

# UNITED STATES COAST GUARD FISCAL YEAR 2008 BUDGET REQUESTS AND AUTHORIZATION

---

---

(110-15)

## HEARING

BEFORE THE

SUBCOMMITTEE ON

COAST GUARD AND MARITIME TRANSPORTATION

OF THE

COMMITTEE ON

TRANSPORTATION AND

INFRASTRUCTURE

HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

March 8, 2007

Printed for the use of the  
Committee on Transportation and Infrastructure



U.S. GOVERNMENT PRINTING OFFICE

34-786 PDF

WASHINGTON : 2007

---

For sale by the Superintendent of Documents, U.S. Government Printing Office  
Internet: [bookstore.gpo.gov](http://bookstore.gpo.gov) Phone: toll free (866) 512-1800; DC area (202) 512-1800  
Fax: (202) 512-2104 Mail: Stop IDCC, Washington, DC 20402-0001

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

JAMES L. OBERSTAR, Minnesota, *Chairman*

NICK J. RAHALL, II, West Virginia  
PETER A. DeFAZIO, Oregon  
JERRY F. COSTELLO, Illinois  
ELEANOR HOLMES NORTON, District of  
Columbia  
JERROLD NADLER, New York  
CORRINE BROWN, Florida  
BOB FILNER, California  
EDDIE BERNICE JOHNSON, Texas  
GENE TAYLOR, Mississippi  
JUANITA MILLENDER-McDONALD,  
California  
ELIJAH E. CUMMINGS, Maryland  
ELLEN O. TAUSCHER, California  
LEONARD L. BOSWELL, Iowa  
TIM HOLDEN, Pennsylvania  
BRIAN BAIRD, Washington  
RICK LARSEN, Washington  
MICHAEL E. CAPUANO, Massachusetts  
JULIA CARSON, Indiana  
TIMOTHY H. BISHOP, New York  
MICHAEL H. MICHAUD, Maine  
BRIAN HIGGINS, New York  
RUSS CARNAHAN, Missouri  
JOHN T. SALAZAR, Colorado  
GRACE F. NAPOLITANO, California  
DANIEL LIPINSKI, Illinois  
DORIS O. MATSUI, California  
NICK LAMPSON, Texas  
ZACHARY T. SPACE, Ohio  
MAZIE K. HIRONO, Hawaii  
BRUCE L. BRALEY, Iowa  
JASON ALTMIRE, Pennsylvania  
TIMOTHY J. WALZ, Minnesota  
HEATH SHULER, North Carolina  
MICHAEL A. ACURI, New York  
HARRY E. MITCHELL, Arizona  
CHRISTOPHER P. CARNEY, Pennsylvania  
JOHN J. HALL, New York  
STEVE KAGEN, Wisconsin  
STEVE COHEN, Tennessee  
JERRY McNERNEY, California  
JOHN L. MICA, Florida  
DON YOUNG, Alaska  
THOMAS E. PETRI, Wisconsin  
HOWARD COBLE, North Carolina  
JOHN J. DUNCAN, Jr., Tennessee  
WAYNE T. GILCHREST, Maryland  
VERNON J. EHLERS, Michigan  
STEVEN C. LATOURETTE, Ohio  
RICHARD H. BAKER, Louisiana  
FRANK A. LoBIONDO, New Jersey  
JERRY MORAN, Kansas  
GARY G. MILLER, California  
ROBIN HAYES, North Carolina  
HENRY E. BROWN, JR., South Carolina  
TIMOTHY V. JOHNSON, Illinois  
TODD RUSSELL PLATTS, Pennsylvania  
SAM GRAVES, Missouri  
BILL SHUSTER, Pennsylvania  
JOHN BOOZMAN, Arkansas  
SHELLEY MOORE CAPITO, West Virginia  
JIM GERLACH, Pennsylvania  
MARIO DIAZ-BALART, Florida  
CHARLES W. DENT, Pennsylvania  
TED POE, Texas  
DAVID G. REICHERT, Washington  
CONNIE MACK, Florida  
JOHN R. 'RANDY' KUHL, JR., New York  
LYNN A WESTMORELAND, Georgia  
CHARLES W. BOUSTANY, JR., Louisiana  
JEAN SCHMIDT, Ohio  
CANDICE S. MILLER, Michigan  
THELMA D. DRAKE, Virginia  
MARY FALLIN, Oklahoma  
VERN BUCHANAN, Florida

SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION

ELIJAH E. CUMMINGS, Maryland, Chairman

GENE TAYLOR, Mississippi  
RICK LARSEN, Washington  
CORRINE BROWN, Florida  
JUANITA MILLENDER-McDONALD,  
California  
BRIAN HIGGINS, New York  
BRIAN BAIRD, Washington  
TIMOTHY H. BISHOP, New York  
JAMES L. OBERSTAR, Minnesota  
*(Ex Officio)*

STEVEN C. LATOURETTE, Ohio  
DON YOUNG, Alaska  
HOWARD COBLE, North Carolina  
WAYNE T. GILCHREST, Maryland  
FRANK A. LoBIONDO, New Jersey  
TED POE, Texas  
JOHN L. MICA, Florida  
*(Ex Officio)*



## CONTENTS

	Page
Summary of Subject Matter .....	vi
TESTIMONY	
Allen, Admiral Thad W., Commandant, United States Coast Guard .....	5
Bowen, Charles W., Master Chief Petty Officer, United States Coast Guard ....	5
Skinner, Richard L., Inspector General, Department of Homeland Security .....	40
Caldwell, Stephen, Director, Homeland Security and Justice Issues, Government Accountability Office .....	40
PREPARED STATEMENT SUBMITTED BY MEMBERS OF CONGRESS	
Cummings, Hon. Elijah E., of Maryland .....	58
Mica, Hon. John L., of Florida .....	65
PREPARED STATEMENTS SUBMITTED BY WITNESSES	
Allen, Admiral Thad W. ....	68
Bowen, Charles W. ....	82
Caldwell, Stephen L. ....	88
Skinner, Richard L. ....	119
SUBMISSIONS FOR THE RECORD	
Allen, Admiral Thad W., Commandant, United States Coast Guard:	
Coast Guard Mission Support Organization Chart .....	10
Response to Naval Surface Warfare Service Finite Element Analysis .....	16
Response to question from Rep. Coble .....	20
Response to request from Rep. Cummings .....	23
Status Report on Cape Wind at Nantucket Sound, as requested by Rep. Oberstar .....	33
Response to question from Rep. Cummings .....	39
ADDITIONS TO THE RECORD	
Reserve Officers Association of the United States, statement .....	130



**U.S. House of Representatives**  
**Committee on Transportation and Infrastructure**  
**Washington, DC 20515**

**James L. Oberstar**  
Chairman

**John L. Mica**  
Ranking Republican Member

David Heymansfeld, Chief of Staff  
Ward W. McCarraghee, Chief Counsel

March 2, 2007

James W. Coon II, Republican Chief of Staff

**SUMMARY OF SUBJECT MATTER**

**TO:** Members of the Subcommittee on Coast Guard and Maritime Transportation

**FROM:** Subcommittee on Coast Guard and Maritime Transportation Staff

**SUBJECT:** Hearing on United States Coast Guard Fiscal Year 2008 Budget Requests and Authorization

**PURPOSE OF HEARING**

The purpose of this hearing is to consider the Administration's FY 2008 budget requests for the U.S. Coast Guard. The subcommittee will receive testimony from the Coast Guard on the service's FY 2008 budget request and the Deepwater Acquisition Program. The Subcommittee will also receive testimony from the Inspector General of the Department of Homeland Security, and the General Accountability Office on the Deepwater Acquisition Program.

**BACKGROUND**

**FY 2008 Coast Guard Budget Request:** The President requests nearly \$8.2 billion in FY 2008 for activities of the United States Coast Guard, \$196 million (or 2.4 percent) increase over the total amount enacted for FY 2007.

The Coast Guard's request is designed to sustain the Coast Guard's ability to support America's maritime safety, security, and stewardship interests in Fiscal Year 2008.

**Operating Expenses (OE):** The overall budget request for Coast Guard Operating Expenses (OE) in FY 2008 is approximately \$5.9 billion, an increase of more than \$416 million, or 7.6 percent, over the FY 2007 enacted level. The Operating Expenses account comprises over two-thirds of the Coast Guard's budget and provides for the safety of the public and the

Coast Guard's workforce. This will fund 47,368 positions (both military and civilian) in the Coast Guard.

The OE request includes \$80.5 million for personnel costs that had been attributed to the Acquisition, Construction, and Improvements (AC&I) part of the Coast Guard's budget in previous fiscal years. It also reflects a \$2.65 million dollar decrease due to transfer of the personnel costs for the Bridge Administration Program to the Maritime Administration in the Department of Transportation. Proposed funding levels for search and rescue, marine safety, aids-to-navigation, icebreaking, and protection of living resources are all lower than amounts that were appropriated for FY 2007. Funding for marine environmental protection, drug interdiction, migrant interdiction, and ports and waterways security were all increased.

In FY 2006, funding for Coast Guard polar icebreakers was transferred to the National Science Foundation (NSF) which was then directed to reimburse the Coast Guard for costs associated with operating the Service's three polar icebreakers (POLAR SEA, POLAR STAR, and HEALY). The FY 2008 request again provides operation and maintenance funds for the polar icebreakers through NSF.

Finally, the President's Operating Expenses request funds pay increases for officers and enlisted members and civilian employees of the Coast Guard.

Reserve Training: The President requests approximately \$126.9 million for training of Coast Guard Reserve personnel representing a 3.7 percent increase over the FY 2007 appropriated level of \$122.4 million. The Coast Guard Reserve provides qualified individuals for mobilization in the event of national emergency or disaster. Reservists maintain readiness through mobilization exercises and duty alongside regular Coast Guard members during routine and emergency operations.

In addition, the Coast Guard Reserve fills critical national security and national defense roles through both the Department of Homeland Security and in direct support of the Department of Defense. The Coast Guard Reserve continues to be deployed in support of Operation Iraqi Freedom.

Environmental Compliance and Restoration: The President requests approximately \$12.1 million for environmental compliance and restoration, a 10.8 percent increase from the FY 2007 appropriated level of \$10.9 million. The funds under this account are used to mitigate environmental problems resulting from the operation of former and current Coast Guard facilities, and to ensure that Coast Guard facilities are in compliance with applicable laws and regulations.

Acquisitions, Construction, and Improvements (AC&I): The President requests nearly \$998 million to fund all Coast Guard capital acquisitions in FY 2008, an approximately \$332.1 million (25 percent) decrease from the FY 2007 appropriated level of \$1.33 billion. These funds support the acquisition, construction, and improvement of vessels, aircraft, information management resources, shore facilities, and aids to navigation. Of the \$998 million request, \$837 million, an approximately \$250 million decrease (-21,5%) from the enacted funding for FY 2007, is for the Deepwater program, the Coast Guard's integrated

capital asset replacement program. However in the FY 08 request, \$80.5 million for the administration of the program is included in the OE account rather than in AC&I. The request also proposes to rescind \$50 million in FY 06 Deepwater funds for the Offshore Patrol Cutter. The budget requests \$80.9 million for Rescue 21, the Service's new "maritime 911" program. In FY 2007, \$39.6 million was appropriated for Rescue 21.

The Coast Guard's Integrated Deepwater Systems (Deepwater) program will result in a nearly complete recapitalization of all Coast Guard aircraft, vessels and support systems over a 20-25 year period. Fundamental changes in the mission and requirements of the USCG have occurred since the terrorist attacks of 2001. These changes have required substantive revisions in the timing, budget, system components and acquisition strategy for Deepwater.

The AC&I budget request also includes:

- \$12 million to begin deployment of a nation-wide automatic identification system for ships, a transponder based collision avoidance system that will also allow the Coast Guard to track vessels for security purposes.
- \$9.2 million to build the initial response boat mediums, the replacement for the Coast Guard's 41-foot patrol boats.
- \$11.5 million for National Capital Air Defense acquisition costs, a mission to intercept aircraft on an unauthorized approach to Washington, D.C. that has been transferred from Customs and Border Protection (CBP).

The President's budget has requested \$161 million for non-Deepwater capital expenses, including only \$35 million for shore-based facilities. This is significantly less than amounts provided historically for these capital needs. In FY 2005 Congress appropriated \$360 million for non-Deepwater capital expenses to help pay for the maintenance and construction of the Coast Guard's facilities and equipment.

Research, Development, Test, and Evaluation: The President's budget requests approximately 17.6 million for Research, Development, Test and Evaluation. This is \$600,000 (3.4 percent) above the amount appropriated for FY 2007.

Alteration of Bridges: No funds were requested for alteration of bridges that impact navigation. Approximately \$16 million was appropriated in FY 2007. Instead, the President's budget proposes to transfer responsibility for the Truman-Hobbs bridge alteration program to the Department of Transportation and requests \$6 million for the program. The Bridge Alteration program provides the Federal government's share of the costs for altering or removing bridges determined to be obstructions to navigation. Under the Truman-Hobbs Act of 1940, (33 U.S.C. 511 et seq.), the Coast Guard shares, with the bridge owner, the cost of altering railroad and publicly-owned highway bridges which obstruct the free movement of vessel traffic.

Retired Pay: The President's budget assumes that \$1.2 billion will be needed for retired pay in Fiscal Year 2008. This represents a \$200 million increase over the fiscal year 2007 enacted level.

**PORT SECURITY GRANTS**

The President's budget proposes \$210 million for port security grants for FY 2008, which is equal to the funding level that was appropriated in FY 2007.

(in millions)

<b>PROGRAM</b>	<b>FY2007 ENACTED</b>	<b>HOUSE PASSED FY2007 AUTH.</b>	<b>FY2008 PRESIDENT'S BUDGET</b>	<b>DIFF. OF FY2008 PRES. BUDGET AND FY2007 ENACTED</b>
Operating Expenses	5,477.6	5,680.0	5,894.3	416.7 (7.6%)
Acquisition & Constr.	1,330.2	2095.9	998.1	-332.1(-25%)
Environ. Compliance	10.9	12.0	12.1	1.2 (11%)
Alteration of Bridges	16.0	17.0	0	-16 (-100%) *
Retired Pay	1,063.3	1,063.3	1,184.7	121.4 (11.4%)
Research & Dev.	17.0	24.0	17.6	.6 (3.5%)
Reserve Training	122.4	124.0	126.8	4.4 (3.6%)
<b>Total</b>	<b>8,037.4</b>	<b>9,016.2</b>	<b>8233.5</b>	<b>196.1 (2.4%)</b>

**WITNESSES****PANEL I**

Admiral Thad W. Allen  
Commandant  
United States Coast Guard

Charles W. Bowen  
Master Chief Petty Officer  
United States Coast Guard

x

PANEL II

Richard L. Skinner  
Inspector General  
Department of Homeland Security

Mr. Steven Caldwell  
General Accountability Office

## HEARING ON BUDGET AND AUTHORIZATION FOR FISCAL YEAR 2008

Thursday, March 8, 2007,

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

The Subcommittee met, pursuant to call, at 10:00 a.m., in Room 2167, Rayburn House Office Building, the Honorable Elijah E. Cummings [Chairman of the Subcommittee] presiding.

Mr. CUMMINGS. The Committee will come to order.

Today, the Subcommittee on Coast Guard and Maritime Transportation convenes to examine the Coast Guard's fiscal year 2008 budget.

The President has requested nearly \$5.9 billion to fund the coast Guard's operations, an increase of \$416 million over fiscal year 2007 enacted level of just under \$5.5 billion.

The President's total request for the Coast Guard capital budget is nearly \$998 million, of which \$837 million is for Deepwater. This represents a decrease of approximately \$250 million below the amount appropriated for Deepwater in fiscal year 2007.

We will hear today from Admiral Thad Allen, the Commandant of the Coast Guard, and Master Chief Petty Officer Charles W. Bowen, regarding the President's budget request and how it aligns to the Coast Guard's needs as the service continues an ambitious transformation effort to balance its many missions and to respond to the emerging threats that confront our homeland.

I look forward to hearing from all of the witnesses today and hearing their thoughts on the question of whether the Coast Guard has adequate resources to perform each of its missions.

As I have stated since the beginning of my tenure as Chairman of this Subcommittee, our Subcommittee will be an advocate for the Coast Guard, but we will balance our advocacy with a demand for accountability. Further, as we review the budget request, our Subcommittee will continually seek new opportunities to strengthen the systems and processes that can ensure accountability in all aspects of the Coast Guard's operating and capital budgets.

While I am concerned that \$837 million may not be adequate funding for Deepwater, we have just begun our oversight of this program and, before I advocate for an increase in funding, I want to know in detail the steps that the Coast Guard is taking to correct Deepwater and I want evidence that the steps are producing the results that we expect. As I have said over and over and over

again, I do not expect for the American people to continuously pay for errors that are made by others.

At the same time, the Committee on Transportation and Infrastructure is concerned that insufficient capital funding is being directed towards the maintenance of on-shore facilities. The President's budget of \$35 million for this purpose, which appears to be far below the amount required to meet the maintenance needs of existing infrastructure. Our Committee supports the appropriation of \$360 million for non-Deepwater capital expenditures, which is the level of funding that was appropriated in fiscal year 2005.

I am also very concerned about the funding levels for some of the Coast Guard's historical programs. Proposed funding levels for search and rescue, marine safety, aids-to-navigation, icebreaking, and the protection of living resources are all lower than the amounts that were appropriated for these purposes in fiscal year 2007.

I have hear concerns from throughout the maritime industry and labor organizations about the Coast Guard's lack of support for traditional maritime safety programs. Some have even advocated transferring this mission back to the Department of Transportation, where they believe it will receive better support.

Today, we also welcome to the Subcommittee Mr. Richard Skinner, the Inspector General of the Department of Homeland Security, and Mr. Stephen Caldwell, who represents the Government Accountability Office.

These two experts will discuss the Coast Guard's budget needs and the Deepwater procurement, which they both have examined in detail.

Since our last hearing on the Deepwater program, the DHS IG has issued a new report on the 123-foot patrol boats. Of course, these boats have been pulled from service due to problems with their hulls. However, the DHS IG has found that aside from the hull problems, the contractors failed to meet the requirements of the Deepwater contract by failing to install low-smoke cabling and failing to install topside equipment that would have been operable in all of the weather conditions the patrol boats were expected to face.

I must tell you that this particular issue is one that concerns me greatly. We have just seen, over the past week, what happens when our military come back from Iraq and the disregard, it seems, in many instances, for their health and safety. And here we are in the Coast Guard, a requirement having been put in by the Coast Guard and then seeming to have been waived that goes to the very safety and health of our personnel.

These findings are particularly disturbing because they identify specific instances in which the contractor failed to meet the requirements of the Deepwater contract and they identify failures that were apparently not immediately recognized by the Coast Guard. Further, the use of non-low-smoke cabling could have needless exposed the crews on these boats to safety risks, including excessive toxic smoke in the event of an on-board fire.

I think that it would be almost criminal if this Committee—if something were to happen in the future where members of the Coast Guard were harmed because we did not make sure these

specifications were met. And if we did not address them, I think that that falls square on our shoulders, and I, for one, will not be a part of that. So, therefore, we are going to look at that very carefully.

Such instances of shoddy performance that could endanger the safety of the Coast Guard crews are completely unacceptable. And let me say to everyone here I hope these are the last instances we hear about the Deepwater contract.

I look forward to the testimony of all our witnesses, and now I turn it over to my able and good friend and Ranking Member of this Committee, Mr. LaTourette.

Mr. LATOURETTE. Thank you very much, Mr. Chairman, and thank you very much for this hearing.

The Subcommittee is meeting this morning to review the President's request for Coast Guard activities and personnel for fiscal year 2008. With the problems that have recently come to light with the vessels that will be acquired under the Deepwater program, 2008 is shaping up to be a critical year for the future of the Coast Guard.

The Administration has requested approximately \$8.2 billion for fiscal year 2008, which is an increase of 2.4 percent over last year. While I am pleased that the President has proposed this increase for the Coast Guard, I am also concerned by several other proposals included in the budget. The President has proposed a funding level of approximately \$1 billion for the Coast Guard's Acquisition and Capital Programs, including \$837 million for the Deepwater program. The proposed amount for the Deepwater program is more than \$229 million less than the Congress appropriated for the program last year.

I am concerned about the effects that any reductions in funding would have on the cost and the expected delivery of assets under Deepwater. I hope that the witnesses will speak on how the proposed funding level will affect the overall costs and schedule for the Deepwater program, as well as the effects on individual acquisitions under the project. The Coast Guard is in the process of successfully acquiring new aircraft, small boats, and command and communication systems as a part of Deepwater, and I believe we must take care that any adjustment to the funding levels do not endanger those acquisitions.

I am also concerned that the President's budget does not include funding to support several of the Coast Guard's missions. Once again, the President has proposed a transfer of funds for operations and personnel of the Coast Guard's three polar icebreakers to the National Science Foundation. Last year, this Subcommittee received a statutorily mandated report from the National Academy of Sciences that recommended that the Federal Government and the Coast Guard maintain icebreaking capabilities to support economic and national security interests in the polar region. I hope that the witnesses will also advise the Subcommittee how the Administration plans to address these recommendations and how the Coast Guard plans to support its current polar icebreakers and related personnel without direct budgetary authority over funds for these assets.

The President has also proposed a transfer of funding and statutory responsibilities over the bridge alteration program from the Coast Guard to the Department of Transportation. The Subcommittee will review this proposal to examine whether these functions can be better performed by another Federal agency; however, I am extremely concerned by the justification that was included for this proposed transfer: that the removal of these responsibilities would better focus the Coast Guard on its growing homeland security responsibilities.

If the Coast Guard is unable to carry out all of its traditional and homeland security missions with its current legal authority, assets, and personnel levels, this Subcommittee needs to know and I believe we need to take action.

This hearing is very important because it lays the groundwork for the authorization bill that the Subcommittee will develop and hopefully enact into law later this year under the direction of our Chairman.

I thank the witnesses for their testimony. And, lastly, I want to welcome Master Chief Charles Bowen on his first appearance before the Subcommittee in his capacity as the Master Chief Petty Officer of the Coast Guard and, Master Chief, congratulations on this accomplishment, and we look forward to working with you.

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

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

Mr. Coble?

Mr. COBLE. Thank you, Mr. Chairman. I will not take the full five minutes.

I want to welcome our panel here and would like to note for the record, Mr. Chairman, that the Administration's fiscal year 2008 budget includes \$13.3 million for construction of a state-of-the-art pool and training facility for the Rescue Swimmer Program located in Elizabeth City, North Carolina. While Elizabeth City is not in my district, I do want to acknowledge the Coast Guard presence in North Carolina and the contribution it makes not only there, but across the Nation.

And for those who have seen the movie *The Guardian*, Mr. Chairman, which portrays the training and efforts of rescue swimmers, you no doubt understand the need for adequate training and facilities for rescue swimmers, and all Coast Guard programs, for that matter.

I commend men and women of the Coast Guard, including Admiral Allen and Master Chief Bowen, for the good job they do each day to protect our Nation, and it is good to have you all with us today.

And I yield back, Mr. Chairman.

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

Mr. Taylor, you had no opening statement. Thank you very much.

We now will bring forward Admiral Thad Allen and Master Chief Bowen.

Good morning, gentlemen, and thank you for being with us.

**TESTIMONY OF ADMIRAL THAD W. ALLEN, COMMANDANT,  
UNITED STATES COAST GUARD; CHARLES W. BOWEN, MAS-  
TER CHIEF PETTY OFFICER, UNITED STATES COAST GUARD**

Admiral ALLEN. Good morning, Mr. Chairman, Ranking Member LaTourette, and Members of the Committee. It is a pleasure to be here this morning. I have a statement for the record that I would like to submit and a brief oral statement, subject to your approval, sir.

Mr. CUMMINGS. Without objection.

Admiral ALLEN. Sir, the previous hearing we had focused a good deal on Deepwater, and I am prepared to answer any questions you may have for that topic today. I would tell you up front that we are proceeding on task per my previous testimony. We are in the process of restructuring the contract for the next award time, which we will have the opportunity to award in June of this year. We are looking at the feedback from the Inspector General, Government Accounting Office, this Committee and other Committees about establishing performance metrics, proper criteria for award fee, off-ramps where we need to do that, and more effective ways to hold the contractor accountable. We are on time line to return to this Committee within 120 days from the hearing on the 30th of January. I look forward to testifying at that time and reporting out to you, sir.

In the meantime, yesterday and today the chief of my acquisition shop, Admiral Gary Blore and Admiral Dale Gable, who is our new, who is our newly designated technical authority for Deepwater, are personally down on the National Security Cutter looking at the fatigue life issues, modifications that need to be made for the purpose of closing the issues on the first and second hull, and then being able to make the proper design changes for the third hull, so we may proceed this year and be in construction on the third hull.

Prior to any movement forward on any task order related to Deepwater or the National Security Cutter, we will full consult and advise the Committees and the oversight bodies of our intentions to that regard and how we resolve those issues, sir.

I would like to focus on the budget and the authorization bill, the purpose of the hearing this morning, sir. I was pleased that you were able to join us at the State of the Coast Guard speech several weeks ago. At that point, I made the case to the public that was in attendance and the Coast Guard that we are in a changing world and that the Coast Guard needs to change with it, and we actually started that change last May when I assumed command of the Coast Guard.

We are doing several things simultaneously. We are assessing the external environment and what we need to do in the future. I believe we need to pay attention—and we are—to the current issues that have been raised, and I have said repeatedly that Deepwater is my responsibility as the Commandant and I will get it right. However, I don't think that we should let the tyranny of the present release us from the responsibility to focus on the future, and we need to do that and we need to think about what the Coast Guard needs to be in the 21st century.

I stated at the State of the Coast Guard speech that we released a new Coast Guard strategy for maritime safety, security, and

stewardship. This document is intended to lay out the capstone objectives for my tenure as Commandant and it crosses all mission and achieves a balance between safety, security, and stewardship, including new emphasis on security and our legacy missions, and I would be glad to answer any questions about mission balance as we move forward.

To be able to be effective in the current operating environment, we need to be effective as an organization. There are three things we are looking at, and they are reflected in both the authorization bill and the budget that is before you. The first is our forestructure, our people and our platforms, to make them as effective as we can. The budget before you today includes a base reprogramming that will assist us in establishing an employable operations group that will take the Coast Guard's deployable specialized forces, place them under a single command, and allow us to do adaptive force package against problem sets like Katrina, a terrorist attack, or a manmade disaster.

Additionally, we are looking at the command and control system in the Coast Guard to make sure it effectively supports mission execution.

Finally, we are looking at mission support. The whole process of acquisition reform and our blueprint for acquisition reform, together with financial reforms and a new look at our logistics and maintenance system are intended to bring the Coast Guard into the 21st century on how we conduct business practices. As I stated at my State of the Coast Guard speech, there are portions of the Coast Guard that have been run like a small business, and we need to start acting like a Fortune 500 company.

Finally, the end goal is to achieve balance between the resources we have and the mission demands placed upon us. Our operational commanders continually participate in a risk-based decision-making process. We allocate the resources to them on scene and empower them to apply them to the highest need. The principle of on-scene initiative is what allowed us to respond during Hurricane Katrina and save 34,000 lives. That same operational guideline and that risk management decision plays itself out every day through the decisions of our field commanders, and I would be glad to answer any questions you may have about how they make those decisions, how that relates to mission balance, and how that translates into the budget numbers that you spoke about earlier, sir.

Again, I am delighted to be here today, and I would be glad to answer any questions you may have for me, sir.

Mr. CUMMINGS. Thank you very much, Admiral.

Master Chief Petty Officer Charles W. Bowen, welcome.

Chief BOWEN. Good morning, Mr. Chairman and distinguished Members of the Subcommittee. I have submitted a statement for the record and have a brief oral statement this morning.

It is a privilege to speak to you today about a subject that I care very deeply about: the U.S. Coast Guard, our missions, and our people. First, I would like to report to you that the service that I represent is in very good shape overall and well capable of executing our missions. During the past nine months, I have visited every Coast Guard district with the exception of District 14 in Hawaii, and spoken to or in front of at least 9,000 Coast Guardsmen.

On the West Coast I met a Petty Officer on the Coast Guard Cutter Monsoon who led a boarding party and a boarding that resulted in the arrest of Javier Arellano-Felix, the violent Mexican drug lord and the leader of the Tijuana Cartel.

Petty Officer Steven Ruh from Station Oswego swam over 100 years in eight to ten foot seas to rescue a woman who would have surely died.

I saw CWO Jim Mullinax underway on the Coast Guard Cutter Baronoff while on patrol near the oil platforms near Um Kassar, Iraq. He and his shipmates are working incredible hours in extreme conditions, and they are not only keeping the waters off Iraq's only port secure, but they are also helping to train Iraqi security forces in boarding techniques.

Whenever I talk to Coast Guard crews about the future of our service, I talk in terms of opportunities and challenges. Opportunities include expanded roles, new equipment, and reorganization efforts that will make us better. Challenges include an aging infrastructure, including old owned housing, child care, and our health care.

A very bright spot is recruiting and retention. 2006 was a very successful active duty recruiting year. We recruited the highest percentage of minorities and the third highest percentage of women in history of the Coast Guard. For the Coast Guard, diversity is an operational necessity. Our retention rates are historic, and 93 percent and 88.5 percent respectively for the officer and enlisted workforce.

Just a quick note about Deepwater. The past several weeks there have been several hearings devoted to this subject. I won't even try to repeat what has already been said, but I will give you my perspective from a deck plate standpoint. I know firsthand the importance of being able to project our Coast Guard presence. I have been on small cutters that could not reach offshore and we needed that aging medium endurance or high endurance cutter to reach that person in distress, interdict drugs, or protect our natural resources.

Deepwater is also a quality of life issue. Our crews live aboard those cutters over six months of every year. A current 378-foot cutter built in the 1960s has some berthing areas that house 20 to 30 persons at once. In comparison, the largest berthing area on the NSC will house six personnel at the most. As stated, the art dining facility and an onboard gym will also improve livability.

To correct my written statement, we removed nearly 287,000 pounds, or 130 metric tons, of cocaine from the transit zone in fiscal year 2006, and over 338,000 pounds, or 153 metric tons, of cocaine in fiscal year 2005. In comparison, from 1993 to 2003, the interagency seized an average of 109,474 pounds, or about 50 metric tons, per year. To put it more powerfully, in the last two years alone, we removed twice as much cocaine as we cumulatively seized in all of the years from 1994 to 1998.

Thank you for the opportunity to appear before you and thank you for all that you do for the men and women of the U.S. Coast Guard.

Mr. CUMMINGS. Thank you very much. We appreciate both of your testimonies.

Admiral Allen, I want to also compliment you on your State of the Coast Guard speech. I was very glad to be there. I thought it was very enlightening and I thought it very practical, and you showed a tremendous amount of vision, and we want to make sure you help—want to help you get there.

Over the past seven years, the Coast Guard's operating budget has grown substantially, from \$2.7 billion to a figure that is now approximately \$5.5 billion. At the same time, by the Coast Guard's count, the total number of full-time equivalent positions has grown just 18 percent.

Admiral, do you believe that you have the right number of people to manage the growth in your operations? And do you believe you have the expertise?

Admiral ALLEN. I believe with the increments that are provided each year, as long as the FTE matches the increased funding, we are going to be fine, and I am good to go with the numbers that are presented in the budget this year. That is not to say we don't have challenges moving forward, and I will be working with the Department of Homeland Security and OMB to fashion a fiscal year 2009 budget that is line with the State of the Coast Guard speech that I gave.

One of the reasons the budget that is presented to you this year may seem flat-lined compared to previous years, I believe we need a source-to-strategy. I believe you have to have an in-state of mind when you go up and ask for resources, and in the last eight months, in putting together the Coast Guard's strategy and focusing on base realignment of the Coast Guard, I have tried to position ourselves to move forward to have a higher level of credibility and a linkage between what we are trying to accomplish out there and buying down risk and the resources that I am coming to you and requesting.

One of the perennial problems in the Coast Guard is we are a multi-mission organization. The good news is you can put one cutter out there and do five missions, you don't have to have five cutters. The downside is you can only do one or two missions at a time. So if anybody asks me could I use more people, the answer is always yes, because if you give me more, I will more effectively apply those than probably any organization in Government. But there has to be a balance of the infrastructure and the competency and how we apply those resources. We know when we grow too fast we have juniority problems, where we will have people in grade and time in service at a much junior level than we had in the past. So I think there is a balance we need to achieve there.

As we move forward, I will be willing to work with the Committee and pass on any recommendations I may have for where growth needs to take place in the Coast Guard. But, as I said, for fiscal year 2008, coming in as the Commandant, my goal was to take, as we would call, a round turn on our base. And if you will notice, there is an on-budget base reprogramming forestall of \$80 million to centralize the personnel account and then \$132 million to align the funding and the personnel we need to establish the deployable operations group.

So I would categorize this year's budget as a base management budget, and I fully expect that, as we go forward, I will make my

needs known to the Department and the Administration as we move forward, sir.

Mr. CUMMINGS. On that note, on that note, one of your requests I think is that you have four vice admirals. Is that accurate? Is that right?

Admiral ALLEN. Yes, sir. This is the authorization bill that we put up, sir. What I am requesting is to establish parity with how vice admirals are assigned with DOD. It would also allow me the flexibility to achieve some of the reorganization goals that I laid forward in the State of the Coast Guard speech. Right now, vice admirals in the Coast Guard are assigned and confirmed to a position. I would like the flexibility, subject to the confirmation of the Senate—which they will still have the authority to review—to have more flexibility on how we assign vice admirals, and I would like to increase the number by one, sir.

Mr. CUMMINGS. Okay. And so the difference would be between now—if you get what you want and what is going on now, what is the difference?

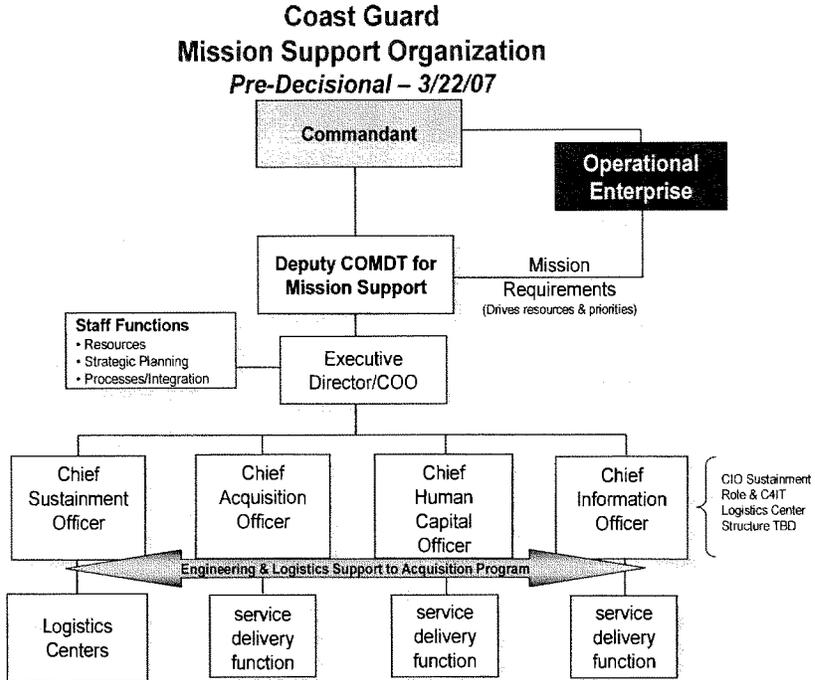
Admiral ALLEN. The major difference is I am proposing to create a mission support organization in the Coast Guard. Included in that is the new acquisition organization and the new chief sustainment officer and the ability to manage our platforms more effectively and efficiently. This will allow me to establish a senior technical position at the three star level. It will do two things: it will provide higher level oversight of mission support in things like the Deepwater acquisition; it will also allow a path to promotion for our technical people to the three star level, sir.

Mr. CUMMINGS. Will you provide us with a proposed organizational chart showing this, showing what you just——

Admiral ALLEN. Would be happy to, sir. Yes, sir.

[Insert follows:]

Insert on Page [23] after line [501].



Mr. CUMMINGS. First of all, I don't want something you said to go unnoticed, when you talk about how you are presenting your budget and basically trying to not ask for things that you don't need at this moment. I must tell you that that is refreshing and we appreciate that, because we want to make sure, as you have heard me say 50 million times, we want to make sure that the public's money is spent effectively and efficiently. So I really appreciate that.

Talking about personnel, do you believe that the head of the acquisitions functions should be a member of the Coast Guard or a civilian?

Admiral ALLEN. Actually, I think you would need a mix of both skills, sir.

Mr. CUMMINGS. Say that again?

Admiral ALLEN. You need a mix of both skills.

Mr. CUMMINGS. Okay.

Admiral ALLEN. You need the operational experience and the technical competency that we embed in our officers as they grow up through the Coast Guard, and somebody rising to that level has about 30 years experience and would be able to apply that to great advantage to the Coast Guard. On the other hand, there are issues of continuity, longstanding procurement expertise, and so forth. That is the reason what we have tried to do in the acquisition organization is have both a military member and a deputy as sort of the senior executive service. And, in fact, two or three of the last hires that we have made into our technical community have been folks that have come from places like the Naval Sea System Command, where we are trying to acquire civilian competency that provides continuity, and then overlay that with military experience, sir.

Mr. CUMMINGS. And so do you believe that the chief financial officer should be a member of the Coast Guard?

Admiral ALLEN. Yes, I do, sir, because ultimate accountability, chain of command, and the accountability of the senior officers to me, the way it is currently constructed is the chief of our CG-8 organization is designated as a chief financial officer. We are in the process of hiring a deputy CFO who will be a civilian senior executive, sir.

Mr. CUMMINGS. With regard to Deepwater, are we going to be able to stay within that \$24 billion budget, do you think?

Admiral ALLEN. Sir, I am not sure we are going to be able to answer that question completely until we get some of these first articles out and tested, and then we are going to have to make some tradeoffs. If for some reason there is cost growth and we intend to stay within that cap, then we may be looking at less units or another way to acquire those units. I am ever mindful of that. That is the target and I think I need about a year under the new regimes we are putting in place and looking at the options we have to acquire things, especially after we have demonstrated first article performance, whether or not we should go bilateral with the contract rather than work through ICGS, and use that as a basis for revising our cost estimates and whether or not the \$24 billion is accurate. But I would like to tell you that we need to look at dif-

ferent mechanisms by which we can drive cost out of the procurement overall, sir.

Mr. CUMMINGS. All right, now, let's go back for a moment. If we were to—you just said something that just kind of rang some bells in my head. You said something to the effect that we might have to reduce what we want basically. Is that what you just said?

Admiral ALLEN. Well, sir, if you keep the baseline where it is at, at \$24 billion, and you have cost growth and you don't change the baseline, you are going to buy less.

Mr. CUMMINGS. Right. I understand that.

Admiral ALLEN. Or you have to extend the baseline cost. What I am saying is that under the changes we are looking at in the contract structure and our options as far as competition and all that sort of thing, I think in the next six to twelve months I can give you a more accurate assessment of whether or not the changes we are making now can actually drive cost out of the total top line of the procurement.

Mr. CUMMINGS. I have got that.

Admiral ALLEN. Yes, sir.

Mr. CUMMINGS. This is where I am going with this. One of the things—one of the reasons why we even came up with the Deep-water program was so that we could make sure—I know it started pre-9/11, but particularly post-9/11 we wanted to make sure that our military had the best equipment to do the job that they have to do. And this is a theme that is, by the way, not only running through the Coast Guard, but all of our services. I mean, that is a major concern I think of probably every single Member of Congress.

And so when—if we have to reduce our acquisitions, then the question becomes are we—it is logical, I think, that we are then reducing our capability of doing the missions that you have been mandated to do. So I guess what I am looking at—and I understand you need more time to figure out where this is going, but I am interested to know how the negotiations are going. We are interested to know what is happening without—I don't want to interfere with the negotiations, but I am interested in knowing how Northrop Grumman and Lockheed Martin, are they working with you, trying to deal with the issues that we have been talking about for the last few months.

And I am wondering whether or not there are any concessions with regard—I mean, we noted their bonuses have been paid—were paid a while back. We want to know where all of that is because, again, what we are trying to do is take the American people's money and protect them with their own money. That is what we are trying to do, trying to spend that money effectively and efficiently. We simply want what basically is standard contract law to happen. We want to make sure that when we give money, that we get a product back that works.

So where are we with your negotiations? Because I think that is critical, where those negotiations are, because we cannot just keep throwing money and throwing money. The American people are not going to stand for it, nor will this Congress.

Admiral ALLEN. Yes, sir. The process was intended to come up with a range of suggestions to both myself and the two CEOs, and

the culmination of the work that has been going on was the trip yesterday to Pascagoula with the chief of Deepwater and our technical authority. The specific purpose of that trip was to come to closure on the technical solutions for the fatigue life issue as part of settling all issues relating to the first and the second hull, as a prelude to being able to issue a task order for the third NSC hull, sir. So we are almost at closure on that. I would be glad to provide you a complete technical briefing and where we are at in the negotiations, sir.

Mr. CUMMINGS. I am going to end my questions because I want the other Members to have opportunity, but let me tell you something. The Homeland Security IG has a major issue with this fatigue life situation. He is of the firm belief that we are not getting what we contracted for. He has heard your explanation; he has read all kinds of material; I guess he has talked to a number of people.

But one of the most disturbing things that he found, he felt that—and he believes very strongly—and he will be here—he will be sitting where you are in a few minutes and I am sure he will say this—is that he does not believe, when it comes to fatigue life, that we have gotten—we are not getting what we bargained for. Of all the points that he was most upset about, it is that one, and he feels that, for some reason, we started off with a certain fatigue life and then some folks played with the words, and the next thing you are know we are not getting what we bargained for.

Would you comment on that? Because I want to make sure that, when he comes up here, I can tell him what you said.

Admiral ALLEN. Yes, sir. The only issue raised by the Inspector General regarding the National Security Cutter has been fatigue life. There has been no audit on the capability, the quality of life improvements that the Master Chief talked about. The single issue with the National Security Cutter and the Inspector General is the fatigue life, and I believe you are alluding to two issues, and I will take them separately.

One of them is I think there is an issue on how underway days were defined, and I will talk about that.

The other issue is Northrop Grumman constructed this ship through a traditional military combatant process using what they call data design sheets. Our engineers felt that that basis for construction introduced some risk in terms of hull fatigue. They sought a modeling system that had not been applied called finite element analysis that replicate the action of waves on the hull over the lifetime of the hull. That led our engineers to believe that it might not achieve the fatigue life expected of the ship. That wasn't to say that you would launch it and something would happen immediately; it is almost like you ask for—you thought you were getting 80,000 mile Michelins and you got 60,000 Good Years, and how long would it last. And that is where the discussion has come in.

Northrop Grumman believes that they have met the requirement in the ship they have offered us; we don't think they have. That is why our chief of Deepwater and our technical authority are in Pascagoula. That is a seminal issue that has to be resolved, codified, either contract changes made, concessions made and com-

pletely spelled out about how we are going to move forward. It involves strengthening certain parts of the ship to make sure that, as the forces are subjected to the hull over the lifetime of the ship, that we won't see stress cracking and a loss of structural integrity on the ship, sir.

The second issue was something that was not clear in the contract but understood by both the Coast Guard and the contractor and required clarification for the Inspector General, and it is the difference between what is a day away from home port and what is a day in the operating area. These vessels have been crewed to be able to operate 230 days a year away from home port. Our current cutters operate 185 days a year away from home port. With transit times, dry dock time, port calls for logistics, you do not yield 230 days on station from 230 days away from home port, it is closer to about 185 or 190.

The contractor that was directed to do the finite element analysis was not given any guidance; he therefore took 230 days and applied that as if we were on station subject to all the wave action, which results in a far greater requirement for strengthening the hull over 30 years than you would for 185 days. Our technical authority—this is not Northrop Grumman or the Deepwater Program Office—our technical authority went back and corrected that that should be 185 days. We then went back and clarified, to the extent there was any misunderstanding by the IG or it was vague in the contract, we actually modified the contract to make sure everybody knew that we were talking about 185 days on station per year.

Mr. CUMMINGS. Just to leave you with this. When we have the IG who says, United States Congress, the people of this Country, through the Coast Guard, are not getting what they bargained for, that is a problem.

Admiral ALLEN. Yes, sir.

Mr. CUMMINGS. That is a major, major problem. We rely on the IG; we trust the IG, I think most of us. They have nothing to gain; they are just trying to do their job. So I just—again, as I said—and I think you—

Admiral ALLEN. Sir, we don't argue with the issue of fatigue life. It has got to be resolved.

Mr. CUMMINGS. Okay. All right, so we are trying to be consistent with the IG, is that what you are trying to say to me?

Admiral ALLEN. There was inconsistent interpretation of whether the ship should be subjected to wave action for 230 days or 185 days a year. It was commonly understood between the Coast Guard and the contractor that it was 185 days. The IG interpreted the contract as saying 230. There is a different—and it was stated different ways in different parts of the contract, and we have clarified that.

Mr. CUMMINGS. Now, did you all ask the Navy to do the analysis on the basis of 230 days?

Admiral ALLEN. We submitted a work order to the Naval Surface Warfare Service at Carderock and asked them to do a finite element analysis. The work order did not specify the number of days and they interpreted it to be 230. When we received the report, we adjusted it to 185, which this is a scaling of the results. And I

would be glad to produce a detailed answer for the record on that that is certified by my technical authority, sir.

Mr. CUMMINGS. I would like to have that only, like I said, because the IG—and I know that he is very, very, very upset about this and very concerned.

[Insert follows:]

**Insert on Page [33] after line [738].**

Naval Surface Warfare Center-Carderock Division (NSWC-CD) performed a structural assessment of the National Security Cutter (NSC) to address the adequacy of several critical structural areas on the NSC. The assessment assumed that NSC underway condition assumptions would be reasonably “bracketed” by expected wave height conditions of the Gulf of Alaska and general Atlantic, using a notional model of the cutter being underway 230 days per year. Based on (1) these assumptions, (2) coarse-mesh and fine-mesh finite element models and (3) subsequent analysis, NSWC-CD concluded the NSC would experience fatigue cracks well before the NSC reached its 30 year service life.

Using the Operational profile models provide by the Coast Guard Office of Response (Deepwater Sponsor’s Representative) that reflect the Coast Guard’s intended operational tempo of the NSC and the terms of the performance specification (P-Spec) the Assistant Commandant for Engineering and Logistics Resources (CG-4), in a 23 June 2006 memo to the Deepwater PEO, stated that 230 days underway was in excess of the operational requirement. If the NSC is away from homeport 230 days per year and after correcting for the time the cutter is in port for training, logistics, scheduled and unscheduled maintenance, the NSC would actually be underway for 170 to 180 days of operation per year in the North Pacific or general Atlantic. CG-4 therefore recommended that no fewer than 170 days be used as the operational profile for subsequent fatigue life calculations.

Based on these more specific criteria, NSWC-CD performed updated fatigue load and finite element models. Data from these models, plus reviews and inputs from structural experts from the CG-4’s Engineering and Logistics Resources Coast Guard Engineering and Logistics Center, established maximum permissible stress levels for the NSC. These stress levels serve as the Coast Guard’s basis for the design of structural modifications to the NSC to attain a 30 year fatigue life.

During this entire discussion with Carderock and through final adjustment by the Coast Guard Technical Authority, the Days Away From Home Port operational requirement for the NSC was never changed, nor does the Coast Guard contemplate doing so.

Mr. CUMMINGS. Mr. LaTourette.

Mr. LATOURETTE. Thank you, Chairman.

And welcome again. I want to go over just some parts of the President's budget that I think I highlighted in my opening remarks, and the first is on the shore-side facility funding.

Although the request for this year is about \$16 million higher than last year, in going back over previous periods, there was a six year period, from 1995 to fiscal year 2000, the Coast Guard requested an annual average of about \$73.5 million for those facilities, together with navigation facilities. During the next six-year period, from 2001 to 2006, the Coast Guard sought an average of only \$30 million for the same programs.

My question—just three quick questions. What accounts for the reduction? Has the Coast Guard dramatically reduced its shore-side aid and aids to navigation holdings? And do the upgrades made during the more robust period still meet the operational needs of the Coast Guard today?

Admiral ALLEN. Sir, we took a hit in the early 2000s in the shore account. A lot of that had to do with the negotiations that were going on regarding the awarding of the Deepwater contract against a constrained funding ceiling. In fact, there were a couple years there, because of the negotiations moving the budget forward, the funding was probably inadequate.

We have raised that to \$37 million this year. In future years—I have already talked with the Secretary and the Deputy Secretary about this—we need to grow this account, sir. It is underfunded and we need to move it up in future years.

Mr. LATOURETTE. Thank you.

The other issue that I mentioned, one of the other issues was the polar icebreaking operations. The President's budget does not include funding for personnel or operations aboard the service's three polar icebreakers for 2007. The President's budget also does not include any funding to address recommendations to maintain Federal polar icebreaking capabilities that were made to Congress in the statutory report. There was a report in January of this year to the Committee that states that the Coast Guard is working with the Administration to review that report.

One, when will the review of the report be complete? Two, how does the transfer of this funding affect the Coast Guard's capability to plan and budget for polar icebreaking missions aboard Coast Guard vessels? And then, lastly, is the National Science Foundation required to provide funding the Coast Guard for this service or can it choose to contract out with other parties or even foreign nations to engage in this activity?

Admiral ALLEN. Yes, sir. First of all, several years ago the base funding for the operation of polar icebreakers was transferred to the National Science Foundation. That has required us, on an annual basis, to justify cost to them and negotiate a fund transfer to operate our icebreakers. In effect, we own the crews and the cutters, and they own the funding on an annual basis to do that.

My own opinion is that is very dysfunctional, but that is what @. It proved itself this year; when appropriations were passed for the Department of Defense and Homeland Security, the rest of the Government was submitted to a continuing resolution, and that

would include the National Science Foundation. Now, we have adjusted that for this year, but that is just one indication about this process and how it is very problematic in how to execute.

Moving forward, I believe if the Coast Guard is going to operate polar icebreakers, we should have the funding in our base, whether it is adequate or not, and then we will operate. I would rather have the flexibility and the money, even if it is not enough, then to try and do a cross-agency transfer, because it is very problematic.

In regard to the longer polar icebreaker issues, the National Academy of Sciences produced a report last September that validated the need for three polar icebreakers which the Coast Guard: the Healy, which is basically an Arctic research vessel; the Polar Sea; and the Polar Star.

Moving forward, we believe there is a decision point coming down about the recapitalization or the refurbishment of the Polar Sea and the Polar Star. It is not a this year budget issue, but it is a this year policy issue in how we are going to proceed in the future.

We have been partnering within the interagency, Department of State and other entities, to take a look at the current policy environment for polar icebreaking, both Arctic and Antarctic, especially in view of the shrinking Arctic ice cap, access to routes from Russia to Asia over the top of the Western Hemisphere rather than through the Panama Canal, and the likelihood of increased shipping. We think there are issues up there regarding search and rescue, environmental response, and even issues of national security. We think this is a policy issue that needs to be addressed right now, and we look forward to doing that over the next 12 to 18 months, and then following a policy discussion with authorization and budget recommendations, sir.

Mr. LATOURETTE. Okay, thank you. And just sticking with the icebreaking theme for a minute, I want to—I will thank you a little bit later, but publicly thank you and Admiral Crowley of the 9th District and the skipper and the crew of the Neah Bay for the relief that they gave my constituents last week, a really great effort. I mean, the Neah Bay had to come out three times because the ice in the lake was so tough, and it was helped by the Ridgely from Canada. So I thank you, and I thanked Admiral Crowley yesterday.

My last question is in your testimony, figure 1 on page 5 of your testimony includes a list of statutes and acts under which the Coast Guard operates. The list is part of the explanation of the new Coast Guard strategy for maritime safety, security, and stewardship. It is of concern to me that none of the provisions in Title 6 dealing with vessel safety and documentation or merchant mariner credentialing appears on the chart. As you know, the Subcommittee has been long concerned with that, and I think my question is, is the failure to mention this important provision of Title 46 an oversight or should the Subcommittee be concerned that maritime safety is suffering at the hands of increased attention to homeland security?

Admiral ALLEN. Sir, I can guarantee you it was not an act of commission. That chart in the—I am assuming you are referring to the maritime strategy chart. That was a representative example of statutes, and whether you call it omission or oversight, there is no intention to walk away from those missions, sir.

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

Mr. CUMMINGS. Mr. Coble?

Mr. COBLE. Thank you, Mr. Chairman.

Thank you, Admiral and Master Chief. Admiral, let me first of all insert my oars into back home waters involving a program that was included in the previous authorization bill which created a pilot program in Camden County, North Carolina. Specifically, Section 401 authorized the creation of a Coast Guard junior reserve officer training corps at the Camden County High School. To date, that program has received no funding. Given inclusion in the authorization, Admiral, what level, if any, of involvement has the Coast Guard had with the Camden County Board of Education and the Camden County commissioners to reach an agreement on how to move the pilot program forward? And if an agreement was reached between the principals, would you be inclined to recommend funding to support the program?

Admiral ALLEN. Sir, if it is okay, I will get the latest status on that and answer for the record, but I do have a couple thoughts to pass, if that is okay.

[Insert follows:]

**Insert on Page [38] after line [881].**

The Coast Guard has had no involvement with the Camden County Board of Education or the Camden County Commissioners concerning the creation of a Coast Guard Junior Reserve Officer Training Corps pilot program in Camden Country, North Carolina. Currently, the Coast Guard lacks the available managerial overhead to manage a program for civilian adolescents (liability, curriculum accreditation, child protection).

Admiral ALLEN. We do have, as you know, a very successful Junior ROTC program down in Miami, Florida, the Mast Academy; it is a magnet school for marine science and technology, and that has become a great feeder school for Academy applicants. And, in fact, a year or so ago the regimental commander at the Academy actually came out of that JROTC program. We know the value of those programs.

With my sabbatical down in New Orleans and Baton Rouge last year, I became disassociated from that particular initiative, and I would like to get back to you and give you a response to your question, sir.

Mr. COBLE. I think the beauty of the Camden County locale is the proximity, as you know, of the support center at Elizabeth City and the various commanders there.

Admiral, I think you have touched on this, but give us some examples of major decisions that were made regarding Deepwater where it has been reported that the Coast Guard did not follow Integrated Coast Guard Systems recommendation. First of all, is it your belief that you did follow them, that the Coast Guard did in fact follow the recommendations?

Admiral ALLEN. Thank you for the question, sir. There is a lot of coverage in the press and a lot of perceptions out there that, generally, terms have been dictated to the Coast Guard in this contract. While the IG is correct in that we did not adequately document the decision related to the National Security Cutter and fatigue life, I can tell you that there are numerous instances where we have told the contractor that the proposed solution was not acceptable.

The original helicopter that was offered to the Coast Guard was an AB139. We have decided to move forward with the re-engining of our H-65 helicopters to H-65 Charlies and stay with our H-60 helicopters and upgrade them to H-60 Tango versions with the new cockpit and new avionics.

Likewise, the small boat that was offered for both the 123 and the National Security Cutter, the short-range prosecutor, we didn't feel brought us the same performance at value and we thought an independent purchase by the Coast Guard of these small boats would give us the same performance at a lower cost, and we would then provide that as Government-first equipment. That would also allow us to have Northrop Grumman design the stern launch system for the National Security Cutter, which is somewhat of an innovation in a large ship. They would be able to design that launch to the ship, the small boat that we were going to acquire so that system would work together, technically.

But there are a number of issues where we have said no, that is not the right answer, we are going to go another direction.

Another one would be the original fixed-wing maritime patrol aircraft that was offered by Integrated Coast Guard Systems was an extended range CASA 235 that we thought would not give us a technical performance, and we were concerned about the amount of power reserve on takeoff and whether or not it could accomplish the long-range patrol objections that we had. Then we ended up with a hybrid fleet. We moved the CASA 235 that did not have the

modifications that introduced risk and we kept a certain portion of our C-130 fleet and the new C-130Js as part of the mix.

But I can tell you unequivocally, across the board, terms have not been dictated to the Coast Guard. I know there is an issue with the National Security Cutter, but that has not been the standard practice.

Mr. COBLE. I thank you, Admiral.

No further questions, Mr. Chairman.

Mr. CUMMINGS. I want to thank you.

Before I go to Mr. Taylor, have we seen—first of all, Admiral, just following up on what Mr. Coble just asked and your response, I think it is great the things you just said, because those were the kind of things that we were hoping would happen. But have we seen any significant savings, Admiral, on those things? I mean, like say, for example, when you can buy something direct, as opposed to be going through the team or whatever. I mean, have you seen savings?

Admiral ALLEN. These weren't decisions that were based on savings, they were based on the performance enhancements, sir.

Mr. CUMMINGS. I understand. But have we seen any? Are you following what I am saying?

Admiral ALLEN. Yes, sir. There are savings associated with the Short Range Prosecutor. And we can give you the exact—there is a Delta for each hull, and I can give you that for the record, sir.

Mr. CUMMINGS. Yes. Can you give us that information?

Admiral ALLEN. Happy to do that, sir.

[Insert follows:]

**Insert on Page [42] after line [965].**

In May 2005, the Coast Guard's Deepwater Program Office presented a brief to the Commandant which compared the Coast Guard's cost for the Cutter Boat-Over the Horizon (CB-OTH) procured through the Coast Guard's Office of Boat Forces (G-RCB) against the Deepwater Program's Short Range Prosecutor (SRP) procured through Integrated Coast Guard Systems (ICGS). The Coast Guard's Deepwater Program Office and Office of Boat Forces conducted an acquisition alternatives analysis to assess the feasibility of procuring a CB-OTH-like boat for new Deepwater Program assets (National Security Cutter (NSC), Offshore Patrol Cutter (OPC) and Fast Response Cutter (FRC)). The analysis indicated that the SRP-OTH would provide increased Operational Effectiveness (increased speed and over the horizon capability) at lower acquisition cost than the ICGS procured SRP.

The Coast Guard's Deepwater Program Office issued a Request for Information (RFI) to industry in August 2005 that outlined the requirements of both the SRP and SRP-OTH cutter boats. Table 1 compares the acquisition cost estimates to actual contract costs of SRP as provided by the vendors. The SRP-OTH has the increased speed and range of a CB-OTH boat, coupled with the Deepwater Program interoperability requirements of the SRP.

**Table 1: Acquisition Costs**

	SRP	SRP	SRP-OTH
Procuring Agent	ICGS	Coast Guard	Coast Guard
Acquisition Cost per Follow-on Boat	\$377K (actual cost of SRPs 3-8)	\$200K-\$269K (Vendor Estimate for RFI)	\$230K-\$299K (Vendor Estimate for RFI)
<b>Total for all 82 SRPs</b>	<b>\$31M</b>	<b>\$16M-22M</b>	<b>\$19M-\$25M</b>

The Coast Guard conducted a Life cycle support analysis, comparing the cost between ICGS and USCG legacy support. The comparison in Table 2 shows the legacy support cost per boat per year is comparable to the ICGS support costs per boat per year.

**Table 2: Life Cycle Support Comparison**

Type of Support	Annual Cost	Source
Legacy CG Support Cost (per boat per year)	\$32.5K-65K per SRP-OTH*	\$32.5K is based on established Zodiac Hurricane-Canadian Coast Guard contracted maintenance program \$65K is based on Coast Guard estimates using mainly organic resources
Legacy CG Support Cost (per boat per year)	\$30K-58K per SRP*	\$30K is based on established Zodiac Hurricane-Canadian Coast Guard contracted maintenance program \$58K is based on Coast Guard estimates using mainly organic resources
ICGS Support Cost (per boat per year)	\$50K per SRP*	Based on existing ICGS prices for SRP plus Gov. estimate for increased C4 equipment

\*Estimates were rough order of magnitude and based on notional Coast Guard and ICGS SRP and SRP-OTH sustainment plans

Mr. CUMMINGS. Mr. Taylor?

Mr. TAYLOR. Thank you, Mr. Chairman.

And, Commandant, thank you very much for being here. I will start off with the good news. For years I have been concerned about the safety of the crew ships as they tied up at the Port of New Orleans, particularly around Mardi Gras time; thought it would be a great terrorist target. My observation was that you had some small boats out there protecting them from the waterside, and there is also a Naval vessel there. So we start off with the good news. I am glad that you all were doing that. It is one less likely target to have been hit.

The bad news is, Commandant, that I continue to be dumbfounded by what happened to the 110s. And it just hit me. You are in the business of running marine safety inspections on every commercial ship in America. Every tugboat, every offshore supply boat has to be hauled periodically. Your crews run the safety inspection. Your crews do the calculations. So how in the heck do you stretch eight ships and render them useless, spend \$100 million of the taxpayers' money and nobody in your fine organization catches this? Now, if you think about it, if a guy shoots down five planes, he is an ace. Somebody took eight ships out of your inventory, and nobody is to blame. And, again, I am going to ask you this question every time. That is not fair to the taxpayers. Somebody wasted eight ships. So the question I want to ask in particular is who ran the hogging and sagging calculations? Were those numbers entered properly? And who is responsible for the loss of eight ships and \$100 million of taxpayers' money? Because—I am sorry it took so long for me to hit me—if you have got the expertise to inspect everybody else's vessels, I have got to believe that you had the expertise in-house to have caught this.

Admiral ALLEN. Yes, sir. I think we are in violent agreement on the amount of value that has been rendered to the Government and the Coast Guard by this acquisition, and I think failure to achieve adequate solution going forward is going to result in us having to make sure that the Government's interests are protected, and I stated before we are going to do that. I have got a team doing basic forensics on the decision-making process, the reviews that were done on that.

As we had talked earlier at one point, when they extended the ship by 13 feet, they moved the midship's point of the ship to aft of the pilot house. When it was on the pilot house, the hogging and sagging of the ship subject to the forces of the waves was absorbed by what we would call a larger cross-section modulus. When they moved the midpoint back, there was a narrower part of the ship to absorb the hogging and sagging, as you have stated.

One of the things we are looking at is whether or not the computer models that generated the solution on whether or not that would be adequate were adequately applied, and we are taking a look at that right now. We are going to produce a very detailed analysis of all this and we will make it available to the Committee, and we have somebody working on it right now. There is nobody more concerned about this than I am, sir, and it was with very, very careful deliberation that I went down to Key West and re-

moved those boats from service, because that is the last thing I wanted to do, sir.

Mr. TAYLOR. Well, when do you anticipate a decision on this? Because, Commandant, every time I see you I am going to ask you the same question.

Admiral ALLEN. Yes, sir. We——

Mr. TAYLOR. Because I don't think the taxpayers ought to get stuck with this bill.

Admiral ALLEN. Agreed, sir.

Mr. TAYLOR. To what extent—I am pleased to hear that you have been talking with Admiral Mullen to the greatest extent possible, coordinating your acquisition efforts with theirs. And, again, you have expertise; they have expertise. Years ago—and it may still be going on—the Coast Guard would lend—I am sorry, the Navy would lend gunnery officers to the Coast Guard. I am sure there was some sort of exchange of Coast Guard officers to Navy vessels. I was just curious, have you now, or have you ever looked into the possibility of trading off some officers with NAVSEA? It doesn't strike me that you need a huge acquisition shop, but to have some people who have got at least that in their background, and knowing the people who to call at NAVSEA I have got to believe would be of tremendous value to the Coast Guard so that something like this doesn't happen in the future. Having someone whose experience David Taylor for the David Taylor Research Lab and at least knows who to call there I would think would be of some value.

Admiral ALLEN. Yes, sir, you are absolutely right. In fact, we are using those resources right now. The finite element analysis that we talked about earlier that was conducted for the National Security Cutter was conducted at the Naval Surface Warfare Center at Carderock. We use the Navy for operational test and evaluation, and we consult with them regularly where they have expertise that we can use. And, in fact, I will shamelessly state that we have stolen I think either two or three senior executives right out of NAVSEA that are working in the Deepwater project right now. And Admiral Mullen and Secretary Winter have offered whatever resources we need moving ahead.

I am traveling, as I told you earlier, on Friday down to the shipyards of the Gulf Coast with Secretary Winter. That will be followed by discussions with Admiral Mullen and Deputy Secretary Jackson about how we might move forward to take advantage of some of the issues you raise yourself, sir.

Mr. TAYLOR. Mr. Chairman, my last question is I have forgotten the name of the deputy commandant who actually called into question the National Security Cutter, and particularly what he saw as the overly stress problems down in the bilges of the ship. I have been told I think by you that he is now retired and teaching at the Academy. My question is in your conversations with Northrop and others, has he been included in that? I would think—the reason I say this is I read what he had to say. I mentioned his concerns to the president of Northrop Grumman Shipbuilding; he says that is not the case. I would think there would be some value to getting that retired admiral and the engineers from Northrop in the same room at the same table and see if this can't be resolved.

Admiral ALLEN. Yes, sir. You are talking about Admiral Errol Brown. He is not teaching at the Academy. We recently brought him on for special duty with us to oversee the top-to-bottom review at the Coast Guard Academy, which has just been completed and we are reviewing that. And he has done great service and he is a terrific officer; I have known him for well over 35 years; highly respected for his integrity.

I will tell you this. I am not sure we need to bring him back to have the discussion, because my current technical authority in the Coast Guard, Rear Admiral Dale Gable and Errol Brown, there is absolutely no daylight between them in how they see this issue, sir. I think we have got it covered. It is a matter of sitting down with Northrop Grumman and resolving how they view the fatigue life of the ship and how we review it, and what we think needs to be done to move forward; and that is exactly what we are doing, and I owe the Chairman and all of you a report, sir.

Mr. TAYLOR. All right, thank you, Commandant.

Thank you, Mr. Chairman.

Mr. CUMMINGS. And you are saying, then, that we will figure out who is responsible for this problem and—I guess what I am trying to get to is we can—and I know this is not—I mean, I just—one of the things that the IG talked about was how—I am going to be right with you, Mr. LoBiondo, but I have got to get this straight—he talks about how, in the military, in the Coast Guard, a lot of people like the certain folks like, say, the Northrop Grummans and the Lockheed Martins, they almost depend upon personnel to change, and they know that personnel is going to change and they just have to wait it out a little bit. So the problem here, going back to what Mr. Taylor was talking about, is that it seems like, in Congress, it seems like we are almost set not to get things done. In other words, it is hard to get the accountability. And what he is aiming at is what I am aiming at, the same thing——

Admiral ALLEN. Yes, sir.

Mr. CUMMINGS.—we need times, dates. And if we have to have a hearing every other day, we are going to do it. That is why we asked you all to come back in 120 days.

Admiral ALLEN. Yes, sir.

Mr. CUMMINGS. And so when you ask a question like the one he asked, I would like to know when are we going to have that information. Somebody is responsible. Somebody made some major mistakes.

Admiral ALLEN. Yes, sir. Let me——

Mr. CUMMINGS. Just pardon me just one more second. And everywhere else in this Country, probably in the world, if somebody messes up, they pay. So, some kind of way, we have got to get to that bottom line and figure out where we go from there. And I don't think that that is asking something unreasonable, and I would just like to know when will we know.

Admiral ALLEN. Yes, sir. Let me just elaborate a little bit more so I can make it clear. We are going to order modifications to the National Security Cutter to ensure it achieves its fatigue life. Now, the issue of whether or not the contractor provided adequate services under the specification provided to him or we ordered additional work will have to be adjudicated, but, one way or the other,

we have to have the modifications because we can't issue the task order for the third cutter unless that is done.

Mr. CUMMINGS. Right.

Admiral ALLEN. Then the second step is who is accountable. And I am more than happy to discuss that. We have got to quantify exactly what has to be done. There has to be agreement on the technical solution, and that is what we are coming to right now. And I want that as quickly as you do, sir, and as soon as I have got it, I will come to see you, sir.

Mr. CUMMINGS. Thank you.

Admiral ALLEN. We are talking weeks, we are not talking months, sir.

Mr. CUMMINGS. Very well. So if we are talking weeks, that means we are talking about within a month.

Admiral ALLEN. Yes, sir. And as I stated earlier——

Mr. CUMMINGS. Because I want to hold you to that. So we are talking about within a month?

Admiral ALLEN. Yes, sir, I will brief you within a month.

Mr. CUMMINGS. Very well.

Mr. LoBiondo.

Mr. OBERSTAR. Would the Chairman yield?

Mr. CUMMINGS. Yes.

Mr. OBERSTAR. I just want to reinforce what the Chairman has said just a moment ago about the seriousness of keeping the Coast Guard accountable. I have every confidence in your leadership, Admiral Allen, but the Coast Guard has, as the Deepwater program demonstrated, failed significantly, in a matter that I have seen previously with the FAA, when they were not able to manage large contracts and got in over their head. And we in the Congress didn't stop them soon enough from making those mistakes, and I accepted that responsibility at the time, but we did get in and severed the relationship between IBM and the FAA. You could not tell where FAA left off and IBM began, nor vice versa. And we don't want to let a situation like that develop between the Coast Guard and its contractors. You have a responsibility of oversight, and vigorous oversight, over the contractors, and you cannot allow them, in effect, to self-certify. And as the Chairman has said, we are going to stay close on top of this.

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

Mr. LoBiondo?

Mr. LOBIONDO. Thank you, Mr. Chairman.

Admiral, you recently provided Congress with a report on the condition of the infrastructure with the boat station at Cape May, and in the report—by the way, that boat station was, I think, a laundromat in the 1940s—that it is obsolete and in need of replacement to ensure the mission, the success of the mission. I am very pleased that the survey and design funding for the facility is in the 2008 budget, but can you give me some assurance or commitment that this project is going to continue to move forward and in the next couple years will be completed?

Admiral ALLEN. We will seek funding in 2009 for construction, when the survey and design is done, sir. Just as a footnote to that, when I was the Fifth District Commander, we actually had to condemn the roof of that building for a while until we could make

emergency repairs. I am personally familiar, as a former district commander, what needs to be done with, and we will take care of it, sir.

Mr. LOBIONDO. Thank you. I also understand your housing authorities authorization expires at the end of this fiscal year, and I believe it is imperative that the Coast Guard authorization bill carry renewal of these authorities so that the service can enter into the public-private ventures to repair and replace some of the very, I think, just decrepit conditions for member housing. And some of that is at the Cape May Training Center. For my colleagues who may not remember, that is the only recruit training center in the Nation.

I also understand now that you have an issue with OMB that is throwing up a roadblock for the use of this authority with the Coast Guard and other services. Can you explain to us the issue that OMB has raised and what impact it will have on the service's ability to recapitalize their housing and how you intend to resolve the situation?

Admiral ALLEN. Yes, sir, I can explain the situation. I am not sure I would attribute it to OMB; I think it is a matter of appropriations law, but I would seek certainly your counsel on this. The issue is, on a public-private venture, there is a certain amount of seed money that is provided and there is an anticipated revenue stream. Let's say for a housing development that would come through the developer through the housing allowance that would normally pay to the members; that would be the income stream to the developer. The problem is this is very much like a capital lease, where, when you go in and request the money up front, you have to request the money for the entire project, as you would for a capital lease scored the first year. So it is a significant impact on our budget to be able to hold one of these projects together absent some other interpretation of the law, sir. That is the problem.

Mr. LOBIONDO. Thank you.

Mr. Chairman, I would like to echo what you have said to the Commandant, Mr. Oberstar, and Mr. Taylor and Commandant about this whole situation with Deepwater. As you know, we put a lot of time and energy over the last number of years into trying to keep this program up and running to try to run through this mine field that we were in, and this is a very serious situation that these answers are critical for.

Many of us have been willing to take a step back to let your investigation go on to be able to come up with these answers, but somebody has to be held accountable. We can't walk away from eight ships; we can't walk away from miscalculations. There has to be something that we can definitively point to to bring this to conclusion so that we can move on. Unless we definitively bring it to conclusion with something that is reasonable, I think we have got a big problem on our hands.

Thank you, Mr. Chairman.

Mr. CUMMINGS. Thank you very much.

Mr. Gilchrest?

Mr. GILCHREST. Thank you, Mr. Chairman.

Admiral Allen, do you get out on boats much?

Admiral ALLEN. Whenever I can. Two weeks ago I was on our patrol boats in the Persian Gulf and in the Port of Um Kassar, sir. It was terrific.

Mr. GILCHREST. That is good. I was just—I had some fear that you were stuck in the office a lot with all these issues.

Admiral ALLEN. I am a movable beast, sir.

Mr. GILCHREST. Good. Good. That is good.

Because of the issues that have been raised here this morning, and everybody is under a budget crunch, a lot of people, certainly including the Coast Guard, your boats and Coastees are spread in a lot of different places around the world as things keep unfolding, so as a result of this, conditions in the world, the Persian Gulf, what is happening in the Caribbean and other places, it seems like there is a pretty good strain on the Coast Guard's budget, so I wanted to ask you about four specific areas. The President's request doesn't include anything for icebreakers I believe in the Antarctic and the Arctic, so I was wondering how that program was going to be funded. Is that program being cut back? Is the National Science Foundation a part of appropriating funds? Is the international community going to be asked to appropriate funds to take advantage of some of the icebreaking activities down there?

The second thing, I noticed that there is either a cut or an elimination of cold weather training for the Coast Guard, especially up in Alaska. What is the status of that?

Number three, long-range vessel tracking issue. Apparently, the standards have been passed by the International Maritime Organization. This is, I think, a key component for a lot of different activities, certainly port security, even vessel monitoring with our fisheries and the international fishing community.

And the last thing, about 10 years ago we really made an effort to interdict drugs in the Caribbean, a lot more money, different policies, and I wonder how that was going, especially in light of what is perceived to be a pretty significant trans-shipment point in Haiti.

So where is the Coast Guard on those four areas?

Admiral ALLEN. Thank you for the question, sir, and thank you for your continuing support over the years.

In response to an earlier question, I will summarize. There are two issues with icebreakers: ongoing operations money and then the need to ultimately look at recapitalizing the Polar Sea and the Polar Star. We have got ourselves into a position over the last several years where the Coast Guard owns the people and the hulls, and the National Science Foundation owns the bulk of the money to operate them, and that requires a reimbursement negotiation every year. I have stated earlier that is not the optimal way to run this. I would rather have the money in our base, even if it is not adequate, and be able to manage it without trying to move it across two agencies. We had some dysfunctionality this year when NSF was forced to operate under a continuing resolution until emergency funding was provided because it capped them and then ultimately impacted us. So we need to get that straightened out going forward, sir.

National Academy of Science produced a report last fall that validated the need for three polar icebreakers: the Healy, the Polar

Star, and the Polar Sea. We are working with the interagency right now hopefully to get a policy determination that can be the basis for new authorizing and appropriating requests going forward in the future fiscal years. I would call this the policy development year, and in 2009 and 2010 to start looking at what we need to do to have a permanent solution, sir.

Cold weather training, in the past years there were funds earmarked in our budget for cold weather training. We intend to go ahead and pursue that this year. One of the things we are going to try and do, though, is openly compete the contract. There is no intent to stop the training, but we would like to go to an openly competed source for that training, sir.

Long-range tracking, we are in violent agreement there, sir. That was a great agreement that we negotiated at IMO. As you know, AIS is a line-of-sight collision avoidance system. Under long-range tracking agreement, if you are a coastal State, you are going to have visibility of vessels operating within 1,000 miles. And if you declare advanced notice of arrival, it will have to be out to 2,000 miles. There is an issue of coming to technical standards and then having that actually go into force. But we are very buoyed by the fact that we were able to get this agreement made at IMO. We are fully supportive of moving forward on that, sir.

Regarding drugs, I am pleased to tell you that the first quarter of fiscal year 2007 was the record year for drug seizures in Coast Guard history: 97,000 pounds. Nearly 50 tons of cocaine was taken off the waters of the Caribbean in the first quarter of this fiscal year. It exceeded our previous record year two years ago, in 2005, in which we seized 150 tons. That is the result of several factors. Number one is better intelligence, taking the search out of search and seizure. But, number two, I cannot overstate the value of armed helicopters for warning shots and disabling fire. That reduces our end-game success down—up to almost 100 percent. I think the only time we haven't been able to do an end-game where we have used warning shots and disabling fire is by the time our surface folks got on scene, they were able to repair the boat and get underway, and we had to leave scene with the fuel endurance of our helicopter. But this is nearly 100 percent and just a wonderful, wonderful tool for us, and we are in the process of converting every helicopter in the Coast Guard inventory to be capable of using warning shots and disabling fire, sir.

Mr. GILCHREST. Thank you very much, Admiral.

Thank you, Mr. Chairman.

Mr. CUMMINGS. Thank you very much.

Chairman Oberstar.

Mr. OBERSTAR. Thank you, Chairman Cummings. You are doing a great job as our Chairman of the Coast Guard Subcommittee. You have learned the subject matter, mastered it well, and plunged into the challenge of working on this extraordinary service to the United States, the Coast Guard, whose origins go back to the very first Congress, very beginnings of our Nation as the Revenue Cutter Service, and from whose personnel I think this Nation gets the best value for its dollar.

But, unfortunately, the Coast Guard is being asked to wear more hats than ever before, and a divided personality, so to speak, in the

Department of Homeland Security. That is not a choice the Coast Guard made, it was one that was foisted upon it by this Administration and by the Congress, ultimately, in approving and creating the Department of Homeland Security.

I will place a demurral on the record here: I did not vote for it, I said it was a bad idea. If we are going to create this thing, you should not put the Coast Guard in it, you should not put FEMA in it; resources will be diverted, and that is in fact what has happened.

The Coast Guard has not had an increase in personnel to accomplish the new responsibilities that it is being asked to shoulder in the homeland security era. And over the years that I have served in Congress, my first term in 1975-1976, we have added, we, the Congress, has voted 27 new functions for the Coast Guard to carry out—and you are well aware of those, Admiral—but we have not given the Coast Guard the personnel nor the full funding it needs to carry out those responsibilities. Somehow, the Coast Guard does it, though. And we expect, I guess, my colleagues in the Congress expect the Coast Guard to salute, yes, sir, go forward and do the job, and work overtime at doing it. We need to increase the personnel and the funding for the personnel. We need to provide adequate funding for the equipment the Coast Guard needs for its variety of missions, and this authorization bill is a start on that.

Chairman Cummings has moved out quickly, the Committee is moving out quickly; Mr. LaTourette is committed to this process, I know. It is a new responsibility for him; he has seized upon it. But I fear that, as I reviewed last night I went through the budget request and your statement, putting on a brave face, but I think that the funding is inadequate and the personnel numbers are inadequate, and we are going to make an effort to raise those sufficiently give the Coast Guard what it needs to carry out its responsibilities.

I had a chance conversation yesterday morning at a meeting of the Great Lakes Commission with Admiral Crowley about live firing on the Great Lakes, and I won't repeat because it was a private conversation, but it appears that the process of review of live firing is moving ahead and will soon come to a resolution of a decision to be made. Could you comment on that at this point?

Admiral ALLEN. Yes, sir. And as you know, we have discussed this several times in the past. It is my intent to take a—and we are taking a top-to-bottom review, reassessing the potential environmental impacts, looking at alternatives for type of ammunition we may use out there where a projectile may be less hazardous. We have come up with alternative ways to train our people in other areas of the Country.

Moving forward, when we finally decide what our options are, we made the commitment, and I will keep that commitment, to be completely open and transparent about what our options are and discuss moving ahead. We will do that in full sight of the public that uses the Great Lakes up there. And we have listened at the town hall meetings that were held, and we will forward an open collaboration, sir.

Mr. OBERSTAR. It was certainly a very responsible and responsive move to direct Admiral Crowley to conduct these public forums

and, as he said, he has learned a great deal not only about the Coast Guard, but about a lot of other things that were on citizens' minds, and that is what Members of Congress do when they go home and have open forum meetings; we learn a lot about what we are doing and what we are not doing, and what else is on the public's mind. So that is a good experience. But there surely should be some alternatives to live ammunition. And I fully concur that you can't have the same experience on land as you get on a bobbing vessel in the unique waters of the Great Lakes, where the seas are shorter and choppy and where the weather can turn violent in a matter of hours or even minutes, and I hope you are considering alternatives.

Learn also from the Air Force. When the active Air Force had a facility in Northern Minnesota, at Duluth, and the Air National Guard as well, and they were doing simulated warfare activities and they planned to run one of those strafing activities right over Luoma's Chicken Ranch, and I called the commandant of the Guard and the commander of the active duty Air Force and said how many chickens are you prepared to buy? He didn't know what I meant. I said, you are going to scare the hell out of those chickens; they are going to die by the hundreds. He didn't know they were flying over Luoma's Egg Ranch in Carlton County, so they went back and revised their plans and sent a copy of it, and I said are you prepared to file a proposal for exemption from the airspace limitation over the Boundary Waters Canoe Area Wilderness? Oh, they didn't realize they were flying over the Wilderness and that it has a ceiling limitation and that, in any event, military jets shouldn't be flying over a wilderness, nor do they need to.

So this coordination with civilians and getting public input and local government input is vitally important so you don't make some of those mistakes or repeat them in the future.

Can you give me—give the Committee a status report on Cape Wind at Nantucket Sound?

Admiral ALLEN. Yes, sir. The agreement that I made—and I can give you a more extended answer for the record—was that we would do a waterways assessment related to that.

[Insert follows:]

**Insert on Page [62] after line [1474].**

The Coast Guard is a cooperating agency with Minerals Management Service (MMS) for the Cape Wind project. As such, we've developed a Navigation and Vessel Inspection Circular (NVIC 02-07, 9 March 2007) that contains the guidelines to be used in the evaluation of Cape Wind's application and in developing recommended terms and conditions as required by Congress. We anticipate no difficulties in meeting the "60-day prior to draft EIS submission by MMS" deadline mandated by Congress.

Admiral ALLEN. We are developing the criteria by which we will do that and do that analysis. The first thing you have to do is establish the standards and the criteria you are going to apply. And, ultimately, we are probably going to have these wind farm projects elsewhere around the Country, so we are really starting to create what I would call a national standard on where we want to go with that. So the first thing is to develop the standards—we are in the process of doing that right now—and then applying the standards to that specific proposal as it relates to safety and navigation, the movement of vessels around there.

And I would be happy to give you an update for the record, but I think we are right about closure and finishing the standards, and I have had a recent brief on it and I can pass that on to you, sir.

Mr. OBERSTAR. Well, you are right to approach this as a baseline critical evaluation that will apply, because there are many other wind projects that are in the planning stage and a good deal of pressure to move ahead with wind power generation. The defining issue, though, in this is the interference, electromagnetic interference that might be created by wind farms with radar. And as I recall, the FAA did a simulation and lost an aircraft from their radar screen because of the projected electromagnetic interference from the wind farm. That is—the view shed issues, those are other matters that best left to locals, to the State, but, for our purposes, interference with navigation is critical, and I assume that is very high on your evaluation list.

Admiral ALLEN. Yes, sir. In establishing the criteria to figure out what is the—maritime domain—report on potential—as well. We may need, at some point, to seek some clarification about the who owns the mission space, but we are aware off that and we are looking at it, sir.

Mr. OBERSTAR. Okay. You did give me a call about the Coast Guard investigation of the loss of live with the Healy in Alaska. Has any further action been taken to deal with the on-board situation with the personnel who were supposed to supervise the divers and assure that they had a weight belt, instead of putting weights in their pockets, and that other safety measures were appropriately reviewed before they made that dive.

Admiral ALLEN. Yes, sir. Several things have happened, and I am not sure exactly what your last update was, but we completed an investigation. I took final action on that investigation. We made that public, posted it on our website. We held a news conference in Seattle to go over the findings of the investigation and later, after that point, at that point, Admiral Wooster, who is the Area Commander in Pacific Area, actually held admiral's mast on the three senior officers on the ship. They were in the chain of accountability and they were awarded punishment at mast. The commanding officer is retiring and appropriate disciplinary action was taken. We have also gone out and done a recertification of all the dive programs in the Coast Guard, are in the process of making sure that any systemic problems that come out of it, there is a safety evaluation that is due to come out in the next couple of weeks that follows the investigation we did, very similar to like an internal NTSB type, looking at regulators' equipment and everything that will give us some more detailed things that we might want to

look at regarding safety. We would be glad to provide that to you when the report is released, sir.

Mr. OBERSTAR. I would welcome such a briefing. And the recertification process, I think that is the most important result.

Admiral ALLEN. Yes, sir. One of the problems——

Mr. OBERSTAR. Disciplinary action, that is a separate matter, but, for the future, lessons learned.

Admiral ALLEN. Yes, sir. I have said on a couple of occasions I think we may have been the victim of juniority, and I mentioned it in one of the earlier questions. We had the dive program grow very rapidly. We have actually dive operations that are part of our maritime safety and security teams that look at piers and hulls of ships, and so forth. With a large number of people coming in, what that can result at the beginning, that our people, while they have been certified, sent to school and are qualified, they may have less time in-service or less time in that position than they otherwise would have been, and we are taking a look at that as we go through the certification program as well, sir.

Mr. OBERSTAR. Thank you. In another Subcommittee, but maybe also as part of this authorization bill, we may deal with invasive species and setting up an enforcement program. I have had enough of research, of studies, of testing, of declaring that these invasive species, whether animals or plants, flora or fauna, are in the lakes. We know they are there; we know they are destroying the water column; we know they are displacing native species. We need an enforcement program, and it is going to be the Coast Guard that will have to carry it out. Perhaps some participation with EPA and Corps of Engineers, I don't know, haven't sorted that out yet, but that is going to take additional personnel and we will need to work with you to decide what that incremental increase will be so that we don't load another responsibility onto the Coast Guard without providing personnel and the funding for personnel that will be required to carry that function out.

Admiral ALLEN. Yes, sir. Just to give you a quick update, we are working with Environmental Protection Agency, the Naval Research Lab. We are also working with the Animal and Plant Health Inspection Service. There recently were some concerns up on the Great Lakes about viral hemorrhagic septicemia that attacked the fish and whether or not that was related to ballast water. We are not sure, from a technical standpoint, whether it is or not, but we need to exclude that as a possibility. We are also looking, as you know, whether or not we can establish a ballast water standard for discharge that would replace now the mandatory salt water exchange that they do in the ocean before they come in, and the question is how far do we want to drive that standard down to zero tolerance for any kind of microbe that might be in the ballast there.

We have got about three different candidate technologies that could lead us to that and we look forward to, later on in the year, to be able to come to you and tell you that is what our recommendation is, sir.

Mr. OBERSTAR. I am determined that we move ahead, and I thank you for those efforts and that report. I am determined to move ahead with an enforcement program. We cannot allow any further such species into the water column of the Great Lakes, and

we need to proceed with an eradication program for those that are already there, and I am exploring that option with EPA, Corps of Engineers, and State Departments of Natural Resources to—we are seeing an extraordinary phenomenon in the Harbor of Duluth and Superior where, because of these biotic changes in the fauna of the water column, if you will, the steel pilings, for the first time, started to rust. Those columns have been in the water, some of them, for 50 or 60 years, and we have never seen this deterioration occur. And there is some evidence that it is microbes in the water—now, the study is not completed—that are causing this deterioration. Well, if that is happening, then there is something else happening that will be the next wave. We have to attack this issue now; we have had enough and I have had enough of studies of it. We need an action program.

Admiral ALLEN. Yes, sir.

Mr. OBERSTAR. Thank you.

Mr. CUMMINGS. Let me just—thank you, Mr. Chairman.

Let me go to you, Master Chief Bowen. Let me just ask you. I noted in your report you talked about housing. I want to go back to something that Chairman Oberstar was talking about when he was saying that he was wondering whether this budget is adequate. And you say, on page 3 of your written statement,—both of your statements were extremely well done and I thank you for that, and very detailed, but you say the average age of Coast Guard housing is over 40 years and requires significant improvement. The Coast Guard faces many challenges to address its shore infrastructure, maintenance, and recapitalization programs, and you go on to talk about the problems.

One of the things that we are concerned about is, we are concerned about Deepwater, but we are also concerned about the life that—the lives that they experience, the members of your corps, and I know that is something that you both are very concerned about too. Do you have the resources that you need to address the problems when you are talking about the average housing being over 40 years old? And then I guess what I am trying to get to also is I don't want us to be in a situation where something is going on with the Coast Guard and we don't know about it.

I sat the other day on another Committee, I am also on Armed Services, and sat in Walter Reed the other day and heard about all of these horrific stories, and, I tell you, it was chilling. Do we have—I know Walter Reed is more or less health care, but do we have any situations with regard to structures similar to the problems that we talked about at Walter Reed? Because, if so, we need to address them with the same kind of vigor that the Congress has now come together in a bipartisan fashion, by the way, which I am very glad to know we are doing it this way, to address those problems. And if it is not in this budget, we need to know what we can do to help you, because it is one thing if we don't know; it is a whole other thing if we do know. So can you help me with that?

Chief BOWEN. Yes, sir, Mr. Chairman. I appreciate the question. The first question, do we have resources we need to address the housing problems. Right now we probably don't. I think that we are moving forward in our shore infrastructure needs. I mean, we have \$37 million in the 2008 budget and Admiral Allen is asking for

more money in successive years after that, and he has been raising that question with the—or that issue with the Administration. So shore infrastructure is definitely an issue, and right now we don't have adequate resources to address it.

Now, the question is how bad of an issue is it. As I have traveled around, some place things are in very good shape. Other places there is a UPH, for example, on Staten Island that was in extremely rough shape. In fact, I asked Admiral Allen to go up and visit it personally. He did that. Probably, it could have been compared to at least what I have seen in the news report with that one building on Walter Reed, and we have taken—he took immediately steps to find money within the base to deal with that. Significant money is being put towards that issue now to correct it, but it should have never really gotten to that point. Bottom line is we definitely need more money in our shore infrastructure, sir.

Mr. CUMMINGS. Let me—Admiral, did you want to comment on that?

Admiral ALLEN. I almost passed the Master Chief a note saying talk about New York. We had made several trips. New York is a very high tempo operation and we have a barracks for our enlisted people on Staten Island. They developed a mole problem there and, quite frankly, it got behind the building local command to deal with and required some senior management intervention. I was cued to the problem by the Master Chief's visit. I visited myself. We are in the midst of a two-year, two-stage process to go in and completely make repairs inside the building, most notably, upgrade the HVAC system so we have got better air handling and to better address the problem.

Where we find that, you are duty-bound by leadership to go in and fix it.

Mr. CUMMINGS. But, Admiral, I want to go back to what you said a few minutes ago when you said you present your requests as you go, and I appreciate that. Remember a few minutes ago, hour ago? [Laughter.]

Mr. CUMMINGS. Is this one of those situations where you are presenting your needs as you go or are you taking from somewhere else to try to remedy this problem? In other words, I am trying to figure out do we need more money to try to address the things that go to, as Chief Petty Officer Bowen said, he says that these kinds of things have a direct impact on the health, safety, and morale of our service members. So I just want to make sure that we are doing—I think you have heard on this side and I think on both sides that we are pretty much questioning whether or not this is enough money for you to do the things that you need to do. So I don't want to see a situation where we are placing on the back burner, if not completely off the stove, the things that go to the morale of our folks. So I guess maybe that is not—maybe that is a hard question to address. I don't know, the Administration may have one view, you may have enough, but we are just trying to do what is right for our military.

Admiral ALLEN. Sir, it is not a hard question to answer at all. We need more money in the shore account, and I am going to move it up as we go forward. And we may have to make tradeoffs on

what is more important, but right now this is pretty important to us, sir.

Mr. CUMMINGS. All right.

One other question, Chief Officer Bowen. You also talked about health care, and I am just wondering, you mentioned TRICARE, you talked about so many of your folks being in rural areas and you talked about a number of issues under health care. What would you like to see us do under health care? I mean, anything?

Chief BOWEN. I think for the Coast Guard——

Mr. CUMMINGS. Yes.

Chief BOWEN.—we have unique issues that stem from our personnel being in high-cost, remote areas, and they don't have access to DoD. I appreciate what has been done with the TRICARE Prime Remote system, and that has helped immeasurably. Yet, it hasn't really solved all of the problem. There is tremendous out-of-pocket expense for our people when they have to leave their place of duty and travel a long way to obtain care. I am not sure what the answer is, but I do know that the Coast Guard, this type of problem, it affects us a lot more than the other services.

Mr. CUMMINGS. Yes, sir.

Admiral ALLEN. Thank you, Mr. Chairman, for that question. I would invite your attention to Section 303 of the authorization act that we put forward to you this year. We are seeking an amendment to Title 10, U.S.C. 1074, which is the base for reimbursement when our families have to travel for health care, and it basically says if you have to travel over 100 miles to get health care, what you can reasonably do in a day, that you should be reimbursed for travel expenses. We have a unique situation in the Coast Guard where we have some families that are within 100 miles of health care, but they are on an island. So, technically, they are within the geographical boundaries that wouldn't allow reimbursement, but for them to get that care requires them to actually travel. We are asking you, through the Coast Guard authorization bill this year, to give us that benefit, sir.

Mr. CUMMINGS. Let me just ask you this last thing, Admiral. The Coast Guard Academy, the cheating scandal, how often does the board meet, the board of the Coast Guard Academy, do you know? The Board of Visitors. Do you know?

Admiral ALLEN. Recently, not often enough, sir. That is something we are looking at, whether or not we need to reinvigorate that. I can give you the details when the last visits were made. There are two, I am not sure I would call them governing bodies because it is not a traditional university. We have an internal flag and NSC Board of Trustees and there is a Board of Visitors.

[Insert follows:]

**Insert on Page [74] after line [1760].**

The Coast Guard Academy Board of Trustees (BOT) meets three times annually; normally with Spring and Fall sessions at the Academy and a Winter meeting in the DC area. The last meeting was February 1-2, 2007 in Arlington, VA. The next meeting is scheduled for April 10-12, 2007, at the Coast Guard Academy.

The most recent meeting of the Board of Visitors (BOV) was held at the Coast Guard Academy on April 19, 2002, two members attended, while others members sent a staff representative. According to 14 U.S.C. § 194, the BOV is to visit the Academy annually and make recommendations on the operation of the Academy.

Admiral ALLEN. My understanding is that has not been as active in the past as it had been a few years ago. One of the things we are looking at in our top-to-bottom review of the Coast Guard Academy is how we might use the Board of Visitors, moving forward, to help illuminate some of the issues there and create more transparency on what is going on there.

Mr. CUMMINGS. I am sure you are aware I sit on the Board of Visitors for the United States Naval Academy, and we meet at least four times a year, and it is extremely helpful, I think, because it just keeps things—the Board is informed; the Board is able to have input; and I just think it is a good thing. And I would suggest very strongly that the Board meet at least those four times a year. And would you keep me abreast of your progress with regard to those issues?

Admiral ALLEN. Yes, sir. Your question is timely; we have been talking about it, and I will definitely get back to you, sir.

Mr. CUMMINGS. Thank you very much.

We really appreciated your testimony.

To the other panelists, we have two votes, so it is going to be probably about, I guess, at least a half an hour, somewhere in the area of a half an hour. We will resume the hearing in a half an hour from now.

Admiral, Chief Petty Officer, thank you very much. We really appreciate it. We will have some follow-up questions, because there are a lot of things I did not get to, the whole issue of folks trying to enter this Country and the changes that you want with regard to people coming, the criminal action—the standard for criminal activity. I want to get into that. We have some specific questions I want to ask about that, okay?

Have you said everything you needed to say?

Admiral ALLEN. Well, sir, I would only reiterate my offer. I would really like you and any Committee Members that would like to travel with me to Pascagoula, it would serve two purposes. We could have in-depth discussions on the plane going down and we could actually go down and kick the tires on the National Security Cutter, and I think we need to do that, sir.

Mr. CUMMINGS. I am going to strongly—I am going to do that, and I am going to strongly suggest that other Members of the Committee come with us. We just have to come up with a date. But that is a part of our accountability mission, so we look forward to doing that.

Admiral ALLEN. Thank you, sir.

Mr. CUMMINGS. Thank you very much.

We will see you all in a half an hour.

[Recess.]

**TESTIMONY OF RICHARD L. SKINNER, INSPECTOR GENERAL,  
DEPARTMENT OF HOMELAND SECURITY; STEPHEN  
CALDWELL, DIRECTOR, HOMELAND SECURITY AND JUSTICE  
ISSUES, GOVERNMENT ACCOUNTABILITY OFFICE**

Mr. SKINNER. Today, I intend to discuss the challenges facing the U.S. Coast Guard, in particular its Deepwater Program, and the efforts underway to improve the management and oversight of this very important and complex acquisition initiative. Over the past

two and a half years, my office has completed four audits involving Deepwater. They involve the 110/123 Cutter conversion, the National Security Cutter, the Command and Control and Information Technology Systems of Deepwater, and the re-engineering of the HH-65 helicopter.

Four common themes have emerged from those audits. First, the dominant influence of expediency. That is, scheduled concerns trumped performance concerns. This is best illustrated by the National Security Cutter procurement. The Coast Guard proceeded with the construction of the NSC, knowing well in advance that its technical experts and others had engineering design and future performance concerns. The design and performance concerns still remain outstanding today, as you know, and as you heard from the Commandant, and the cost to mitigate those concerns has yet to be determined.

Second, the terms and condition of the contract are flawed. The Coast Guard essentially agreed to ride shotgun, turning the reins over to the systems integrator, ICGS. Consequently, the Coast Guard was reluctant to exercise its authority to influence the design and production of its own assets.

Third, our reviews have raised concerns with the definition and clarity of operational and performance requirements. This has compromised the Coast Guard's ability to hold the contractor accountable. For example, we just recently issued a report dealing with the 110/123 Cutter conversion. The performance specifications associated with upgrading the information systems on the 123 Cutter did not have a clearly defined expected level of performance, causing the Coast Guard to accept delivery of assets that did not meet its anticipated requirements or specifications.

And, finally, simply put, the Coast Guard does not have the right number and the right mix of expertise to manage an acquisition as large and as complex as Deepwater. Many of the staff who have been assigned to Deepwater have little experience or training in performance-based contracting and little experience in a systems integrated contract initiative. These issues are not new; they were known as early as February 2003, only eight months after the award of the Deepwater contract to ICGS. This lack of a proper foundation remains a challenge to this day and, as a result, the Coast Guard has encountered a number of implementation problems, which have resulted in cost increases, schedule delays, and reduced operational performance.

I believe that it is important to point out that the Coast Guard recognizes these challenges, and we heard that from the Commandant this morning, and, in fact, is taking some very drastic steps to take back the reins and turn this thing around. For example, it plans to use independent third-party assessments of contractor performance, that is very important. It is consolidating its acquisition activities under one directorate. Again, that is very important. And it is redefining the terms and conditions of the Deepwater contract as we speak.

Furthermore, and most importantly, the Coast Guard is increasing the staffing for Deepwater and reinvigorating its acquisition training and certification processes to ensure that staff have the skills and education needed to manage the program. The Coast

Guard has also advised us that it is taking steps to improve the documentation of key Deepwater decisions. This is particularly important to ensure transparency and accountability as the program moves forward. These steps should significantly improve the level and oversight exercised over the program.

However, many of these corrective measures will take time. It will require changing the culture, and it will take considerable amount of time to train and obtain the experience that is needed to manage a contract of this nature. Until this is accomplished, the Coast Guard needs to proceed with caution, taking advantage of all the tools at its disposal to mitigate risk and avoid future problems.

I will conclude by saying that my office is highly committed to the oversight of this and other major acquisitions within the Department. This year, in addition to a series of sector-specific audits dealing with Deepwater, we plan to issue a first in a series of report cards on the Coast Guard's management of its procurement responsibilities under the Deepwater program. Specifically, we will be grading the Coast Guard's organizational alignment and leadership, policies and procedures, acquisition workforce, information management and technology, and financial management. This will enable us to measure the progress of the Coast Guard in years to come and to improve the management and oversight of the Deepwater program.

Mr. Chairman, that concludes my remarks. I would be happy to answer any questions.

Mr. CUMMINGS. Thank you very much.

Mr. Caldwell?

Mr. CALDWELL. Chairman Cummings, Mr. LaTourette, thank you for inviting GAO here today. And, Mr. Cummings, congratulations on becoming Chairman.

Mr. CUMMINGS. Thank you very much.

Mr. CALDWELL. GAO has provided this Committee with a number of reports and testimonies over the years, and we appreciate the opportunity to help you with your oversight. Both the scope of this hearing as well as my portfolio at GAO covers a wide gamut of activities covered in this 2008 budget. My statement today focuses primarily on Deepwater.

As you know, Deepwater is a major part of the budget, representing about 88 percent of the AC&I budget and almost 10 percent of the Coast Guard's budget as a whole.

From a budgetary perspective, two interesting things stand out about the Deepwater program from an overall perspective. First, the amount of funding for Deepwater, as you know, has gone down 27 percent from the 2007 to 2008 budget. This is a substantial decline at a point in the program where plans had originally called for ramping up production and delivery.

Second, and perhaps partly an explanation of the first, is that the unobligated balances for Deepwater have become very large; they are currently at \$1.6 billion. In some cases, these unobligated balances are for assets that are behind schedule, such as the FRC and the VUAV. And in these two cases the Coast Guard is basically taking a "strategic pause" to re-evaluate its approach to those assets. But in other cases the unobligated balances are for assets

that, at least according to the latest data, are on schedule, such as the NSC.

In terms of Coast Guard management of the Deepwater program, since about 2001 GAO has issued a number of reports talking about the risks of the program given the Coast Guard's overall approach—which was relying on a single lead integrator, developing a system-of-systems, and using a performance-based contract. All three parts of this approach, if not done correctly and with the appropriate oversight, can have substantial risk, and we have seen a lot of that risk played out recently.

My statement also refers to our 2004 report in which we made a number of recommendations to the Coast Guard. The Coast Guard is acting to follow up on some of these recommendations that are still open. We have ongoing work to look at those recommendations and we will report back to you once that work is done.

In terms of asset delivery, there actually is some good news out there. As noted in Figure 1 of our report, page 20, seven of ten key new assets are actually ahead of or on schedule for delivery, at least that is true of the first-in-class assets. However, one of the assets that is on schedule, the NSC, as well as two of the assets that are behind schedule, the FRC and the VUAV, still face significant structural design or developmental problems.

As some of the earlier assets are actually reaching the delivery phase, GAO's work has shifted beyond just reviews of the overall contract management to reviews of the individual assets. Unfortunately, we found additional problems with those areas as well. Our report last spring on the FRC noted problems that had ultimately led the Coast Guard to suspend the design of the program. And, similarly, the recent reports by the IG on the NSC as well as the 123 boats have shown similar problems.

These asset-specific difficulties have shown that the problem has really expanded well beyond the abstract area of contract management and acquisition reform to one of operational effectiveness. This is best illustrated with the current situation of the patrol boats, where you have the FRC further delayed by the design problems and you have the eight 123 boats that are now out of service. This, of course, has a key impact on the Coast Guard achieving its missions that we know are so important to the Members here on the Committee, such as search and rescue, interdiction of migrants, protection of fisheries, national defense, and obviously port security issues.

Admiral Allen, in his testimony today before this Committee, as well as in some of the other testimonies that he has done, has outlined a number of steps that he plans to take, and he clearly places a priority on giving the men and women of the Coast Guard the best ships and aircraft they can get as soon as possible. He has referred to this as the "Promise of Deepwater." GAO stands ready to assist Congress, working with the Coast Guard, and, of course, applying our due diligence as auditors, to try to make that same promise happen.

Thank you very much. I would be happy to answer any questions at this time about Deepwater or any other Coast Guard issues where GAO has done work. Thank you.

Mr. CUMMINGS. Thank you all very much.

Mr. Skinner, were you in the room when the Admiral testified?

Mr. SKINNER. Yes, I was.

Mr. CUMMINGS. Were you, Mr. Caldwell, were you here?

Mr. CALDWELL. Yes, I was.

Mr. CUMMINGS. Oh, good. Why don't I start off by asking you all what was your—was there anything in particular that concerned you about what the—anything that the Admiral said? I mean, it is fortunate that you all were here to hear it. I wish he could have been here, and I know he—I didn't expect him to be here to hear your testimony, but, I mean, is there anything that really concerned you? I know that there was great concern, and I expressed it, about the fatigue life, and we on this side have heard that explanation at least three or four times, I guess. But I think it was you, Mr. Skinner, who had much concern about that, and I am assuming that I asked the question properly when I said that it was your contention that we were not getting what we originally bargained to get, no matter—and what the confusion may have been. You apparently have a very, very clear understanding of what, based upon, I guess, the written documents, I guess, and the interviews, I guess——

Mr. SKINNER. Yes.

Mr. CUMMINGS.—of what we were supposed to be getting. Now, what was your reaction to what he had to say?

Mr. SKINNER. This is one area where the Admiral and I have agreed to disagree. When we initiated this audit, we actually started in 2004, we had to close it down because of cooperation issues, which we have since resolved and restarted in——

Mr. CUMMINGS. By the way, let me, on a separate note, before we even move on, have you been getting the cooperation, overall, that you need to do what you are responsible for accomplishing here?

Mr. SKINNER. Yes. Now we are, yes, we are, especially since we have issued our report.

Mr. CUMMINGS. Good. All right, go ahead.

Mr. SKINNER. The Commandant, Admiral Allen, has been cooperating 110 percent and we are getting everything we need right now—access to documents and people—to do our job.

Mr. CUMMINGS. Good. I just wanted to make sure. Sorry to interrupt you.

Mr. SKINNER. When we did start this job, we started with the contract itself. According to the contract, the Coast Guard would build a Cutter that could be 230 days underway. The contracting officer, at that point in time, agreed that this meant the specs were 230 days underway. The project manager also agreed that, yes, the intention was to build a ship that could be underway for 230 days. The chief systems engineer also advised us, yes, the specs were written to suggest that the Coast Guard would build a Cutter that would be underway for 230 days. We have talked to the two contractors who were brought in by Coast Guard to evaluate the design. They both agreed that their evaluation was based on a cutter that should be underway for 230 days. We talked to Carderock, who also did an evaluation of the design, and they too agreed that the contract and the specs and the request to re-evaluate the de-

sign was based on the premise that this Cutter should be underway for 230 days.

It was not until the summer of 2006 that we first saw correspondence that would suggest that the Cutter was only going to be built to meet a spec of 185 days. That correspondence was generated by the contractor, ICGS, to the Coast Guard, requesting the Coast Guard to change the contract language to ensure that there was no misunderstanding that the contractor was building a Cutter to be underway for 185 days, not 230.

A new management team has now arrived at the Coast Guard. They collectively, and the contractor, ICGS, have agreed that the original intent was 185 days, not 230, and that is where we are today.

Mr. CUMMINGS. Let me ask you this. Why is that so disturbing to you? First of all, I am assuming it is disturbing.

Mr. SKINNER. Yes, it is, or else we would not have reported it.

Mr. CUMMINGS. Okay.

Mr. SKINNER. For several reasons: one deals with operational issues. We are building—right now we have 12 Cutters. We are replacing those Cutters with 8 Cutters. Why? Because we are building a Cutter now that has a greater operational capability. Secondly,——

Mr. CUMMINGS. And was that—to your knowledge, was that part of a calculation from the beginning?

Mr. SKINNER. Yes.

Mr. CUMMINGS. Okay, fine. Is that written anywhere?

Mr. SKINNER. That was our understanding.

Mr. CUMMINGS. That was your understanding?

Mr. SKINNER. Yes.

Mr. CUMMINGS. From the—is that written anywhere?

Mr. SKINNER. I believe that is, and I could validate that through a review of our work papers. It is—I believe Admiral Allen has also testified to that effect, the reason we are building 8 versus 12, because of the operational efficiencies of the new Cutters.

Mr. CUMMINGS. Okay.

Mr. SKINNER. The second thing that bothers me about this is that we are building a Cutter that will be underway for 185 days, and the operational profile for that Cutter is to have the capability to be underway for 185 days, not the 230 days as specified in the contract. The Coast Guard's historical analysis of how long you can expect these Cutters to be underway on any given year is 185 days. The question that we are asking is, for example, if you want to build a bridge that can maintain a capacity of 500 million tons at any point in time, you would not build a bridge that could only maintain a capacity of 500 million tons. You have no surge capacity. The Cutter does not have the ability to surge, for example, and that, again, puts the ship at risk.

Mr. CUMMINGS. And you are basing that also on the 8 to 12, right? In other words, moving from 12 to 8.

Mr. SKINNER. Yes.

Mr. CUMMINGS. Okay. All right. I get the analogy.

Mr. SKINNER. And the third thing is simply that when your contracting officer, who signed the legal document on behalf of the Government, when your project manager, systems engineer, and

those that are reviewing the design, all collectively agree that this contract said 230 days, yet they are only delivering a product that could only be underway at 185 days, that simply raises a red flag to us. Of course, the new contract that is being negotiated will say 185 days. That is my understanding.

Mr. CUMMINGS. Did you want to comment, Mr. Caldwell?

Mr. CALDWELL. We didn't do the work on the NSC, so obviously I will defer to Mr. Skinner on that issue. But getting to your bigger question about whether there are any areas of concern about things that the Commandant said, there are a couple of areas. First, let me start with the good parts, which is he clearly recognizes the problem, he is clearly upset about it, and he is taking accountability for what the Coast Guard has done so far. He is laying out plans to try and get the program well.

But the two areas where there might be a little concern is the hope that he can renegotiate with the contractors about some of the problems we have had in the past—in some cases the contract as it was signed may dictate accountability. So it may be fairly hard to pin down accountability in a way that you would like, Mr. Chairman. There may have been vague terms in the contract because of the way the contract was written, because the criteria was loose; which is another thing that Mr. Skinner has talked about. Just to reiterate that first point, it is not clear to me how much the Coast Guard can renegotiate accountability for some of these past problems that have happened. Going forward, of course, you have negotiation leverage, but on some of the past problems, probably not.

The second thing——

Mr. CUMMINGS. Could you hold that note? Hold that one right there.

How do we—I mean, basically you are saying that we are bleeding money. And I am trying to figure out—I mean, you are right, there are some things that has got to be within the four corners of the contract. But then I am wondering is there anything that we can do now to make sure that we at least stop the bleeding that we can stop, assuming that there is some bleeding? Are you following my——

Mr. CALDWELL. Yes.

Mr. CUMMINGS. Some things we may not be able to do anything about.

Mr. CALDWELL. Yes. I think that the biggest problem is not with the NSC; though that has problems and the IG here has noted those. But there will be a solution, and I think the solution will cost money, but there will be a solution to the NSC problem. The biggest concern of mine, as it was obviously to Rep. Taylor here, is the 123 conversions. That is going to be the hardest one for the Coast Guard, with its forensic team, to actually show that there was some kind of accountability that the contractor has to take. The contractor could successfully say the Coast Guard also has to take some accountability. There may be some issues where the Coast Guard, either because of its criteria that was loose or some other things that were going on, would allow the contractor to escape financial accountability.

Mr. CUMMINGS. Do you know whether the contractor has acknowledged the problem?

Mr. CALDWELL. I have been to a couple of hearings where the contractor has testified and I have not heard that.

Mr. SKINNER. To our knowledge, the contractor has not acknowledged the problem.

Mr. CUMMINGS. I am sorry, I didn't hear you.

Mr. SKINNER. To my knowledge, the contractor has not acknowledged the problem.

Mr. CUMMINGS. That is incredible.

Mr. CALDWELL. Just on the 123 boats. The one observation I made is that one of the contractors testified that the hulls on the 110s were in worse shape than expected when they got them. They thought that was part of the problem, as opposed to them having done something wrong.

Mr. CUMMINGS. And you had two points.

Mr. CALDWELL. Yes. And my other point on the Commandants' testimony has to do, with the time frames for fixing the problem. The Commandant is obviously very committed to taking steps to fix the problems; he has given you a promise that 120 days after your first hearing, he wants to clearly lay out the plans he can put into place. But I think both the work of the IG and GAO has shown that the Coast Guard just don't have that acquisition oversight structure in place yet. It does not happen overnight and it does not happen within a period of weeks or months. They need to get more people there, they need to get the right skills; they need to catch up just on the backlog of things. There are still a lot of undefined tasking orders and things like that that need to be clarified, so——

Mr. CUMMINGS. Well, one of the things I am going to do——

Mr. CALDWELL. While I appreciate the Commandant's optimism, this is a situation where his own people will try his patience, because there is a lot to do.

Mr. CUMMINGS. His own people will what?

Mr. CALDWELL. His own people will try his patience. The Commandant wants things to happen very quickly here, and I am sure his people will try to do that. But it will take time to get this new acquisition structure in place, and to get the additional people there.

Mr. CUMMINGS. So I guess you all can kind of understand Mr. Taylor's frustration and other Members' frustration, because you are basically stating exactly why we are frustrated.

This \$24 billion, do you see any way that we can stay within the boundaries of the \$24 billion at the rate we are going, Mr. Skinner?

Mr. SKINNER. No, I don't. And when you asked me are there statements that the Commandant made that would give me pause, first, I would like to reiterate that there were a lot of things that Admiral Allen is doing. He is doing the right thing through the reorganization, redefining the contract, giving technical authority to his chief engineers, and re-energizing his staff, trying to get the right people in there, but that is going to take time.

But what concerns me right now is—this June we will be redefining, rewriting, and renewing the contract, and this will be a great opportunity to sit back and to redefine what the budget and program baseline is going to be now and for the out-years, because there has been a lot of setbacks. They were costly setbacks, and

that, in effect, has to have a major impact on the original estimate of what the total costs were going to be. So, if we are rewriting the contract, then we need to also step back and rewrite the budget and program baseline.

And this is also a great opportunity to rewrite our performance requirements, that is, what we expect at the end of 2007 and how much is it going to cost; what do we expect at the end of 2008 and what it is going to cost, and through the out-years so that each year the Coast Guard and the Congress can manage or provide oversight of where it is going. Any time you have a cost overrun, something else is going to suffer. We issued a report last year dealing with command, control, communications, computers, and intelligence, reconnaissance, and surveillance. One of the things that is being shortchanged is that particular aspect of the Deepwater program. As they have cost overruns in one area, other areas are going to suffer. As a result, total costs are going to go up. This is a great opportunity now, this summer, to define exactly what it is going to cost under this new contract.

Mr. CUMMINGS. Let me just ask Mr. LaTourette to go forward with just one question and then I am going to come back.

At the rate we are going, if we don't do something like what you just said, I guess this contract could go on forever, we not get what we bargained for, and we are paying. And we can be paying big bucks for a long time, probably beyond our lifetimes.

Mr. SKINNER. That is correct. And this is Acquisitions 101. It is impossible to be transparent if you don't know what you are buying and what your estimates are and what your plans are. This is a long-term project, and we need to sit down and really think it through. We can't do it all in one year, five year, ten years, fifteen years; this is a 20, 25 year effort. But we need to, to the best of our ability, define our goals, and each year we need to be making adjustments as we learn more and as we move forward.

Mr. CUMMINGS. Well, one of the things that we are going to do, since the Admiral isn't here, if there are things that you all are recommending, we are going to get a letter to him. I mean, I know a lot of this is in your testimony and whatever, but other things we want to get that to him, because—and by the way, Mr. Caldwell, it was our suggestion, not the Admiral's, that he come back in 120 days. We just felt that he needed to come back and give us—but, one of the things that I wanted to do is ask him to give us like a 60-day between the—in other words, before the 120 days, 60 days before that give me something in writing telling me where you are, what you are doing, and we are going to make that, some of the suggestions that you are making, a part of that letter. But understand all we are trying to do up here is get efficiency and effectiveness, and this seems—I am telling you, I have never seen a contract like this. It seems like it is indefinite and it certainly, it seems a bit ambiguous and it is indefinite with regard to quality, quantity and cost. Boy, that is a hell of a contract.

Mr. SKINNER. As written, Mr. Chairman, I think this is one of a kind, so I would be surprised if you said you saw something like this before, because I don't think there is anything like this.

Mr. CUMMINGS. Is that right?

Mr. SKINNER. Not to my knowledge.

Mr. CUMMINGS. How about you, Mr. Caldwell?

Mr. SKINNER. We have system-of-systems contracts, we have performance-based contracts. That is fine, and I think this is the way to go, and I do support the Coast Guard's decision to go this way, to partner with the private sector, because you need to bring that innovation to the table. We in the Government do not have that. But we need to be a little bit more definitive—not a little bit, we need to be definitive in how we write what our roles are and what the contractor's role is. There has to be a balance. Right now there is an imbalance and it is leaning toward the contractor.

Mr. CUMMINGS. Mr. Caldwell?

Mr. CALDWELL. Three comments, one to follow up on your comment on the 120 days. I think it is a great idea to have that hearing in 120 days because I think that Admiral Allen is still in the process of getting his structure in place and his policies in place, and he will have done so in 120 days. I guess what I was trying to say is that the implementation is what takes a while.

The other issue you raised, in terms of the \$24 billion, I think there are maybe three areas of uncertainty that could lead to higher costs overall. One is the uncertainty about the cost of the individual assets. There has been cost growth in some of the assets as they come closer to delivery. The NSC is one example of that. There is also some uncertainty as to exactly how the integrated logistics and maintenance package is going to work. You haven't had a lot of assets delivered, actually turned over to the Coast Guard where they have had to maintain them. And so I think there is some uncertainty of the role the contractor will have versus what role the Coast Guard will have. And you don't want to have a situation where they are duplicating each other's capabilities just to make sure that these things are operating.

I think the third area of uncertainty is perhaps one of the vaguest parts of the whole contract—the ultimate goal is a system-of-systems. Each asset is interdependent on the others to get to that ultimate goal. One of the issues you have now is the NSC will be deploying without the VUAV. One of the issues with going from 12 legacy Cutters down to 8 National Security Cutters is that you have the VUAV, which would provide much greater coverage to the NSC in terms of area. Now I think there is a six-year delay in the VUAV. So you get to the point where you have got some of your assets and you realize you still don't have your system-of-systems yet in terms of capability. There are maybe two things to do, first there may be quick fixes to C4ISR or something like that to expand the capabilities relatively cheaply, or you may need to buy more of the assets in the end.

Mr. CUMMINGS. All right, thank you.

Mr. CALDWELL. And just one last thing. There are some other contracts that look something like Deepwater in the Government. One is the SBInet program, which is also managed by the Department of Homeland Security. GAO is doing some work on that one. That one has some similarities to Deepwater. I think that with appropriate oversight they will make sure that doesn't turn into where we are with Deepwater now. And the other contract is one that I am not that familiar with, but it is the Army's Future Combat System contract.

Mr. CUMMINGS. All right.

Mr. LaTourette.

Mr. LATOURETTE. Thank you, Mr. Chairman.

And thank both of you for your testimony today. I want to focus on the contract for a minute because we did have a hearing and the contractor was here, and I don't know if it is a disagreement or not, but they did acknowledge the problem; they just didn't acknowledge the responsibility. And I think that anybody that works for the contractor that would come before a panel of Congress and admit that they owe us \$100 million probably wouldn't be working for the contractor very long, so that doesn't surprise me that that happened.

But on the contract, I mean, I guess I would like to know, when you are doing your reviews and making recommendations and writing reports, is there sort of a time when everybody sits down and there is an instruction on how to write a contract that we don't find ourselves in this situation? I mean, it does—let's focus on the 110-foot boats, for instance. I mean, talking to the Commandant and talking to the contractor, you are right, we have now gotten this he said-she said, the hulls were bad and we didn't do it and we shouldn't have done this, and so forth and so on. And just from the little bit I know about it, I think somebody owes the Government some money for those conversions.

Is it your evaluation as a result of reviewing the contracts that we may not have recourse?

Mr. SKINNER. That is currently being reviewed by the Coast Guard and the General Counsel, and we are also going to be—although we may not be at the table, we are going to be providing oversight of how those negotiations turn out. But, yes, there is a possibility that the Government may not have to—or has no recourse against the contractor because of the way the contract was written, because the specifications were so vague—it allowed a lot of discretion for the contractor to provide what he thought was the right thing. There is that possibility, but I wouldn't want to jump to a conclusion that there is no recourse.

Mr. LATOURETTE. But when these contracts are written, I mean, somebody sits down and actually writes the contract or agrees to the contract on behalf of the Government. How do we get such a lousy contract? I mean, isn't there sort of a Government-wide contract where we protect ourselves?

Mr. SKINNER. I wish there was, but, because everything we buy in the Government is going to have a different requirement. This is not feasible in this particular case, the best that we can determine—and we are going back pre-DHS. We are going back to the late 1990s now, and 2000, 2001, 2002 time frame, building up to that contract, and one of the things that become evident when we look at the history and reconstruct what happened, is that the Coast Guard has never ever entered into an arrangement like this in their history, and they did not have the expertise to be negotiating a contract like this unilaterally. And I think they did receive some technical advice from the Navy and maybe from others who cautioned them to proceed with caution; however, because of the lack of expertise, that is how they found themselves in this situation we are in today.

There are other contracts, for example, like SBInet, that the Department has entered into, and they have used lessons learned from Deepwater to tighten up the controls over that contract. For example, instead of a 25-year contract, it is a three-year contract. There are exit ramps or exit clauses if we don't like what you are giving us. We can get out without penalty. We are more heavily involved in SBInet in the subcontracting. We can make the decisions of make or buy; whereas, under the Deepwater contract, the integrator made those decisions. So there are lessons learned in SBInet that you won't see in Deepwater.

Mr. LATOURETTE. Let me ask you this just from a good government standpoint. I mean, it amazes me that we could enter into a \$24 billion contract with somebody and not be protected, and if it is a lack of expertise, what would you think if, here, the Congress said, you know what, pick a number, anything, anybody that is going to buy anything over a billion bucks, we have to have Joe, the contract guy, look at it; I mean, it doesn't matter whether you are from the Coast Guard or the DoD or the Interior Department. I mean, do we have to do something like that or do you think that everybody is competent and this one just got screwed up?

Mr. SKINNER. I think it is the latter. And one of the things that I am seeing right now with Deepwater is that the Department's procurement office, and the Chief Procurement Officer, Elaine Duke, with Department of Homeland Security, is now more actively engaged in providing technical assistance, advice, and oversight as they proceed through this negotiation process.

Mr. LATOURETTE. And let me ask you this. You seem to express some hopeful optimism that when this contract is up in June or July, whenever it is, that things are going to get better. My understanding of the contract is that it is a five-year contract and then it has sort of a grade-out, and they have just completed that grade-out process, and based upon the grades that the integrator got, I guess it is a 43-month extension is what they have earned based upon their scores of 76 and 60 and things like that.

But based upon both of your reviews of the contract, the existing contract, is there a lot, do you think, the Coast Guard can do to fix the things that you find problematic in the existing contract?

Mr. SKINNER. Yes, and we have made recommendations to that effect. And you hit it up on the evaluation as a basis for the extension. Actually, I think the final score was somewhere between 83 and 87, which gave us grave concern because you had the FRC, you had the 110/123 conversion problems, you had the NSC problems, you had the unmanned aircraft problems. How could you score a B and deserve 43-month extension? And that is because—the way the contract was written—again, it was flawed. The evaluation was based on final deliverables, so, therefore, the 123, the final deliverable had not been made; the NSC, the final, all eight, had not been made; the FRC, the finals had not been made. So, therefore, they weren't evaluated on their failures, they were only evaluated on those final products. I understand that is going to be rewritten as well.

Mr. LATOURETTE. Good. And let me ask both of you this. I heard you and Mr. Caldwell say that three components to this, one of the components being the integrated contractor. Just your thoughts

on—I also heard you say, Mr. Skinner, that you think that it is nice that they partnered with the private sector. But I have to tell you, from the last hearing that the Chairman had where we had the integrator here, I am not so crazy about the way that it is set up, and I just want you to—if you could just give me your thoughts on the structure that has Northrop Grumman, Lockheed Martin being the integrator, and most of the business is going to them at the end of the day, too.

Mr. SKINNER. It is—after reviewing it very closely, I mean, it is difficult for me to comment on whether the structure is adequate or not. They went through a very lengthy, I think a two-or three-year process, to pick these two contractors to work in partnership and to work in partnership with the Coast Guard. That, in and of itself, I don't think is the problem. I think the problem is, one, is clearly defining what your operational requirements are, holding them to those requirements, having someone—right now they are self-certifying—having someone independent——

Mr. LATOURETTE. Right.

Mr. SKINNER.—validate what they are delivering to you. Also, we need to be more actively involved in the decision-making process. After all, it is a partnership.

Mr. LATOURETTE. Right.

Mr. SKINNER. We turned over the reins to them. That was a big mistake. We need to partner with them. When they give us design proposals, we should be making the final decision whether, one, that design meets our requirements; two, whether we want to buy that from you or we want to shop somewhere else to buy that requirement.

So it is the design of the contract, I think, and the oversight expertise that needs to be addressed.

Mr. LATOURETTE. And I think when I say I am not crazy about it, I mean, I think the problem that I have with it is the gatekeeper really doesn't have any incentive to keep the gate is the problem.

Mr. CALDWELL, do you have a thought on the integrated contractor structure?

Mr. CALDWELL. Yes. In some of our past work we found that the integrators perhaps weren't integrating as well. Northrop Grumman was doing vessel side and Lockheed Martin was doing the aircraft side, and in some cases it resulted in separate proposals or parallel proposals going to the Coast Guard, as opposed to an integrated proposal. The reason the Coast Guard went with a system integrator like this is to do that kind of integration. So in some cases I think they have been disappointed that a higher level of integration hasn't happened. We, of course, have found some evidence of that.

In terms of moving forward, you had asked a question about how the Government can reduce risk as we move forward into the next cycle, and a couple of the things that we have discussed with the Coast Guard is the issues of going forward with a contract where there aren't any minimum quantities of assets to buy and there aren't any minimum dollar amounts. And then, of course, you are giving the contractor a much greater incentive to make sure they have a good product you are going to want at that price or you are going to shop elsewhere.

Mr. LATOURETTE. Right. And then the last question I have is for you, Mr. Caldwell. You mentioned unobligated balances of, I think you said, \$1.6 billion. Because this is a hearing about the budget, I am concerned that the President's budget has come in, I think, about \$823 million for Deepwater and the appropriated amounts over \$1 billion. Based upon your observation and analysis, is the \$1.6 billion of unobligated balances sufficient to move forward with the schedule of assets that are being produced?

Mr. CALDWELL. Well, I think what the Coast Guard owes Congress, this Committee as well as others, is a plan of when they plan to spend that unobligated money. In one of the Committees the Commandant was asked when he could spend a certain amount of money, and it was beyond a 24-month window. So then why do you need it to carry over from the last budget if you are not going to be spending it in 24 months? Of course, we all know how the appropriations work, and there are risks at every level in terms of whether, if you don't have money in this year, whether it will be in there next year. And I think it happened at a time where one of the risks we raised early on with the Deepwater program is whether the Coast Guard would actually have the money in any given year to carry on a program this ambitious. And I think the initial planning that went out for the initial contract had the contractors looking at a window of \$500 million a month.

(After the hearing, Mr. Caldwell edited the previous statement to read: "...had the contractors looking at a spending cap window of \$500 million a year.")

Just talking to Coast Guard folks, it sounded like the Coast Guard was just at a point they thought they were there, we were pretty close to \$800 million to \$1 billion a year of funding that Congress was willing to appropriate, but, of course, all these problems had not come up yet, and so, because of some of these problems, they haven't been able to spend that money. But I am not sure that I have done a level of analysis that could say how much should or shouldn't be given to the Coast Guard or taken away, or something like that, but I think the Coast Guard owes Congress that information in terms of here is how we plan to spend that money. It is just obviously not good financial management to have those kinds of unobligated balances.

Mr. LATOURETTE. Right. Absolutely. Well, thank you.

Thank you, Mr. Chairman.

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

Let's go back to the performance assessments. You said, I think, there were 83 to 87. In the industry, is that medium, high, low?

Mr. SKINNER. I think that would be a B.

Mr. CUMMINGS. A B?

Mr. SKINNER. If we did an A through F grading.

Mr. CUMMINGS. You also went to the criteria for the 83 to 87, is that right?

Mr. SKINNER. I beg your—

Mr. CUMMINGS. In other words, one of your concerns, I guess, was even when you come up with the 83 to 87, is the criteria how you got there?

Mr. SKINNER. Yes. We didn't grade everything.

Mr. CUMMINGS. Yes.

Mr. SKINNER. That was our criticism, and I think the Coast Guard and Admiral Allen agreed with that and is amending the contract to grade everything, whether it is in progress or whether it has already been delivered.

Mr. CUMMINGS. And I take it that you all had—you may have stated this already—had an opinion about the award fees. I mean, one of the things that concerned me—and I had an opportunity to talk to at least one of the team members, I think it was Lockheed Martin folks, and I think what they were trying to tell me, that this was not a bonus, that this was an award, I guess, more or less for progress, sort of. But I saw it as a bonus, and their argument was that they were taking somewhat of a risk in doing this contract and so, therefore, they just could not see it as, in any way, shape, or form, anything that you could even put in the same dictionary as a bonus. I mean, do you have an opinion on that?

Mr. SKINNER. We didn't evaluate the basis for the award fee, but it does go back to the criteria which we used to evaluate their success or failure, their performance. And the award fee, I think, is tied into that evaluation. So the higher the score, the higher the award fee, which we also were questioning the score; we think that it was too high. Therefore, we are also suggesting, I guess, that the award bonus may have been too high as well. But we did not comment on that particular aspect.

Mr. CUMMINGS. I understand. You also seem to have—I know at least you, Mr. Skinner, and, Mr. Caldwell, I am sure you have an opinion on this, about the role that civilians should play in acquisitions and what have you. I mean, the argument was made—I think it was by you, Mr. Skinner—that one of the things that folks depend upon, contractors, is that personnel will change, I mean, personnel will move from place to place in the military, in the Coast Guard, and so they don't have to deal with the same folks. The folks that were there two years ago, some of them retired, some of them have gone overseas; they are not there anymore. Even Admiral Allen has, I think, a four-year term. And so this gives us great pause because I think that, and I have said it many times, I think every Member of this Committee has a tremendous amount of faith in Admiral Allen, but I guess what we have got to do is figure out how we put into place those things that will last beyond Admiral Allen and others that may have great intentions.

So talk about the role of civilians and how significant that is. Yes, Mr. Caldwell, and then we will go to you, Mr. Skinner.

Mr. CALDWELL. Let me just make a couple of comments. I would agree with Admiral Allen that you need some of the military folks in there who know the operational issues. There is no doubt you need their expertise involved in that. You even want to have maybe some overlaps among those people because, as military people, they will rotate out. But, in principle, I would agree that you need continuity here in terms of civilians to carry on some of these programs.

I have one other kind of anecdotal observation I would like to make. I have been with the GAO for 23 years now. The people that we are hiring now, they are not going to stay for 23 years. I mean, it is a much more mobile workforce than it used to be, and I think that will affect the Coast Guard or any Government agency to a

larger extent. So while the continuity is a very valuable thing, it is just a harder thing to get today, even in the civilian world.

Mr. CUMMINGS. Mr. Skinner?

Mr. SKINNER. If you look at best practices for performance-based contracting or best practices for a system-of-systems contract, there is a lot of literature out there. One of the most important elements they say to be successful is continuity. That is, the people that you put together on a project team, an integrated project team, have to be committed to the project from beginning to end. And like Mr. Caldwell said, even in the civilian sector you are going to have staff turnover, but in the military sector you are guaranteed turnover, and that creates a problem because you just cannot ensure that continuity.

The second thing that concerns me when you talk about putting military in charge—it goes beyond acquisition management, it goes into financial management, it goes into human resources management, it goes into IT management. These are specialties where you need professionals in those fields to do this. If you look at the Coast Guard, particularly the Coast Guard, any cadet or anyone that is coming out of the Coast Guard Academy, I challenge anyone to say that they can look at the Coast Guard organizational chart and say I want to be the chief acquisition officer. There is no career path in the military for those people to aspire to be there and to work and train and receive the experience in the training that they need to be able to run any type of acquisition program, let alone a complex major acquisition program such as Deepwater.

So it does create a problem when you start relying on your military people who do not have the experience, do not have the training, and they would rather be somewhere else. They are punching their ticket to get through Washington so they can go back out to sea.

Mr. CUMMINGS. One of the things that you talked about, Mr. Skinner, in your opening statement, you talked about how Admiral Allen was building up his personnel. And you also said something that was very interesting, and that was that it is going to take a long time. So I guess, I mean, do you see—so you are saying that even if he built up his personnel, gave them the training that they probably wouldn't be around but so long, but you even question whether they can build up that kind of training to do all the things that need to be done particularly with regard to acquisitions, whether they even—they are in a position to be able to accomplish that and still deal with this contract in a fairly timely fashion?

Mr. SKINNER. In the short term, that is absolutely true. That is one of the things we are experiencing not just within the Department, but this is a Government-wide issue, is to get the right resources in the acquisition management field: program managers, acquisition managers, procurement managers. It is very difficult, in this day and age, to find those types of people out there. There is a lot of competition in the private sector right now. The private sector pays a lot more than the Government, and that is who we are competing with right now. So it is not something that we are going to be able to fix just in a few months; this is going to—it is going to be very difficult to find the right people and bring them in here.

Mr. CUMMINGS. Of all the things that you heard—and I will end on this—what gave you the most hope that we are at least partially on the right track here? Assuming that you got that feeling.

Mr. SKINNER. Yes, there is hope, and what gives me the most hope is the leadership that we now have in the Coast Guard, and that is Admiral Allen. He is firmly—he recognizes these problems, he admits to these problems. He is very, very focused on correcting these problems. He is very hands-on management, and he has taken some very drastic steps to turn this thing around with a major reorganization of his acquisition program, in other areas as well, but we are focusing on acquisition management, putting it under one directorate, where it is more streamlined and you can go to someone where there is accountability, which never existed before. And we learned that through the course of our audits, because we just couldn't find that one person that we could go to who is accountable for this contract? It also has become very clear as to who has technical authority over Deepwater. That was not clear before. And when you talked about using the integrator project teams and when you do experience those problems, well, when you got to the end, the contractor was the chair of the team. The Coast Guard were technical advisors, they were not technical decision-makers. That now has changed. He recognizes that the contract is flawed, going back to basics. Let's go back to Acquisition 101 plus what we have learned over the last four and a half years from our mistakes, and to address those issues.

There is a lot that is now being done to turn this around, but, again, we are still in the very early stages. Will we be successful? Time will tell. But it is going to require sustained leadership, it is going to require oversight, not only from GAO or OIG, but Congressional oversight. We are going to have to be transparent so we make sure that we are doing the right thing; and if we are not, we have got to hold people accountable.

Mr. CUMMINGS. Mr. Caldwell?

Mr. CALDWELL. Well, whether it is Admiral Allen or it is kind of the lowest person in the chain of the acquisition world, they are going to probably move or transition, or there will be some lack of continuity. So the kind of things that give us hope, looking forward, in terms of fixing the problem is really having structures and processes in place that work, and then people can come in and out of those. But if you have those in place and you have a mechanism to make sure they are working, from an auditor's perspective, it is internal controls that are important, it is not the people that are in the positions. So that is what I would say is most important to us.

Mr. CUMMINGS. Mr. LaTourette?

Mr. LATOURETTE. Nothing further.

Mr. CUMMINGS. Thank you all very much. We really appreciate your. I am sure we will be talking to you all again. What is next on you all's agenda? Are you all continuing not follow this, is that right?

Mr. SKINNER. Yes. We are embedded in the Coast Guard, into the Deepwater program. Our next——

Mr. CUMMINGS. Whether they like it or not, huh?

Mr. SKINNER. Whether they like it or not. But Thad Allen has in fact opened his doors to us and has been very cooperative these last few months, and is welcoming our suggestions. The next thing you will probably see is a report card. This will be the first report card that we have done of the Deepwater program. We are going to do it throughout the Department and we are going to spread out to all the management challenges in the Department. But this will give you a baseline, and each year we can show you and the Secretary, and the head of the Coast Guard the progress they are making, if they are in fact making progress. We are also doing several sector reviews of Deepwater activities, the unmanned aircraft, for example, their infrastructure, which we talked about earlier today and the progress that is being made there and the problems that they are experiencing, and how that is going to be integrated into the Deepwater program. So there are going to be a whole series of audits for the next—Mr. Chairman, long after I am gone.

Mr. CUMMINGS. Mr. Caldwell?

Mr. CALDWELL. We have a couple of things. I guess in the long term we have a mandate, a legislative mandate from two appropriations Committees, Senate and House, to look at this every year, and we negotiate a little bit about what the terms of those audits are. But I assure you it is not an indefinite quantity, indefinite amount contract.

Mr. CUMMINGS. Let me say this. I am sure you all don't hear this too often, but we really do thank you for what you do. I think you all have—you and your staffs have—I am sure you are not always—people are not jumping up and down and having parties for you when you come in the door and everything, but the fact is that you help to keep Government strong and you help to make sure that trust, with regard to integrity and competence, both, you all are the ones that make sure that we keep that in some type of order.

So I am sure you are well underpaid, but we really do thank you for what you do, and I really mean that, and I hope you will convey that to your staffs. And we want to thank you for the outstanding work that you all have done for us and, on behalf of the Congress, we thank you.

Mr. SKINNER. You are welcome. Thank you.

[Whereupon, at 1:15 p.m., the Subcommittee was adjourned.]

**SUBCOMMITTEE ON COAST GUARD & MARITIME TRANSPORTATION**

**“Coast Guard Fiscal Year 2008 Budget”**

**March 8, 2006**

**10:00 a.m.**

**Room 2167, Rayburn House Office Building**

*Statement of Chairman Elijah E. Cummings*

Today, the Subcommittee on Coast Guard and Maritime Transportation convenes to examine the Coast Guard’s fiscal year 2008 budget.

The President has requested nearly \$5.9 billion to fund the Coast Guard’s operations – an increase of \$416 million over the fiscal year 2007 enacted level of just under \$5.5 billion.

The President’s total request for the Coast Guard’s capital budget is nearly \$998 million, of which \$837 million is for

Deepwater. This represents a decrease of approximately \$250 million below the amount appropriated for Deepwater in fiscal year 2007.

We will hear today from Admiral Thad Allen, the Commandant of the Coast Guard, and Master Chief Petty Officer Charles W. Bowen, regarding the President's budget request and how it aligns to the Coast Guard's needs as the service continues an ambitious transformation effort to balance its many missions and to respond to the emerging threats that confront our homeland.

I look forward to hearing from all witnesses today their thoughts on the question of whether the Coast Guard has adequate resources to perform each of its missions.

As I have stated since the beginning of my tenure as Chairman of this Subcommittee, our Subcommittee will be an advocate for the Coast Guard – but we will balance our advocacy with a demand for accountability. Further, as we review the budget request, our Subcommittee will continually seek new opportunities to strengthen the systems and processes that can ensure accountability in all aspects of the Coast Guard’s operating and capital budgets.

While I am concerned that \$837 million may not be adequate funding for Deepwater, we have just begun our oversight of this program and before I advocate for an increase in funding, I want to know in detail the steps that the Coast Guard is taking to correct Deepwater and I want evidence that the steps are producing the results that we expect.

At the same time, the Committee on Transportation and Infrastructure is concerned that insufficient capital funding is being directed toward the maintenance of on-shore facilities. The President's budget requests only \$35 million for this purpose – which appears to be far below the amount required to meet the maintenance needs of existing infrastructure. Our Committee supports the appropriation of \$360 million for non-Deepwater capital expenditures – which is the level of funding that was appropriated in fiscal year 2005.

I am also very concerned about the funding levels for some of the Coast Guard's historical programs. Proposed funding levels for search and rescue, marine safety, aids-to-navigation, icebreaking, and the protection of living

resources are all lower than amounts that were appropriated for these purposes in fiscal year 2007.

I have heard concerns from throughout the maritime industry and labor organizations about the Coast Guard's lack of support for traditional maritime safety programs. Some have even advocated transferring this mission back to the Department of Transportation where they believe it will receive better support.

Today, we also welcome to the Subcommittee Mr. Richard Skinner, the Inspector General of the Department of Homeland Security, and Mr. Stephen Caldwell, who represents the Government Accountability Office.

These two experts will discuss the Coast Guard's budget needs and the Deepwater procurement, which they have both examined in great detail.

Since our last hearing on the Deepwater program, the DHS IG has issued a new report on the 123-foot patrol boats. Of course, these boats have been pulled from service due to problems with their hulls. However, the DHS IG has found that aside from the hull problems, the contractors failed to meet the requirements of the Deepwater contract by failing to install low-smoke cabling and failing to install topside equipment that would have been operable in all of the weather conditions the patrol boats were expected to face. These findings are particularly disturbing because they identify specific instances in which the contractor failed to meet the requirements of the Deepwater contract – and they

identify failures that were apparently not immediately recognized by the Coast Guard. Further, the use of non low-smoke cabling could have needlessly exposed the crews on these boats to safety risks, including excessive toxic smoke in the event of an on-board fire.

Such instances of shoddy performance that could endanger the safety of Coast Guard crews are completely unacceptable – and let me say to everyone here that I hope these are the last instances we hear about in the Deepwater contract.

I look forward to the testimony of all of our witnesses today.

**STATEMENT OF THE HONORABLE JOHN L. MICA  
RANKING REPUBLICAN MEMBER AT THE  
SUBCOMMITTEE ON COAST GUARD AND  
MARITIME TRANSPORTATION HEARING ON THE  
COAST GUARD BUDGET AND AUTHORIZATION  
FOR FISCAL YEAR 2008**

**MARCH 8, 2007**

- The Coast Guard is a unique entity within the Federal government.
- As a multi-mission, military force with significant regulatory authorities and responsibilities, the men and women of the Coast Guard are involved with nearly every facet of securing our ports, safeguarding lives at sea, and protecting our coasts and natural resources.
- As the authorizing Committee for the Coast Guard, our job is to ensure that the Coast Guard has the resources, authorities, and personnel necessary to support all of its missions.

- Over the years, this Subcommittee has held several hearings to review the Coast Guard's mission performance across its wide scope of responsibilities.
- In each of those hearings, we have been assured by the Coast Guard that its budget and force strength is sufficient to support each mission.
- I am also concerned that a decrease in funding for the Deepwater program will make these assurances meaningless.
- The Coast Guard's vessel fleet is rapidly deteriorating and needs to be replaced as soon as possible.
- I understand that we are having problems with some vessel designs, but we should not let those problems cause any further cost increases or delays in the delivery of other Deepwater assets.

- I thank the witnesses for their testimony and join Mr. LaTourette in welcoming Master Chief Bowen to his new position.

U. S. Department of  
Homeland Security  
United States  
Coast Guard



Commandant  
United States Coast Guard

2100 Second Street, S.W.  
Washington, DC 20593-0001  
Staff Symbol: G-ICA  
Phone: (202) 366-4280  
FAX: (202) 366-7124

**DEPARTMENT OF HOMELAND SECURITY**

**U. S. COAST GUARD**

**STATEMENT OF**

**ADMIRAL THAD W. ALLEN  
COMMANDANT  
U. S. COAST GUARD**

**ON THE**

**COAST GUARD BUDGET AND AUTHORIZATION BILL FOR 2008**

**BEFORE THE**

**SUBCOMMITTEE ON COAST GUARD AND MARITIME  
TRANSPORTATION  
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE**

**U. S. HOUSE OF REPRESENTATIVES**

**8 MARCH 2007**

## **INTRODUCTION**

Mr. Chairman and distinguished members of the subcommittee: Good morning, I am pleased to appear before the Subcommittee today to discuss the Administration legislative proposal, the "Coast Guard Authorization Act for Fiscal Year 2008," and the President's fiscal year 2008 budget request for the Coast Guard.

Before I begin, I would like to take this opportunity to explain how I view the roles and missions of the Coast Guard, as well as the direction in which I am taking the Service.

## **ROLES AND MISSIONS**

The Coast Guard is the principal federal service charged with maritime *safety, security, and stewardship*. The Coast Guard protects the Nation's vital interests—the safety and security of the Nation's citizenry, its natural and economic resources, and the territorial integrity of its maritime borders; it operates wherever those interests may be at risk—the navigable waters of the United States, along the Nation's coasts, and in international waters. These roles and missions have accrued to the Coast Guard over two centuries of service because they serve a collective good and, significantly, a single federal maritime force can most efficiently and effectively accomplish them. More importantly, these roles and missions are converging. The Nation's response to increasing pressures on the Nation's waterways and maritime resources and expanding external security threats is having a profound impact on the development of new management regimes for the U.S. maritime domain and borders. In this time of dynamic change, the Coast Guard's multi-mission nature, which has always been a strong value proposition to the Nation, is taking on new dimensions and significance. For example:

- The Coast Guard's work in marine safety is closely coupled with, and reinforces new initiatives and standards for, vessel and facility security.
- Its waterways management capacity and expertise are essential to maritime preparedness and port resilience (*i.e.*, the ability to restore rapidly commerce and economic stability after massive damage, intentional or natural).
- Its Combating Maritime Terrorism missions and operations contribute to the layered defense of the Nation.
- The mission to protect marine environment and resources complements the safety and security missions and ensures that uses of the Nation's waters and resources are balanced and sustainable.
- The sovereignty enforced by the Coast Guard secures the Nation's maritime borders from drug and alien smuggling, contraband, illegal migrants, and robbery of the Nation's natural resources.
- All Coast Guard forces can respond to natural disasters and emergencies, scaling up to a Katrina-level response when communities are in danger, regardless of the cause.

In addition to these well known missions, in moments of international crisis, the Coast Guard can flow non-redundant and unique war fighting capabilities to the Department of Defense. During Operation Iraqi Freedom, the Coast Guard, along with U.S. Navy and coalition naval forces, participated in maritime interception operations, port security and defense operations, coastal security patrols. As well, the Coast Guard enforced U.N.

sanctions prior to hostilities and prevented the movement of Iraqi military forces during and following hostilities. Since the cessation of major combat operations, Coast Guard forces, along with coalition allies, have maintained the integrity of Iraqi territorial seas from foreign encroachment, have provided security of vital Iraqi maritime infrastructure from insurgent threats, and have conducted training of Iraqi maritime security forces while ensuring the uninterrupted flow of the sea line of communications to coalition forces deployed in the Central Commands area of operations.

The maritime border is unique and complex. It is a system that is at once an international border, an international highway, a coastal beltway, a playground for boating, and a site for a variety of economic enterprises. It requires that the Nation understand that its national maritime interests cannot be pursued in isolation from one another. As such, there are eleven specific statutorily-mandated Coast Guard mission-programs.<sup>1</sup> Each directly supports the roles of *safety, security, and stewardship*. Table 1 shows the primary alignment of Coast Guard mission-programs to these roles.

Safety Saving Lives & Protecting Property	Security Establishing & Maintaining a secure maritime system while facilitating its use for the national good.	Stewardship Managing the sustainable & effective use of its inland, coastal and ocean waters & resources for the future.
Search and Rescue	Drug Interdiction	Marine Environmental Protection
Marine Safety	Migrant Interdiction	Aids to Navigation
	Ports, Waterways & Coastal Security	Living Marine Resources
	Other Law Enforcement	Ice Operations
	Defense readiness	

Table 1

**“Strategic Trident” - Coast Guard Force Structure**

An important first step in aligning Coast Guard operational forces involves the development of a layered security posture in the maritime domain to meet all hazards and all threats.

Multi-mission Shore Based Forces. The Coast Guard has aligned its shore-based operations in the establishment of interagency-enabled Sectors, unifying operations in the Nation’s ports. This consolidation of these shore-based forces at the port level into Sector commands provides a single point of accountability for operations, unifies resource allocation, and enables risk based decision making tools, thus focusing Coast Guard capabilities and competencies to identify and mitigate threats.

<sup>1</sup> The term “mission-program” is used by the Coast Guard to identify one of its 11 statutorily mandated missions that guide Coast Guard budget presentations as well as strategic planning, programming and performance.

*Maritime Patrol and Interdiction Forces.* The centerpiece of the Coast Guard's future capabilities is the Integrated Deepwater System, revised to reflect post-9/11 mission requirements such as enhanced intelligence gathering and handling capabilities. The Integrated Deepwater System concept was designed to secure the Nation's maritime borders. This acquisition will integrate the Coast Guard maritime presence and patrol capability, especially with respect to extended offshore security operations, thereby allowing the Coast Guard to meet and defeat threats at the greatest distance from the Nation's shores.

*Deployable Specialized Forces.* The final piece to the Coast Guard force structure is the effective employment of deployable forces. Deployable units will face increased threat levels, respond to incidents of national significance, and form into adaptive force packages within the Department of Homeland Security. The Coast Guard has long maintained teams and detachments that are deployable, but "stovepiped" among different mission areas. In the future, these teams will be placed under one command, a force structure designed to integrate with the Department of Homeland Security and other federal and state agencies, to create a more agile, flexible force that can deploy in advance of or after an event to mitigate any threats or hazards. This new force structure will be a more efficient and effective means of deployment in a post-Katrina environment. Additionally, it will offer the much needed opportunity to develop departmental doctrine to support adaptive force packaging for incident response or surge operations.

#### **Organizational Alignment**

Past events have revealed the critical role the Coast Guard plays in providing *safety, security, and stewardship* of national maritime interests. The sinking of the TITANIC laid the foundation for the Coast Guard's premier role in maritime safety. The EXXON VALDEZ oil spill was the catalyst to the Coast Guard's much improved and highly visible maritime stewardship responsibilities. The response to the terrorist attacks of September 11<sup>th</sup> and subsequent participation in the Global War on Terrorism have clearly showcased the Coast Guard's key role in providing vital maritime security.

The Coast Guard's transfer to the Department of Homeland Security was a significant step forward in providing for a capability that can respond to the evolving demand to protect the homeland. Thus, the Coast Guard's ability to adapt continuously in order to sustain and enhance its overall mission execution is of paramount importance. As a result, the Coast Guard is undertaking an organization-wide effort to restructure and realign command-and-control and mission-support (including organizational structures, human resources, maintenance, logistics, financial management, acquisition oversight, and information systems) to ensure more effective and efficient mission execution. Efforts currently underway include the consolidation of all acquisitions management functions to ensure the optimal balance of contract and administrative personnel between each major acquisition. Additionally, alignment between the command and control structure within Coast Guard Headquarters and field unit organization is being imposed to obtain proper oversight of Coast Guard functions and ensure optimal mission balance.

This alignment will result in purposeful, service-wide transformation and enhancement designed to better enable the Coast Guard to meet the current and future needs of the Nation. The Coast Guard will become a more agile, adaptive, and responsive organization capable of working effectively with its interagency partners. Furthermore, overall Coast Guard mission execution will be enhanced; it will be even better prepared to fulfill its duty to the Nation. This new operational framework will facilitate the timely and accurate flow of information and direction among the strategic, operational and tactical levels of mission execution. A new command and control system will evolve and, like the Coast Guard itself, will be more agile, adaptive, and responsive.

**The Coast Guard’s Strategy**

The Coast Guard Strategy for maritime *safety, security, and stewardship* describes how the Coast Guard will work to safeguard the Nation against all threats, hazards, and challenges in the maritime domain, today and in the future. It discusses the Coast Guard’s enduring roles, future challenges and threats, as well as a systems approach for improving maritime governance. From these foundations, the Strategy presents strategic priorities that build on the Coast Guard’s strengths and best focus its capabilities to serve the Department of Homeland Security and the Nation. This Strategy is shaped by the laws, executive orders, international conventions and agreements, and other guidance that determine U.S. maritime policy (Figure 1).

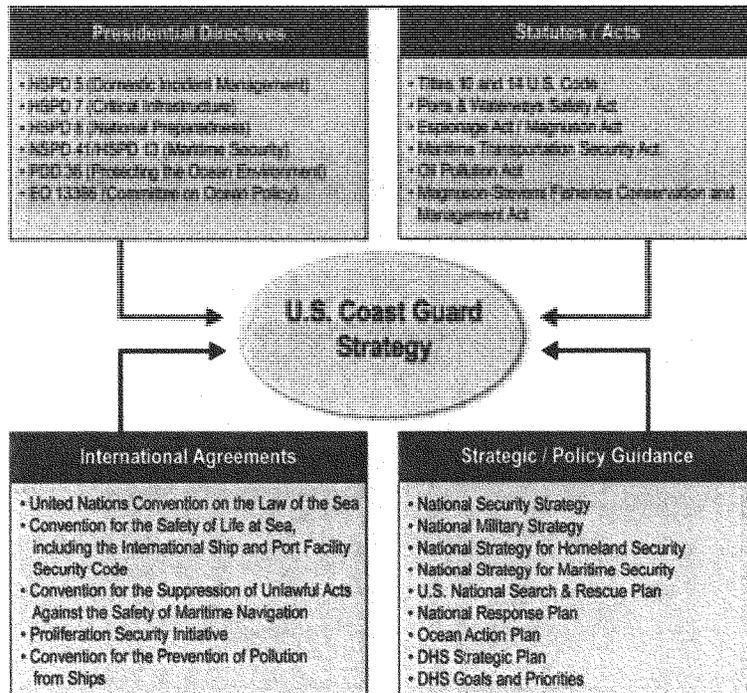


Figure 1

The Strategy takes significant shape from the National Strategy for Maritime Security (NSMS), the President's Ocean Action Plan (OAP), National and Homeland Security Presidential Directives (NSPD/HSPD), and the Department of Homeland Security goals and priorities. Additionally, it is the product of the Coast Guard's Evergreen Project, which looks across alternative futures to determine robust strategies that best position the Coast Guard and the Nation for a changing world.

Challenges to maintaining America's maritime sovereignty and security are looming, and the key strategic actions that the Nation must take lie in three areas: improving operational capability, building maritime awareness, and strengthening and integrating existing domestic and international maritime regimes to protect the United States and other coastal nations against growing transnational threats.

Regimes are the system of "rules" that shape acceptable activities. Maritime Domain Awareness (MDA) allows for the detection and monitoring of activities occurring within the maritime domain. Together, regimes and MDA inform decision makers and allow them to identify trends, anomalies, and activities that threaten or endanger U.S. interests. Operational capabilities deter, respond to, verify, and counter threats. They also ensure the safe and sustainable day-to-day use of the maritime domain and speed recovery from natural or man-made impacts in times of crisis.

These activities are not the sole province of the Coast Guard; they are ineffective without state, local, private and international participation. Similarly, they are not solely domestic; they span the globe and take place on all waters. Finally, this framework provides a common approach to *safety, security, and stewardship*, often serving all three objectives through common frameworks and activities.

Viewing maritime initiatives and policies as part of a larger system enables a better understanding of their inter-relationships and effectiveness. A well designed system of regimes, awareness, and operational capabilities creates overlapping domestic and international safety nets, layers of security, and effective stewardship. Taken together, they provide a comprehensive system of maritime governance for the Nation.

One of the fundamental building blocks of this system is Law of the Sea Convention. However, we are not yet a party. Joining the Convention with the declaration and understandings reflected in Executive Report 108-10 (Senate Foreign Relations Committee) is an important step in ensuring that we can exercise the necessary leadership to make this happen.

#### **COAST GUARD AUTHORIZATION ACT FOR FISCAL YEAR 2008**

On March 5 the Coast Guard transmitted the Administration proposal, the "Coast Guard Authorization Act for Fiscal Year 2008." The proposal would authorize the funds and personnel end strengths requested in the President's fiscal year 2008 budget. Additionally, it would provide important new authorities, as well as expand and clarify existing authorities.

Before turning to the Administration proposal, I want to acknowledge this Subcommittee's willingness to take up a Coast Guard Authorization Act each year and to address the challenges facing the Nation. Such action reflects the understanding the strategic environment in which the Coast Guard operates; it has dramatically changed in the past five years and continues to evolve. This Subcommittee also understands that the Coast Guard must continually adapt and, where current law impedes this necessary adaptation, that Congress must address those barriers each year. There are new provisions in the draft Authorization Bill that most prominently highlight our current challenges:

- Section 201 (Vice Commandant; Vice Admiral), which would increase alignment with the other armed forces and ensure greater organizational flexibility.
- Title VII (Maritime Alien Smuggling), modeled after the Maritime Drug Law Enforcement Act (46 U.S.C. §§ 70501-70507), which would improve the security of the U.S. ports-of-entry and coast against unlawful entry by those who seek to enter the United States without official permission or lawful authority and deny smugglers the use of maritime routes.
- Section 307 (Appointment of civilian Coast Guard judges), which would authorize the Secretary of Homeland Security to appoint civilian judges to the Coast Guard Court as vacancies occur.

#### **Section 201—Vice Commandant; Vice Admiral**

As stated previously, the Coast Guard operates in an evolving, dynamic environment that requires greater organizational flexibility. To this end, the Coast Guard is realigning its force structure to improve mission execution. Fundamental to this effort is a realignment of the Coast Guard leadership structure.

In brief, this provision would permanently establish the grade of the Vice Commandant at admiral, thereby aligning the Coast Guard leadership structure more closely with that of the other armed forces. Additionally, it would provide for the appointment of no more than four officers to “positions of importance and responsibility”—an appointment structure similar to that of the other armed services—and fix the number of vice admirals at no more than four. This will provide flexibility to increase the number of vice admirals if circumstances warrant, but does not compel it. Each position will be held by a flag officer who will have the grade of vice admiral and perform such duties as the Commandant prescribes. The Coast Guard proposes to retain the existing scheme for the nomination, appointment, and confirmation of officers, but to permit the reappointment of officers (subject to Senate confirmation prior to such reappointment). Similarly, the Coast Guard proposes to carry forward the effective and termination dates that the officer assumes and detaches from duty, but adopt practices regarding the treatment of grade, permanency of grade, and promotion afforded officers of the other armed forces.

Existing senior leadership positions would be subsumed within and preserved by this scheme, unless and until circumstances prompt further realignment. This further realignment would be achieved through the provision's notification and recommendation concept, similar to that of the other services, which allows the President to effect organizational efficiency and effectiveness through the nomination and confirmation process.

#### **Title VII—Maritime Alien Smuggling**

Each year, maritime smugglers transport thousands of aliens to the United States with virtual impunity. During fiscal years 2004 and 2005, over 840 alien smugglers facilitated or attempted to facilitate the illegal entry of over 5,200 aliens into the United States at an estimated profit of \$13.9 million. Yet, during this same period, less than three percent of interdicted maritime alien smugglers were referred for prosecution.

The physical risks inflicted on migrants by these smugglers aboard small, overloaded vessels, as well as the economic impact of their crimes, are very significant. For example, on July 8, 2006, migrant smugglers killed one Cuban woman and injured three other Cuban migrants during a high speed smuggling attempt in another grossly overloaded and unsafe small craft from Cuba. The deceased was among 31 migrants crammed into a go-fast boat. One of the alleged migrant smugglers had previously been arrested, without consequences, in March 2006 for migrant smuggling.

The low rate of referral reflects, in large part, the difficulties that arise under the current statutory framework, which fails to take into account the unique aspects of extraterritorial maritime law enforcement operations. Further, under current law, alien smuggling is only a felony if the Government can prove beyond a reasonable doubt that an alien smuggler sought commercial advantage or private financial gain, caused serious bodily injury, or placed in jeopardy the life of any person. Likewise, maritime smugglers have exploited the "profit" requirement for felony prosecution by offering incentives to the aliens to lie, and coaching the aliens to tell criminal investigators that the smuggler was a "good Samaritan" who "rescued" them. Thus, in the majority of cases, the Coast Guard is able to rescue and interdict the smuggled aliens, but the Government is not able to prosecute the crew or others involved in the smuggling operation. Such actions have little deterrent effect on the crews or the trafficking organizations. In the highly lucrative trade in human smuggling, smugglers consider such occasional seizures a part of the cost of doing business.

In 1980, Congress recognized and cured similar shortcomings in the Comprehensive Drug Abuse Prevention and Control Act of 1970 by enacting the Maritime Drug Law Enforcement Act (46 U.S.C. §§ 70501-70507). Title VII is modeled after that very successful Act. It would enable the United States to improve the security of the U.S. ports-of-entry and coast against entry by those who seek to enter the United States without official permission or lawful authority. Like the Maritime Drug Law Enforcement Act, title VII would address the shortcomings of existing law that impede the prosecution of maritime smugglers. Specifically, title VII would:

- Establish a new felony for any person on board a vessel less than 300 gross tons and subject to the jurisdiction of the United States who transports, facilitates the transportation of, harbors, or conceals an alien on board knowing or in reckless disregard of the fact that the alien is attempting to unlawfully enter the United States from another country. No proof of profit or inducement will be required because the act of transporting undocumented aliens on such vessels is inherently dangerous from both a safety and security perspective.
- Provide for mandatory three-year minimum sentence, which, coupled with the removal of the “for profit” element of the offense, will serve as both a deterrent and as leverage for vessel operators to “flip” on higher level smugglers and organizers.
- Provide protection for legitimate merchant mariners who encounter stowaways, as well as legitimate Good Samaritans, but establish reasonable measures to preclude smugglers from successfully asserting a false rescue defense, as they often do today.
- Minimize the need to bring undocumented aliens ashore as material or exculpatory witnesses by recognizing the carriage is inherently dangerous and by removing the “for profit” and “inducement” elements found in 8 U.S.C. § 1324.
- Close a current gap in the law by permitting civil forfeiture of vessels outfitted for migrant smuggling.

#### **Section 307—Appointment of Civilian Coast Guard Judges**

As you know, the Coast Guard, an armed force of the United States, is required to operate an Appellate Court to hear appeals from courts-martial. In accordance with Article 66(a) of the Uniform Code of Military Justice, the judges on this court are a mixture of military and civilian personnel. In *Edmond v. United States*, the U.S. Supreme Court held that civilian judges on the Coast Guard Court of Criminal Appeals are “inferior officers” for purposes of the appointments clause and upheld their appointments as military judges by the Secretary of Transportation under authority of 49 U.S.C. § 323. The Judge Advocate General of the Coast Guard does not have authority to appoint these “inferior officers.” As well, the Secretary of Homeland Security does not currently have statutory authority similar to 49 U.S.C. § 323. Section 307 would provide the necessary, yet limited authority for the Secretary of Homeland Security to appoint civilian judges to the Coast Guard Court as vacancies occur.

Future vacancies and retirements will soon frustrate the execution of judicial obligations. In the interest of expeditious justice due to the Members of the Coast Guard, I ask that the Subcommittee turn to this time-sensitive provision as soon as practicable.

#### **FISCAL YEAR 2008 BUDGET REQUEST**

The Coast Guard will head into FY 2008 making notable progress with implementing a number of specific initiatives supported by Congress. These include \$10 million appropriated in FY 2006 for Area Maritime Security Exercises as well as \$15 million appropriated FY 2007 for foreign port assessments, spot checks of Maritime Transportation Security Act (MTSA) regulated facilities, and domestic threat/vulnerability assessments. These initiatives, coupled with requirements in the SAFE Port Act such as the establishment of port security training and exercise programs,

facility exercise requirements and interagency operational centers to name a few, all work in concert with the initiatives shown below toward improving maritime security.

<b>Improve Operational Capability</b>	<b>Build Awareness</b>	<b>Create Comprehensive Regimes</b>
<p><b>"Strategic Trident" Force Structure</b> Deployable, specialized – Deployable Operations Group Maritime patrol &amp; interdiction - Deepwater</p> <p><b>Port &amp; Coastal Security Response</b> Response Boat- Medium Special Purpose Craft – Law Enforcement Atlantic Area Deployment Center Rescue 21 High Frequency Communications Recapitalization Counter Terrorism Shoothouse</p>	<p><b>Integrated Command Centers</b> Command Center Enhancements Interagency Unity of Effort</p> <p><b>Maritime Domain Awareness Gap</b> Nationwide Automatic Identification System (NAIS) C-130J Operations C4ISR Counter Intelligence</p> <p><b>Leverage Partnerships</b> Interagency-enabled Command Centers National Maritime Intelligence Center (NMIC)</p>	<p><b>Maritime Domain Management</b> Transportation Worker Identification Card (TWIC) Understanding the "unregulated" (e.g. recreational boating)</p> <p><b>International Engagement</b> International Maritime Organization (IMO) Regional Cooperation/Bilateral agreements</p> <p><b>Ocean/Arctic Policy</b> National Polar Icebreaking Policy Open Ocean Commerce</p>

The President's Fiscal Year 2008 Budget Request maintains a mission-focused Coast Guard that remains capable of answering the Nation's call by improving **operational capability**, building **maritime awareness** and creating **comprehensive regimes**. Some of these specific initiatives within the fiscal year 2008 budget addressing capability and awareness include:

**Improving Operational Capability:**

**Integrated Deepwater System (IDS) \$836.9 Million (AC&I):** The IDS is a 25-year, performance-based, "system of systems" acquisition to replace or modernize major Coast Guard cutters, offshore patrol boats, fixed-wing aircraft, multi-mission helicopters and the communications equipment, sensors, and logistics systems required to maintain and operate them. As an integrated, interoperable network-centric system, when complete, IDS will maximize operational capability while minimizing total ownership costs by leveraging current and future technologies to achieve maritime awareness in all maritime regimes in which Coast Guard operates. This request funds the sixth year of implementation after award and, among other things, will fund four additional Maritime Patrol Aircraft (MPA), long lead time material for the National Security Cutter (NSC) # 5 and complete funding for NSCs #1-4, initiate production of the Replacement Patrol Boat (FRC-B), and complete funding for Airborne Use of Force (AUF) outfitting for the 95 HH-65's and 42 HH-60's.

The IDS procurement is the largest and most complex acquisition ever undertaken by the Coast Guard, and the acquisition strategy allows flexibility to accommodate the continuously changing nature of this evolutionary procurement action, enabling rapid response to changes in technology, funding, and operational mission requirements. The Coast Guard is also taking important steps to improve the management of the program by evaluating of the current acquisition strategy and reassessment of the acquisitions management structure.

**Deployable Operations Group (DOG) \$132.7 Million base re-allocation (OE):** In the same way that Sector Commands improved unity of effort and command among the Coast Guard's shore-based forces in the Nation's ports and coastal regions, the DOG will be a new force structure that aligns the Coast Guard's Deployable, Specialized Forces (DSF) under a single unified command. Coordination of existing maritime safety and security missions will improve and the capabilities of each unit can be better exploited and used. Once the DOG is fully operational, it will focus on improving contingency planning, developing adaptive force packages to address a wide spectrum of national contingencies and leading efforts to train for an "all hazards...all threats" response.

**Movement of Personnel from Acquisition, Construction & Improvements (AC&I) into the Operating Expenses (OE) Appropriation \$80.5 Million base re-allocation:** This funding transfer will significantly improve the Coast Guard's ability to successfully manage, oversee and administer Coast Guard Acquisition, Construction and Improvement (AC&I) contracts. Consolidating all AC&I personnel funding into the OE appropriation will allow the Coast Guard to maximize efficiencies and leverage potential synergies in acquisition activities and management, as well as increase the Coast Guard's ability to surge personnel to AC&I-related positions as appropriated project funding levels fluctuate.

**Integrated Deepwater System Surface and Air asset follow-on \$55.5 Million (OE):**

- *National Security Cutter (NSC) 751* – Provides personnel, and funding to operate the 2<sup>nd</sup> National Security Cutter. The NSC is the largest of the new Integrated Deepwater Systems surface assets (418') with vastly improved capabilities over legacy 378' High Endurance Cutters. The NSC will be the most sophisticated and capable cutter the Coast Guard has ever operated. It will have a range of 12,000 nautical miles and an underway endurance of 60 days. The cutter will be capable of patrolling singly or with multiple Coast Guard vessels, U.S. Navy vessels, or vessels from other nations' navies or coast guards. The NSC will conduct proactive and reactive patrols within its assigned operating areas and will provide a robust Command and Control capability for the Task Unit Commander or the On-Scene Commander. It will be capable of performing all maritime Department of Homeland Security (DHS) missions, non-General Defense Operations and General Defense Operations with the Navy such as Ports, Waterways and Coastal Security as well as Maritime Intercept Operations, Port Operations, Security and Defense, and Peacetime Military Engagements.

- *C-130J* – The fiscal year 2008 budget request provides operation and maintenance funding for 800 annual flight hours for the Coast Guard’s HC-130J aircraft. These 800 flight hours, combined with the 3,200 flight hours already appropriated, will enable the Coast Guard to meet its full operating capability requirement of 4,000 flight hours for five HC-130J operational aircraft. The C-130J is the Coast Guard’s long-range surveillance aircraft. This four-engine, turbo-prop aircraft is used extensively throughout the United States, the Pacific Ocean and the Caribbean Sea in support of search and rescue, homeland security, pollution prevention, logistics, personnel transport and ice patrol missions.
- *Atlantic Area Deployment Center* - This newly established deployment center will replace the Coast Guard’s Helicopter Interdiction Squadron (HITRON), complete with Airborne Use of Force (AUF)-capable aircraft and crews. The HITRON initiative to lease eight MH-68 helicopters was developed as a bridging strategy to bolster the Coast Guard’s illegal drug interdiction capability and support Port, Waterways and Coastal Security missions until the service could arm its organic helicopter fleet. On February 1, 2008, the Coast Guard plans to complete this strategic plan by terminating HITRON and activating the Atlantic Area Deployment Center. More specifically, this action will replace the eight leased HITRON MH-68 helicopters with ten Coast Guard Airborne Use of Force (AUF) equipped, re-engined MH-65C helicopters at the Jacksonville, Florida facility.

**Special Purpose Craft-Law Enforcement Boat (SPC-LE) follow-on \$3.3 Million (OE):** This request provides funds to operate and maintain the SPC-LE boats acquired with funding provided in fiscal year 2007. These increased boat allowances will support Certain Dangerous Cargo (CDC) and high-capacity passenger vessel security, migrant and drug interdiction, shoreside and waterborne patrols, and boards of High Interest Vessels (HIV).

**Rescue Swimmer Training Facility \$13.3 Million (AC&I):** This project will recapitalize the existing Rescue Swimmer Training Facility at Aviation Technical Training Center, Elizabeth City, NC. As witnessed during Hurricane Katrina, Aviation Survival Technicians are a vital component of the Coast Guard’s Search and Rescue mission. The existing facility was built in 1948 and was initially used as a recreational pool. It must be closed when winds exceed 40 mph due to the poor roof structure and roof trusses. Funds requested will allow for the construction of a new building containing a 50x25 meter, 12 foot deep training pool; Modular Egress Training Simulator; classrooms; and a dunker tank.

**Maritime Security Response Team (MSRT) Shoothouse \$1.8 Million (AC&I) and \$644K (OE):** Funding will allow the Coast Guard to construct a shoothouse training facility at Camp Lejeune, NC, for the Special Mission Training Center to train deployable forces. This facility would be unique in that it will provide the opportunity to train in a shipboard like environment; in addition, due to its proximity to the water, students would be able to train in the shoothouse in the morning and on the water in the afternoon. These specialized forces rely on interagency support to train their members to ensure standardization and integration with Department of Defense (DOD) forces. Request also includes funding to complete equipment and training requirements of the MSRT’s third Direct Action Section (DAS) and CBRNE Section funded in fiscal year 2007.

**Rescue 21 \$80.8M (AC&I) and \$8.2 Million (OE):** The FY08 budget request provides for maintenance and recapitalization of the aging National Distress System in the Northeastern areas of the United States, West Coast and Alaska. Rescue 21 will replace the existing National Distress and Response System and enhance the Coast Guard's ability to execute all of its missions through improved communications, command and control capabilities in the coastal zone. It is the foundation for coastal Search and Rescue, and is a critical enabler of efficient and effective command and control of all missions in the coastal zone.

**Building Awareness:**

**National Capital Region Air Defense \$11.5 Million (AC&I) and \$4.3 Million (OE):** This project represents the second of a two-year project to increase the Coast Guard HH-65C fleet by seven HH-65C helicopters and related support facility improvements. These seven helicopters are required to support the newly-assigned mission providing air intercept to protect the National Capital Region. Primary responsibility for air defense of the National Capitol Region Air Defense rests with DOD under OPERATION NOBLE EAGLE. Within DOD, the North American Aerospace Defense Command (NORAD) is responsible for execution of the air defense mission. The Coast Guard is the responsible service within DHS to execute rotary wing air intercept operations to protect the National Capital Region and has been performing this mission since September 2006.

**Integrated Deepwater Systems Engineering and Integration \$35.1 Million (AC&I):** The Integrated Deepwater Systems (IDS) solution is designed to incorporate off-the-shelf systems components where possible. Systems Engineering and Integration is essential to ensuring interoperability at the unit, system and organizational levels, both internal to the Coast Guard and with other DHS and DOD assets. Effective systems integration—bringing things technically and operationally together so they operate as a whole—will minimize the cost of asset acquisition, operations and maintenance, maximize the assets' abilities to interoperate internally and externally, and minimize the risk inherent in a comprehensive and complex engineering project of Deepwater's scope and magnitude.

**Nationwide Automatic Identification System (NAIS) \$12 Million (AC&I):** Funds requested will continue implementation of NAIS to achieve Initial Operating Capability (IOC) for receive and transmit capability of AIS messages nationwide. Funding also covers costs associated with systems currently operational.

**Integrated Deepwater Systems C4ISR \$89.6 Million (AC&I):** Funds requested will be used for design work for the upgrade of the Multi-mission Cutter Helicopter (MCH) and the long-range surveillance aircraft to increase maritime domain awareness capabilities.

**Conclusion**

The Coast Guard has already taken important measures in many areas that will reduce security risk in the maritime domain. Since September 11<sup>th</sup> the Service accelerated efforts to improve the Nation's maritime regimes, awareness and operational capabilities. Efforts are also underway to integrate initiatives, build collaboration, and increase unity of effort—as called for by the *National Strategy for Maritime Security*. But much work

remains to be done. Gaps in *safety, security, and stewardship* are broadly recognized, and the Coast Guard and DHS will work with the Executive Branch, Congress and other federal, state, local, private, and international partners to make needed changes.

Events, such as the September 11<sup>th</sup> terrorist attacks and Hurricane Katrina, have demonstrated the importance of preparing for complex threat situations and highlight America's growing vulnerability. Although the U.S. capacity to save lives in the aftermath of these tragedies proved unparalleled, more can be done to prepare for and respond to the next major disaster.

No one can predict the next catastrophic event, nonetheless, history tells us it will come. When it does, it will be vital to have an "all threats, all hazards" Coast Guard - Semper Paratus. The character of Coast Guard men and women has been tested from the rooftops of New Orleans to the oil platforms of the Persian Gulf and throughout the Nation's history there remains one constant: if Coast Guard men and women are provided the training and equipment to do the job, they won't let us down.

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

U. S. Department of  
Homeland Security  
  
United States  
Coast Guard



Commandant  
United States Coast Guard

2100 Second Street, S.W.  
Washington, DC 20593-0001  
Staff Symbol: G-ICA  
Phone: (202) 366-4280  
FAX: (202) 366-7124

**DEPARTMENT OF HOMELAND SECURITY**

**U. S. COAST GUARD**

**STATEMENT OF THE**

**MASTER CHIEF PETTY OFFICER OF THE COAST GUARD**

**CHARLES W. BOWEN**

**ON THE**

**COAST GUARD BUDGET AND AUTHORIZATION BILL FOR 2008**

**BEFORE THE**

**SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION**

**U.S. HOUSE OF REPRESENTATIVES**

**MARCH 8, 2007**

Good morning, Mr. Chairman and distinguished members of the Subcommittee. I appreciate the opportunity to speak to you today as the Master Chief Petty Officer of the Coast Guard to voice my support and concerns for the men and women of our service. On behalf of the entire service, we are grateful to you and Congress for your support of the Coast Guard's fiscal year (FY) 2008 budget request and your genuine interest in ensuring the continued success of the United States Coast Guard.

Our Commandant, Admiral Thad Allen, is focused on mission execution, making sure the Coast Guard continues to successfully respond to all threats and all hazards. He is committed to ensuring that we build and sustain the most versatile workforce in government, that we are equipped with the most capable ships, aircraft and boats, the most effective systems to support them, and the training to operate them safely and efficiently. As his senior enlisted advisor, it is my role is to address those issues that directly affect all aspects of our members' daily lives.

As this Subcommittee is aware, 2006 was another extraordinary year in terms of mission performance for the Coast Guard. Every task we perform is in direct support of one of our five fundamental roles: maritime security, maritime safety, national defense, maritime mobility and protection of natural resources. The personnel performing our Coast Guard missions did so in demanding conditions beyond precedent. In the past eight months I have personally visited with thousands of Coast Guard men and women all over the country. Here are just a few highlights.

On the west coast I met a petty officer from USCGC MONSOON who led a boarding party, along with other federal drug agents, that resulted in the arrest of a major Mexican drug lord. Francisco Javier Arellano-Felix was a leader of an extremely violent gang, known as the "Tijuana Cartel," who was responsible for digging elaborate tunnels to smuggle drugs under the U.S. border. Other counter-drug boardings from Coast Guard and Navy, as well as Allied naval vessels in the Eastern Pacific and Caribbean, resulted in all-time records for seizures and arrests. The 93,209 pounds of drugs seized in FY 2006 was more than the 83,149 pounds of drugs seized in FY 2004 and FY 2005 combined.

Petty Officer Steven Ruh of Coast Guard Station Oswego, New York demonstrated extraordinary bravery when he unhesitatingly swam 100 yards battling 8-10 foot seas and 30 knot winds, to rescue a seriously injured woman who had been swept into the waters of Lake Ontario during a thunderstorm. This young woman is alive today because of Petty Officer Ruh's determined and heroic actions. The Coast Guard responded to more than 28,000 calls for assistance and saved the lives of more than 5,200 mariners in distress.

Since 2002, six 110-foot patrol boats have been operating in the Persian Gulf conducting Maritime Interception Operations in support of Operation Iraqi Freedom. In addition to the patrol boats, Coast Guard Patrol Forces Southwest Asia (PATFORSWA) serves as the supporting unit for numerous port security units, harbor defense commands, and law enforcement detachments deployed in support of the Global War on Terrorism. In 2006 personnel assigned to PATFORSWA built a training facility in Umm Qasr, Iraq. The purpose of this facility is to train Iraqi security forces in vessel boarding procedures, close quarters battle techniques, and container inspections. The first group of Iraqi marines successfully completed the inaugural two-week Coast Guard taught course of training on October 21<sup>st</sup>, 2006. Additionally, the Coast Guard provided escorts in and out of key U.S. ports and Naval Vessel Protection Zones during the loading/unloading of ships involved in the transport of military equipment to Iraqi and Afghanistan theaters.

In January 2006, shortly after commencing the U.S. Antarctic Program's re-supply effort to open a channel through the ice into McMurdo Station, the chartered Russian icebreaker *Krasin* suffered a major casualty when a blade on one of its three propellers was sheared off by thick ice. USCGC POLAR STAR deployed on extremely short notice to Antarctica to assist the *Krasin* and complete the critical re-supply effort.

In support of the Coast Guard's vital mission to protect the nation's living marine resources, USCGC WALNUT and a Coast Guard C-130 airplane observed a foreign fishing vessel fishing illegally inside the Howland/Baker Exclusive Economic Zone, about 1,700 miles south of Honolulu. The WALNUT seized the vessel and escorted it to Guam. The vessel had approximately 500 metric tons of illegally caught skipjack tuna worth about \$350,000.

These are just a few of examples of the selfless dedication of the Coast Guard workforce. Now I would like shift the focus from operations to address a number of quality of life issues that are vital to the morale and well being of our members.

### **HOUSING**

Housing remains a major concern for our workforce. Your continued support of annual Basic Allowance for Housing (BAH) increases has positively impacted the vast majority of our personnel. Sufficient housing allowances permit our members to pursue housing within the local economy, which in turn reduces the need for Coast Guard owned housing. Of course, this only benefits those people who are assigned to areas that can support the Coast Guard demand for public housing. Due to the very nature of our missions, the Coast Guard requires its members to reside in remote and/or resort areas that may not have adequate housing to support our demand. This often forces service members to leave their families at other locations because of a lack of suitable housing. When there is a low vacancy rate for rental units in a given area, the Secretary of Homeland Security may designate these areas as Critical Housing Areas. This designation allows the Coast Guard to lease housing at costs greater than the authorized and appropriated BAH. Our service currently has 23 sites that meet the Critical Housing Area eligibility criteria, almost half of which are along the Gulf Coast, where the housing inventory is still struggling to recover from the devastation of Hurricane's Katrina and Rita.

The state of Coast Guard owned housing is of particular concern to me. Although the vast majority of our personnel reside in private sector housing, there are some locations where housing is insufficient to meet our requirements, and it is necessary for the Coast Guard to provide quarters. Currently, the Coast Guard owns approximately 4,400 family houses and 227 unaccompanied personnel housing facilities. The average age of Coast Guard housing is over 40 years, and requires significant improvement. The Coast Guard faces many challenges to address its shore infrastructure maintenance and recapitalization programs. This has a direct impact on the health, safety and morale of our service members and their families. Examples of our deteriorating inventory include 200 family homes in Aguadilla, Puerto Rico, and our largest 200 room unaccompanied personnel housing facility located in Staten Island, New York, both of which have been declared inadequate by the Coast Guard's Director of Personnel Management. This is clearly a situation that will decline without continued investment and development of alternative programs to ensure acceptable housing for the men and women of the Coast Guard.

**CHILD CARE**

Available, affordable and accessible childcare is a very important quality of life issue for Coast Guard personnel. Our mission requirements often find our members in remote assignments with no access to Department of Defense (DoD) or Coast Guard sponsored child development centers. The exceptionally high cost of childcare in remote areas is a serious concern. The principal obstacle that prevents our pursuit of traditional child care alternatives for our people in remote areas is the lack of shore infrastructure in and around our assignment areas that are typically void of DoD resources. The Coast Guard child care system supports a much smaller percentage of Coast Guard children than the DoD childcare system. In July 2006, a positive step was taken when the Coast Guard established a partnership with the General Services Administration (GSA) to make child care more affordable for our families. This partnership was created to assist members in locating state licensed center-based or home-based child care facilities. In addition, a tuition assistance program providing up to 4,500 dollars per child per year became available to qualifying personnel for child care services received at commercial child care facilities nationwide. From July 2006 to the present, over 600 additional children have been enrolled in the child care subsidy program, and 550 Coast Guard families have received child care subsidy benefits. As of December 31, 2006, 1,906 Coast Guard children were enrolled in Coast Guard-sponsored child care services; this represents a significant increase to over 8 percent from 3 percent in FY 2004. *While this is great step forward, by comparison, approximately 14 percent of DoD children under 12 are enrolled in some form of child care (sponsored/subsidized by DoD*

**HEALTHCARE**

While a majority of our fellow armed services personnel are assigned to large bases with accompanying support services, the Coast Guard, by virtue of its unique mission set, must assign personnel to geographically remote locations. A majority of them are located more than fifty miles from the nearest DoD Military Treatment Facility (MTF). These members and their families must rely upon the DoD TRICARE provider network, or in the case of approximately 50 percent of Coast Guard members, TRICARE Prime Remote. This means that not only is there no MTF nearby, but there is often no established TRICARE network. The Department of Defense (DoD) TRICARE managers continue to grow the provider network, strengthening the value and quality of this benefit. As with any large health care system, local concerns are occasionally raised by members and some providers. Travel and transportation costs associated with obtaining health care are also problematic. DoD and TRICARE managers are aware of these issues and are working to address them. We have made significant progress with TRICARE over the past few years and with your continued support we will ensure that this positive trend continues.

**INTEGRATED DEEPWATER SYSTEM**

During the past several weeks there have been several Congressional hearings regarding the Deepwater acquisition. Rather than repeat what has already been said, I would like to recount a story from my own experience that dramatizes what I believe is the true significance of Deepwater and its importance to the Coast Guard and our country. Several years ago I was serving as the Officer in Charge of the USCGC POINT TURNER based out of Newport, Rhode Island. The POINT TURNER was an 82-foot patrol boat with a crew of ten. One winter night, we were returning home from a particularly rough patrol when we received a call from the District One Command Center in Boston stating that a large fishing vessel was disabled and adrift, 120 miles off the coast. The wind was blowing about 45 miles per hour and the sea conditions were already approaching 15 feet, so I knew that it would be a very difficult case.

I checked the weather and noted that a low pressure area was making its way up the coast, and would probably be right between the POINT TURNER and shore about the time that we reached the disabled vessel. Winds were expected to strengthen to 70 miles an hour. My crew and I assessed the risk and came to the conclusion that a larger vessel was needed to safely complete the mission. I called the Command Center and asked if a larger cutter was available. District One dispatched an aging medium endurance cutter that completed the case safely, but sustained significant damage while doing so. This was a search and rescue case... lives were in danger and it was critical that the Coast Guard had the capability to reach them safely in an offshore environment. Our present offshore fleet cannot be sustained indefinitely. This case was about saving lives, but there are many other reasons that the Coast Guard must be able to project an offshore presence. Threats, ranging from illegal immigration to the potential of a waterborne weapon of mass destruction, dictate that the further the Coast Guard can push our borders out and deal with a problem away from our shores, the better.

The Deepwater Program realized a major dividend last November 11th when the Coast Guard christened its first new high endurance cutter in more than 35 years. I have personally toured the USCGC BERTHOLF and believe that this new class of ships will more than meet the Coast Guard's multi-mission responsibilities in homeland security, national defense, marine safety and environmental protection. The livability on this cutter will be nothing like our Coast Guard crews have ever experienced. Six-person staterooms, a state of the art dining facility and an onboard gym are just a few of the features that will increase quality of life for our crews. Advanced integrated electronics and other features such as an onboard SCIF will allow enhanced interoperability with the Navy.

On December 21, 2006, the Coast Guard achieved another milestone in the Deepwater Program when the first C-144A arrived at Air Station Elizabeth City, NC, from the CASA factory in Seville, Spain.

Bottom line: Deepwater is a crucial component to the continued success of the Coast Guard's mission – All Threats, All Hazards, Always Ready!

### **RECRUITING**

Our missions – saving lives, enforcing the law, protecting the environment and keeping a vigilant watch – attracts bright, talented young people. We have over 370 dedicated individuals assigned to our recruiting offices every day. The success of our missions begins here.

FY 2006 was an impressive year for not only meeting our active duty recruiting targets with highly qualified recruits, but we continued to excel at diversifying our workforce. We achieved the highest percentage of active duty minority accessions (39.3 percent) and the third highest percentage of female active duty accessions (16.9 percent) in the history of the Coast Guard. Both numbers were a significant increase from FY 2005. Recruiting is one of the most demanding and rewarding jobs we ask our people to do and our recruiters are more than meeting this challenge to make our Coast Guard the best it can be by finding the best candidates so that we can be Ready Today – Preparing for Tomorrow.

### **RETENTION**

Not only are we recruiting a quality workforce, but more importantly we are retaining a quality workforce. The current retention rates within our officer and enlisted communities are 93 percent and 88.5 percent, respectively. Our recruiters are finding and employing high quality people and our service

is rapidly becoming a “service of choice” for young America and an “employer of choice” for those considering making the Coast Guard a career.

As a public service organization, it is essential that we retain a diverse, quality workforce that reflects the changing face of our country. ADM Allen has brought a new energy to the Coast Guard, and I fully expect that this energy will continue to fuel our retention rates.

#### **LEADERSHIP AND TRAINING**

It is essential to the professional growth of our enlisted force that we that provide the right kind of leadership training at the proper accession points to develop the leaders we need for the future. Our leadership framework is based on 28 leadership competencies including knowledge, skills and expertise; they are the keys to career success. Developing these skills in all Coast Guard personnel will result in the continuous improvement necessary for us to remain ready for all threats and all hazards.

The Coast Guard is fully committed to the personal and professional growth of all of our people. Since learning and development occur primarily at a member’s permanently assigned unit, commanding officers are ultimately accountable for providing their workforce with developmental activities, identifying areas for improvement, and ensuring timely coaching. To meet these needs, the Coast Guard implemented the Individual Development Plan. The Individual Development Plan helps commanding officers meet these responsibilities by emphasizing discussions and joint decisions by personnel and their supervisors. The Individual Development Plan actively encourages the individual to think about their current position and future potential, and prompts activities to build the expertise, confidence and self-esteem to lead to a successful, fulfilling career.

Field input at all levels continues to demand a solution to close the gap in leadership training for our first line supervisors. Our quickly advancing junior personnel are empowered with assuming positions of greater responsibility without formal instruction of basic leadership tools early in their careers. Our Leadership and Advisory Committee, in alignment with our Leadership Framework and Enlisted Professional Military Education program, sees Leadership and Management training as essential for our petty officers and seeks a performance based requirement for Leadership and Management training prior to advancement to Petty Officer First Class. Successful completion of the Leadership and Management training will soon be a pay grade based requirement for advancement eligibility within the enlisted workforce, and Leadership and Management training expansion will continue this year.

#### **CONCLUSION**

Mr. Chairman, thank you for the opportunity to appear before you and for all that you do for the men and women of the Coast Guard. I look forward to answering any questions that you may have.

United States Government Accountability Office

GAO

Testimony  
Before the Subcommittee on Coast Guard  
and Maritime Transportation, Committee  
on Transportation and Infrastructure,  
House of Representatives

For Release on Delivery  
Expected at 10:00 a.m. EST  
Thursday, March 8, 2007

COAST GUARD

Status of Efforts to Improve  
Deepwater Program  
Management and Address  
Operational Challenges

Statement of Stephen L. Caldwell, Acting Director  
Homeland Security and Justice Issues



March 8, 2007

COAST GUARD

Status of Efforts to Improve Deepwater Program Management and Address Operational Challenges



Highlights of GAO-07-575T, a report to before the Subcommittee on Coast Guard and Maritime Transportation, Committee on Transportation and Infrastructure, U.S. House of Representatives

Why GAO Did This Study

The Coast Guard's Deepwater program is a 25-year, \$24 billion plan to replace or modernize its fleet of vessels and aircraft. While there is widespread acknowledgment that many of the Coast Guard's aging assets need replacement or renovation, concerns exist about the acquisition approach the Coast Guard adopted in launching the Deepwater program. From the outset, GAO has expressed concern about the risks involved with the Coast Guard's acquisition strategy, and continues to review Deepwater program management.

This statement discusses (1) the Coast Guard's acquisition approach for the Deepwater program; (2) Coast Guard efforts to manage the program, hold contractors accountable, and control costs through competition; (3) the status of the Coast Guard's efforts to acquire new or upgraded Deepwater assets; and (4) operational challenges the Coast Guard is facing because of performance and design problems with Deepwater patrol boats.

What GAO Recommends

This testimony contains no recommendations. In 2004, GAO made 11 recommendations on management and oversight, contractor accountability, and cost control through competition. In addition, in April 2006 we reported that progress had been made, but continued monitoring was warranted.

[www.gao.gov/cgi-bin/getrpt?GAO-07-575T](http://www.gao.gov/cgi-bin/getrpt?GAO-07-575T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Stephen L. Caldwell at (202) 512-8610 or [CaldwellS@gao.gov](mailto:CaldwellS@gao.gov).

What GAO Found

In 2001, we described the Deepwater program as "risky" due to the unique, untried acquisition strategy for a project of this magnitude. The Coast Guard used a system-of-systems approach to replace deteriorating assets with a single, integrated package of assets. The Coast Guard also used a system integrator—which relies on a contractor for requirements development, design, and source selection of major system and subsystem subcontractors. The Deepwater program is also a performance-based acquisition, meaning that it is structured around the results to be achieved rather than the manner in which the work is performed. If performance-based acquisitions are not appropriately planned and structured, there is an increased risk that the government may receive products or services that are over cost estimates, delivered late, and of unacceptable quality.

From the program's outset, GAO has raised concerns about the risks involved with the Coast Guard's Deepwater acquisition strategy. In 2004, GAO reported that program management, contractor accountability, and cost control were all challenges, and made recommendations in these areas. The Coast Guard has taken some actions to address these issues.

Of the 10 classes of upgraded or new Deepwater aircraft and vessels, the delivery record for first-in-class assets (that is, the first asset to be delivered within each class) is mixed. Specifically, 7 of the 10 asset classes are on or ahead of schedule, while 3 asset classes are currently behind schedule due to various problems related to designs, technology, or funding.

The Coast Guard is facing operational challenges because of performance and design problems with Deepwater patrol boats. Specifically, in November 2006, performance problems led the Coast Guard to suspend all normal operations of the 123-foot patrol boats that had been converted from 110-foot patrol boats. In addition, in February 2006, the Coast Guard suspended design work on the Fast Response Cutter, due to design risks that has led to a delivery delay for the vessel.

Deepwater Vessel and Aircraft Classes				
National Security Cutter (NSC)	Offshore Patrol Cutter (OPC)	Fast Response Cutter (FRC)	Short-Range Prosecutor (SRP)	Long-Range Interceptor (LRI)
HH-65 Multi-Mission Cutter Helicopter (MCH)	HH-60 Medium Range Recovery Helicopter (MRR)	Maritime Patrol Aircraft (MPA)	HV-911 Vertical Takeoff Unmanned Aerial Vehicle (VUAV)	Long-Range Surveillance Aircraft (LRS)

Source: U.S. Coast Guard

---

Mr. Chairman and Members of the Committee:

Thank you for inviting me here today to discuss GAO's recent reviews of Coast Guard's Deepwater program, a \$24 billion effort to upgrade or replace existing aircraft and vessels to ensure Coast Guard's ability to meet its many missions. The Deepwater program is eventually to include 10 major classes of new or upgraded assets—5 major classes each of aircraft and vessels. To carry out this effort, the Coast Guard has relied on an acquisition strategy that gives responsibility to a contractor (systems integrator) for designing, integrating, and delivering a number of aircraft, vessels, and supporting communications equipment. Using a systems integrator in this fashion means that the government is acquiring management capacity it has historically maintained in house through a service contract.

GAO has been involved in reviewing the Deepwater program since 2001, and has informed Congress, the Department of Homeland Security (DHS), and the Coast Guard of risks and challenges associated with the program. Specifically, GAO has raised concerns related to the Coast Guard's acquisition strategy for Deepwater, changes in the asset mix and delivery schedules, as well as Coast Guard's ability to manage the program and oversee the systems integrator's performance.<sup>1</sup> In March 2004, we made recommendations to the Coast Guard to address three areas of concern: improving program management, strengthening contractor accountability, and promoting cost control through greater competition among potential subcontractors.

Challenges associated with specific Deepwater assets have recently received significant attention. For example, the Commandant made a decision to remove the 123-foot patrol boats, a converted legacy asset, from service on November 30, 2006 due to operational and safety concerns. This decision has created operational gaps for those missions the patrol boats perform and the Coast Guard is currently attempting to address this through a number of different strategies.

---

<sup>1</sup> GAO, *Coast Guard: Progress Being Made on Deepwater Project, but Risks Remain*, GAO-01-564 (Washington, D.C.: May 2, 2001); GAO, *Contract Management: Coast Guard's Deepwater Program Needs Increased Attention to Management and Contractor Oversight*, GAO-04-380 (Washington, D.C.: Mar. 9, 2004).

---

This statement offers information on the Coast Guard's efforts to manage the Deepwater program and address operational challenges that have arisen. Specifically, it discusses:

- the Coast Guard's acquisition approach for the Deepwater program;
- Coast Guard efforts to manage the Deepwater program, hold contractors accountable, and control costs through competition;
- the status of the Coast Guard's efforts to acquire new or upgraded Deepwater assets; and
- operational challenges the Coast Guard is facing because of performance and design problems with Deepwater patrol boats.

The information noted in this testimony is based on our review of key documents, including the 2005 Deepwater Acquisition Program Baseline; schedule information provided by the Coast Guard; Coast Guard memoranda regarding the 123-foot patrol boat conversion; and Coast Guard's human capital plan, its award fee and award term documentation, and its competition monitoring plan. We conducted interviews with Coast Guard officials at agency headquarters in Washington, D.C.; officials in Coast Guard's System Integration Program Office in Arlington, VA; and Coast Guard contractor staff. In addition, we interviewed Coast Guard officials during visits to the Pacific and Atlantic Area Commands and their associated Maintenance and Logistics Commands and at the Coast Guard's Aircraft Repair and Supply Center. Our work was conducted from August 2006 to February 2007 in accordance with generally accepted government auditing standards. In addition, GAO has been reviewing the Deepwater program since 2001, and some of the information in this testimony comes from our earlier work. Appendix I contains a list of related GAO products.

---

## Summary

In 2001, we described the Deepwater program as "risky" due to the unique, untried acquisition strategy for a project of this magnitude within the Coast Guard. The Coast Guard used a system-of-systems approach to replace deteriorating assets with a single, integrated package of aircraft, vessels, and unmanned aerial vehicles to be linked through systems that provide command, control, communications, computer, intelligence, surveillance, and reconnaissance (C4ISR), and supporting logistics. In a system-of-systems, the delivery of Deepwater assets are interdependent, thus schedule slippages and uncertainties associated with potential changes in the design and capabilities of any one asset increases the overall risk that the Coast Guard might not meet its expanded homeland security missions within given budget parameters and milestone dates. The Coast Guard also used a systems integrator—which can give the

---

contractor extensive involvement in requirements development, design, and source selection of major system and subsystem subcontractors. The Deepwater program is also a performance-based acquisition, meaning that it is structured around the results to be achieved rather than the manner in which the work is performed. If performance-based acquisitions are not appropriately planned and structured, there is an increased risk that the government may receive products or services that are over cost estimates, delivered late, and of unacceptable quality.

In 2004 and in subsequent assessments in 2005 and 2006, we reported concerns about the Deepwater program related to three main areas—program management, contractor accountability, and cost control. The Coast Guard's ability to effectively manage the program has been challenged by staffing shortfalls and poor communication and collaboration among Deepwater program staff, contractors, and field personnel who operate and maintain the assets. Despite documented problems in schedule, performance, cost control, and contract administration, measures for holding the contractor accountable resulted in an award fee of \$4 million (of the maximum \$4.6 million) for the first year. Through the first 4 years of the Deepwater contract, the systems integrator received award fees that ranged from 87 percent to 92 percent of the total possible award fee (scores that ranged from "very good" to "excellent" based on Coast Guard criteria), for a total of over \$16 million. Further, the program's ability to control Deepwater costs is uncertain given the Coast Guard's lack of detailed information on the contractor's competition decisions. While the Coast Guard has taken some actions to improve program outcomes, our assessment of the program and its efforts to address our recommendations continues, and we plan to report on our findings later this year.

Of the 10 classes of upgraded or new Deepwater aircraft and vessels, the delivery record for first-in-class assets (that is, the first of multiple aircraft or vessels to be delivered within each class) is mixed. Specifically, 7 of the 10 asset classes are on or ahead of schedule. Among these, five first-in-class assets have been delivered on or ahead of schedule; and two others remain on schedule but their planned delivery dates are in 2009 or beyond. Three Deepwater asset classes are currently behind schedule due to various problems related to designs, technology, or funding. For example, the Fast Response Cutter (a new vessel), which had been scheduled for first-in-class delivery in 2007, has been delayed by at least 2 years in part because work on its design was suspended until technical problems related to its hull and other issues can be addressed. The Vertical Unmanned Aerial Vehicle (a new aircraft), which had also been scheduled

---

for delivery in 2007, has been delayed by 6 years due to evolving technological developments, among other things. In addition, the Offshore Patrol Cutter, which had a planned delivery date in 2010, has now been delayed by 5 years.

The Coast Guard is facing operational challenges because of performance and design problems with Deepwater patrol boats. Specifically, the conversion of legacy 110-foot patrol boats to upgraded 123-foot patrol boats was stopped at eight hulls (rather than the entire fleet of 49) due to deck cracking, hull buckling, and shaft alignment problems. These patrol boat conversion problems ultimately led the Coast Guard to suspend all normal operations of the eight converted 123-foot patrol boats on November 30, 2006. The Coast Guard is now exploring options to address the resulting short-term operational gaps. There have also been design problems with the new Fast Response Cutter (FRC), intended to replace all 110-foot and 123-foot patrol boats. In February 2006, the Coast Guard suspended design work on the FRC due to design risks, such as excessive weight and horsepower requirements.<sup>2</sup> According to the Coast Guard, it has decided to acquire two classes of FRCs in an effort to not delay delivery of the FRCs further. One class is to be based on an adapted design from a patrol boat already on the market and another class is to be redesigned to address the problems in the original FRC design plans. As with the 123-foot patrol boats, the Coast Guard is looking at options to address these long-term operational gaps.

---

## Background

The Coast Guard is the lead federal agency for maritime security within DHS. The Coast Guard is responsible for a variety of missions, including ensuring ports, waterways, and coastline security; conducting search and rescue missions; interdicting illicit drug shipments and illegal aliens; and enforcing fisheries laws. In 1996, in order to continue carrying out its responsibilities and operations, the Coast Guard initiated the Deepwater program to replace or upgrade its aging vessels, aircraft, and other essential equipment.

As originally conceived, Deepwater was designed around producing aircraft and vessels that would function in the Coast Guard's traditional at-sea roles—such as interdicting illicit drug shipments or rescuing mariners

---

<sup>2</sup> GAO, *Coast Guard: Status of Deepwater Fast Response Cutter Design Efforts*, GAO-06-764 (Washington, D.C.: June 23, 2006).

---

from difficulty at sea—and the original 2002 Deepwater program was focused on those traditional missions. After the terrorist attacks on September 11, 2001, the Coast Guard was also assigned homeland security missions related to protection of ports, waterways, and coastal areas. Based on its revised mission responsibilities, the Coast Guard updated its Deepwater Acquisition Program Baseline in November 2005. The new baseline contained changes in the balance between new assets to be acquired and legacy assets to be upgraded and adjusted the delivery schedule and costs for many of these assets. Overall, the Deepwater acquisition schedule was lengthened by 5 years, with the final assets now scheduled for delivery in 2027.

Upon its completion, the Deepwater program is to consist of 5 new classes of vessels, 1 new class of fixed-wing aircraft, 1 new class of unmanned aerial vehicles, 2 classes of upgraded helicopters, and 1 class of upgraded fixed-wing aircraft.<sup>3</sup> The 215 new vessels consist of five new asset classes—the National Security Cutter (NSC), Offshore Patrol Cutter (OPC), Fast Response Cutter (FRC), Long-Range Interceptor (LRI), and Short-Range Prosecutor (SRP). The 240 aircraft are composed of two new aircraft classes, the Vertical Unmanned Aerial Vehicle (VUAV) and the Maritime Patrol Aircraft (MPA); and three upgraded asset classes—the Long-Range Surveillance Aircraft (LRS), Medium-Range Recovery Helicopter (MRR), and the Multi-Mission Cutter Helicopter (MCH).

Table 1 provides an overview, by asset class, of the Deepwater vessels to be acquired and table 2 provides an overview of the Deepwater aircraft to be acquired or upgraded. As noted in Table 1, the 140-foot FRC was designated as a replacement vessel for the 110-foot and 123-foot patrol boats.

---

<sup>3</sup> In addition to these asset classes, Coast Guard plans to procure surveillance data from another unmanned aerial vehicle, the RQ-4A. Because this is not to be acquired as a capital investment, we do not include it among the assets to be acquired or upgraded.

**Table 1: Deepwater Vessel Classes to be Acquired**

	National Security Cutter (NSC)	Offshore Patrol Cutter (OPC)	Fast Response Cutter (FRC)	Short-Range Prosecutor (SRP)	Long-Range Interceptor (LRI)
Current number of assets planned	8	25	58	91	33
Asset being replaced or upgraded	378-foot high-endurance cutters	210-foot and 270-foot medium-endurance cutters	110-foot and 123-foot patrol boats	None (new asset)	None (new asset)
Missions	<ul style="list-style-type: none"> <li>• Maritime safety</li> <li>• Maritime security</li> <li>• Protection of natural resources</li> <li>• National defense</li> </ul>	<ul style="list-style-type: none"> <li>• Maritime safety</li> <li>• Maritime security</li> <li>• Protection of natural resources</li> <li>• National defense</li> </ul>	<ul style="list-style-type: none"> <li>• Maritime safety</li> <li>• Maritime security</li> <li>• Protection of natural resources</li> <li>• National defense</li> </ul>	<ul style="list-style-type: none"> <li>• Maritime safety</li> <li>• Maritime security</li> </ul>	<ul style="list-style-type: none"> <li>• Maritime safety</li> <li>• Maritime security</li> </ul>

Source: GAO analysis of Coast Guard documentation.

Table 2: Deepwater Aircraft Classes to be Upgraded or Acquired

	HH-65 Multi-Mission Cutter Helicopter (MCH)	HH-60 Medium Range Recovery Helicopter (MRR)	Maritime Patrol Aircraft (MPA)	HV-911 Vertical Takeoff Unmanned Aerial Vehicle (VUAV)	Long-Range Surveillance Aircraft (LRS)
					
Current number of assets planned	102	42	36	45	22
Asset being replaced or upgraded	Upgraded asset (HH-65)	Upgraded asset (HH-60)	HU-25 Falcon	None (new asset)	Upgraded asset (HC-130)
Missions	<ul style="list-style-type: none"> <li>• Maritime safety</li> <li>• Maritime security</li> <li>• Protection of natural resources</li> </ul>	<ul style="list-style-type: none"> <li>• Maritime safety</li> <li>• Maritime security</li> <li>• Protection of natural resources</li> </ul>	<ul style="list-style-type: none"> <li>• Maritime safety</li> <li>• Maritime security</li> <li>• Protection of natural resources</li> </ul>	<ul style="list-style-type: none"> <li>• Maritime safety</li> <li>• Maritime security</li> <li>• Protection of natural resources</li> <li>• National defense</li> </ul>	<ul style="list-style-type: none"> <li>• Maritime safety</li> <li>• Maritime security</li> <li>• Protection of natural resources</li> </ul>

Source: GAO analysis of Coast Guard documentation.

Since 2001, we have reviewed the Deepwater program and have informed Congress, DHS, and Coast Guard of the problems, risks, and uncertainties inherent with such a large acquisition that relies on a systems integrator to identify the assets needed and then using tiers of subcontractors to design and build the assets. In March 2004, we made recommendations to the Coast Guard to address three broad areas of concern: improving program management, strengthening contractor accountability, and promoting cost control through greater competition among potential subcontractors (see table 3).<sup>4</sup>

<sup>4</sup> GAO-04-380

**Table 3: Status of GAO Recommendations to the U.S. Coast Guard Regarding Management of the Deepwater Program, as of April 28, 2006**

Areas of concern	Recommendations to the U.S. Coast Guard	Recommendation status
Key components of management and oversight	Put in place a human capital plan to ensure adequate staffing of the Deepwater program	Partially implemented* (human capital plan was revised)
	Improve integrated product teams (IPTs) responsible for managing the program by providing better training, approving charters for sub-IPTs, and improving systems for sharing information between teams	Partially implemented
	Provide field operators and maintenance personnel with timely information and training on how the transition to Deepwater assets will occur and how maintenance responsibilities are to be divided between the systems integrator and Coast Guard personnel	Partially implemented
Procedures for ensuring contractor accountability	Develop measurable award fee criteria consistent with guidance from the Office of Federal Procurement Policy	Implemented
	Provide for better input from U.S. Coast Guard performance monitors	Implemented
	Hold the systems integrator accountable in future award fee determinations for improving effectiveness of the IPTs	Implemented
	Establish a baseline for determining whether the acquisition approach is costing the government more than the traditional asset replacement approach	Will not be implemented
	Establish a time frame for when the models and metrics will be in place with the appropriate degree of fidelity to be able to measure contractor's progress toward improving operational effectiveness	Partially implemented
	Establish criteria to determine when to adjust the project baseline and document the reasons for change	Partially implemented
Control of future costs through competition	For subcontracts over \$5 million awarded by the systems integrator to the two major subcontractors, require notification to the Coast Guard about decision to perform the work in-house rather than contracting it out	Implemented
	Develop a comprehensive plan for holding the systems integrator accountable for ensuring adequate competition among suppliers	Partially implemented

Source: GAO-04-380 and GAO-06-548.

Note: \*While the Coast Guard has revised its human capital plan, it has not yet addressed the rest of the recommendation, which is to ensure adequate staffing for the Deepwater program.

---

### Coast Guard's Acquisition Approach to the Deepwater Program

In 2001, we described the Deepwater program as "risky" due to the unique, untried acquisition strategy for a project of this magnitude within the Coast Guard. The approach included the development of a system-of-systems, a single systems integrator, and a performance-based contract.

---

### System of Systems

Rather than using the traditional approach of replacing classes of ships or aircraft through a series of individual acquisitions, the Coast Guard chose to use a system-of-systems acquisition strategy that would replace its deteriorating assets with a single, integrated package of aircraft, vessels, and unmanned aerial vehicles, to be linked through systems that provide C4ISR, and supporting logistics.<sup>5</sup> Through this approach, the Coast Guard hoped to avoid "stovepiping" the acquisition of vessels and aircraft, which might lead to a situation where they could not operate optimally together.

Despite the Coast Guard's intention to avoid stovepiping in the acquisition process, we found that the Deepwater program has not been as integrated as hoped. Our past work on Deepwater noted that decisions on aircraft were made by one subcontractor, while decisions regarding vessels were made by another subcontractor. These separate lines of decision-making can lessen the likelihood that a system-of-systems outcome will be achieved if decisions affecting the entire program are made without the full consultation of all parties involved. Our more recent work on the Fast Response Cutter (FRC)—which is discussed in more detail later—indicated that changes in the design and delivery date for the FRC could affect the operations of the overall system-of-systems approach. Because the delivery of Deepwater assets are interdependent within the system-of-systems acquisition approach, schedule slippages and uncertainties associated with potential changes in the design and capabilities of the new assets have increased the risks of the Coast Guard failing to meet its expanded homeland security missions within given budget parameters and milestone dates.

---

### Systems Integrator

In June 2002, the Coast Guard awarded the Deepwater contract to Integrated Coast Guard Systems (ICGS). ICGS—a business entity jointly

---

<sup>5</sup> C4ISR refers to command, control, communications, computer, intelligence, surveillance, and reconnaissance.

---

owned by Northrop Grumman and Lockheed Martin—is responsible for designing, constructing, deploying, supporting, and integrating the Deepwater assets to meet Coast Guard requirements.

Government agencies have turned to the systems integrator approach when they believe they do not have the in-house capability to design, develop, and manage complex acquisitions.<sup>6</sup> This type of business arrangement can give the contractor extensive involvement in requirements development, design, and source selection of major system and subsystem subcontractors. Giving contractors more control and influence over the government's acquisitions in a systems integrator role creates a potential risk that program decisions and products could be influenced by the financial interest of the contractor—which is accountable to its shareholders—which may not match the primary interest of the government, maximizing its return on taxpayer dollars. The systems integrator arrangement creates an inherent risk, as the contractor is given more discretion to make certain program decisions. Along with this greater discretion comes the need for more government oversight and an even greater need to develop well-defined outcomes at the outset.

---

#### Performance-based Acquisition

The Deepwater program has been designated as a performance-based acquisition. When buying services, federal agencies are currently required to employ—to the maximum extent feasible—this concept, wherein acquisitions are structured around the results to be achieved as opposed to the manner in which the work is to be performed. That is, the government specifies the outcome it requires while leaving the contractor to propose decisions about how it will achieve that outcome. Performance-based contracts for services are required to include a performance work statement; measurable performance standards (i.e., in terms of quality, timeliness, quantity, etc.) as well as the method of assessing contractor performance against these standards; and performance incentives, where appropriate. If performance-based acquisitions are not appropriately planned and structured, there is an increased risk that the government may receive products or services that are over cost estimates, delivered late, and of unacceptable quality.

---

<sup>6</sup>This management approach of using a systems integrator has been used on other government programs that require system-of-systems integration, such as the Army's Future Combat System, a networked family of weapons and other systems.

---

Deepwater Indicative of  
Broader, Systematic  
Acquisition Challenges

Some of the problems the Coast Guard is experiencing with the Deepwater program are similar to problems we have reported on in other complex, developmental systems.<sup>7</sup> These problems stem from:

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

---

Preliminary  
Observations on  
Deepwater Program  
Management,  
Contractor  
Accountability, and  
Cost Control

Since the inception of the Deepwater program, we have expressed concerns about the risks involved with the Coast Guard's system-of-systems acquisition approach and the Coast Guard's ability to manage and oversee the program. Our concerns have centered on three main areas: program management, contractor accountability, and cost control through competition. We have made a number of recommendations to improve the program—most of which the Coast Guard has agreed with and is working to address. However, while actions are under way, a project of this magnitude will likely continue to experience other problems as more becomes known.

---

Program Management

In 2004, we reported that the Coast Guard had not effectively implemented key components needed to manage and oversee the systems integrator.

---

<sup>7</sup> GAO, *High Risk Series: An Update*, GAO-07-310 (Washington, D.C.: January 2007).

---

Specifically, we reported at that time and subsequently on issues related to integrated product teams (IPT), the Coast Guard's human capital strategy, and communication with field personnel (individuals responsible for operating and maintaining the assets). Our preliminary observations on the Coast Guard's progress in improving these program management areas, based on our ongoing work, follow.

#### Integrated Product Teams

In 2004, we found that IPTs, the Coast Guard's primary tool for managing the Deepwater program and overseeing the contractor, had not been effective due to changing membership, understaffing, insufficient training, lack of authority for decision making, and inadequate communication. We recommended the Coast Guard take actions to address IPT effectiveness. We subsequently reported that IPT decision-making was to a large extent stovepiped, and some teams lacked adequate authority to make decisions within their realm of responsibility.<sup>8</sup> Coast Guard officials stated that they believed collaboration among the subcontractors was problematic and that the systems integrator wielded little influence to compel decisions among them. For example, proposed design changes to assets under construction were submitted as two separate proposals from both subcontractors rather than one coherent plan. More recently, Coast Guard performance monitors reported this approach complicated the government review of design changes because the two proposals often carried overlapping work items, thereby forcing the Coast Guard to act as the systems integrator in those situations. Although some efforts have been made to improve the effectiveness of the IPTs—such as providing them with more timely charters and entry-level training—our preliminary observations are that more improvements are needed.

Despite changes to the metrics, the Coast Guard's ability to assess IPT performance continues to be problematic. Former assessments of IPT effectiveness simply focused on measures such as frequency of meetings, attendance, and training. As a result, IPTs received positive assessments while the assets under their realm of responsibility—such as the National Security Cutter—were experiencing problems. While the Coast Guard's new IPT measurements include outcome-based metrics, such as cost and schedule performance of assets, Deepwater's overall program management quarterly reports, which are prepared by Coast Guard in

---

<sup>8</sup> GAO, *Coast Guard: Progress Being Made on Addressing Legacy Asset Condition Issues and Program Management, but Acquisition Challenges Remain*, GAO-05-757 (Washington, D.C.: July 22, 2005).

---

collaboration with ICGS, show that the connection between IPT performance and program results continues to be misaligned.<sup>9</sup> For example, the first quarterly report to incorporate the new measurements, covering the period October to December 2006, indicates that the IPTs' performance for all domains is "on-schedule or non-problematic" even while some assets' cost or schedule performance is rated "behind schedule or problematic."<sup>10</sup> Further, even though the Deepwater program is addressing fundamental problems surrounding the 123-foot patrol boat and FRC, IPTs no longer exist for these assets. In some cases, Coast Guard officials stated they have established work groups outside of the existing IPT structure to address identified issues and problems related to assets, such as the NSC.

#### Human Capital

We also reported in 2004 that the Coast Guard had not adequately staffed its program management function for Deepwater. Although its Deepwater human capital plan set a goal of a 95 percent or higher "fill rate" annually for both military and civilian personnel, funded positions were below this goal. We recommended that the Coast Guard follow the procedures in its Deepwater human capital plan to ensure that adequate staffing was in place and that turnover of Coast Guard military personnel was proactively addressed. The Coast Guard subsequently revised its Deepwater human capital plan in February 2005 to emphasize workforce planning, including determining needed knowledge, skills, and abilities and developing ways to leverage institutional knowledge as staff rotate out of the program. We reported in 2005 that the Coast Guard also took some short-term steps to improve Deepwater program staffing, such as hiring contractors to assist with program support functions, shifting some positions from military to civilian to mitigate turnover risk, and identifying hard-to-fill positions and developing recruitment plans specifically for them.

However, more recently we have learned that while the Coast Guard has revised a human capital plan, key human capital management objectives outlined in the revised plan have not been fully implemented. Thus, key human capital management objectives outlined in the revised plan have not been accomplished and the staffing levels needed to accomplish the

---

<sup>9</sup> The program management reports were produced on a monthly basis in the past; now they are produced on a quarterly basis.

<sup>10</sup> IPTs are focused on the development and fielding of a particular product (e.g., the NSC) and are organized by domain. Examples of domains are air, surface, C4ISR, and legacy assets.

Communication with  
Operations and Maintenance  
Personnel

known workload have not been achieved. In one example, a manager cited the need for five additional staff per asset under his domain to satisfy the current workload in a timely manner: contracting officer's technical representative, scheduler, cost estimator, analyst, and configuration manager. Further, a February 2007 independent analysis found that the Coast Guard does not possess a sufficient number of acquisition personnel or the right level of experience needed to manage the Deepwater program.<sup>11</sup> The Coast Guard has identified an acquisition structure reorganization that includes human capital as one component of the reform.

In 2004, we found that the Coast Guard had not adequately communicated to operations and maintenance personnel in field locations about decisions on how the new and old assets were to be integrated during the transition and whether Coast Guard or systems integrator personnel—or both—would be responsible for maintenance. We recommended that the Coast Guard provide timely information and training on the transition to Deepwater assets. In 2006, we reported that the Coast Guard had taken some steps to improve communications between Deepwater program and field personnel, including having field personnel as members on some IPTs. However, we continued to express concerns that field personnel were not receiving important information regarding training, maintenance, and integration of new Deepwater assets.

During our ongoing work, the field personnel involved in operating and maintaining the assets and Deepwater program staff we interviewed expressed continued concern that maintenance and logistics plans had not been finalized. Another official commented that there continues to be a lack of clarity defining roles and responsibilities between the Coast Guard and systems integrator for maintenance and logistics. Coast Guard officials stated in fall 2006 that the systems integrator was contractually responsible for developing key documents related to plans for the maintenance and logistics for the NSC and Maritime Patrol Aircraft. However, Deepwater program officials stated that because the Coast Guard was not satisfied with the level of detail provided in early drafts of these plans, it was simultaneously developing "interim" plans that it could rely on while the systems integrator continued to develop its own versions.

<sup>11</sup> Defense Acquisition University, *Quick Look Study: United States Coast Guard Deepwater Program*, (Fort Belvoir, VA.): Feb. 5, 2007

---

Concerns Remain with  
Holding Systems  
Integrator Accountable

Our 2004 review revealed that the Coast Guard had not developed quantifiable metrics to hold the systems integrator accountable for its ongoing performance. For example, the process by which the Coast Guard assessed performance to make the award fee determination after the first year of the contract lacked rigor. At that time, we also found that the Coast Guard had not yet begun to measure contractor performance against Deepwater contract requirements—the information it would need by June 2006 to decide whether to extend the systems integrator's contract award term by up to another 5 years. Additionally, we noted that the Coast Guard needed to establish a solid baseline against which to measure progress in lowering total ownership cost—one of the three overarching goals of the Deepwater program. Furthermore, the Coast Guard had not developed criteria for potential adjustments to the baseline.

Award Fee Criteria

In 2004 we found the first annual award fee determination was based largely on unsupported calculations. Despite documented problems in schedule, performance, cost control, and contract administration throughout the first year, the program executive officer awarded the contractor an overall rating of 87 percent, which fell in the "very good" range as reported by the Coast Guard award fee determining official. This rating resulted in an award fee of \$4 million of the maximum \$4.6 million. The Coast Guard continued to report design, cost, schedule, and delivery problems, and evaluation of the systems integrator's performance continued to result in award fees that ranged from 87 percent to 92 percent of the total possible award fee (with 92 percent falling into the "excellent" range), or \$3.5 to \$4.8 million annually, for a total of over \$16 million the first 4 years on the contract.

The Coast Guard continues to refine the award fee criteria under which it assesses the systems integrator's performance. The current award fee criteria demonstrate the Coast Guard's effort to use both objective and subjective measures and to move toward clarity and specificity with the criteria being used. For example, the criteria include 24 specific milestone activities and dates to which the systems integrator will be held accountable for schedule management. However, we recently observed two changes to the criteria that could affect the Coast Guard's ability to hold the contractor accountable. First, the current award fee criteria no longer contain measures that specifically address IPTs, despite a recommendation we made in 2004 that the Coast Guard hold the systems integrator accountable for IPT effectiveness. The Coast Guard had agreed with this recommendation and, as we reported in 2005, it had incorporated award fee metrics tied to the systems integrator's management of Deepwater, including administration, management commitment,

---

collaboration, training, and empowerment of the IPTs. Second, a new criterion to assess both schedule and cost management states that the Coast Guard will not take into account milestone or cost impacts determined by the government to be factors beyond the systems integrator's control. However, a Coast Guard official stated that there are no formal written guidelines that define what factors are to be considered as being beyond the systems integrator's control, what process the Coast Guard is going to use to make this determination, or who is ultimately responsible for making those determinations.

#### Award Term Evaluation

The Deepwater program management plan included three overarching goals of the Deepwater program: increased operational effectiveness, lower total ownership cost, and customer satisfaction to be used for determining whether to extend the contract period of performance, known as the award term decision. We reported in 2004 that the Coast Guard had not begun to measure the systems integrator's performance in these three areas, even though the information was essential to determining whether to extend the contract after the first 5 years.<sup>12</sup> We also reported that the models the Coast Guard was using to measure operational performance lacked the fidelity to capture whether improvements may be due to Coast Guard or contractor actions, and program officials noted the difficulty of holding the contractor accountable for operational effectiveness before Deepwater assets are delivered. We made a recommendation to Coast Guard to address these issues.

According to a Coast Guard official, the Coast Guard evaluated the contractor subjectively for the first award term period in May 2006, using operational effectiveness, total ownership costs, and customer satisfaction as the criteria. The result was a new award term period of 43 of a possible 60 months. To measure the system's operational effectiveness, the Coast Guard has developed models to simulate the effect of the Deepwater assets' capabilities on its ability to meet its missions and to measure the "presence" of those assets. However, in its assessment of the contractor, the Coast Guard assumed full operational capability of assets and communications and did not account for actual asset operating data. Furthermore, the models still lacked the fidelity to capture whether operational improvements are attributable to Coast Guard or contractor actions. As a result the contractor received credit for factors that may

---

<sup>12</sup> An award term contract is a contract in which the contractor is rewarded for excellent performance with an extension of the contract period instead of an additional fee.

have been beyond its control—although no formal process existed for approving such factors. Total ownership cost was difficult to measure, thus the contractor was given a neutral score, according to Coast Guard officials.<sup>13</sup> Finally, the contractor was rated “marginal” in customer satisfaction.

The Coast Guard has modified the award term evaluation criteria to be used to determine whether to grant a further contract extension after the 43-month period ends in January 2011. The new criteria incorporate more objective measures.

- While the three overall Deepwater program objectives (operational effectiveness, total ownership costs, and customer satisfaction) carried a weight of 100 percent under the first award term decision, they will represent only about a third of the total weight for the second award term decision. The criteria include items such as new operational effectiveness measures that will include an evaluation of asset-level key performance parameters, such as endurance, operating range, and detection range.
- The new award term criteria have de-emphasized measurement of total ownership cost, concentrating instead on cost control. Program officials noted the difficulty of estimating ownership costs far into the future, while cost control can be measured objectively using actual costs and earned value data. In 2004, we recommended that the Coast Guard establish a total ownership cost baseline that could be used to periodically measure whether the Deepwater system-of-systems acquisition approach is providing the government with increased efficiencies compared to what it would have cost without this approach. Our recommendation was consistent with the cost baseline criteria set forth in the Deepwater program management plan. The Coast Guard agreed with the recommendation at the time, but subsequently told us it does not plan to implement it.

Establishing Criteria and Documenting Changes to the Baseline

Establishing a solid baseline against which to measure progress in lowering total ownership cost is critical to holding the contractor accountable. The Coast Guard’s original plan, set forth in the Deepwater program management plan, was to establish as its baseline the dollar value of replacing assets under a traditional, asset-by-asset approach as the “upper limit for total ownership cost.” In practice, the Coast Guard

<sup>13</sup> The award term determination rated total ownership cost as “good.”

---

decided to use the systems integrator's estimated cost of \$70.97 billion plus 10 percent (in fiscal year 2002 dollars) for the system-of-systems approach as the baseline. In 2004, we recommended that the Coast Guard establish criteria to determine when the total ownership cost baseline should be adjusted and ensure that the reasons for any changes are documented.

Since then, the Coast Guard established a process that would require DHS approval for adjustments to the total ownership cost baseline. The Deepwater Program Executive Officer maintains authority to approve baseline revisions at the asset or domain level. However, depending on the severity of the change, these changes are also subject to review and approval by DHS. In November 2005, the Coast Guard increased the total ownership cost baseline against which the contractor will be evaluated to \$304 billion<sup>14</sup>. Deepwater officials stated that the adjustment was the result of incorporating the new homeland security mission requirements and revising dollar estimates to a current year basis. Although the Coast Guard is required to provide information to DHS on causal factors and propose corrective action for a baseline breach of 8 percent or more, the 8 percent threshold has not been breached because the threshold is measured against total program costs and not on an asset basis.<sup>15</sup> For example, the decision to stop the conversion of the 49 110-foot patrol boats after 8 hulls did not exceed the threshold; nor did the damages and schedule delay to the NSC attributed to Hurricane Katrina. During our ongoing work, Coast Guard officials acknowledged that only a catastrophic event would ever trigger a threshold breach. According to a Coast Guard official, DHS approval is pending on shifting the baseline against which the systems integrator is measured to an asset basis.

---

#### Limited Knowledge of Cost Control Achieved Through Competition

Our 2004 report also had recommendations related to cost control through the use of competition. We reported that, although competition among subcontractors was a key mechanism for controlling costs, the Coast Guard had neither measured the extent of competition among the suppliers of Deepwater assets nor held the systems integrator accountable

---

<sup>14</sup> For a variety of reasons, including the Coast Guard's expanded homeland security mission, the baseline was increased from \$70.97 billion plus 10 percent (fiscal year 2002 dollars) to \$304 billion (fiscal year 2006 dollars).

<sup>15</sup> According to DHS officials, a baseline breach occurs when a cost or schedule threshold is exceeded or when a performance threshold cannot be met.

---

for taking steps to achieve competition.<sup>18</sup> As the two first-tier subcontractors to the systems integrator, Lockheed Martin and Northrop Grumman have sole responsibility for determining whether to provide the Deepwater assets themselves or hold competitions—decisions commonly referred to as “make or buy.” We noted that the Coast Guard’s hands-off approach to make-or-buy decisions and its failure to assess the extent of competition raised questions about whether the government would be able to control Deepwater program costs.

The Coast Guard has taken steps to establish a reporting requirement for the systems integrator to provide information on competition on a semi-annual basis. The systems integrator is to provide detailed plans, policies, and procedures necessary to ensure proper monitoring, reporting, and control of its subcontractors. Further, reports are to include total procurement activity, the value of competitive procurements, and the subcontractors’ name and addresses. The systems integrator provided the first competition report in October 2006. However, because the report did not include the level of detail required by Coast Guard guidelines, a Coast Guard official deemed that the extent of competition could not be validated by the information provided and a request was made to the systems integrator for more information. We will continue to assess the Coast Guard’s efforts to hold the systems integrator accountable for ensuring an adequate degree of competition.

---

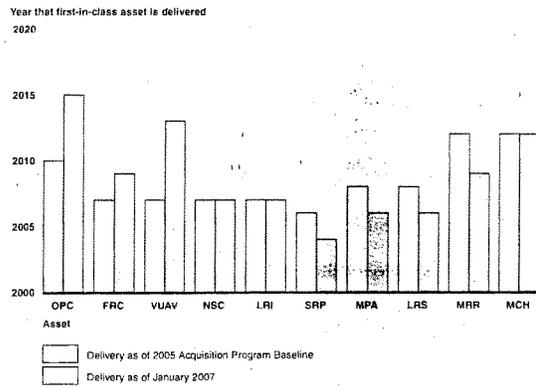
### Deepwater Asset Delivery Schedule Shows Mixed Results

Our review of available data show that as of January 2007, of the 10 classes of Deepwater assets to be acquired or upgraded, 4 are ahead of schedule; 3 remain on schedule (but for 1 of these, design problems have arisen); and 3 are behind scheduled delivery and face design, funding, or technology challenges. Using the 2005 Deepwater Acquisition Program Baseline as the baseline, figure 1 indicates, for each asset class, whether delivery of the first-in-class (that is, the first of several to be produced in its class) is ahead of schedule, on schedule, or behind schedule, as of January 2007.

---

<sup>18</sup> See GAO-04-380.

Figure 1: Comparison of the Estimated Delivery Dates for the First-in-Class Deepwater Assets from the 2005 Deepwater Acquisition Baseline and as of January 2007



Source: GAO analysis of documentation provided by U.S. Coast Guard.

Among the Deepwater assets, 3 of the 5 aircraft classes are upgrades to existing legacy systems, and these are all on or ahead of schedule; 1 new aircraft class is ahead of schedule; and the remaining new aircraft class is 6 years behind schedule. With respect to Deepwater vessels, all 5 asset classes are new, and of these, 2 are behind schedule, and a third, while on schedule, faces structural modifications. The remaining 2 new maritime assets are small vessels that are on or ahead of schedule at this time.

**Assets That Are on or Ahead of Schedule as of January 2007**

**Long-Range Interceptor**

The status of each asset class, and our preliminary observations on the factors affecting their status, is discussed below.

The LRI is a 36-foot small boat that is to be carried and deployed on each NSC and OPC. Coast Guard has one LRI on contract for delivery in August 2007, to match delivery of the first NSC.

---

Short-Range Prosecutor	According to the Coast Guard, the SRP is on schedule at this time and 8 have been delivered to date. Coast Guard is currently planning to pursue construction and delivery of the remaining SRPs outside of the systems integrator contract. By doing so, the Coast Guard expects to achieve a cost savings.
Maritime Patrol Aircraft	The MPA is a commercial aircraft produced in Spain that is being acquired to replace the legacy HU-25 aircraft and will permit the Coast Guard to carryout missions such as search and rescue, marine environmental protection, and maritime security. The first MPA was delivered to the Coast Guard in December 2006 and the second and third are due for delivery by April 2007. Pilots and aircrew participated in training classes in Spain, and Coast Guard is to take responsibility for the development and implementation of MPA's maintenance and logistics.
Long-Range Surveillance Aircraft	The LRS is an upgraded legacy fixed-wing aircraft that includes 6 C-130Js and 16 C-130Hs. The first aircraft entered the modification process in January 2007, and five additional aircraft are to be modified by July 2008. In fiscal year 2008, funding has been requested to upgrade the C-130H radar and avionics, and for the C-130J fleet introduction.
Medium-Range Recovery Helicopter	The MRR is an upgraded legacy HH-60 helicopter. It began receiving a series of upgrades beginning in fiscal year 2006, which will continue into fiscal year 2012, including the service life extension program and radar upgrades.
Multi-Mission Cutter Helicopter	The MCH is an upgraded legacy HH-65 helicopter. According to Coast Guard officials, the MCH assets will not have a single delivery date, as the process involves three phases of upgrades. Phase I is the purchase and delivery of new engines and engine control systems, Phase II is a service-life extension program, and Phase III includes communications upgrades. A Coast Guard official stated that 84 of the 95 HH-65s should be re-engined by June 2007, and all 95 should be finished by October 2007. The fiscal year 2008 congressional budget justification states that Phase II began in fiscal year 2007 and will end in fiscal year 2014, and that Phase III is to begin in fiscal year 2008 and is to end in fiscal year 2014.
National Security Cutter	According to Coast Guard documentation, the first NSC is on schedule for delivery in August 2007 despite required modifications regarding its structural integrity. In particular, the Coast Guard Commandant recently stated that internal reviews by Coast Guard engineers, as well as by independent analysts, have concluded that the NSC, as designed, will need structural reinforcement to meet its expected 30-year service life. In

---

addition, the DHS Office of Inspector General recently reported that the NSC design will not achieve a 30-year service life based on an operating profile of 230 days underway per year in general Atlantic and North Pacific sea conditions and added that Coast Guard technical experts believe the NSC's design deficiencies will lead to increased maintenance costs and reduced service life.<sup>17</sup>

To address the structural modifications of the NSC, Coast Guard is taking a two-pronged approach. First, Coast Guard is working with contractors to enhance the structural integrity of the hulls of the remaining six NSCs that have not yet been constructed. Second, after determining that the NSC's deficiencies are not related to the safe operation of the vessel in the near term, Coast Guard has decided to address the structural modifications of the hulls of the first two cutters as part of planned depot-level maintenance after they are delivered. The Commandant stated that he decided to delay the repairs to these hulls to prevent further delays in construction and delivery.

---

**Deepwater Assets Behind  
Schedule as of January  
2007**

Offshore Patrol Cutter	Coast Guard officials have stated that further work on the development of the OPC is on hold and the Coast Guard did not request funding for the OPC in fiscal years 2007 or 2008. Delivery of the first OPC has been delayed by 5 years—from 2010 to 2015.
Fast Response Cutter	Concerns about the viability of the design of the FRC have delayed the delivery of the first FRC by at least 2 years. Coast Guard suspended design work on the FRC in late February 2006 because of design risks. Because the Coast Guard has suspended design work, Coast Guard officials now estimate that the first FRC delivery will slip to fiscal year 2010, at the earliest.
Vertical Unmanned Aerial Vehicle	According to the Coast Guard, evolving technological developments and the corresponding amount of funding provided in fiscal year 2006 have delayed the delivery of the VUAV by 6 years—from 2007 to 2013. As a result, the Coast Guard has adjusted the VUAV development plan. The

---

<sup>17</sup> DHS OIG-07-23.

---

fiscal year 2008 DHS congressional budget justification indicates that the Coast Guard does not plan to request funding for the VUAV through fiscal year 2012. Coast Guard originally intended on matching the NSC and VUAV delivery dates so that the VUAV could be launched from the NSC to provide surveillance capabilities beyond the cutter's visual range or sensors. However, with the delay in the VUAV's development schedule, it no longer aligns with the NSC's initial deployment schedule. Specifically, Coast Guard officials stated that the VUAV will not be integrated with the NSC before fiscal year 2013, 6 years later than planned. Coast Guard officials stated that they are discussing how to address the operational impacts of having the NSC operate without the VUAV. In addition, Coast Guard officials explained that since the time of the original contract award, the Department of Defense has progressed in developing a different unmanned aerial vehicle—the Fire Scout—that Coast Guard officials say is more closely aligned with Coast Guard needs. Coast Guard has issued a contract to an independent third party to compare the capabilities of its planned VUAV to the Fire Scout.

---

### Performance and Design Problems Creating Operational Challenges

In addition to the overall management problems, there have been problems with the performance and design of Deepwater patrol boats and its replacement vessel, the FRC, that pose significant operational challenges for the Coast Guard.

---

#### Performance Problems with the Converted 123-foot Patrol Boats

Between January 2001 and November 2006, numerous events led up to the failure of the Coast Guard's bridging strategy to convert the legacy 110-foot patrol boats into 123-foot patrol boats. In January 2001, an independent study found that the 110-foot patrol boats based in south Florida and Puerto Rico were experiencing severe hull corrosion and that their structural integrity was deteriorating rapidly.<sup>18</sup> To address these issues, the Coast Guard's original (2002) Deepwater plan included a strategy to convert all 49 of the 110-foot patrol boats into 123-foot patrol boats and to strengthen the hulls. Also, the plan was to provide additional capabilities, such as stern launch and recovery capabilities and enhanced C4ISR. While Coast Guard originally planned to convert all 49 of its 110-foot patrol boats to 123-foot patrol boats, it halted the patrol boat conversion program after 8 boats because of continued deck cracking, hull

---

<sup>18</sup> CSC Advanced Marine, *Evaluation of the 110' WPB Class Cutter Fleet* (January 2001).

---

buckling, and the inability of these converted patrol boats to meet post-September 11, 2001 mission requirements. The Commandant then decided to remove these 8 converted boats from service on November 30, 2006 because of operational and safety concerns.

The Coast Guard is taking actions to mitigate the operational impacts resulting from the removal of the 123-foot patrol boats from service. Specifically, in recent testimony, the Commandant of the Coast Guard stated that Coast Guard has taken the following actions:

- multi-crewing certain 110-foot patrol boats with crews from the 123-foot patrol boats that have been removed from service so that patrol hours for these vessels can be increased;
- deploying other Coast Guard vessels to assist in missions formerly performed by the 123-foot patrol boats; and
- securing permission from the U.S. Navy to continue using 179-foot cutters on loan from the Navy for an additional 5 years (these were originally to be returned to the Navy in 2008) to supplement the Coast Guard's patrol craft.

---

#### Design Problems with the Fast Response Cutter

The FRC—which was intended as a long-term replacement for the legacy 110-foot patrol boats—has experienced design problems that have operational implications. As we recently reported, the Coast Guard suspended design work on the FRC due to design risks such as excessive weight and horsepower requirements.<sup>19</sup> Specifically, beginning in January 2005, Coast Guard engineers raised concerns about the viability of the FRC design (which involved building the FRC's hull, decks, and bulkheads out of composite materials rather than steel). Then, in February 2006, the Coast Guard suspended FRC design work after an independent design review by third-party consultants demonstrated, among other things, that the FRC would be far heavier and less efficient than a typical patrol boat of similar length, in part, because it would need four engines to meet Coast Guard speed requirements.

To address the design problems and schedule delays that have occurred with the FRC, the Coast Guard is proceeding with a "dual-path approach" for acquiring new patrol boats. The first component of the dual-path approach is to have the Deepwater systems integrator purchase a

---

<sup>19</sup> GAO-06-764.

---

commercial off-the-shelf patrol boat design that can be adapted for Coast Guard use. The purpose of designing the first class of FRCs based on an adaptation of a patrol boat already on the market is to expedite delivery. According to Coast Guard officials, unlike the original plans, this FRC class is not expected to meet all performance requirements originally specified, but is intended as a way to field an FRC more quickly than would otherwise occur and that can, therefore, serve as an interim replacement for the deteriorating fleet of 110-foot patrol boats.

The second component of the dual-path approach would be to completely redesign an FRC to address the problems in the original FRC design plans. However, due to continuing questions about the feasibility of its planned composite hull, the Coast Guard has delayed a decision about its development or acquisition until it receives results from a business case analysis comparing the use of composite versus steel hulls, as well as a study by DHS's Science and Technology Directorate on composite hull technology. Until recently, the Coast Guard anticipated delivery of the redesigned FRC in 2010. However, the decision to not request funding for this redesigned FRC in fiscal year 2008, and to await the results of both studies before moving forward, will likely further delay delivery of the redesigned FRC. In regard to the suspension of FRC design work, as of our June 2006 report, Coast Guard officials had not yet determined how changes in the design and delivery date for the FRC would affect the operations of the overall system-of-systems approach.

Mr. Chairman, this concludes my testimony. I would be happy to respond to any questions Members of the Committee may have.

---

**GAO Contacts and  
Acknowledgments**

For further information about this testimony, please contact Stephen L. Caldwell, Acting Director, Homeland Security and Justice, (202) 512-9610, [caldwells@gao.gov](mailto:caldwells@gao.gov); or John Hutton, Acting Director, Acquisition and Sourcing Management, (202) 512-4841, [huttonj@gao.gov](mailto:huttonj@gao.gov).

Other individuals making key contributions to this testimony include Penny Berrier Augustine, Amy Bernstein, Christopher Conrad, Adam Couvillion, Kathryn Edelman, Melissa Jaynes, Crystal M. Jones, Michele Mackin, Jessica Nierenberg, Raffaele Roffo, Leslie Sarapu, Karen Sloan, and Jonathan R. Tumin.

---

## Appendix I: Related GAO Products

---

*Coast Guard: Preliminary Observations on Deepwater Program Assets and Management Challenges*, GAO-07-446T (Washington, D.C.: February 15, 2007).

*Coast Guard: Coast Guard Efforts to Improve Management and Address Operational Challenges in the Deepwater Program*, GAO-07-460T (Washington, D.C.: February 14, 2007).

*Homeland Security: Observations on the Department of Homeland Security's Acquisition Organization and on the Coast Guard's Deepwater Program*, GAO-07-453T (Washington, D.C.: February 8, 2007).

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

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

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

*Coast Guard: Preliminary Observations on the Condition of Deepwater Legacy Assets and Acquisition Management Challenges*, GAO-05-651T (Washington, D.C.: Jun. 21, 2005).

*Coast Guard: Preliminary Observations on the Condition of Deepwater Legacy Assets and Acquisition Management Challenges*, GAO-05-307T (Washington, D.C.: Apr. 20, 2005).

*Coast Guard: Deepwater Program Acquisition Schedule Update Needed*, GAO-04-695 (Washington, D.C.: Jun. 14, 2004).

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

*Coast Guard: Actions Needed to Mitigate Deepwater Project Risks*, GAO-01-659T (Washington, D.C.: May 3, 2001).

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

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

<b>GAO's Mission</b>	The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.
<b>Obtaining Copies of GAO Reports and Testimony</b>	The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site ( <a href="http://www.gao.gov">www.gao.gov</a> ). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to <a href="http://www.gao.gov">www.gao.gov</a> and select "Subscribe to Updates."
<b>Order by Mail or Phone</b>	<p>The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and MasterCard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:</p> <p>U.S. Government Accountability Office 441 G Street NW, Room LM Washington, D.C. 20548</p> <p>To order by Phone: Voice: (202) 512-6000 TDD: (202) 512-2537 Fax: (202) 512-6061</p>
<b>To Report Fraud, Waste, and Abuse in Federal Programs</b>	<p>Contact:</p> <p>Web site: <a href="http://www.gao.gov/fraudnet/fraudnet.htm">www.gao.gov/fraudnet/fraudnet.htm</a> E-mail: <a href="mailto:fraudnet@gao.gov">fraudnet@gao.gov</a> Automated answering system: (800) 424-5454 or (202) 512-7470</p>
<b>Congressional Relations</b>	Gloria Jarmon, Managing Director, <a href="mailto:JarmonG@gao.gov">JarmonG@gao.gov</a> (202) 512-4400 U.S. Government Accountability Office, 441 G Street NW, Room 7125 Washington, D.C. 20548
<b>Public Affairs</b>	Paul Anderson, Managing Director, <a href="mailto:AndersonP1@gao.gov">AndersonP1@gao.gov</a> (202) 512-4800 U.S. Government Accountability Office, 441 G Street NW, Room 7149 Washington, D.C. 20548

**STATEMENT OF RICHARD L. SKINNER**  
**INSPECTOR GENERAL**  
**U.S. DEPARTMENT OF HOMELAND SECURITY**  
**BEFORE THE**  
**COMMITTEE ON TRANSPORTATION INFRASTRUCTURE**  
**SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION**  
**U.S. HOUSE OF REPRESENTATIVES**

MARCH 8, 2007



Good afternoon, Chairman Cummings and Members of the Subcommittee. 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 U.S. Coast Guard, in particular, its Deepwater Program.

My testimony today will address the broader contract and program management challenges associated with the Deepwater Program. We will also address how these challenges have impacted specific Deepwater assets, including the modernization of the 110/123-foot Island Class cutters; the National Security Cutter, the upgrades to the Coast Guard's Command, Control, Communication, Computers, Intelligence, Surveillance and Reconnaissance system; the re-engining of the HH-65 helicopter; and the acquisition of the Fast Response Cutter.

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

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 possible 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 completed audits of the 110-foot/123-foot Modernization Project; the National Security Cutter, the information technology systems; and the re-engining of the HH-65 helicopters. Common themes and risks emerged from these audits, primarily the dominant influence of expediency, flawed 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 failed to meet minimum Deepwater performance requirements.

#### Lead Systems Integrator Approach

The route the Coast Guard took to outsource program management to the systems integrator has presented challenges in implementation. The Deepwater contract essentially empowered the contractor with authority for decision-making. Therefore, the Coast Guard was reluctant to exercise a sufficient degree of authority to influence the design and production of its own assets. Specifically, under the contract ICGS was the Systems Integrator and assigned full technical authority over all asset design and configuration decisions; while the Coast Guard's technical role was limited to that of an expert "advisor." However, there is no contractual requirement that the Systems Integrator accept or act upon the Coast Guard's technical advice, regardless of its proven validity. Furthermore, there are no contract provisions ensuring government involvement into subcontract management and "make or buy" decisions. The systems integrator decides who is the source of the supply. 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) in resolving the Coast Guard's technical concerns has been called into question by both the 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 report of the NSC, we reported the Coast Guard and the American Bureau of Shipping (ABS) jointly developed standards that would govern the design, construction, and certification of all cutters acquired under the Deepwater Program. These standards were intended to ensure that competing industry teams developed proposals that met the Coast Guard's unique performance requirements. Prior to the Phase 2 contract award, the Coast Guard provided these design standards to the competing industry teams. Based on their feedback, the Coast Guard converted the majority of the standards (85% of the 1,175 standards) to guidance and permitted the industry teams to select their own alternative standards. Without a contractual mechanism in place to ensure that those alternative standards met or exceeded the original guidance standards, the competing teams were allowed to select cutter design criteria.

Additionally, the Deepwater contract gives 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

A lack of clarity in the Deepwater contract's terms and conditions have also compromised the Coast Guard's ability to hold the contractor accountable by creating situations where competing interpretations of key provisions exist. For example, the performance specifications associated with upgrading the information systems on the Coast Guard's 123' Island Class Patrol Boats did not have a clearly defined expected level of performance. Also, in our review of the HITRON lease, we determined that a similar lack of clarity in the asset's contractual performance requirements challenged the Coast Guard's ability to effectively assess contractor performance. On the NSC acquisition, the cutter's performance specifications were so poorly worded that there were major disagreements within the Coast Guard as to what the NSC's performance capabilities should actually be.

### 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 the current REA, although 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.

The current \$775 million estimate also does not include the cost of structural modifications to be made to the NSC as a result of its known design deficiencies. In addition, future REAs and the cost of modifications to correct or mitigate the cutter's existing design deficiencies could add hundreds of millions of dollars to the total NSC acquisition cost. We remain concerned that these and other cost increases could result in the Coast Guard acquiring fewer NSCs or other air and surface assets under the Deepwater contract.

### **Impact on Coast Guard Operational Capabilities -- Short and Long Term**

The Deepwater record of accomplishment has been disappointing to date. For example, while the re-engining of the HH-65 Bravo helicopters has resulted in an aircraft with significantly improved capabilities, the program has experienced schedule delays and cost increases. For example, the delivery schedule calls for the HH-65 re-engining project to be completed by November 2007 or 16 months beyond the Commandant's original July 2006 deadline. Extending the delivery schedule has exposed HH-65B aircrews to additional risk due to the tendency of the aircraft to experience loss of power mishaps. It also delays the replacement of the eight Airborne Use of Force-equipped MH-68 helicopters that are being leased to perform the Helicopter Interdiction (HITRON) mission at a cost in excess of \$20 million per year.

There are also problems with Coast Guard's acquisition of the Vertical take-off and landing unmanned aerial vehicle (VUAV). VUAVs have the potential to provide the Coast Guard flight-deck-equipped cutters with air surveillance, detection, classification, and identification capabilities. Currently, the VUAV acquisition is over budget and more than 10 months behind schedule. The Commandant of the Coast Guard recently testified that the VUAV acquisition was under review. The Commandant indicated that the Coast Guard Research and Development Center is conducting a study and will provide recommendations for the way ahead with the VUAV. A decision by the Coast Guard to stop work on the VUAV project would significantly impact the operational capability of the NSC and OPC by limiting their ability to provide long-range surveillance away from the parent cutter. The Coast Guard's Revised Deepwater Implementation Plan, 2005 calls for the acquisition of 45 VUAVs at a total cost of approximately \$503.3 million. As of December 31, 2006, Coast Guard had obligated \$108.4 million (73%) of the \$147.7 million funded for the project.

The increased cost, schedule delays, and structural design problems associated with the 123-foot patrol boat and the FRC have further exacerbated the Coast Guard's patrol boat operational hour and capability gap. The Coast Guard is attempting to mitigate the problem by re-negotiating an agreement with the U.S. Navy to continue the operation of the 179-foot "Cyclone" class patrol boats, and to extend the operational capability of the 110-foot Island Class fleet through the use of multiple crews. While the increased operations tempo this will help in the short term, it will also increase the wear and tear on these aging patrol boats in the long term.

The structural design issues associated with the NSC could have the greatest impact on Coast Guard operational capabilities in both the near and long term. This is due to cost increases that far exceed the cost of inflation even when the post 9/11 engineering change proposals and the costs increases associated with hurricane Katrina are left out of the equation. These cost increases are largely due to: (1) existing and future Requests for Equitable adjustment that the Coast Guard expects to receive from ICGS; (2) the cost of NSC "structural enhancements," the number, type, scope, and cost of which have yet to be determined; and (3) the schedule delays and lost operational capability, that are expected during the modification to NSCs 1-8.

### **Summary of Concerns Raised in Recent OIG Reports**

#### 110/123' Maritime Patrol Boat Modernization Project

We recently completed an inquiry into allegations of a Hotline Complaint alleging that the Coast Guard's 123-foot Island Class Patrol Boats (123' cutter) and short-range prosecutor (prosecutor) contained safety and security vulnerabilities. The 123' cutter is a modification of the 110' Island Class patrol boat and was phased into service as part of the Deepwater project. The original Deepwater plan projected the conversion of forty-nine 110' patrol boats into 123' patrol boats as a bridging strategy to meet patrol boat needs until the new Fast Response Cutter was introduced. The prosecutor is a 24' 6"

small boat that can be deployed from the National Security Cutter, Fast Response Cutter, and Offshore Patrol Cutter. The revised Deepwater Implementation Plan calls for the acquisition of 91 prosecutors. The complaint said that these vulnerabilities were the result of the contractor's failure to comply with Command, Control, Communications, Computer, Intelligence, Surveillance, and Reconnaissance (C<sup>4</sup>ISR) design requirements as defined in the Deepwater contract. Specifically, the complainant alleged that:

- The safety of the 123' cutter's crew was compromised by the contractor's failure to utilize low smoke cabling;
- The contractor knowingly installed aboard the 123' cutter and prosecutor external C<sup>4</sup>ISR equipment that did not meet specific environmental requirements outlined in the Deepwater contract;
- The cable installed during the upgrade to the cutter's C<sup>4</sup>ISR system represented a security vulnerability; and,
- The video surveillance system installed aboard the 123' cutter does not meet the cutter's physical security requirements.

Aspects of the C<sup>4</sup>ISR equipment installed aboard the 123' cutters do not meet the design standards set forth in the Deepwater contract. Specifically, two of the four areas of concern identified by the complainant were substantiated and are the result of the contractor not complying with the design standards identified in the Deepwater contract. For example, the contractor did not install low smoke cabling aboard the 123' cutter, despite a Deepwater contract requirement that stated, "all shipboard cable added as a result of the modification to the vessel shall be low smoke." The intent of this requirement was to eliminate the polyvinyl chloride jacket encasing the cables, which for years produced toxic fumes and dense smoke during shipboard fire. Additionally, the contractor installed C<sup>4</sup>ISR topside equipment aboard both the 123' cutters and prosecutors, which either did not comply or was not tested to ensure compliance with specific environmental performance requirements outlined in the Deepwater contract.

The remaining two areas of concern identified by the complainant were in technical compliance with the Deepwater contract and deemed acceptable by the Coast Guard. Specifically, while the type of cabling installed during the C<sup>4</sup>ISR system upgrade to the 123' cutter was not high-grade braided cable; the type of cable used met the Coast Guard's minimum-security standards as required by the Deepwater contract. Concerning the installation of the video surveillance system, while the system did not provide 360 degrees of coverage, it met minimum contract requirements.

Our review raises many concerns about 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. We are concerned that 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 C<sup>4</sup>ISR 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 Coast Guard reviewed the contractor's self-certification documentation, it would have determined that the contractor had not complied with the stated weather environment standard. For these reasons, we are concerned that similar performance issues could impact the operational effectiveness of C<sup>4</sup>ISR 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 identified in the hotline complaint and take steps to prevent similar technical oversight issues from affecting the remaining air, surface, and C<sup>4</sup>ISR assets to be modernized, upgraded, or acquired through the Deepwater Program. The Coast Guard concurred with the principle findings of our report and its recommendations and said it is in the process of implementing corrective measures.

For reasons unrelated to the issues identified during our inquiry, operations of the 123' cutter fleet have been suspended. On November 30, 2006, the Coast Guard announced that it was suspending operations of all eight 123' cutters due to the continuing deformation of the hulls that in some instances resulted in hull breaches. These problems had previously resulted in the implementation of operating restrictions that severely undermined the mission effectiveness of 123' cutter fleet. However, these operating restrictions did not resolve the hull deformation problem but rather mitigated their impact on crew safety. Consequently, the Coast Guard had to consider whether to implement additional operational restrictions in order to meet minimum crew safety requirements or to suspend 123' cutter operations until a solution to these problems could be identified and implemented. The Coast Guard determined that additional operating limitations would have further undermined the operational effectiveness of the 123' cutter. For these reasons, 123' cutter fleet was withdrawn from service. Although the cutter operations have been suspended, the Coast Guard has not yet determined the final disposition of the 123' cutter fleet.

#### National Security Cutter (NSC)

We recently issued a report on the Coast Guard's acquisition of the National Security Cutter (NSC). The objective of our audit was to determine the extent to which the NSC will meet the cost, schedule, and performance requirements contained in the Deepwater contract.

The NSC, as designed and constructed, will not meet performance specifications described in the original Deepwater contract. Specifically, 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. To mitigate the effects of these deficiencies, the Coast Guard intends to modify the NSC's design to ensure that the cutters will meet the service and fatigue life requirements

specified in its contract with the systems integrator. However, this decision was made after the Coast Guard authorized production of 2 of the 8 cutters being procured.

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 May 2006 decision to award the systems integrator a contract extension. Due to a lack of adequate documentation, we were unable to ascertain the basis for the decision to proceed with the production of the first two cutters, knowing that there were design flaws.

Since the Deepwater contract was signed in June 2002, the combined cost of NSCs 1 and 2 have increased from \$517 million to approximately \$775 million. These cost increases are largely due to design changes necessary to meet post 9/11 mission requirements and other government costs not included in the original contract price. The \$775 million estimate does not include costs to correct or mitigate the NSC's structural design deficiencies, additional labor and material costs resulting from the effects of Hurricane Katrina, and the final cost of the \$302 million Request For Equitable Adjustment (REA) that the Coast Guard is currently negotiating with the systems integrator (ICGS).

NSC 1 was christened on November 11, 2006, and final delivery to the Coast guard is scheduled for August 2007. NSC 2 is currently under construction and is scheduled for delivery during the summer of 2008. As of December 31, 2006, Coast Guard had obligated \$751.6 million (49%) of the \$1,518 million funded for the project.

We made five recommendations to the Coast Guard. Our recommendations are intended to ensure the NSC is capable of fulfilling all performance requirements outlined in the Deepwater contract: and to improve the level of Coast Guard technical oversight and accountability.

#### Information Technology Systems

We also audited the Coast Guard's efforts to design and implement command, control, communications, computers, intelligence, surveillance, and reconnaissance (C<sup>4</sup>ISR) systems to support the Deepwater Program. We determined that the Coast Guard's efforts to develop its Deepwater C<sup>4</sup>ISR system could be improved. Although Coast Guard officials are involved in high-level Deepwater information technology requirements definition process, they had limited influence over contractor decisions toward meeting these requirements. A lack of discipline in requirements 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<sup>4</sup>ISR equipment was difficult to achieve, 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<sup>4</sup>ISR systems and the assets on which they are installed performed effectively.

Additionally, the Coast Guard faced several challenges to implementing effectively its Deepwater C<sup>4</sup>ISR systems. Due to limited oversight as well as unclear contract requirements, the agency did not ensure that the contractor was making the best decisions toward accomplishing Deepwater IT goals. Insufficient C<sup>4</sup>ISR funding restricted accomplishing the “system-of-systems” objectives that are considered fundamental to Deepwater asset interoperability. Inadequate training and guidance also hindered users from realizing the full potential of the C<sup>4</sup>ISR upgrades. Instituting effective mechanisms for maintaining C<sup>4</sup>ISR equipment have been equally challenging.

We made 9 recommendations to the Coast Guard. Our recommendations are intended to increase agency input and oversight into the requirements definition and to clearly define the management processes used to evaluate and apply changes to the Deepwater C<sup>4</sup>ISR requirements. We also recommended that the Coast Guard increase staffing levels and evaluate its C<sup>4</sup>ISR spending priorities to improve technical and financial oversight over the C<sup>4</sup>ISR acquisition. Finally, we recommended that the Coast Guard takes steps to improve the training and technical support provided to C<sup>4</sup>ISR system users. Coast Guard concurred with all nine recommendations contained in our audit report and is in the process of implementing corrective measures.

Recently, the Coast guard provided an update regarding the progress being made to implement the recommendations contained in our August 2006 report. In their response, the Coast Guard stated that the language contained in the Deepwater contract, including the contract’s “award term” criteria, had been revised to further clarify contractor responsibilities for developing Deepwater C<sup>4</sup>ISR systems.

However, the Coast Guard is struggling to provide the funding needed to accomplish system of system objectives and maintain an adequate level of oversight over the Deepwater contractor. For example, during FY 2005, C<sup>4</sup>ISR program managers requested 28 additional staff positions to help with contractor oversight. However, only 5 positions were authorized due to a lack of funding. As a result, the Coast Guard has had to divert management’s attention from systems development tasks to the re-planning and re-phasing the work to match the funding constraints and economize in carrying out its program oversight and support activities.

#### HH-65 Helicopter

We also 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 in-flight loss of power mishaps that jeopardized the safety of HH-65 flight crews. Between October 1, 2003, and August 31, 2004, HH-65 aircrews reported 150 in-flight loss of power mishaps. This was in sharp contrast to the 64 in-flight loss of power mishaps that were reported between FY 2000 and FY 2003. Concerns were also raised about: (1) the capabilities of the Honeywell LTS-101-850 engine; (2) the potential cost, delivery, and operational risks associated with the Coast

Guard's decision to enter into a contract with Integrated Coast Guard Systems (ICGS) to re-engine the HH-65 fleet with Arriel 2C2 engines; and (3) the ICGS proposal not meeting the Coast Guard's desire to have 84 HH-65s re-engined within a 24-month period, by July 2006, as mandated by the Commandant. In our view, extending the delivery dates unnecessarily exposed HH-65 aircrews to additional risk due to the unprecedented rate in which in-flight loss of power mishaps were occurring.

Our review of the HH-65 re-engining project determined the replacement of the Honeywell LTS-101-750 engines originally installed aboard the HH-65 helicopter with the Arriel 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) than it would if the Coast Guard placed the responsibility for the re-engining under the auspices of ICGS. The Coast Guard's Assistant Commandant for Operations made a similar recommendation in May 2004.

ICGS' cost proposal for re-engining the HH-65 fleet was \$294 million, or \$40 million more than the Coast Guard estimated for re-engining the aircraft in-house at ARSC. This was a significant cost differential given ICGS' intention to have 83 (87%) of the 95 HH-65s re-engined at ARSC, the effect these additional expenditures could have on the Coast Guard's ability to sustain and upgrade its legacy aviation assets, and the stated inability of ICGS to re-engine the aircraft within the Commandant's 24 month timeline. To date, 69 re-engined HH-65s have been delivered to the Coast Guard. The remaining HH-65 helicopters are to be delivered to the Coast Guard by the end of FY 2007. As of December 31, 2006, Coast Guard had obligated \$307 million (89%) of the \$343 million funded for the project.

We made five recommendations to the Coast Guard. Specifically, we recommended the Coast Guard implement the Assistant Commandant for Operations May 2004 recommendation that the HH-65 re-engining project be taken from ICGS and performed as a government performed contract. We also recommended that the Coast Guard: (1) refurbish additional HH-65 helicopters; (2) expedite the replacement of the MH-68 helicopters operated by its Helicopter Interdiction squadron in Jacksonville; and (3) take the savings from the termination of the HITRON lease to mitigate the costs associated with the maintenance of its legacy aviation assets.

The Coast Guard did not concur with any of the report's recommendations. Their primary rationale being that ICGS minimized the operational, legal, and contract performance risks associated with the re-engining. The Coast Guard also stated it believed that it received significant benefits from the current ICGS contract that far outweighed the costs of having the Coast Guard manage the project. We did not and do not believe these benefits have been demonstrated in this instance.

The Coast Guard, however, did state in its response that it supported our contention that additional refurbished HH-65s were needed and that the MH-68 helicopters needed to be replaced with AUF-equipped HH-65s as soon as possible. However, in both instances,

the Coast Guard cited a lack of funding as the primary reason for not implementing these recommendations.

#### Fast Response Cutter

The Fast Response Cutter is intended to be the Coast Guard's maritime security workhorse, patrolling in both coastal and high seas areas. According to the Coast Guard, the FRC can safely and effectively operate in higher sea conditions than its legacy counterpart and can remain at sea for up to 7 days, 2 days longer than the Coast Guard's legacy 110-ft cutter. The original 2002 Deepwater implementation plan called for the Coast Guard to take delivery of the first FRCs in 2018. However, because of the suspension of the 123-ft conversion project and deterioration of the remaining 110-foot patrol boats, the FRC project was accelerated to achieve delivery of the first FRCs in 2007, more than 10 years ahead of schedule. However, in February 2006, the Coast Guard announced that it was suspending design work on the FRC due to technical issues identified with the hull design. The Coast Guard is currently assessing the suitability of designs in operational service in order to procure a proven patrol boat as an interim solution to address its urgent operational needs until the technical issues associated with the current FRC design are alleviated. We have not yet evaluated the cost, schedule, and performance issues associated with the FRC acquisition. We do know that as of December 31, 2006, Coast Guard had obligated \$49.4 million (24%) of the \$208 million funded for the project to date.

#### **Conclusion**

The Coast Guard recognizes these challenges and is taking aggressive action to strengthen program management and oversight—such as technical authority designation; use of independent, third party assessments; consolidation of acquisition activities under one directorate; and redefinition of the contract terms and conditions, including award fee criteria. Furthermore, and most importantly, the Coast Guard is increasing its staffing for the Deepwater program, and reinvigorating its acquisition training and certification processes to ensure that staff have the requisite skills and education needed to manage the program. The Coast Guard is also taking steps to improve the documentation of key Deepwater related decisions. If fully-implemented, these steps should significantly increase the level of management oversight exercised over the air, surface, and C4ISR assets that are acquired or modernized under the Deepwater Program. We look forward to working closely with the Coast Guard to continue the improvement of the efficiency, effectiveness, and economy of the Deepwater Program.

I will conclude by restating that we continue to be highly 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 in order to assess the most appropriate cycle for reporting the program's progress.

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

130

Statement by

the

Reserve Officers Association of the United States

submitted to the

Subcommittee on Coast Guard and Maritime Transportation  
Committee on Transportation and Infrastructure  
U.S. House of Representatives

Coast Guard Budget and Authorization for Fiscal Year 2008  
March 8, 2007



*"Serving Those Who Serve™"*

---

Reserve Officers Association  
1 Constitution Avenue, N.E.  
Washington, DC 20002-5655  
(202) 646-7710

---

The Reserve Officers Association of the United States (ROA) is a professional association of commissioned and warrant officers of our nation's seven uniformed services and their spouses. ROA was founded in 1922 during the drawdown years following the end of World War I. It was formed as a permanent institution dedicated to National Defense, with a goal to teach Americans about the dangers of unpreparedness. When chartered by Congress in 1950, the act established the objective of ROA to: "...support and promote the development and execution of a military policy for the United States that will provide adequate National Security." The mission of ROA is to advocate strong Reserve Components and national security, and to support Reserve officers in their military and civilian lives.

The Association's 70,000 members include Reserve and Guard Soldiers, Sailors, Marines, Airmen, and Coast Guardsmen who frequently serve on Active Duty to meet critical needs of the uniformed services and their families. ROA's membership also includes officers from the U.S. Public Health Service and the National Oceanic and Atmospheric Administration who often are first responders during national disasters and help prepare for homeland security. ROA is represented in each state with 55 departments plus departments in Latin America, the District of Columbia, Europe, the Far East, and Puerto Rico. Each department has several chapters throughout the state. ROA has more than 450 chapters worldwide.

ROA is a member of The Military Coalition where it co-chairs the Tax and Social Security Committee. ROA is also a member of the National Military Veterans Alliance. Overall, ROA works with 75 military, veterans, and family support organizations.

#### DISCLOSURE OF FEDERAL GRANTS OR CONTRACTS

The Reserve Officers Association is a private, member-supported, congressionally chartered organization. Neither ROA nor its staff receive or have received grants, sub-grants, contracts, or subcontracts from the federal government for the past three fiscal years. All other activities and services of the Association are accomplished free of any direct federal funding.

President:		
	CAPT. Michael P. Smith, USNR (Ret.)	202-292-1855
Executive Director:		
	LtGen. Dennis M. McCarthy, USMC (Ret.)	202-646-7701
Director, Naval Services:		
	William Brooks	202-646-7710
Director, Legislative Affairs:		
	CAPT Marshall Hanson, USNR (Ret.)	202-646-7713
Director, Air Force Affairs:		
	LtCol Jim Starr, USAFR (Ret.)	202-646-7719
Director Army Affairs and Defense Strategic Education:		
	LTC Robert Feidler, USAR (Ret.)	202-646-7717

**INTRODUCTION**

Mr. Chairman and distinguished members of the House subcommittee on Coast Guard and Maritime Transportation, on behalf of ROA's 70,000 members, the Reserve Officers Association thanks the committee for the honor, privilege, and opportunity to submit testimony on issues relating to the Coast Guard budget.

The US Coast Guard and its Selected Reserve are a valuable, unique and increasingly visible service within the armed forces structure of this nation. ROA would like to thank this sub-committee for its on-going stewardship that it has demonstrated on issues of homeland security as the Coast Guard is a non-DOD uniformed service. The USCG structure needs and capabilities do not always receive the public attention ROA believes they should. Since Hurricanes Katrina and Rita, the nation has come to expect even more from this proud service and has levied additional consequence management missions upon it, while retaining the mission as lead Federal agency for maritime homeland security.

**EXECUTIVE SUMMARY**

Our Coast Guard's plate is overflowing with workload demands for homeland security. That our men and women in the Coast Guard and its Selected Reserve have kept their heads above water is a testimony to exemplary leadership and selfless personnel motivation and dedication.

ROA asks the Committee to respond to the unselfish service of US Coast Guard's men and women and recognize the need for funding assistance in order for the Coast Guard and its Reserve to continue this outstanding work.

This high level of performance can only be sustained by supporting the Total Force. The USCG Reserve component is cost effective and provides flexibility in responding to changing demands and threats. The Selected Reserve augments the active Coast Guard and reinforces all eleven of the Coast Guard's missions. Yet like the active Coast Guard, its Reserve has more missions than people to perform them. While the CG Reserve is authorized at 10,000 serving members, it has only been funded at a level of 8,100 Reservists.

***ROA's testimony recommends an increase in funding to an interim end-strength level of 9,300 for FY-2008, which will create a more robust Coast Guard Selected Reserve by enhancing its capabilities toward mission accomplishment.***

<b>ISSUES</b>
---------------

**1) Resetting the Force:**

In 1995 the Coast Guard Selected Reserve was fully integrated into the Active duty Coast Guard to be trained and employed as a part-time work force doing the same jobs as Active duty members. The Congress indicated, in 1995, that the minimum size of the CG Reserve be 8,000 serving members. Over the past several years, the Active duty Coast Guard budget and mission scope has expanded to meet the service's increased responsibilities for maritime homeland security.

A 2004 GAO report noted that resource hours for many of the Coast Guard's traditional missions have decreased as demands for its critical port security mission have increased. Coast Guard legacy vessels are experiencing increased unscheduled maintenance and personnel stress issues are arising as a result of higher operational demands across its eleven missions.

ROA believes insufficient oversight has been given to the personnel resources required to meet these new missions which are in addition to the Coast Guard's traditional missions. This mission burden has clearly had an effect on the overall readiness of the Coast Guard. In FY 2006 the Coast Guard was able to satisfactorily meet only 8 of its present 11 mission goals. Of particular note was the failure to meet its Defense Readiness combat rating standard (69 percent achieved versus 100 percent target).

Sources within the Coast Guard have indicated to ROA that they have recruiting and training resources that would permit them to expand beyond an end-strength level of 8,100 to 9,300 in FY-2008.

***ROA urges Congress to increase the funded size of the Coast Guard Selected Reserve from the Fiscal Year-2007 level of 8,100 to 9,300 in FY-2008.***

ROA Resolution No. 04-12 recommends increasing the authorized end-strength of the Coast Guard Selected Reserve to at least 15,000. The USCG has come up with similar results. In a recent study, the Coast Guard identified through its Contingency Personnel Requirements List (CPRL) an end-strength of 14,000 officers and enlisted by FY-2011.

The Coast Guard has the ability and infrastructure to immediately begin recruiting to, and training of, a Selected Reserve funded to a level of 9,300 serving members. As for the future, the Coast Guard can ramp up to attain an authorized end-strength of 14,000 Selected Reservists by FY 2012.

***ROA suggests increasing authorization and funding of the Coast Guard Selected Reserve to 10,475 in FY-2009, with further sequential end-strength authorization increases and funding of 1,175 personnel each fiscal year from FY 2010 to FY 2012.***

This increased end-strength will permit a highly cost effective way for the Coast Guard to match the Contingency Personnel Requirements List (CPRL) developed from the eleven mission performance goals presently assigned to the service.

***ROA recommends hearings by the U.S. House to determine FY-2008 authorization and funding levels for the USCGR and the development of annual incremental increases to obtain an end-strength level of 14,000 by FY-2012.***

## **2) Not fulfilling Mission Areas:**

The Commandant's recent USCG Reserve policy prioritizes the CG Reserve missions as follows: (1) Maritime Homeland Security (MHS), (2) Domestic and Expeditionary National Defense, (3) Disaster Response and Recovery. These mission areas are designed to support our Homeland Security. In looking at how the USCG is accomplishing these missions the following are illustrative examples.

### (1) Maritime Homeland Security (MHS):

Maritime Homeland Security is considered by many the most important issue facing the United States today. Maritime Transportation Security is a major element of this mission area. The 2002 Maritime Transportation Security Act (MTSA) levied requirements that included Port Security Vulnerability Assessments in 55 strategic ports and the development and implementation of Area Maritime Security Plans. These are time and manpower intensive tasks. In an attempt to address these mission assignments the Coast Guard has identified the need to set up 13 Maritime Safety and Security Teams (MSST). A significant slice of the team's 100 members are programmed to come from the Selected Reserve. Insufficient Selected Reserve end-strength has allowed only the partial staffing of just four teams for this strategically and operationally important mission.

Additionally, the National Guard Bureau has asked the Coast Guard to assume the state-level MTSA port and waterway responsibilities which requires the assignment of senior Coast Guard Reserve officers to each State Guard Headquarters as liaison officers. To date insufficient Selected Reserve end-strength has allowed only three officers to be assigned to this important Homeland Security duty.

### (2) Domestic and Expeditionary Support to National Defense

Port Security units (PSUs) are identified in Coast Guard and Combatant Commander contingency plans that call for 11 Port Security Units. PSUs perform maritime interception operations (MIO), coastal security patrols, and port security missions for military and humanitarian missions worldwide, including the protection of national assets. Presently only 8 of the 11 PSUs, with a staffing of 115 Reserve and 5 Active duty billets are operational.

PSUs are units that are being frequently deployed. As a result, the USCGR is having a difficult time recruiting to these units from other billets within the CG Reserve. As a

result, this is the program with the highest frequency of individual repeat mobilization for CG Reservists, which has resulted in retention problems.

(3) Disaster Response and Recovery:

Since the 2005 hurricane season, Coast Guard Reserve liaison officers to federal, state and local disaster response agencies are in high demand but short supply. Of more than 80 required positions, only 6 emergency preparedness liaison officers (EPLOs) can be filled from the Coast Guard Reserve as requested.

These examples illustrate that some of the most vital missions required to support Homeland Security and prevent or respond to another terrorist incident are not being achieved due to inadequate reserve end-strength. The country can ill-afford to ignore these requirements any longer and risks not preventing the next terrorist incident.

***ROA strongly recommends funding at a higher end-strength level in order to accomplish all mission areas vital to Homeland Security.***

<b>CONCLUSION</b>
-------------------

Mr. Chairman and members of the sub-committee, since 9/11 the Coast Guard has added 7,000 Active personnel and 5,000 civilian members, a very expensive approach in a resource constrained environment that has not yielded sufficient risk mitigation in the Homeland Defense and Maritime Security mission areas.

With only 8,100 funded billets, the USCG is playing musical chairs with its Reserve personnel. Insufficient Reserve end-strength requires the Coast Guard Selected Reserve to transfer personnel from other vital Reserve missions to another in an attempt that only partially addresses these legislated national security requirements. Adding to Active structure is an expensive solution and hiring civilians cannot realistically solve these operational shortfalls. With the present size of the CG Reserve, these missions have no realistic chance of being fully accomplished. Neither can technology, in the near-term, address these constraints on the Coast Guard's operational capabilities and reach within the maritime domain.

Using FY-2007 Coast Guard budget data, the Coast Guard Reserve, as presently structured only comprises about 2.25 percent of the Coast Guard's budget. The tasks that the Congress has mandated in current homeland defense legislation could actually be accomplished by the CG Reserve at a cost of about one-fifth of what an active duty personnel solution would cost. An increase in funded end-strength of the Coast Guard Selected Reserve to 9,300 billets is a cost effective solution to attain higher and more sustainable levels of mission performance and accomplishment.

An under-strength Coast Guard Reserve was able to perform in a true national disaster, but how long can this performance be sustained? The right for increased funding has

been earned. ROA does not wish to take funds away from the active Coast Guard and its projects; we feel that the CG Reserve is a good investment for additional funding.

The Reserve Officers Association respectfully asks the Committee to support this requested funding in FY-2008 and review a programmatic and sequenced increase in the authorized and fully funded end-strength for the Selected Reserve of the U.S. Coast Guard.