the replacement plating against—what—the original plating of the ship; is that correct?

Mr. CARNEY. Yes.

Mr. ANTON. So was the replacement plating from the same source as the original plating.

I will have to take it for the record. I don't know.

Mr. CARNEY. Was the plating on the original ships that was not a plate, are they all from the same source? Of the eight 110s, all the plating on all—

Mr. ANTON. I don't know. I would have to—we would have to go back into the production records at Bollinger.

Mr. CARNEY. When the Navy stretched their 170—foot Cyclone ships to 179 feet, they did one on a trial basis. Why didn't we do that with the 110s program?

Mr. ANTON. In hindsight, knowing what we know today and knowing the process breakdowns that we had and knowing the information that is out there that we didn't understand at the time, we could have done one and tested it. But we had no reason to believe that this wasn't going to work. We took due diligence in both the design process and the development process, and we had no reason to believe this wasn't going to work.

Mr. CARNEY. Did you have reason to believe that the Cyclone would not work?

Mr. ANTON. I was not involved with the Cyclone program, so I can't answer that. Bollinger were the folks that did the PC–179.

Mr. CARNEY. There is an enormous amount of frustration up here right now on this whole thing. Just common-sense things like doing the trial would have been great and would have saved maybe seven ships and hundreds of millions of dollars.

Anyway, you know, living and learning is one thing, but we are now short eight ships. And while I agree the rest of Deepwater is generally—not perfectly, but generally—moving along in the right direction, this creates a major hole; and Mr. Souder is correct to point out the hole created by this. It seems just basic operating sorts of performance measures should have been done that weren't, and it is criminal.

I yield back, Madam Chair.

Ms. SANCHEZ. I thank the gentleman from Pennsylvania.

I think you can feel the frustration on this side, and I think it is going to be even more frustrating for these two gentlemen and for our representatives at the Department of Homeland Security to get this all settled out. But we appreciate you gentlemen coming before us to try to give us some more insight into what has happened.

Since there are no more members and no more questions—I will just tell you that we may have additional questions for you as witnesses, and we will ask you to respond quickly to those in writing.

Hearing no further business in the committee, the subcommittee stands adjourned.

[Whereupon, at 4:58 p.m., the subcommittees were adjourned.]

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Appendix: Additional Questions and Responses

QFR Responses

For the

Subcommittee on Border, Maritime and Global Counterterrorism
and the
Subcommittee on Management, Investigations, and Oversight's

Joint Hearing on
"Deepwater: Charting a Course for Safer Waters"
Held
Thursday, May 17, 2007

From

Richard L. Skinner
Office of Inspector General
Department of Homeland Security

Mr. Skinner, in your testimony, you state, "According to the Coast Guard, its acquisition workforce did not have the requisite training, experience, and certification to manage an acquisition the size, scope, and complexity of the Deepwater Program." The Coast Guard has since changed their position and is in the process of staffing up their offices to manage Deepwater.

Question 1.: Do you believe that with the addition of new staff, that the CG will now have the requisite training, experience and certification to manage this acquisition?

DHS OIG Response: It is too early to tell. The Coast Guard clearly recognizes that urgent and immediate changes are needed to meet the management oversight and acquisition resource challenges facing its Deepwater Program. To address these challenges, the Coast Guard has developed and is currently implementing its *Blueprint for Acquistion Reform* and has stated its intention to assume many of the Deepwater systems integrator duties and responsibilities previously performed by Integrated Coast Guard Systems (ICGS). However, the Coast Guard's ability to effectively reorganize and manage the Deepwater Acquisition Program will be largely dependent on their ability to:

- *identify* the number and type of acquisition professionals needed to properly oversee the Deepwater Acquisition program;
- *recruit and retain* acquisition professionals;
- *develop* an in-house capability to train and certify acquisition professionals;
- *develop and implement* an acquisitions career path for its active duty and civilian personnel;

- *document* the rationale underlying key Deepwater acquisition decisions; and
- *identify* the financial costs associated with the realignment, reorganization, retraining, and rebuilding of its acquisition workforce.

The Coast Guard has also acknowledged (and we agree) that it could take several years to fully implement the changes to its acquisitions program. Given the unknowns associated with these changes, we believe the Coast Guard needs to exercise caution and take a slower or phased approach to assuming the systems integrator role even if doing so were to result in minor delays in the delivery of key Deepwater assets such as the national security and fast response cutters.

Question: 2.: Who do you believe that the Coast Guard has the expertise to be the systems integrator for the Deepwater Program?

DHS OIG Response: We do not believe the Coast Guard currently has the expertise and neither does the Coast Guard. The Commandant has testified that the reason the Coast Guard went the "systems integrator" route was that it did not believe it had the requisite expertise to be the systems integrator for such a large and complex acquisition. Further, the Coast Guard has acknowledged that it could take several years to fully implement the much-needed changes to its acquisitions program of which the Deepwater Acquisition program is a major component. While we fully understand the Coast Guard's desire to getting a handle on their system integrator problems, assuming the systems integrator role before sufficient acquisition personnel and resources are identified and brought on board to support the changes could further increase the risks associated with the Deepwater Acquisition Program. For these reasons, we believe the Coast Guard's assumption of system integrator duties and responsibilities needs to occur in a carefully considered and methodical manner.

Question 3.: Who should be held responsible for the problems with the Deepwater Program?

DHS OIG Response: To date, we have not completed audit work designed to determine the culpability of DHS, Coast Guard, ICGS or its subcontractors for the cost, schedule, and performance problems associated with the Deepwater Program. However, there are several individuals that we believe have knowledge and a unique perspective of Deepwater's management and oversight problems. They include:

- *Admiral James Loy, USCG (ret)* who served as Commandant from May 1998 to May 2002), less than a month before the signing of the Deepwater contract between Coast Guard and ICGS. Prior to the establishment of the Department of Homeland Security in 2002, Admiral Loy served in the Department of Transportation as Deputy Under Secretary for Security and Chief Operating Officer of the Transportation Security Administration (TSA), and later as Under Secretary for Security. In these roles, he served as the first administrator of the newly created TSA. On December 4, 2003, Admiral Loy was sworn in as Deputy secretary, Department of Homeland Security. In April 2005, he accepted a position with the Cohen Group as a consultant. Shortly thereafter (August 2005), he became a member of the Board of Directors, Lockheed Martin Corporation (parent company of ICGS).
- *Admiral Thomas H. Collins, USCG (ret),* who served as the Commandant from May 2002 to May 2006. Prior to his assignment as Commandant, he was Vice Commandant and served on the Innovation Council, which spearheaded Coast Guard-wide process improvement initiatives and directed system enhancements as the Coast Guard Acquisition Executive. Prior to that, he served as Chief, Office of Acquisition, at USCG HQ, where he laid the foundation for the Deepwater Acquisition Project.
- *Vice Admiral Terry Cross, USCG (ret)* retired on June 2, 2006. As Vice Commandant, he served as the Agency Acquisition Executive and had requirements decision authority for major Coast Guard acquisitions requirements, including aircraft, boats, ships, technology systems and facilities. On October 18, 2006, less than five months after his retirement, Admiral Cross was named as European Aeronautic Defence Space Company (EADS North America) in the *newly created* position of Director of Homeland Security Programs. EADS is the manufacturer of the Dolphin HH–65 helicopter. They also are the contractor providing the new maritime patrol aircraft (CASA 144) aircraft to the Coast Guard through ICGS and the Deepwater Program.
- *Admiral Patrick M. Stillman, USCG (ret)* served as the Program Executive Officer for the Deepwater Acquisition Program (2002–2006).
- *Gregory L. Giddens* was Coast Guard's Deputy Program Executive Officer for Deepwater under Admiral Stillman. He has since moved to Customs and Border

Patrol as the current Director, Secure Border Initiative Program, Customs and Border Protection, Department of Homeland Security.

Question 4.: Should Lockheed Martin or Northrop Grumman be forced to compensate the government for the shortcomings of the program?

DHS OIG Response: We have not performed sufficient audit work to determine culpability by ICGS or its subcontractors for the problems associated with the Deepwater Program. We recommend that the Questions concerning contract compliance and consideration due to the government be directed to the Department and the Coast Guard.

Question 5.: In your report, you state that your office encountered resistance from the Department in conducting your audits. **Why do you think that the Department frustrated your efforts? Has the relationship improved?**

DHS OIG Response: Generally speaking, the relationship between the Coast Guard and the OIG has significantly improved over the past 12 months. However, the Coast Guard continues to be slow in responding to our requests for information and documentation to clarify statements made by Coast Guard personnel. For example, the Coast Guard has not provided documentation showing that the "One Break" solution developed by its Engineering Logistics Command (ELC) will address the structural design and performance issues identified with the NSC. Consequently, it is not known whether the solution will permit the NSC to operate 185 days underway for 30 years under North Pacific and General Atlantic conditions.

Question 6 and 7.: In your testimony you stated that prior to the Phase 2 contract award, the Coast Guard provided 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. **Why do you think this happened?**

DHS OIG Response: We cannot be certain. In June 1999, the Coast Guard and American Bureau of Shipping completed a multi-year effort to develop a Generic Cutter Certification Matrix (GCCM). The purpose of the matrix was to ensure that the 123' patrol boat, the fast response cutter (FRC), the National Security Cutter (NSC) and Offshore Patrol Cutter (OPC) would be capable of meeting the Coast Guard's crew safety and Deepwater mission requirements. However, the feedback from the three industry teams that intended to bid on the Deepwater contract was that the GCCM standards were too restrictive and would substantially increase their cutter design and construction costs. The Coast Guard subsequently converted 85% of the design standards to "guidance." When the Coast Guard issued the Deepwater request for proposal in June 2001, it allowed the industry teams to select their own alternative standards to the "guidance" standards. The resulting cutter certification standards developed by the winning bidder (Integrated Coast Guard Systems of ICGS) contained potentially ill-defined or inappropriate design criteria that were inconsistent with the original intent of the GCCM.

Question 8.: Why didn't the Systems Integrator step in if the proposed alternatives would not meet cutter design criteria?

DHS OIG Response: We do not know why the systems integrator (ICGS) did not adopt the more stringent generic Cutter Certification Matrix developed by the Coast Guard and the American Bureau of Shipping (ABS). We cannot make a determination, principally due to ICGS' refusal to allow DHS OIG unfettered access to its personnel knowledgeable of these and other Deepwater-related decisions. However, we do know that the decision by ICGS to revise the cutter certification standards downward reduced cutter design and construction costs and increased the potential for profit. It also lowered the "performance bar" which made it significantly easier for ICGS and its shipbuilders to meet the *minimum* cutter performance requirements outlined in the Deepwater contract.

Question 9.: During the hearing, you stated that ICGS prevented your office from gaining access to ICGS personnel. **Please provide us with documentation on this denial of access.**

DHS OIG Response: Attached are three documents that outline the difficulties we experienced in obtaining access to Deepwater contract personnel and documentation. Additional information regarding this topic is available on request.

Attachment 1 OIG work paper that summarizes our three-month effort to conduct interviews and request documents from ICGS and its Tier 1 sub contractors.

Attachment 2 Letter from Kevin O'Neill and RADM Patrick Stillmann dated 24 January 2006. The letter documents efforts to interview key Integrated Coast Guard

Systems Integrator (ICGS) and Northrop Grumman Ship Systems (NGSS) employees. The letter states that:

> *Both Northrop Grumman Ship Systems and Lockheed Martin have formal policies regarding responses to audit requests including requests for interviews of employees oversight bodies, such as the OIG. How those policies fit the circumstances surrounding the OIG audit discussed on 12 January 2006 is being evaluated. To facilitate that evaluation, ICGS and NGSS hereby request a meeting with representatives of the Coast Guard and the OIG to discuss the scope and schedule of the audit in order to develop an efficient approach that will protect the employers' and companies' interests as well as facilitate the OIG's audit objective. We ask that a USCG representative would contact Mr. Jay Boyd to schedule such a meeting in the near future."*

To date, neither NGSS nor ICGS have provided the OIG with the written details of these policies.

Attachment 3 Letter from Kevin J. O'Neill to the Coast Guard (RADM Patrick Stillman documenting the OIG's request that NGSS and Lockheed Martin clarify their position regarding responses to requests for documents or interviews of employees originating with the OIG.

The evidence also indicates the problem remains unchanged. During a recent Deepwater entrance conference, the ICGS spokesperson boldly informed the OIG that the access issues that we encountered when we tried to obtain unfettered access to ICGS and NGSS employees and documentations remained unresolved. Specifically, ICGS wanted all OIG Questions in advance of all ICGS interviews. ICGS also stated their intention to have their counsel present at all OIG interviews. The Coast Guard's response on the other hand, continues to be that contractor access issues are a Department versus a Coast Guard problem. We respectfully disagree. In our view, any contractor that transacts billions of dollars worth of business with the government of the United States should be required to provide the government (in this case the OIG) with timely and unfettered access to all personnel and documentation associated with that business transaction.

Question 10.: Has the access problem with ICGS been resolved? If not, why not?

DHS OIG Response: The access to contractor personnel and information has never been resolved. The Coast Guard's response to the recommendation in the NSC report was to defer to the Department for action. Therefore, while access to contractors currently remains unchanged, the OIG is currently pursuing resolution with the Under Secretary for Management. In addition, the issue of government-wide OIG access to contractor records and personnel has been raised with the National Procurement Fraud Task Force as an item requiring legislative modification. As recently as last month, ICGS had informed the OIG that our contractor access issues remained unresolved.

QUESTIONS FROM THE HONORABLE CHRISTOPHER P. CARNEY GENERAL QUESTIONS

Question 11.: What is the average age of the Coast Guard's current helicopter inventory?

DHS OIG Response: The DHS OIG has not performed audit work that would enable us to respond to this Question. The Coast Guard should be able to answer this Question.

Question 12.: The Coast Guard is faced with increasing demands of new and evolving missions. I understand that USCG is currently without a master plan to address its aviation requirements in the near and long-term?

DHS OIG Response: The DHS OIG has not performed audit work that would enable us to respond to this Question. The Coast Guard should be able to answer this Question.

Question 13.: Has USCG neglected to properly plan to modernize its aviation assets such as helicopters?

DHS OIG Response: The DHS OIG has not performed audit work that would enable us to respond to this Question. The Coast Guard should be able to answer this Question.

Question 14.: The original Deepwater aviation solution included plans to upgrade and modernize the Coast Guard's inventory of rotorcraft. It is my understanding that the plan was scrapped in order to divert funds to ship programs. Where is USCG in the process of replacing the original Deepwater aviation plan with a new one, based on today's requirements?

DHS OIG Response: The DHS OIG has not performed audit work that would enable us to respond to this Question. The Coast Guard should be able to answer this Question.

Question 15.: USCG has fewer than 150 helicopters (41 HH–60Js and 95 HH–65s). **Is this enough to meet the emerging and forecast needs of the Coast Guard, including spares and attrition? When did the previous Aviation Master Plan (AMP) include replacement helicopters?**

DHS OIG Response: The DHS OIG has not performed audit work that would enable us to respond to this Question. The Coast Guard should be able to answer this Question.

HH–65 SPECIFIC QUESTIONS, INCLUDING ACQUISITION OF ADDITIONAL

NEW OR USED HH–65 AIRFRAMES:

Question 16.: I am aware of the significant investment made to resolve a "safety of flight" issue with the Coast Guard fleet of HH–65 helicopters. **What other changes or modifications do you anticipate having to make on this legacy helicopter fleet?**

DHS OIG Response: The DHS OIG has not performed audit work, which would enable us to respond to this Question. The Coast Guard should be able to answer this Question.

Question 17.: What is the total coast of the HH–65 re-engining program?

DHS OIG Response: The DHS OIG has not performed audit work that would enable us to respond to this Question. The Coast Guard should be able to answer this Question.

Question 18.: Did Congress approve the expense of used airframes in the Coast Guard's budget? If so, when and for how much?

DHS OIG Response: The DHS OIG has not performed audit work that would enable us to respond to this Question. The Coast Guard should be able to answer this Question.

Question 19.: From where did you acquire the airframes?

DHS OIG Response: The DHS OIG has not performed audit work that would enable us to respond to this Question. The Coast Guard should be able to answer this Question.

Question 20.: What is the total cost, not just the unit cost, but all of the costs associated with modifying, upgrading, and readying for missions those aircraft?

DHS OIG Response: The DHS OIG has not performed audit work that would enable us to respond to this Question. The Coast Guard should be able to answer this Question.

Question 21.: I've heard some concerns that the HH–60 has some structural integrity problems and the HH–65 is hampered by shipboard landing limitations. **Why does USCG continue investing in aircraft with reduced capability and inherent mission degradation issues instead of planning for their replacement?**

DHS OIG Response: The DHS OIG has not performed audit work that would enable us to respond to this Question. The Coast Guard should be able to answer this Question.

MH–68 SPECIFIC QUESTIONS:

Question 22.: One of the biggest success stories I have heard coming out of Deepwater involves the elite drug interdiction squadron based at Cecil Field in Jacksonville, FL. I understand that the DEA soon will be removing its helicopters in the Caribbean, providing an even larger gap in our country's drug interdiction efforts. Does the Coast Guard have plans to continue that program?

DHS OIG Response: The DHS OIG has not performed audit work that would enable us to respond to this Question. The Coast Guard should be able to answer this Question.

Question 23.: Does it have plans to expand that program to other traffic areas such as the Gulf or West Coast? If so, how? Where will you get the

aircraft from? If not, why? Do we not need such a program in these key areas?

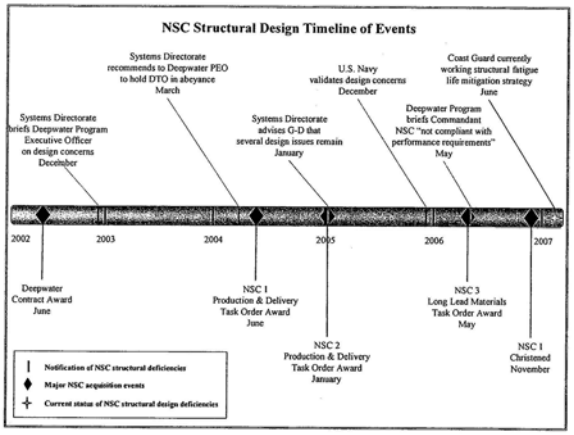
DHS OIG Response: The DHS OIG has not performed audit work that would enable us to respond to this Question. The Coast Guard should be able to answer this Question.

Question 24.: Are you still planning to get rid of the eight MH–68 helicopters currently performing these drug interdiction missions? How will you fill the void with your current ill-equipped fleet? Will you not have to take helicopters serving in other areas of the country away from their mission to serve in this role?

DHS OIG Response: The DHS OIG has not performed audit work that would enable us to respond to this Question. The Coast Guard should be able to answer this Question.

QUESTIONS FROM THE HONORABLE MARK E. SOUDER, RANKING MEMBER, AND THE HONORABLE MIKE ROGERS, MEMBER

Question 25.: Please walk us briefly through the timeline from the first identification of deficiencies with the NSC's design in December 2002 to the Christening of NSC #1 in August of last year.



DHS OIG Response: Below is a graphic timeline of events that depicts Coast Guard's knowledge of the National Security Cutter's (NSC) structural design flaws relative to major NSC acquisition milestones.

Question 26.: In your opinion, why did the Coast Guard fail to act on the warnings of its lead engineer, or the independent structural analysis provided by multiple third parties?

DHS OIG Response: The DHS OIG has not performed audit work that would enable us to fully respond to this Question. The Coast Guard should be able to answer this Question. However, we have testified that the dominant influence of expediency, unfavorable contract terms and conditions, poorly defined performance requirements, and inadequate management and technical oversight of the Deepwater contract by the Coast Guard were prime contributors to the cost increases, schedule delays, and performance problems associated with the national security cutter. It should also be noted that the Coast Guard advised us during the course of the National Security Cutter audit that:

given the uncertainty of the validity of the ELC's concerns and the certainty of the significant delay and disruption cost the Government would incur, as well as the real urgency of delivering NSCs to the fleet to replace rapidly-deteriorating legacy assets, the Program Office decided to proceed with production."

Question 27.: Do you believe the Coast Guard's reorganization of its Deepwater, Acquisitions, and Systems Engineering directorates is a step in the right direction? What are some potential pitfalls you foresee with this approach?

DHS OIG Response: As we stated in our response to Question 1, it is too early to tell. While the Coast Guard clearly recognizes that urgent and immediate changes are needed to meet the management oversight and acquisition resource challenges facing its Deepwater Program, there are many challenges ahead. For example, the Coast Guard's ability to effectively reorganize and manage the Deepwater Acquisition Program will be largely dependent on their ability to:

- *Identify* the number and type of acquisition professionals needed to properly oversee the Deepwater Acquisition program:
- *Recruit and retain* acquisition professionals:
- *Develop* an in-house capability to train and certify acquisition professionals;
- *Develop and implement* an acquisitions career path for its active duty and civilian personnel;
- *Document* the rationale underlying key Deepwater acquisition decisions; and,
- *Identify* the financial costs associated with the realignment, reorganization, retraining, and rebuilding of its acquisition workforce.

The Coast Guard has also acknowledged (and we agree) that it could take several years to fully implement the changes to its acquisitions program. Given the unknowns associated with these changes, we believe the Coast Guard should exercise caution when evaluating and implementing its Deepwater Implementation plan even if doing so were to result in minor delays in the delivery of key Deepwater assets such as the national security and fast response cutters.

Question 28.: I have a Question as to the several "Requests for Deviation" from the contract sought by ICGS. Presumably, any request for deviation should have minimal impact on performance and no impact on safety for a particular system. Can you please provide examples where deviations were granted that, in your opinion, had a negative impact on either performance or safety?

DHS OIG Response: We reported in our 110'/123' Maritime Patrol Boat Modernization Project report (123' report) dated February 2007, that the Coast Guard approved a request for a deviation from ICGS for the use of non low smoke cable after the contractor installed the non-compliant cables in several 123' patrol boats that had already been accepted and were in operation by the Coast Guard.

The intent of the low smoke cable requirement was to eliminate the use of polyvinyl chloride jackets to encase cables, which for years produced toxic fumes and dense smoke during shipboard fires. The contractor indicated in its May 2004 request for a deviation that approximately 680 cables (or 85 cables per cutter) did not meet the low smoke requirements identified in the contract. The contractor's request for a deviation from the low smoke cable requirement identified the cable, its type, and its function. It did not, however, indicate the flammability and toxicity characteristics of the sub-standard cables installed. We are concerned that the Coast Guard did not exercise due diligence in determining the flammability and toxicity characteristics of the replacement cables being installed prior to issuance of the deviation. Furthermore, the Coast Guard accepted delivery and operated four 123' cutters without knowing the full extent of the hazards associated with the use of the non-low smoke cabling.

The 123' report also cited ICGS' attempt to continue with the installation of C4ISR topside equipment installed aboard the 123' and the short-range prosecutors (prosecutors) although they were aware that the equipment did not meet minimum Deepwater design and performance requirements.

According to the Deepwater contract, the topside equipment aboard the 123' cutters and prosecutors was required to meet the environmental performance specifications as defined by the Cutter Certification Matrix and the prosecutor performance specifications. The purpose of these requirements was to ensure that the C4ISR systems installed aboard the 123' cutters and prosecutors remained fully operational when operated under extreme weather, sea, and atmospheric conditions. This is a critical requirement, given the frequency with which Coast Guard operates its cutters and small boats under such conditions.

In the case of the 123' cutter *Matagorda,* the contractor incorrectly indicated on the certification documentation that there were no applicable requirements stipulated with regard to weather environment requirements, and that the certification is "not really beneficial." However, the certification documentation specifically designates MIL–STD 1399C, Section 302, as the weather environment standard for certification requirements, which clearly stipulates minimum and maximum weather environment limits. Additionally, the certificates of conformance provided with the eight 123? cutters and eight prosecutors did not indicate that the Coast Guard had previously approved any deviation or waiver from the environmental performance requirements identified in the contract. The Coast Guard stated that it was un-

aware that the 123' cutters and prosecutors were not compliant with the environmental performance specifications until July 2005. By then it was too late as seven 123' cutters had already been delivered to and accepted by the Coast Guard.

On August 29, 2006, Coast Guard received a letter from the contractor indicating that the C4ISR topside equipment installed aboard the 123' cutters and the prosecutors either did not meet minimum environmental requirements as specified in the Deepwater contract or had not been evaluated against environmental performance requirements specified in the Deepwater contract prior to installation. According to the contractor, testing each of these components would be "time consuming, expensive, and of limited value." Instead the contractor stated its intention to submit Requests For Waivers for each of the topside components whose performance either did not meet contract requirements or had not been evaluated against contract environmental performance requirements. The contractor stated that the Requests For Waivers presented ?an acceptable and reasonable approach, since most of the environmental specifications guard against weather conditions the 123' [cutter] and [prosecutors] will likely never experience in their assigned duties, and due to the fact the environmental requirements were clarified after the 123' [cutters] were produced and deployed."

However, we remain concerned that:

- The C4ISR topside equipment requirements for the 123' cutter were clearly defined in the Cutter Certification Matrix. If the requirements, it were unclear, it was incumbent on the contractor to obtain the necessary clarification before purchasing, installing, and certifying the installation as meeting the requirements;
- The contractor could mistakenly assume that the 123's would be assigned only to moderate climates when it was a well-known fact that the Coast guard intended to deploy the 123' patrol boats along the U.S. Atlantic, pacific, and Gulf coasts where weather and sea conditions can be quite severe; and,
- The Coast Guard's original and revised Deepwater Implementation Plans called for the acquisition of at least 91 short range prosecutors, the majority of which were to be deployed aboard the 123' cutter, the National Security Cutter, and the Fast Response Cutter. These cutters were originally intended to form the nucleus of the Coast Guard's Deepwater surface fleet. Given the Coast Guard's intention to deploy the National Security Cutter and Fast Response Cutter (or its replacement), offshore along the U.S. Atlantic, Pacific, and Gulf coasts, the contractor's assertion that prosecutors would not be operated in areas where severe environmental conditions could affect performance, was not accurate.

The Coast Guard never had a chance to decide whether it would grant ICGS? pending request for deviation given the other more serious structural design and crew safety issues associated with the 123? patrol boat fleet. The 123? patrol boat was permanently withdrawn from service in April 2007.

Question 29.: Admiral Allen recently stated that in order to have an integrated Deepwater, you need to have an integrated Coast Guard. Do you believe that if Admiral Allen combines the Acquisitions Directorate with the Program Executive Office for Deepwater, the Coast Guard will be able to manage this enormous contract?

DHS OIG Response: I have testified that "the devil is in the details" concerning Coast Guard's ability and capacity to manage and assume the systems integrator role for Deepwater Program. The Coast Guard's Blueprint for Acquisition Reform is a strategic plan and does not contain the level of detail necessary to predict the future success of the Deepwater Program. Additionally, we believe there is considerable risk associated with the Coast Guard assuming the lead systems integrator role at this time without having fully implemented its Blueprint for Acquisition Reform. In particular, the Deepwater Program needs to overcome its human capital gap. The Coast Guard needs to exercise caution and take a slower or phased approach to assuming the systems integrator role.

Attachment 1:

DHS/OIG – Coast Guard and Maritime Security Operations

Audit of USCG's Acquisition of the National Security Cutter Project # A-05-20

Subject: **ICGS Challenges DHS/ OIG's Authority to Access its Personnel and Documents**

Purpose: To summarize the events surround ICGS's refusal to cooperate with OIG in executing the scope of our audit.

Scope: Review of Source documents dated November 15, 2006 through February 23, 2006 as they concern our efforts to conduct interviews with and request documents from ICGS and its Tier 1 sub-contractors.

Sources:

- Design Matrix: Audit of USCG's Acquisition of the National Security Cutter Job Code A-05-20 PA2.z.
- November 15, 2005 email from Ed Farley, DHS/OIG Analyst, to Commander Tim Cook, CG-82, U.S. Coast Guard PA14.gg
- January 4, 2006 email from Ed Farley, DHS/OIG, to Commander Tim Cook, USCG PA14.p
- January 10, 2006 email from Mark Kulwicki, CG-82, USCG, to Ed Farley, DHS/OIG PA14.vv
- January 10, 2006 email from Richard Johnson, Director, DHS/OIG Coast Guard and Maritime Security Audit Division DHS/OIG, to Capt. James Watson, CG-82, U.S. Coast Guard PA14.bbb
- Proceedings of January 12 and February 2, 2006 DHS/OIG meetings with ICGS, Coast Guard, and contractor personnel, Deepwater Program Office, Rosslyn, VA A.4.8
- January 12 through January 25, 2006 emails between Ed Farley, DHS/OIG, Jay Boyd, ICGS Liaison Team Lead, Commander James Olive, CG-82, U.S. Coast Guard, and Richard Johnson, DHS/OIG PA14.qqq
- January 24, 2006 letter from Kevin J. O'Neill, Director of Contracts, ICGS, to Rear Admiral Patrick Stillman, Deepwater Program Executive Officer, U.S. Coast Guard, in Re: Office of Inspector General Audit of Acquisition of NSC PA14.lll
- February 17, 2006 letter from Kevin J. O'Neill, Director of Contracts, ICGS, to Rear Admiral Patrick Stillman, Deepwater Program Executive Officer, U.S. Coast Guard, in Re: DHS Office of Inspector General Audit of Acquisition of NSC A.4.5
- February 22, 2006 emails between CDR Tim Cook, USCG, Richard Johnson, DHS/OIG, and Ed Farley, DHS/OIG PA14.yyy
- February 23, 2006 email from Richard Johnson, DHS/OIG, to Richard Reback, DHS/OIG Office of Counsel PA15.z.
- February 23, 2006 email from Ed Farley, DHS/OIG, to Jay Boyd, ICGS, and March 1, 2006 response from Jay Boyd to Ed Farley D.5.36

DHS/OIG – Coast Guard and Maritime Security Operations

Audit of USCG's Acquisition of the National Security Cutter Project # A-05-20

Conclusion: To gain a more complete picture of the circumstances contributing to the NSC's design deficiencies, the audit team planned to conduct private interviews with ICGS and its Tier 1 sub-contractor personnel as a critical element of our audit plan. (PA2.z., pg. 4) However, the Deepwater contract does not require the Systems Integrator to grant OIG access to its personnel and documents as necessary to facilitate the audit's objectives. (D.5.61, pg. 2) Further, ICGS attempted to impose conditions on OIG's authority to execute the scope of our audit that would compromise the confidentiality of these meetings. (PA14.bbb) As a result, no interviews were conducted during our audit with ICGS or NGSS employees, thereby preventing their informed and relevant perspectives regarding critical decisions related to the design and production of the NSC from being included in the audit report. (Auditor's Statement)

In January 2006, the Coast Guard cancelled two meetings we tentatively scheduled with key members of the ICGS management team and postponed any further meetings with contractor personnel until we provided, at a minimum, an advance list of the topics areas we wished to address.(PA14.vv) At a follow-up meeting with Coast Guard and ICGS corporate representatives, the Systems Integrator advised us that, because it does not have a coordinated policy for responding to external audits requests, OIG would have to comply with the existing audit access policies of its two Tier 1 subcontractors, NGSS and LM. (A.4.8., pg. 3) At that time and in follow-up communications to both Coast Guard and ICGS, we requested copies of these policies (A.4.8., pg. 3; PA14.yyy; D.5.36) but to date neither party has provided them to us. (Auditor's Statement)

In a February 2006 letter to the Deepwater PEO that it did not directly provide to us, ICGS expressed its "wish to facilitate the OIG's audit objectives" while also listing the conditions that "should apply to the current and any future OIG requests for documents or interviews". These groundrules include OIG making all requests for documents or interviews in writing through the Deepwater Program Office and the ICGS Liaison Team Lead, with a detailed description of the request's purpose and topics to be addressed. ICGS also informed the Deepwater PEO that it was appropriate for any OIG interviews with contractor personnel to have other ICGS or sub-contractor representatives present, which may include legal counsel. (A.4.5)

It is our opinion that neither the Coast Guard nor the Systems Integrator are in a position to determine whom OIG will interview and under what circumstances. Given that Coast Guard has awarded ICGS a 43-month extension to continue operating within the same contractual framework, we are concerned that we will continue to encounter similar challenges to our ability to access information that we determine is necessary to satisfy our audit objectives. (Auditor's Opinion)

DHS/OIG – Coast Guard and Maritime Security Operations

Audit of USCG's Acquisition of the National Security Cutter Project # A-05-20

Results: Our Audit Plan, as manifested in our Design Matrix, provided that the audit team would conducting interviews with ICGS and Northrop Grumman Ship Systems (NGSS) personnel as a source of information. (PA2.z., pg. 4) On November 15, 2005, we first informed the Coast Guard's Office of Budget (CG-82) of our intention to conduct interviews with ICGS employees Jim French and Jim Soland. (PA14.gg). We continued to work with the Coast Guard liaison office to schedule interviews with these two individuals (PA14.p) and tentatively arranged to meet with them in January 2006.

On January 10, 2006, Mark Kulwicki of CG-82 informed the audit team via email that the Coast Guard was canceling the meetings we tentatively scheduled with the ICGS representatives and postponed any further meetings with ICGS personnel until we provided Coast Guard with, at a minimum, an advance list of topics areas we wished to address. (PA14.vv). In response, Coast Guard Audit Division Director Richard Johnson informed Captain James Watson (CG-82) via email that there is no requirement that the OIG provide such information and since it was our intention that these interviews confidential, it would be inappropriate for us to discuss the topic matter beforehand with Coast Guard and ICGS officials. (PA14.bbb., paragraph 1)

Mr. Johnson continued by suggesting that the Coast Guard is not a position to determine who the OIG will interview, where the interview will occur, and under what circumstances, particularly as it concerns contract personnel. He then reminded Capt. Watson that these and other points were repeatedly made by our general counsel during telephone calls and meetings that he attended with Rear Admiral Branham and CG counsel that occurred during October and November 2006. Mr. Johnson also reminded Capt. Watson that the only commitment OIG made was to limit, if possible, any disruptions resulting from our document and interview requests and to work with CG-82 to schedule interviews as appropriate. (PA14.bbb., paragraph 2)

Mr. Johnson concluded by stating his concern that Mr. Kulwicki's email could be construed by senior OIG management as part of a larger effort by the Coast Guard to frustrate and obstruct the OIG in the performance of its audit duties and responsibilities and requested further conversations with Coast Guard in an effort to resolve the matter. (PA14.bbb., paragraph 3)

To that end, on January 12, 2006, Mr. Johnson and members of the audit team attended a meeting at the Deepwater Program Office in Rosslyn, VA with representatives of Coast Guard and ICGS to discuss availability of, and DHS-OIG access to, ICGS personnel for interviews in furtherance of our audit objectives. During this meeting, the ICGS Liaison Team Lead, Jay Boyd, conveyed the position of ICGS that it was not willing to allow

DHS/OIG – Coast Guard and Maritime Security Operations

Audit of USCG's Acquisition of the National Security Cutter Project # A-05-20

interviews without another party (or parties) chosen by ICGS being present at all times. He further wanted interview questions to be presented ahead of time in written form so that ICGS could respond with "canned answers." The audit team expressed its view that it was not comfortable with such an arrangement and the meeting adjourned with no resolution of the issue but with the expectation that further discussions would be more productive after Mr. Boyd discussed the matter with senior ICGS management. He promised to "get back" to OIG after such discussions. (A.4.8., pg. 2)

In anticipation that Mr. Boyd would discuss the matter with his senior management in a timely manner, NSC project Auditor-in-Charge Ed Farley emailed a request later that day for OIG to meet with Jim Soland, ICGS, on either January 18th or 19th. Mr. Boyd's response of that same day was, "I'll run it to ground by tomorrow afternoon, and let you know if either of those days work." (PA14.qqq)

On January 17th, Mr. Farley again emailed Jay Boyd to follow-up on his request for possible meeting with Mr. Soland that day. The response he received did not come from Mr. Boyd but rather from Commander Jim Olive, CG-82, who wrote, "I'm afraid Mr. Soland will not be available as we'd hoped. We will continue to work with you to get these meetings scheduled." (PA14.qqq)

Without having received any further information from CG-82 on his original request to meet with Mr. Soland, on January 19th, Mr. Farley emailed CDR Olive inquiring of the status of the situation. On January 23rd, Mr. Farley again followed up with CDR Olive and was informed that, "As of Friday afternoon Mr. Boyd was still awaiting formal notification from ICGS Corporate legal. I will attempt to pulse in with him this afternoon." (PA14.qqq)

At 4:42 p.m. on the following day, Mr. Farley informed CDR Olive via email that, "As of tomorrow, 3 weeks will have passed since my initial request (attached) to interview Jim Soland and Jim French - ample opportunity for ICGS to make this happen if they were in fact willing to do so. If tomorrow I don't receive some sort of confirmation that they will make their folks available, I will be able to close out this issue knowing that I made considerable effort to obtain their perspective on NSC issues." CDR Olive responded to Mr. Farley later that day by email and stated, "I don't think that's unreasonable", referring to Mr. Farley's most recent statement. He continued: "I suspect you've got enough information from us to fill in any ICGS gaps, but it would be best to get it straight from the horses mouth. I will communicate this deadline to ICGS." (PA14.qqq)

On January 25, Mr. Farley informed Mr. Johnson that CDR Olive called him by phone to notify that ICGS legal would like to meet, with USCG present, to discuss

DHS/OIG – Coast Guard and Maritime Security Operations

Audit of USCG's Acquisition of the National Security Cutter Project # A-05-20

parameters/groundrules for interviews. Mr. Farley said that, in the interest of time, he suggested forgoing a meeting and asked that ICGS communicate in writing to OIG their needs, although CDR Olive thought that ICGS would push for a meeting and that he would try to set it up. (PA14.qqq)

On February 2, 2006, members of the OIG audit team attended this follow-up meeting at Deepwater headquarters with Coast Guard and ICGS representatives, including Mr. Boyd and ICGS legal counsel. At this meeting, the ICGS representatives compared the OIG audit with GAO audits and noted that GAO audits were conducted differently. OIG responded that the GAO and OIG belong to entirely different agencies and, consequently, their audit procedures are unrelated. ICGS counsel stated that since there was no ICGS policy, OIG would have to comply with separate Lockheed-Martin and Northrop Grumman interview procedures and demands, depending upon who was being interviewed. (A.4.8., pg. 3-4)

At this meeting, ICGS counsel also noted that they sent a letter to ADM Stillman on January 24, 2006 concerning the OIG audit, which requested the instant meeting. OIG had not been furnished with a copy of the letter nor were we advised of its existence prior to the meeting. OIG requested a copy of the letter, which was provided. (See PA14.lll) OIG also requested that ICGS provide copies of the LM and NGSS interview policies referred to by the ICGS representatives. (A.4.8., pg. 3-4)

Unknown to us, on February 17, 2006, ICGS issued a second letter to the Deepwater PEO, the subject of which was "DHS Office of Inspector General Audit of Acquisition of NSC", and which ICGS stated was being issued in response to our request that it "clarify its position regarding responses to requests for documents or interviews of employees originating with the OIG." (See A.4.5., pg. 1)

In its letter to the PEO, ICGS provided an inaccurate summary of the proceedings of the earlier January 12 meeting by stating that, "it was not clear whether USCG was the subject of the audit and ICGS was being asked to support that audit, or whether ICGS and its member companies were the subject of the audit." In fact, our record of the January 12 meeting indicates that the meeting participants were advised that the audit was being performed; the role of the contractors was pertinent to the audit; the OIG was interested in receiving input from contractor personnel; and that OIG was working under an abbreviated internal timeline for performing the audit. (A.4.8., pg. 2)

ICGS's letter to the Deepwater PEO further stated its "wish to facilitate the OIG's audit objectives" while also listing the conditions that it felt "should apply to the current and any future OIG requests for documents or interviews." These conditions included OIG

making all requests for documents or interviews in writing through the Deepwater Program Office and the ICGS Liaison Team Lead, with a detailed description of the purpose of the request and the topics to be addressed; and, for interviews, OIG allowing the presence of ICGS and/or Tier 1 sub-contractor representatives, including legal counsel. (See A.4.5., pg. 2-3)

ICGS concluded its letter by requesting that it and its member companies "be provided a draft of any resulting audit report, and an opportunity to comment on the draft." We find it curious that ICGS chose to make this request to the Deepwater PEO instead of to OIG, and that it did not see fit to provide us with a copy of a letter that it claims was issued in response to an OIG request for information. (See A.4.5., pg. 2-3)

On February 22, Commander Tim Cooke, CG-82, emailed Mr. Johnson a copy of the February 17, 2006 letter from ICGS to Admiral Stillman, noting that he had been specifically directed to provide it to us even though it was fully relevant to the scope of our audit and should have been provided to us without direction, if not by ICGS then by the Coast Guard's OIG liaison. In responding to this notification, Mr. Farley reminded CDR Cooke that we were still awaiting copies of the LM and NGSS audit access policies that we requested at our February 2 meeting. PA14.yyy

Upon receiving ICGS's February 17 letter from CDR Cooke, Mr. Johnson wrote an email on February 23 to Richard Reback, DHS/OIG Counsel, in which he detailed the series of events leading up to its issuance and informing that, as a result of the tactics being employed by Coast Guard, ICGS, NGSS, and LM, critical interviews and document requests were being delayed. He also noted that more than 18 weeks have passed since we first notified Coast Guard of our desire to interview ICGS/NGSS employees, and more than three weeks since we requested copies of NGSS and LM audit access policies, without either occurring. PA15.z

Mr. Johnson also informed Mr. Reback that neither Coast Guard nor ICGS informed OIG of either the January 24 or February 17 letters from ICGS to Deepwater PEO, and that instead, we first found out about them through a third party. PA15.z Also on February 23, Mr. Farley emailed Mr. Boyd, ICGS to inquire directly about the status of ICGS's response to our February 2 request for copies of LM and NGSS's audit access policies. On March 1, Mr. Boyd replied that, "I expected to be able to provide a definitive response, but that has proven elusive. I am currently working this through both corporations as these internal policies are not ICGS-controlled documents, but I do not have a direct answer to your question yet. I'll advise you directly when I do." D.5.36. To date, neither Coast Guard nor ICGS has provided us with these documents. (Auditor's Statement)

Attachment 2:

DEEPWATER

1530 Wilson Boulevard, Suite 400, Arlington, Virginia 22209

In reply: ICGS.06.017

January 24, 2006

U.S. Coast Guard
2100 2nd Street S.W.
Washington, D.C. 20593-0001

Attention: RADM Patrick Stillman, Commandant (G-D)

Subject: Office of Inspector General Audit of Acquisition of the NSC

Dear RADM Stillman:

We understand that the Department of Homeland Security Office of Inspector General (OIG) initiated an audit of the NSC procurement in a letter sent to the Commandant on August 18, 2005. We were recently told that the OIG wishes to meet with two Integrated Coast Guard Systems (ICGS) and Northrop Grumman Ship Systems (NGSS) employees.

A meeting was held on January 12, 2006 between representatives of the OIG, the U.S. Coast Guard (USCG) and Mr. Jay Boyd, representing ICGS, for the purpose of arriving at a better understanding of the OIG request. There was a preliminary discussion of the procedures to be followed in conducting the interviews of the ICGS and NGSS employees, which differed from the way in which other OIG interviews have been conducted. Specifically, we are aware of another audit in which ICGS' other Tier 1 subcontractor, Lockheed Martin Maritime Systems & Sensors (LM MS2), has agreed to assist the OIG in connection with that audit using procedures ICGS has previously followed in responding to inquiries from Government agencies concerning the Deepwater program, including the General Accountability Office.

Both NGSS and LM MS2 have formal policies regarding responses to audit requests including requests for interviews of employees by oversight bodies, such as

the OIG. How those policies fit the circumstances surrounding the OIG audit discussed on January 12, 2006 is being evaluated. To facilitate that evaluation, ICGS and NGSS hereby request a meeting with representatives of the USCG and the OIG to discuss the scope and schedule of the audit in order to develop an efficient approach that will protect the employees' and companies' interests as well as facilitate the OIG's audit objectives. We ask that a USCG representative would contact Mr. Jay Boyd to schedule such a meeting in the near future.

Sincerely,

Kevin J. O'Neill
Director, Contracts
ICGS

CC: Mr. Jay Boyd; Mr. Mark Kulwicki (CG-82); CDR Jim Olive (CG-82); CDR Tim Cook (G-D-1)

Attachment 3:

DEEPWATER 1530 Wilson Boulevard, Suite 400, Arlington, Virginia 22209

In reply refer to:
ICGS.06.044

February 17, 2006

U.S. Coast Guard
2100 2nd Street, SW
Washington, DC 20593-0001

Attention: RADM Patrick Stillman, Commandant (G-D)

Subject: DHS Office of Inspector General Audit of Acquisition of NSC

Dear RADM Stillman:

This letter responds to a request of the DHS Office of Inspector General (OIG) that Integrated Coast Guard Systems (ICGS) and its two member companies, Northrop Grumman Ship Systems (NGSS) and Lockheed Martin Maritime Systems & Sensors (LM MS2), clarify their position regarding responses to requests for documents or interviews of employees originating with the OIG.

By way of background, on January 12, 2006 representatives of the OIG met with representatives of the U.S. Coast Guard (USCG) and ICGS. During that meeting, the OIG asked to interview two NGSS employees in connection with an on-going NSC audit. The OIG stated that it sought private interviews of the employees – interviews to which USCG personnel were not invited. The OIG further suggested that other representatives of ICGS and NGSS not be present. In addition, when requested to do so, the OIG declined to provide any information prior to the interviews regarding the scope of the audit or the topics that would be the subject of the interviews. In short, it was not clear whether the USCG was the subject of the audit and ICGS was being asked to support that audit, or whether ICGS and its member companies were the subject of the audit.

ICGS' two member companies have policies and/or procedures which govern responses to requests for interviews or documents as part of an audit or investigation of which they are the subject. Because

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OIG declined to describe the scope or purpose of the NSC audit, and the ground rules outlined by the OIG differed substantially from those followed in responding to prior audit inquiries concerning the Deepwater program (including specifically, audits by the Government Accountability Office), ICGS sent a letter dated January 24, 2006 (ICGS.06.017) asking for a meeting between ICGS, OIG and USCG representatives "to discuss the scope and schedule of the audit" in order to determine whether the relevant policies were applicable and to otherwise facilitate the OIG's audit.

A meeting was held on February 1, 2006, at which the OIG stated it was not aware of the January 24, 2006 letter, but nonetheless continued to decline to elaborate on the scope of the NSC audit or alter the proposed ground rules for the interviews that it had previously requested. OIG then requested that ICGS provide a letter describing the conditions under which NGSS would make its employees available for interview. This letter is in response to the OIG's request, and was coordinated with both ICGS member companies and represents their consolidated position.

ICGS and its member companies wish to facilitate the OIG's audit objectives. At the same time, the companies have a legitimate interest in protecting their rights and interests and those of their employees in connection with the audit – about which the OIG has thus far declined to provide any information. Accordingly, the companies believe that the following guidelines are appropriate, and should apply to the current and any future OIG requests for documents or interviews.

1. OIG requests for documents or interviews should be provided in writing through the Deepwater Program Office and the ICGS Liaison Team Lead, and include the following:

    a. A description of the nature, subject(s) and purpose(s) of the audit sufficient to permit ICGS and its member companies to determine the applicability of their policies or procedures.

    b. For document requests, provide a specific description of the documents to be produced; and

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c. For employee interviews, provide the name of the individual(s) that the OIG wishes to interview, and the topics to be covered during the interviews.

2. For interviews, the employee(s) may be accompanied by representatives of ICGS, NGSS or LM MS2, as appropriate, unless the employee(s) specifically request otherwise. ICGS counsel, or counsel for NGSS or LM MS2 may also be present.

Finally, ICGS asks that it be provided a draft of any resulting audit report, and an opportunity to comment on the draft.

ICGS and its member companies believe that these procedures will make any audit more efficient, while simultaneously protecting the legitimate interests of the USCG, the companies and their employees. Please contact me if the USCG and/or OIG wish to discuss the above procedures for facilitating the OIG audit.

Sincerely,

Kevin J. O'Neill
Director of Contracts ICGS, LLC

cc: Mr. Jay Boyd (ICGS), Mr. Mark Kulwicki (CG-82),
CDR Jim Olive (CG-82), CDR Tim Cook (G-D-1),
Ms. Elaine Eder (G-LPL)