

# IMPROVING AND STREAMLINING THE COAST GUARD'S ACQUISITION PROGRAM

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HEARING  
BEFORE THE  
SUBCOMMITTEE ON  
COAST GUARD AND MARITIME TRANSPORTATION  
OF THE  
COMMITTEE ON  
TRANSPORTATION AND  
INFRASTRUCTURE  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED TWELFTH CONGRESS

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

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April 8, 2011

**MEMORANDUM**

**TO:** Members, Subcommittee on Coast Guard and Maritime Transportation  
**FROM:** Staff, Subcommittee on Coast Guard and Maritime Transportation  
**RE:** Hearing on "Improving and Streamlining the Coast Guard's Acquisition Program"

**PURPOSE**

On Wednesday, April 13, 2011, at 10:00 a.m., in room 2167 of the Rayburn House Office Building, the Subcommittee on Coast Guard and Maritime Transportation will meet to examine the status of the Coast Guard's current acquisition programs, as well as the policies and procedures the Service uses to determine mission needs requirements and the correct types and number of assets needed to meet those requirements.

**BACKGROUND**

**History of Coast Guard Recapitalization – Deepwater**

The Coast Guard's Integrated Deepwater Program (Deepwater) was a multi-year acquisition program stood up in the late 1990's to upgrade or replace the Service's existing surface and air assets which carry out missions further than 50 miles from shore, as well as modernize the information technology systems that the Service relies on to coordinate operations. The Coast Guard determined that it lacked the in-house experience and expertise to manage a large and complex procurement program, so the Service decided to engage a private firm to serve as a Lead Systems Integrator (LSI). The Lockheed Martin/Northrop Grumman team, called the Integrated Coast Guard System (ICGS), won the \$17 billion Deepwater LSI contract in June 2002. The initial five-year contract included five additional five-year options.

As the LSI, ICGS managed the acquisition process and integrated the acquired assets into a system-of-systems, meaning the assets acquired were all connected and interoperable. The Coast Guard provided the ICGS with broad performance specifications, such as the ability to interdict drug smugglers, and the ICGS determined the types and numbers of assets needed to meet the specifications.

Deepwater was priced and acquired as a single system, meaning each asset was not priced individually and the Coast Guard could not reject any individual asset that met the broad mission requirements set by the Service. Additionally, testing and operational assessments were to be performed on the system as a whole rather than at the level of individual assets.

Shortly after the program was established, the Coast Guard encountered challenges in managing ICGS, including controlling costs, meeting procurement schedules, setting performance baselines, and ensuring the assets being designed and delivered met operational requirements. As a result, Deepwater suffered a series of setbacks.

Further exacerbating these challenges was the 2004 decision by the Coast Guard to revise the performance baseline of Deepwater to accommodate additional capabilities needed to meet post-September 11 mission requirements. The rebaselining increased the total acquisition cost of Deepwater to over \$24 billion, changed the number and types of assets to be acquired, and pushed the completion date from 2022 to 2027. The revised baseline was approved by the Department of Homeland Security (DHS) in 2007.

#### *Acquisition Reform*

As a result of Deepwater's failures, the Coast Guard and DHS have revised the acquisitions management processes. In April 2007, the Coast Guard announced a number of major changes in its management of Deepwater and all other acquisition efforts. Specifically, the Service:

- Established an in-house Acquisition Directorate (CG-9)
- Terminated the contract with ICGS and assumed the role of LSI for all Deepwater assets and other major acquisitions (ICGS is currently completing the contract for the delivery of National Security Cutter #3, and the delivery of components for a few other assets);
- Assumed responsibility for life cycle logistics functions for Deepwater assets;
- Expanded the role of independent third-parties to determine whether assets meet design and construction standards; and
- Began procuring assets on an individual basis directly from prime vendors.

The Coast Guard has also increased its use of Department of Defense contracts and expertise to reduce costs and improve contract management. Finally, the Service

stopped using the name 'Deepwater' to refer to its recapitalization effort. The Service now uses the term 'major systems acquisition' to describe the procurement of assets and other technology with life cycle costs exceeding \$300 million. This approach is more comprehensive as it looks across all Coast Guard missions.

The recently enacted Coast Guard Authorization Act of 2010 (P.L. 111-281) codified several of these reforms and made other changes to improve the Service's Acquisition Directorate and ensure it can recruit and retain qualified personnel.

#### *Current Acquisition Process*

The current Coast Guard acquisition process begins when operators identify capability gaps and work with other Coast Guard directorates to develop a Mission Analysis Report and eventually a Mission Needs Statement to support the development of new or rehabilitated assets or technology to fill the capability gap. At this point, the Service's Capabilities Directorate (CG-7) determines what capabilities an asset must have to satisfy mission needs. CG-7 works with the Service's Planning, Resources & Capabilities Directorate (CG-8) to ensure cost constraints are considered in determining new capabilities. Once a Capability Development Plan is approved, the Service's Acquisition Directorate (CG-9) develops an Acquisition Strategy and takes over the management of the acquisition process.

In managing the acquisition, CG-9 follows DHS Acquisition Directive 102-01 which provides guidance on procurement requirements. Directive 102-01 divides acquisition efforts into three levels, based on the life cycle cost. The term "life cycle cost" is broadly defined to include all costs associated with the development of an acquisition effort, including the cost of developing an asset's technology, the cost of acquiring and deploying the asset, and the cost of operating and eventually disposing of the asset. The use of the life cycle cost metric is intended to provide a complete picture of the total costs associated with acquiring and operating an asset over time (including as the asset ages). The Coast Guard defines acquisition programs based on the following levels:

- Level I: Programs that exceed \$1 billion in life cycle costs.
- Level II: Programs with life cycle costs between \$300 million and \$1 billion.
- Level III: Programs with life cycle costs that are less than \$300 million.

Coast Guard "major acquisitions" are considered Level I and II acquisitions. The Coast Guard's Acquisition Directorate currently manages 17 major acquisitions. Several other Coast Guard assets need to be replaced or updated and efforts to study or undertake additional major acquisitions are under consideration.

#### **Coast Guard's Acquisition, Construction, and Improvement Budget**

The Acquisitions, Construction, and Improvements (AC&I) account funds the acquisition, construction, and physical improvements of Coast Guard owned and operated

vessels, aircraft, facilities, aids to navigation, information management systems and related equipment. The President requests \$1.42 billion for the AC&I account in FY 2012, a reduction of \$98 million (or -6.5 percent) below the annualized level provided by the FY 2011 Continuing Resolution which expires on April 8, 2011.

The budget request includes approximately \$971 million for the acquisition of aircraft, vessels, and communications systems formerly considered as components of the Integrated Deepwater System. Congress has appropriated over \$7.1 billion to date for the Deepwater program.

The President's budget also requests \$451 million in other capital costs. This includes the acquisition of small boats, the construction of shore facilities and aids to navigation, as well as funds to rehabilitate Coast Guard servicemember housing.

The budget request also includes a Congressionally mandated five year Capital Investment Plan (CIP) which provides estimates of out year spending on planned asset acquisitions and other capital expenditures. The CIP also includes estimated total acquisition costs and acquisition completion dates for each expenditure.

#### **Recent GAO Reports**

The Government Accountability Office (GAO) has conducted several reviews of the Coast Guard's acquisition programs over the past ten years. GAO completed two reports on Coast Guard acquisitions in the past year:

- The July 2010 report (*Deepwater Requirements, Quantities, and Cost Require Revalidation to Reflect Knowledge Gained*) found the Coast Guard has continued to take steps to improve oversight and management of its acquisition program and building its acquisition workforce, but that the former Deepwater program exceeds the 2007 cost and schedule baselines and the program is unlikely to meet system-level performance baselines.

The report recommends that the Coast Guard complete an overall assessment that clarifies the quantities, mix, and cost of assets needed to meet requirements, given that the current Deepwater baseline is no longer feasible, and that the results be reported to Congress.

- The GAO is expected to release a report prior to the Subcommittee's April 13, 2011 hearing entitled *Opportunities Exist to Further Improve Acquisition Management Capabilities*. In a draft of the report, the GAO found the Coast Guard has continued to reduce its acquisitions workforce vacancies, realized cost savings by leveraging agreements with Department of Defense (DoD), and updated its acquisitions policies to reflect best practices and previous GAO guidance, but that unrealistic budget planning will likely lead to further cost and schedule issues and agreements with the DoD are not readily

accessible to the acquisitions workforce. The draft report recommends the Coast Guard take steps to ensure program staff has access to interagency agreements with DoD.

### Issues

#### *Increasing Costs & Schedule Delays*

Costs have continued to increase and delivery schedules have continued to slip for the Service's recapitalization effort. According to the GAO, the current total acquisition costs for its 17 major acquisitions are expected to exceed \$28 billion, nearly \$4 billion over the \$24.2 billion 2007 baseline. Of 12 major acquisitions with approved baselines, 10 were behind schedule, some by several years. The recapitalization program is currently expected to end in early 2030's. Rising prices and schedule delays can be attributed to several factors:

- **Funding – Inconsistent and insufficient annual funding for the Service's capital acquisitions especially in the early years of the Deepwater program delayed the development of certain assets.**
- **Asset Development Failures – The Service spent hundreds of millions to develop assets that failed in their development or in operational testing, including: nearly \$100 million to convert 8 110' patrol boats to 123' (the vessel hulls buckled in sea trials); \$25 million to develop a replacement for the 110' patrol boat using a "composite hull technology"; \$119 million to develop the Eagle Eye vertical take-off unmanned aerial vehicle (the unmanned helicopter crashed several times in testing); and \$11.7 million to develop small boats intended to be launched from the stern of the National Security Cutter (NSC).**
- **Ongoing Capability Rebaselining – In 2004 the Service began a complete rebaselining of the number and types of assets to accommodate additional capabilities needed to meet post-September 11 mission requirements. Although the rebaseline was approved by DHS in 2007, the Service continues to rewrite capability requirements for certain assets under development such as the Offshore Patrol Cutter (OPC) and revise them for others currently in production.**

The Service recently completed a Fleet Mix Analysis which is expected to include yet another rebaselining of capabilities for all the assets in the recapitalization program. This document, similar to the 2004 rebaseline, could significantly increase total acquisition costs and further delay the delivery of new assets and technology. The Subcommittee formally requested this document from the Coast Guard in February 2010, but has yet to receive it.

- **Unrealistic Budget Planning** – The Service’s Capital Investment Plan includes estimates of significantly higher levels of sustained funding for capital acquisitions over the next five years than the Service has been appropriated in recent years. DHS acquisition oversight officials informed the Service earlier this year that breaches in acquisition schedules are inevitable due to future decreases in available resources.
- **Office of Management and Budget’s “Full Funding” Policy** – OMB’s “full funding” policy laid out in Circular A-11 requires the Coast Guard to have funds available to cover the cost of long lead time materials, production, and post production activities before entering into a construction contract for National Security Cutter (NSC) #5. The previous four NSCs were purchased prior to OMB’s decision to implement its “full funding” policy. This late change in policy could delay the delivery of NSC #5 by up to a year and add an estimated up to \$60 million to the cost of the vessel.
- **Management Challenges** – Although the Service has instituted several reforms to improve contract oversight and management, many challenges still remain. The Coast Guard reported in December 2010 that 12 of its 17 major acquisitions face execution risks that require management attention. In some cases, a management decision on how to mitigate risks has been put off for several years. For instance, the HC-130J program has logistics assessment risks that have required management attention for three years.
- **Other Factors Influencing Cost and Schedule** - Various market factors, such as a labor shortage at the Northrup Grumman Shipyard after Hurricane Katrina, drove up labor costs while reducing productivity. Material costs continue to rise 3 to 7 percent annually and delays have caused cost increases to compound against the baseline.

#### *Failure to Provide Anticipated Capability Improvements*

The original vision for the Deepwater program was for newly acquired and upgraded assets to operate more efficiently and effectively through the use of new communications systems and other technologies to significantly increase the capabilities. In several ways, assets delivered to date have not provided the full array of anticipated increased capability. For instance:

- **Vertical take-off Unmanned Aerial Vehicles** – The NSC was designed and built to carry as many as four vertical take-off unmanned aerial vehicles (VUAV). The VUAV’s were expected to extend the range and effectiveness of the cutter. Two NSC’s have been delivered to date without VUAVs. The Service continues to work with the Navy to develop a VUAV, but cannot

provide an estimate of when the first NSC will be outfitted with a VUAV. No funds are included in the CIP to acquire VUAVs over the next five years.

- Unmanned Aerial Vehicle – The original Deepwater solution called for the Service to acquire unmanned aerial vehicles (UAV) to operate from Coast Guard air stations and provide a new, more efficient mission capability. Although other DHS agencies have acquired and effectively used UAVs, the Coast Guard has not. Despite a 23,000 mission hour gap in the marine patrol aircraft fleet, the Service has not budgeted any funds over the next five years to acquire a UAV.
- Cutter Boats – The NSC was built to carry two classes of stern launched small boats each with a different size and capability to improve the cutter's range and effectiveness. The larger of the two boats did not perform as required and the smaller boat had to be modified to perform correctly. The Service recently solicited industry for a solution to replace both classes of small boats. Meanwhile, the NSC cannot operate at its full capability.

The decision to move forward with the NSC was based on the vastly larger area that could be patrolled by the vessel using the VUAVs and cutter boats. With neither of these assets, the NSC is a very expensive flag ship that covers little more area than existing smaller, cheaper cutters.

The OPC was originally designed to stern launch small boats as well. However, due to cost constraints, the Service has rejected those plans. The OPC is now being designed to lower small boats over its side in a time consuming and inefficient manner.

- Multi-Crewing - The Coast Guard's plan for meeting mission hour baselines for the NSC and OPC requires operating both assets at least 225 days a year. In order to do so, it must engage in multi-crewing whereby four crews will rotate among three ships. Although the Coast Guard has taken delivery of two NSCs, it still has no plan to begin multi-crewing.

#### *Legacy Asset Sustainment*

Delays in the Coast Guard's recapitalization program have placed significant strains on legacy assets. The continued reliance on these assets, which have surpassed service lives and are failing at increasing rates, has undermined mission readiness and performance. The service estimates an approximate 23,000 mission hour gap in the marine patrol aircraft fleet; a 33,000 mission hour gap in the major cutter fleet; and a 103,000 mission hour gap in the patrol boat fleet. The cost to maintain legacy assets continues to grow at the expense of investment in new assets. For instance:

- High Endurance Cutters - The 378 foot High Endurance Cutter (WHEC) fleet is currently only achieving 75% of their targeted days away from homeport. Only three of the 10 cutters are currently in operational service. At the same time, its operating costs are \$3.7 million per cutter, more than three times their Standard Support Level (SSL) funding. The Service recently spent more than \$4 million to complete emergency repairs to two of these vessels. Despite repeated assurances, the Service has not completed a condition survey of the fleet and has no plans to conduct a service life extension project on these cutters. The Coast Guard has not budgeted for a WHEC sustainment program over the next five years.
- Patrol Boats - The Coast Guard is close to completing a \$180 million sustainment project on a portion of its 110' patrol boat fleet. The sustainment project was put in place after 110' to 123' patrol boat conversion project failed.

#### *Unbudgeted Capital Needs*

The Service's CIP provides estimates of out year spending on asset acquisitions and other capital expenditures. The CIP also includes estimated total acquisition costs and acquisition completion dates. However, the CIP fails to adequately budget for several pressing capital needs including:

- Shoreside Infrastructure - In order to afford to recapitalize its assets, the Coast Guard has developed a significant shoreside infrastructure backlog which includes stations, support facilities, and servicemember housing. The Coast Guard currently has a backlog of over 40 prioritized shore facility improvement projects with an estimated combined cost of \$581.5 million. The Service plans to spend almost \$300 million over the next five years to address the backlog.
- Ice Breakers - The Service currently operates the nation's only Class I icebreakers. Both vessels were built in the mid 1970's, have surpassed their service life, and are currently out of service. The Coast Guard is decommissioning one of these icebreakers in FY2011 and completing an overhaul of the second to extend its service life a few more years. Although analysis by independent parties have concluded that a need exists for the United States to maintain a Class I icebreaking capability, the Service has not budgeted for a replacement icebreaker in the next five years.
- Buoy Tender Fleet - Much of the Coast Guard's fleet of buoy tenders and harbor tugs have exceeded planned service lives. The Inland Buoy Tenders, 225 foot Sea-Going Buoy Tenders, 175 foot Coast Buoy Tenders, and 140 foot Icebreaking tugs will all require replacement or significant overhaul programs

to extend their service life. The Coast Guard has begun survey and design work, but has not budgeted funding over the next five years for construction.

*Acquisition Reform*

The Coast Guard has made significant improvements to its acquisition process over the last few years, but issues remain, such as:

- **Workforce Vacancies** – The Service continues to have trouble recruiting experienced acquisition professionals. Although it has declined in recent months, the vacancy rate in the Acquisition Directorate exceeds 14 percent. The GAO found that vacancies rates in certain acquisition programs are as high as 80 percent. The failure to recruit and retain qualified acquisition professionals slows the acquisition of new assets and places the program management at risk.

**WITNESSES**

Vice Admiral John Carrier  
Deputy Commandant for Mission Support  
United States Coast Guard

Mr. John P. Hutton  
Director of Acquisition and Sourcing Management  
Government Accountability Office

## IMPROVING AND STREAMLINING THE COAST GUARD'S ACQUISITION PROGRAM

WEDNESDAY, APRIL 13, 2011

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

The subcommittee met, pursuant to call, at 10:00 a.m., in Room 2167, Rayburn House Office Building, Hon. Frank LoBiondo (Chairman of the subcommittee) presiding.

Mr. LOBIONDO. Good morning. The subcommittee will come to order.

The subcommittee is meeting this morning to examine the status of the Coast Guard's acquisition programs. In 2002, the Coast Guard signed the contract to begin the acquisition of the program formally known as the Integrated Deepwater System. Deepwater was supposed to provide a complete recapitalization and modernization of the Service's larger aging assets as well as an outdated communications and information system over a 20-year period. Well, at least that is what we were promised.

Now, nearly a decade later, the Service has less to show for their investment of over \$7 billion in taxpayer money than it should. Although there has been some added capability with a few recapitalized assets delivered to date, the fact remains we are not where we should be. In fact, I don't even think we are close. The program remains significantly over budget and several years behind schedule.

In addition, serious questions remain about whether the assets being delivered meet expected capabilities. I will remind everyone, this was a big selling point with Deepwater, the capabilities aspect of this. The delays in the recapitalization program have put a tremendous strain on legacy assets which has resulted in increased operating costs, a rising number of operational failures, and large gaps in mission readiness and performance.

One of the many examples of these problems is the National Security Cutter. To date, the Service has taken delivery of two National Security Cutters. Both vessels represent tremendous improvements over the 45-year-old vessels they are replacing. However, the program is currently 2 years behind schedule and 38 percent over the revised 2007 budget. In addition, both vessels will require substantial retrofits to meet expected service lives. That one is really hard for me to understand and accept.

Furthermore, both vessels were designed to carry two classes of stern-launched small boats, each with different size and capability

to improve the cutter's range and effectiveness. That was viewed as a very good thing. The larger of the two boats did not perform as required and the smaller boat had to be modified to perform correctly. The Service recently solicited industry for a solution to replace both classes of small boats. Meanwhile, the two NSCs operate without expected capabilities. You just don't expect that from new assets, I am sorry.

The NSC was also designed to carry up to four vertical takeoff unmanned aerial vehicles to extend the cutter's range and effectiveness, but neither vessel is outfitted with the VUAVs. In fact, the Coast Guard abandoned its original plans to acquire VUAVs.

Finally, the NSC was intended to operate for 225 days at sea, but the Coast Guard has yet to implement the crewing plan to make that a reality.

As the chart on the screen indicates, the NSC is not alone in suffering from setbacks. Using the Coast Guard's 2007 re-baseline as a guide, of the Coast Guard's 17 large acquisition programs, 10 are over budget, 8 are behind schedule, 6 are both over budget and behind schedule. If we use the original Deepwater baseline as a guide, nearly all of these programs would be over budget and behind schedule.

For the information of Members, the chart on the screen primarily uses the Service's 2007 re-baseline as a point of comparison.

The Service recently completed another effort to review the types and numbers of assets needed to meet mission requirements. This subcommittee has repeatedly requested this document—I reiterate, has repeatedly requested this document—because it has the potential to significantly increase costs and further delay asset deliveries. Unfortunately, the Service refused to provide it to us.

Let that sink in for a minute.

Meanwhile, delays in the Coast Guard's recapitalization program have placed significant strains on legacy assets. The continued reliance on these assets, which have surpassed their planned service lives, are failing at increasing rates, has undermined mission readiness and performance. The Service estimates a 23,000 mission hour gap exists in the maritime patrol aircraft fleet, a 33,000 hour mission gap in the major cutter fleet, and a 103,000 hour mission gap in the patrol boat fleet. Furthermore, the cost to maintain legacy assets continues to grow at the expense of investment in new assets in what Admiral Allen used to call a "death spiral."

Finally, in order to pay for the Deepwater program, several sacrifices were made in the budgets of other critical acquisitions. As a result, the rehabilitation of dilapidated housing for our service men and women has been put off and needed investment in buoy tender and icebreaker fleets have been delayed. In fact, the Coast Guard has at least eight classes of assets where the need for an acquisition program can clearly be demonstrated, but no acquisition plan or budget even exists.

The Coast Guard leadership we have here today was not here 10 years ago and is not responsible for the past problems. We understand that. But I was here 10 years ago and I know what we were promised, and this is not it. And this is the biggest group of cheerleaders that you are going to have in the Congress of the United States that you are before here today, and all this that I am talk-

ing about that is going on is going to be absorbed by Members who are not paying the attention that we are, and it is not leading to a good thing.

The Coast Guard has made great strides to turn the program around in recent years, and I commend them for that. But now it is time to deliver results for the taxpayer, and in particular for the men and women of the Coast Guard, who desperately need these assets to successfully conduct their missions.

I hope, I sincerely hope our witnesses will explain what the Service intends to do to mitigate legacy asset failures and short side infrastructure backlogs while ensuring the upgraded assets and technology set to be delivered in the future meet the mission need requirements and come in on budget and on time.

With that, I would like to yield to Mr. Larsen.

Mr. LARSEN. Thank you, Mr. Chairman, and thank you for convening this morning's hearing to continue the subcommittee's oversight of the U.S. Coast Guard's major acquisition programs and policies. I appreciate the opportunity to examine the status of the Coast Guard's acquisition activities and to assess current acquisition management challenges.

The Coast Guard is a multimission agency with a diverse portfolio of operations, including vessel inspections, search and rescue, port security, and oil spill response. In short, our Nation's guardian of the sea protects our coasts, ensures safe and efficient maritime commerce, and supports hundreds of thousands of maritime jobs.

So when the Coast Guard began recapitalizing in 1996, it set out a daunting task. The Coast Guard intended to replace or modernize its aging fleet of over 90 cutters and some 200 aircraft, and it attempted to do so through an unproven procurement process using a single entity to fulfill its needs.

By the time the Deepwater contract was executed with the integrated Coast Guard systems in June 2002, GAO and others had already raised concerns. As was made painfully clear during a course of subcommittee oversight hearings on this issue during the 110th and 111th Congresses, the Coast Guard's past oversight and management of its major system acquisition, especially of the \$27 billion Deepwater program which was to procure these entirely new fleets of vessels and aircraft, was woefully insufficient and ineffective.

Regrettably, the Service's inadequate oversight at the time led to substantial cost overruns, design flaws, delays in delivery of new assets, and perhaps worst of all, a diminution of the Coast Guard's operational capabilities at sea and in the air. The GAO reaffirmed this determination through multiple analyses. GAO has conducted no fewer than 15 audits and evaluations of the Deepwater program since 2001.

So I look forward to hearing this morning from John Hutton, GAO's Director for Acquisitions and Management, as the GAO releases its latest update on the Coast Guard's progress in reforming this acquisition process.

To provide the necessary course correction, the Congress included in title IV of last year's Coast Guard reauthorization legislation specific provisions to overhaul the Service's acquisition policies. New requirements were the appointment of a chief acquisition offi-

cer; imposition of a system of acquisition controls to ensure that operational requirements are well defined before initiating acquisition efforts; new requirements to ensure all required assets undergo thorough testing; and the development and maintenance of an acquisition and management career path within the Service. So I am very interested in hearing from Admiral Currier on the Coast Guard's progress in implementing these reforms.

Mr. Chairman, acquisition policy is not just a function of the process. Our policies are also reflected in budgetary resources we devote to programs. At our budget oversight hearing on March 1st we heard a lot about doing more with less. However, I believe that we have established that the more likely outcome of fewer resources for the Coast Guard is that it will be doing less with less.

While recent budget cuts have largely spared the Coast Guard, the massive cuts in discretionary spending in the budget resolution presented to the House and due on the floor Friday do not portend full funding of the Coast Guard's asset replacement program.

The Coast Guard's acquisition, construction and improvement account average was \$1.38 billion from fiscal year 2007 through the request for 2012. However, the Coast Guard's projected funding for fiscal years 2013 through 2016 average \$1.9 billion annually, a \$520 million annual increase. This level greatly exceeds any historical levels and will likely need to be adjusted down unless Congress makes other choices.

We are past the time when we can discuss cuts in the abstract. Proposed cuts will have consequences. Can the Coast Guard respond to oil and other spills? Can it respond to a tsunami on the West Coast? Can it perform all the missions we placed upon it?

So I look forward to working with Admiral Currier and the Coast Guard in assessing the real impacts of possible cuts.

The subcommittee also, Mr. Chairman, I think should not overlook the critical importance of other ongoing Coast Guard acquisition programs, such as Rescue 21, the Service's sustainment programs for legacy assets that remain in service, and several unbudgeted acquisition needs, including the need, Mr. Chairman, not surprisingly hearing it from me, the need for polar icebreakers.

It remains paramount that the subcommittee, the GAO and other observers continue to shine a light on the Coast Guard as we move forward to ensure that its acquisition programs are mission driven, cost-effective, and, most importantly, as you have pointed out so ably, Mr. Chairman, accountable.

Mr. Chairman, the Coast Guard and the men and women who serve need the capabilities to address the myriad of demands we place upon them. But as you noted, we need to get this right. History demonstrates the Coast Guard will be relying on the assets it purchases today for many more years than anticipated. We also need to be practical and recognize that a course correction of this magnitude simply does not happen overnight.

With that, Mr. Chairman, I yield back and look forward to our witnesses.

Mr. LOBIONDO. Thank you, Mr. Larsen.

Ms. Hirono, do you have a statement?

Ms. HIRONO. Very briefly. Thank you, Mr. Chairman and Ranking Member Larsen.

I join my colleagues in reiterating our support for the Coast Guard. In Hawaii, particularly District 14, is the largest area that the Coast Guard has responsibility for. I know that members of District 14 were involved in helping with tsunami disaster relief in Japan and you were involved in the Deepwater disaster. So we know the good works that you do. But this committee is also very aware of the acquisition problems that you have had, and I sat in on hearings of the full committee regarding your Deepwater project problems.

So, as we look at the scarce resources and the cuts that are coming down the pike, I really want to reiterate my support for what you are doing. We need to be assured of the accountability and the effectiveness of the operations that you are undertaking with the resources that you have and the reforms you have made, what you are implementing and putting in place to make sure you are able to do as good a job as possible for all the demands made only your service.

Thank you.

Mr. LOBIONDO. Thank you.

Our witnesses today include Coast Guard Vice Admiral John Currier, the Deputy Commandant for Mission Support, and Mr. John P. Hutton, Director of Acquisition and Sourcing Management for the GAO.

I also would like to thank Admirals Atkins, Taylor and Rabago, who lead the Coast Guard's Capabilities, Budget and Acquisition Directorates for attending today. I would like to welcome our witnesses and thank them for being here.

Admiral Currier, please proceed.

**TESTIMONY OF VICE ADMIRAL JOHN P. CURRIER, DEPUTY COMMANDANT FOR MISSION SUPPORT, U.S. COAST GUARD; AND JOHN P. HUTTON, DIRECTOR OF ACQUISITION AND SOURCING MANAGEMENT, GOVERNMENT ACCOUNTABILITY OFFICE**

Admiral CURRIER. Thank you, Mr. Chairman.

Chairman LoBiondo, Ranking Member Larsen and members of the subcommittee, I thank you for the opportunity to update you today on Coast Guard acquisition programs and the outlook of our ongoing and much needed recapitalization portfolio. I have prepared a full written statement and ask for its inclusion in the record, sir.

Mr. LOBIONDO. Without objection, so ordered.

Admiral CURRIER. Thank you.

In recent years, the Coast Guard has made noteworthy improvements in the acquisition program. The creation of the Deputy Commandant for Mission Support, assumption of systems integrator responsibilities for all major acquisition programs, creation of a disciplined capabilities development and the strengthened oversight by Coast Guard technical authorities better positions the Service to manage its acquisitions with greater efficiency and be prepared to make tough trade-offs when it is due in the challenging fiscal environment that we face today.

These changes would not have been possible without the leadership and effective oversight of this subcommittee through the en-

actment of the Coast Guard authorization bill of 2010. This act, built on several initiatives that we had started in the Coast Guard and sought to implement, provided us with critical new authorities to strengthen our acquisition workforce.

In my new role as Deputy Commandant for Mission Support, formerly Chief of Staff, I would also like to take this opportunity to personally thank you for your contributions, continued support and oversight.

The Commandant and the administration consider recapitalization one of our service's highest priorities. The administration recognizes the urgent need by proposing the largest AC&I request in Coast Guard history. However, the deteriorating state of our legacy cutters, aircraft, boats and shore facilities are impacting the ability of our men and women in the field to achieve mission success.

We find ourselves in a state of block obsolescence, with many of our assets, including aircraft and vessels, simultaneously reaching the end of their service lives. Our aging legacy fleet is both increasingly unreliable and increasingly expensive to maintain effectively. We need to replace these ships and aircraft as soon as possible. Our acquisition program is designed to provide these necessary assets and capabilities at the best value to the American taxpayer.

Despite the opportunities and challenges that we continue to face, the Coast Guard is achieving mission success right now with our newly delivered assets, our capabilities and our infrastructure. The National Security Cutters *Bertholf* and *Waesche* are operational today. *Bertholf* recently interdicted more than 12,500 kilograms of cocaine. Her commanding officer reported that *Bertholf* easily prosecuted and tracked multiple targets, including go-fast boats, using the cutter's full electronic suite of sensors and communications gear. They were able to coordinate small boat, maritime patrol aircraft and helicopter end game tactics to achieve mission success.

Air Station Miami, the HC-144 maritime patrol aircraft, or MPA, successfully identified and helped interdict two vessels attempting to smuggle drugs into the U.S. and accomplished one search and rescue mission in a single 14-hour patrol, something that we would never have been able to do with our previous assets.

A response boat medium stationed in San Juan was recently credited with intercepting 95 bales of cocaine. These boats are providing thousands of hours of effective search and rescue and port security operations around the Nation.

Our Rescue 21 program has resulted in over 200 lives saved in 28,000 rescue missions due to its enhanced capabilities.

We are planning to launch the Fast Response Cutter this month. The project is on budget, and the fiscal year budget request contains a request for six more of these vessels in a fixed price environment.

Our general transition to fixed price contract structures represent itself growing maturity in the stability of our acquisition programs the Coast Guard has awarded directly to prime contractors for the National Security Cutter, maritime patrol aircraft and other assets in our relationship with ICGS as it ends and we closely integrate our technical authorities at all stages of the acquisition and sustainment process.

All of our acquisition project managers are certified currently at the highest levels of DHS certification levels. These actions have enabled the Coast Guard to generate more predictable costs and stabilized requirements at decreased risk to the government.

We are faced with many challenges, managing a multiyear, multibillion-dollar acquisition portfolio in today's constrained fiscal environment. At the same time, our legacy asset fleet is expensive to maintain and less reliable to operate.

Our program of record represents a mix of assets necessary to carry out our statutory missions. We are replacing a larger number of legacy assets with fewer, more capable aircraft and cutters. We have put in place a program of rigorous and ongoing analysis of Coast Guard mission requirements to define our acquisition needs. We are constantly making trade-offs to better balance our performance and will continue to do so in the future.

The fiscal year 2012 budget request and the capital investment plan represent our service priorities and reflect our commitment to the Department and the administration rebuilding the Coast Guard.

We are acquiring an enduring versatile capability in this fleet that will protect American lives, property and resources over the next several decades. The Coast Guard is 5 years into a long journey to rebuild its acquisition enterprise, integrate mission support, introduce rigor into requirements generation, and strengthen our capabilities in contracting to create a regime where costs are predictable, program risk is identified and schedules are met.

I can attest today that we have begun to demonstrate marked return on investments as we recapitalize the Coast Guard. I look forward to further discussing these endeavors and stand ready to answer any questions you may have.

Thank you, Mr. Chairman.

Mr. LOBIONDO. Thank you, Admiral.

Mr. Hutton, please.

Mr. HUTTON. Thank you, Chairman.

Chairman LoBiondo, Ranking Member Larsen and members of the subcommittee, thank you for inviting me to discuss the Coast Guard's efforts to improve its management of its major acquisition programs.

Drawing from our new report that we released today, I will highlight some of the Coast Guard's recent efforts to improve its acquisition management as well as some of the program challenges. Then, based on some ongoing work, I will provide an update on the Coast Guard's efforts to address a recommendation we made last year for them to complete an analysis that clarifies the quantities, mix, and costs of Deepwater assets considering the fiscal constraints.

The Coast Guard continues to take steps to improve its acquisition management. Specifically, the Coast Guard has updated its policies and processes, increased its in-house acquisition workforce capacity, leveraged DOD agreements to support its major acquisition programs, and to further leverage DOD expertise, we recommend in today's report that the Coast Guard take some additional steps to help better ensure that its program staffs have

ready access to the 80-plus interagency agreements and other arrangements with DOD.

Now, while the steps the Coast Guard continues to take are positive, most major programs experience some challenges in program execution, resources and/or schedule. The report we are issuing today covers these challenges in more detail. However, I would like to focus on one particular challenge, and that is unrealistic budget planning, which has contributed to program breaches and will likely lead to future breaches.

When a current 5-year capital investment plan reflects funding levels that are significantly lower than initially planned, that program is prone to fall behind. In fact, several major acquisition programs reported a baseline breach due at least in part to funding profile changes resulting from the 2011 capital investment plan. More breaches may occur if the Coast Guard continues to conduct long-term planning based on funding levels that are much higher than past appropriated or requested levels.

For example, the Coast Guard plans on \$2.35 billion in acquisition funding in fiscal year 2015. That is an amount that will include construction of three major surface assets, the National Security Cutter, the Offshore Patrol Cutter and the Fast Response Cutter. But the Coast Guard has not received more than \$1.5 billion for its acquisitions in any recent year, and with the rapidly building fiscal pressures facing our government, this unrealistic budget planning exacerbates the challenges the Coast Guard programs face.

To its credit, the Coast Guard has acknowledged that it needs to establish some priorities among their major programs and make these trade-offs between programs to ensure that the budget planning fits with historical budget constraints. The key will be whether and how the Coast Guard makes such trade-offs.

This is a key moment in time, and it is important that the Coast Guard does not push trade-off decisions to tomorrow. This, of course, brings me to my last point, the Coast Guard's Deepwater fleet mix analysis, which began in October 2008, and our July 2010 recommendation that the Coast Guard assess their costs, capabilities and quantity trade-offs within the Deepwater program in light of the program cost increases.

Last July, we reported that the Coast Guard initiated a second phase of its fleet mix analysis because the first phase, which was completed in December 2009, was not cost constrained. Since that time, we received and have been reviewing the phase one analysis and continue to do so.

The first phase assessed asset capabilities and mission demands to identify a fleet mix that would help meet the Coast Guard's long-term mission performance goals. The result was what the Coast Guard termed an objective fleet that was about twice the size of the current Deepwater program of record, and the analysis indicated, and this is a Coast Guard analysis, an estimated acquisition cost of as much as \$65 billion. The analysis also assessed other fleet mixes that fell between the program of record as indicated in the current 2007 DHS-approved baseline and the objective fleet, but did not consider any fleet mixes smaller than the baseline program.

While the second phase of the analysis includes cost constraints, they appear to be unrealistic given the level of past appropriations and the current fiscal challenges facing our Nation. The upper bound is about \$1.7 billion per year. That is more than Congress has enacted for the entire Coast Guard's acquisition portfolio in recent years. More importantly, we understand that the Coast Guard does not plan to assess any fleet mixes smaller than the program of record, a step that would help them better prepare for and make any tradeoff decisions, given our Nation's fiscally constrained environment.

Mr. Chairman, this concludes my prepared statement. I would be happy to respond to any questions you have.

Mr. LOBIONDO. OK. I thank you.

Mr. Hutton, if any of us are oblivious to the pressures, the budget pressures and the fiscal crisis we are in, I don't know where you have been, so most of the people in here understand it. But what do you consider the greatest risk if the Coast Guard doesn't get their act together?

Mr. HUTTON. Well, first of all, as we have noted, I think one of the important things is that you want to have a program that the acquisition directorate can execute. To do that, you have to make sure that your planned resources are going to marry up with the acquisition strategy. If you don't have that, you are going to have situations where every year you start changing your programs to compensate for this unrealistic planning. I think that is a big part of trying to address this issue. I think it is a good thing that they are doing their fleet mix analyses. It is a continuous effort, I believe, on their part.

What we have been talking about here though is in the current fiscal constraints, it seems reasonable that you would also consider some of the trade-offs and scenarios if you don't get the money you need, so you can start looking ahead and thinking how you will react.

As Admiral Currier mentioned, he said it is very expensive to keep the legacy fleet operating, and you have to constantly make those trades between sustaining the old and acquiring the new. And I think the budget and the connection with the acquisition strategy is a key component of that.

Mr. LOBIONDO. Thank you.

Admiral Currier, Chairman Mica and I requested the fleet mix analysis 14 months ago and we still haven't received it. At our hearing last month, Admiral Papp promised us he would provide a timetable on when we would receive the document. We have not received the timetable.

When will we receive the cost constrained fleet mix analysis?

Admiral CURRIER. Thank you for that question, Mr. Chairman.

The phase one of the fleet mix analysis that was just mentioned by Mr. Hutton, which is basically a survey from a threshold to an objective of what our fleet could be, and supports, by the way, the program of record, has been submitted to the Department for review. Phase two of that will be completed this summer. Phase two is the overlay that gives the costed aspects of the fleet so that we can develop a more complete picture of what our needs might be.

But I want to reiterate, fleet mix analysis number one, much of the data of which is in the GAO report that was delivered today, shows a threshold which is the program of record out to an objective which expands the Coast Guard asset base to more completely satisfy the 11 statutory missions that we are charged with.

Specifically to your point, fleet mix analysis one is in review at the Department. We are using all of our capabilities to ensure that it is expeditiously reviewed and that it is provided to you, sir. I am unable to do that directly at this time.

Fleet mission analysis two, phase two costed, will be completed this summer and submitted this summer to the Department for review as a complete package.

Mr. LOBIONDO. Well, thank you, and I appreciate that. But here is a little tip: When a request is made and 14 months go by and we really don't hear anything, this is not a good thing. And when the Commandant makes a statement and we still don't have what the Commandant told us we would get, that is a problem. So there needs to be at the very least an improved level of communications so that we can understand what you are doing or why we are not getting something. We are trying not to be unreasonable here, but from our perspective, we are your biggest cheerleaders, it appears we are being ignored.

A couple more questions before I turn it over to Mr. Larsen. Assuming the fiscal year 2011 appropriations become available as we expect they will be at the end of this week, when will the Coast Guard sign a contract for NSC number 5?

Admiral CURRIER. Sir, if the appropriation is approved and we receive the money, we could award the contract for NSC 5, the production contract for NSC 5, in the fourth quarter this summer, the fourth quarter of the fiscal year this summer, late in the summer. We have the proposal in hand and we have already started close review.

Mr. LOBIONDO. Thank you. The NSC was designed and built to carry out as many as four vertical takeoff and unmanned aerial vehicles. We talked about that. It was expected to extend the range and effectiveness. We talked about that. A variety of other things it was designed to replace and enhance the capabilities.

How do you justify the cost of the National Security Cutter if, according to the Inspector General, it is only providing a similar level of capability as the vessel it is replacing?

Admiral CURRIER. Thank you for that question, sir.

Plain talk, National Security Cutter is much more capable in its current state than the High Endurance Cutter ever was. Its ability to carry an H-60 aircraft plus H-65s, its ability to carry two H-65 aircraft when required, its electronics detection suite, its radars, all of its detection and electronics suite, make this ship much more effective, much more effective than the current assets that we have.

We won't achieve full potential of this ship until we get unmanned aerial vehicles in a proper regime of maritime patrol overhead to maximize the capabilities of the ship. But currently, as it sits in the water, it is significantly more capable than the High Endurance Cutters that we have today.

Mr. LOBIONDO. Thank you, Admiral.

Mr. Larsen.

Mr. LARSEN. Thank you, Mr. Chairman. Rather than jump to a different issue, I will just stick with the theme on this particular issue, the security cutter, and the unmanned vertical aerial vehicles.

What is the status of the effort to develop one and how is the Coast Guard collaborating with the DOD to adapt already proven technology for the Coast Guard's own use?

Admiral CURRIER. Sir, I will give you just a bit of history on this thing. The unmanned aerial vehicle, we originally entered an endeavor through our commercial systems integrator that we previously had a contract relationship with. We didn't see this as coming to fruition. It was leading science, it was expensive and it was high risk.

We changed our philosophy, our approach to this, and went with DOD. The Coast Guard is a midsized Federal agency and is very capable, but it has no business leading science in something as complex as unmanned aerial vehicles, particularly rotary wing.

We have partnered closely with the Naval Air Systems Command. As a matter of fact, I had a discussion yesterday with its Commander, talking about our partnership on unmanned aerial vehicles. We are closely watching their Fire Scout Program. We think when they bring that home, that will satisfy many of our mission requirements and be a great fit for the National Security Cutter.

But, as I said before, to manage costs, manage risks with this leading of science type enterprise, we chose to change directions and closely ally with Navy through Naval Air Systems.

Mr. LARSEN. I don't mind that you changed direction to partner with the Navy. I am just interested in the status. As you have noted, having the capability of the National Security Cutter to the extent that we want it likely would include having the ability to have the unmanned aerial vehicle. So getting to that point is important. I need to move on.

This issue with regards to the ACI account and the projected budget, what you have projected, versus what historically you have received, that is troubling to me because it tells me that a man's reach should exceed his grasp. Robert Frost, right? But you have never been able to grab it in the budget. So how is the Coast Guard going to approach that?

Admiral CURRIER. Well, sir, first of all, we are caught in a difficult position, recapitalizing the entire asset base of the Service, our major assets in the Service. We are looking at a two to three decade recapitalization process, the life cycles of these assets. They are all coming due at the same time. And as the Chairman mentioned, you don't need to hear from me what an austere fiscal environment this is.

But our requirements are our requirements. We have to budget to the minimum level that we feel we can achieve that will allow us to continue this recapitalization, because if we don't do it in an expeditious manner, one of the maxims of acquisition is delays equal cost. So if we are not aggressive about pushing forward with this recapitalization, we can only expect more expensive legacy assets and more expensive new assets because of the delays that were incurred.

I understand the tensions here. I understand that we are asking more than we have gotten before. But I believe, sir, that we have proved our value to the Nation, and it is really up to Congress and the will of the people if they are willing to make that investment in their Coast Guard. I think it is justified.

Mr. LARSEN. Does the fleet analysis include an analysis of your sustainment budgets as well and how those fit into your legacy assets to be sure those can continue while you get to the point where you are actually putting new assets online?

Admiral CURRIER. Sir, I believe the fleet mix analysis is forward looking. I think it defines requirements for fleet mix of the future. There may be some mention in the phase two of this, in the costed portion of the cost of legacy assets and the offset of the new assets. But its focus is forward looking.

Mr. LARSEN. Well, let me ask then retrospectively how you are thinking about your sustainment budget to the extent you discuss block obsolescence. Does that sustainment budget, sustainment approach you are taking, does it anticipate that you are going to be shedding assets? You are prioritizing within your legacy assets as well, I assume, putting sustainment dollars into things that you think can stretch out.

Admiral CURRIER. Absolutely. Yes, sir. And to be truthful, as we bring these major new assets on board, it is unrealistic for us to expect to maintain a constant level of service because of the requirement to retire legacy assets. This would be just like buying a new car and holding the old car so that you never miss anything. It just doesn't work that way.

We are going to have gaps in operational capability, full well knowing that we are going from a fleet of 44 major cutters to 33 major cutters. But we feel that with the asset base as laid down and as designed to be employed, that we will be better off. We will actually enhance our capabilities into the future. There will be a dip in operational effectiveness and capability and operational hours though as we transition.

Mr. LARSEN. Mr. Chairman, I will have more questions.

Mr. LOBIONDO. Thank you. Ms. Hirono.

Ms. HIRONO. Thank you. Admiral, I am very gratified that the 14th District will be receiving four new helicopters to replace aging ones. That is really good news. On the other hand, I am sure that there are a lot of other places that are waiting, clearly from your testimony, for replacing aging assets.

So I am wondering, in your testimony you noted that you have established a senior level governance body known as an Executive Oversight Council. Is this the entity that determined that the 14th District should get the four helicopters? Is this council working to use your assets in the best way possible?

Admiral CURRIER. Well, ma'am, thank you for that question. I think I will answer it in two quick very brief ways.

First of all, our operational force layout is determined by our operational commanders in concert with that Executive Oversight Council through our Capabilities Directorate headed by Admiral Atkins here today. So that is an operational question of where the assets go.

How the assets are recapitalized is certainly the purview of the Executive Oversight Committee, and that body I am particularly proud of. For the first time, it integrates the supporters, the acquirers, the requirers and the resource people into a body where discussions are held on capabilities, costs and technical achievability, a great step forward for the Coast Guard.

So thanks for the question. Hopefully that provides you an answer.

Ms. HIRONO. Well, it is pretty clear that the retiring of the legacy assets and replacement of these assets with new assets, that the new assets have to be able to do a lot more, the technology involved has to be vastly improved. So who oversees your contractors or whoever is coming up with the designs for you to approve so that your capacity and capability is increased even as you have fewer numerical assets?

Admiral CURRIER. Well, the design is—first of all, our requirements are mandated. We come up with the requirements. We go out to industry for design. They have to meet those requirements. That is where the technology refresh happens. The governance of that process is this Executive Oversight Council. But it is a normal acquisition process on how we upgrade. It meets our concept of operations, our requirements, the attributes we get from industry when we put out a proposal, and all of that is governed through the headquarters Executive Oversight Council.

Ms. HIRONO. Is that oversight council working a lot better than the times that you have regarding your Deepwater project and all of the overruns and problems you have with that? Is this council doing what it needs to do to prevent the kind of problems you have with your Deepwater project?

Admiral CURRIER. Yes, it is, Congresswoman. I was part of acquisitions back in 2006 and was one of the architects of what is now our transformation into the new acquisition enterprise, which, by the way, just isn't acquisition. It integrates support, technical authority, resources and requirers on one group for the first time. I think this is a model for government. I think we are on the cusp at this time of showing true return on investment through the processes that we have put in place as we continue the recapitalization of the Coast Guard.

Ms. HIRONO. One last question. Mr. Hutton, you have heard the Admiral talk about this council and some of the processes that they have put in place to enable them to do a much better job. Are you in agreement that these are important and significant steps?

Mr. HUTTON. Specific to the council, I would agree that that is the first time, as the Admiral stated, where they are trying to bring the logistics and the requirements people together and the acquisition people and the resource people, and if the thorny issues are brought up to that council in a transparent way and are discussed, then you have the opportunity to make good decisions. But it always comes down to the decisions you make.

And I think it is also, whether it be for the fleet mix analysis, whether it be for the resource discussion, it is hard sometimes for us, and we have ongoing work right now, to really figure out where we might see a disconnect, are they decisions driven within the

Coast Guard, at the department level, or through discussions between the OMB and DHS and things like that.

But with respect to the EOC, it has met at least 40 times I think over the last 15 months. They are dealing with issues such as OPC, some of the real emerging issues, and I think there is a lot of promise for that.

Ms. HIRONO. Thank you, Mr. Chairman. I yield back.

Mr. LOBIONDO. Admiral, just a little heads up. We are probably going to schedule a hearing in September on the cost constrained fleet mix analysis. So that is a little bit of a heads up there.

Admiral, on the cutter boats, the NSC was built to carry two classes of stern-launched small boats, each with a different size and capability to improve their range and effectiveness. The larger of the two, the long-range interceptor, did not perform as required, and the smaller boat, the over-the-horizon, had to be modified to perform correctly. The Service recently solicited industry for a solution to replace both classes of small boats. Meanwhile, the NSC cannot operate at full capability, especially without the long-range interceptor.

When does the Coast Guard anticipate going to full production for both classes of cutter boats and when will the NSC be outfitted with these boats?

Admiral CURRIER. Thank you, sir, for that question.

I think that this actually is a success story of not only modernization, but our setup with our integrated Acquisition Directorate. Whereas we had three classes of cutters produced by three different manufacturers or builders, we were going to have likely three different kinds of small boats, or more.

What we have done is we have consolidated requirements and we have come up with a plan to only acquire a 7-meter cutter boat and an 11-meter cutter boat. The 11-meter cutter boat will be the long-range interceptor that is on the National Security Cutter. The 7-meter cutter boat will fit the National Security Cutter, the Offshore Patrol Cutter, and the Fast Response Cutter. We think this makes perfect sense from a logistics perspective on commonality of parts and support.

In the interim, with the National Security Cutters that are currently underway, they have a complement of boats. We have a Mark 4 interceptor boat, a short range boat that is on board there, that is very similar to what we use in our 270-foot cutters, and we have an additional interceptor boat that came from the 123, the 123-foot cutters that, as you know, have been decommissioned.

So both National Security Cutters that are underway have a complement of boats, but they are not the complement of boats that we will provide to them once we achieve the standard cutter boats in the 7- and 11-meter class. The 7-meter class will be tested this summer, we look for a contract award late this fiscal year, and the 11-meter small boat will be tested, further tested in the fall of this year. So we are very close to achieving commonality in cutter boats across the classes.

Mr. LOBIONDO. Thank you. Only 3 of the Service's fleet of 10, 378-foot High Endurance Cutters, is currently operational. The fleet is only achieving 75 percent of their targeted days away from home port and at the same time its operating costs are more than

300 percent over budget. The Service originally spent more than \$4 million to complete emergency repairs to two of these vessels and the Coast Guard has not budgeted for an HEC sustainment program for the next 5 years.

Two years ago, the Coast Guard assured this subcommittee it was conducting a condition survey of the HEC fleet. Can you tell me if I am wrong in that no survey was ever conducted? Was a survey ever conducted?

Admiral CURRIER. Yes, sir, a survey was conducted.

Mr. LOBIONDO. It was conducted.

Admiral CURRIER. Yes, sir. If I could just explain that one second. There are various levels of engineering survey that have taken place. A basic engineering survey of the HEC fleet took place to start to determine which cutters would be taken out of service first. An engineering study with more fidelity is currently ongoing.

But our strategy with the HEC is this: We are going to maintain that cutter to the minimal level that it is safe to operate. The cost curves on the HEC, as you have pointed out, are going exponential on us. This is a 40-year-old ship, it is very complex, and we have used it hard. We are going to maintain this ship until we replace it with our NSCs, but we are going to do it to a level that it is safe to operate and effective to operate, but no more than that. I think that is the best answer for the taxpayer.

Mr. LOBIONDO. I appreciate that. That is kind of good news and bad news. It is good news you did the survey. It is bad news, because we have a communications problem. We need to find out. I would like you to check into this and see when that was given to the committee and how it might have been communicated to the committee, because we are sort of operating in the dark that we have ever received it.

Admiral CURRIER. Yes, sir, will do.

Mr. LOBIONDO. One other question before I turn it back over to Mr. Larsen. On the maritime patrol aircraft, to date the Coast Guard has taken delivery of 11 HC-144 maritime patrol aircraft and 12 mission system pallets. The Service plans to acquire a total of 36 aircraft. The program is currently 30 percent over budget and 5 years behind schedule. In addition, even though the Service has taken delivery of a third of its planned buy, the Service has not yet begun operational testing and evaluation of the maritime patrol aircraft.

Can you tell us why the Service has acquired nearly half of its planned maritime patrol aircraft and has still not begun an operational test and evaluation phase, or are we wrong and you have conducted it?

Admiral CURRIER. Well, sir, the maritime patrol aircraft was originally initiated, the contracting was initiated through our lead systems integrator that we have replaced. Organically we are the lead systems integrator. There was a shift in contracting. There was a shift. Now we buy directly from the manufacturer with a direct contract.

That shift caused a price increase in that how we consider costing that aircraft as we got more fidelity with actuals and we added other things in, like the logistics tail that hadn't been adequately considered by the previous LSI, it drove a cost increase. We are not

seeing per se a unit cost increase in the price of the aircraft. We have just recosted it to adequately treat logistics. I think that is an explainable cost bump in what you have seen in our projections in the outyears.

As far as operational test and evaluation, from the first aircraft we received we started operational assessment. Now, we have been in limited rate production and we went to the Department with a production decision and it was decided that we needed to complete a fuller OT&E prior to getting to the decision level three or full rate production decisions. So we have been in limited rate production, but we have had an ongoing operational assessment for the whole life of this asset. I think we have shown how effective it is. Deepwater Horizon, the case I described in Miami in my opening statement.

So our plan is this: We are in limited rate production. We will complete a formal OT&E, operational test and evaluation period, this summer, and then we will go back for a full production decision in the fall, an ADE-3 we call it, and will be in full production status.

I don't anticipate a problem in OT&E because of the scope of the operational assessment that has taken place to the delivery and implementation of the first airframes.

Mr. LOBIONDO. Well, I hope you are right, because if you switch seats and you are on the subcommittee up here and you are hearing that there is no test, no formal test and evaluation, and you have bought a whole lot of assets, and something isn't right down the line, we had a situation in the past that didn't go so well with assets that were purchased and then there is litigation and all kinds of stuff. I mean, I hope you are right.

Admiral CURRIER. Sir, the operational test that has gone on, I can attest to you that the fidelity of the operational assessment from an operational perspective shows this aircraft with great promise. And throughout the entire scope of this assessment, there have been changes and upgrades and modifications to the mission pallet system at the expense of the contractor that have brought this thing to a mature state. What will be further testing in formal OT&E are the logistics, maintenance and all the peripheral things that go with it as a system. I don't anticipate a problem there.

Mr. LOBIONDO. Mr. Larsen.

Mr. LARSEN. Mr. Hutton, you have had the opportunity to reassess Coast Guard's performance in assuming responsibility for the acquisition, this movement we made from an outside LSI to internal, them having an acquisition workforce to support that.

What is your assessment of the Coast Guard's progress on that, as well within the context of your testimony that states that support contractors make up 25 percent of the Coast Guard's acquisition workforce? Can you kind of relate those two and give us an assessment of the progress of the workforce?

Mr. HUTTON. Absolutely. Overall, I would say since the 2007 and 2008 timeframe as the Coast Guard started assuming the lead system integrator responsibilities, the Acquisition Directorate in particular has been very responsive to our recommendations. They have brought their acquisition management process pretty much in line with the departmental process, which is good. They have been

responsive when we have made recommendations. You asked a question earlier about the low-rate initial production. We had a recommendation that said there ought to be a decision event there because you don't want to be buying too many before you do the operational testing. That is now in there.

So on the process side, I think they have been very good. It is always about execution, however. On the personnel side, it has been a challenge. But it is a governmentwide challenge. As many of us probably know—

Mr. LARSEN. Do you mean to say when you say it is a governmentwide challenge, just finding enough people to fill acquisition spots?

Mr. HUTTON. I think governmentwide. Having the full complement of acquisition workforce people is an issue that a lot of Federal agencies are dealing with, particularly when you get into some of the real technical skills like system engineers and cost estimators. We could always talk more about what is going on I think at the departmental level as well as at the Coast Guard.

But I would say my general assessment is they are building their acquisition workforce. When we keep going back in and looking, they are closing the gap between what they say they need and what they have. Of course, one aspect of that is they may know what they need, but then do they have the budgeted billets for that. That would be for the Coast Guard to request—they could probably talk about that more than I. But that is certainly a facet.

Using contractors, we have observed that, yes, they use contractors. Others like DOD use contractors for certain technical things. The issue, however, is what are you asking contractors to do? Is it a reoccurring long-term activity that you would rather have a government person do it? Well, maybe you need them in the short term, but what is your plan to eventually have a government person do that work? What kind of oversight are you providing the contractor?

If they are doing certain acquisition-related activities, those are things that closely support an inherently governmental decision. It is very critical then you understand what you are asking contractors to do and what enhanced oversight you might be providing.

We have observed in the past that the Coast Guard was using contractors, and we started asking more about the oversight. We were getting good indications that they understand the risks and that they are trying to make sure that the taxpayers' interests are protected and they are not losing control and accountability for decisionmaking.

So we see on the personnel side that the gap is narrowing. But I don't foresee a situation where they won't be using contractors, because in some circumstances, particularly if it is a short-term need, that might be the proper solution.

Mr. LARSEN. And has the Coast Guard made improvements in its developmental and operational testing?

Mr. HUTTON. A great question. That was another recommendation. We had some issues, I think it was covered in last year's report, maybe the year before, where we were starting to talk with the Coast Guard about what is exactly an independent test authority. At the time, I think some Coast Guard sentiment was that if

it is part of the Capabilities Directorate, that is independent enough. We felt well, it should be more independent than that. And as we noted in our report today, they now start to leverage the Navy as the independent test authority, and we think that is prudent.

Mr. LARSEN. Admiral, to the issue of Rescue 21, and we have talked about some of these other assets and other platforms, but to the issue of Rescue 21 noted in the Chairman's chart, we had 37 sectors for planned and delivered to 26 sectors. Can you discuss your plan to deploy Rescue 21 to these other areas, Great Lakes, Hawaii, any place where it is not deployed, as well as the Gulf of Alaska and Alaska as a whole?

Admiral CURRIER. Yes, sir. Certainly. Thanks for that question.

Our contract on Rescue 21 is completed in fiscal year 2012. The deployment to the Western Rivers, Puerto Rico, Hawaii, the places that you mentioned, absent the Gulf of Alaska, will be completed by 2012.

Actually, I might have misspoken a little. Let me correct the record here. The places that are planned in the original contract will be completed by the end of fiscal 2012. Western Rivers, because it doesn't require the full suite and capabilities of Rescue 21 on our river, will be recapitalized organically by the Coast Guard as they switch from analog to digital radios. So the effect of reliability and those good things from Rescue 21 will be achieved in Western Rivers, but the Coast Guard could do it much more less expensively organically.

I was involved in Rescue 21 early, and this was one of the triggers that caused us to reform ourselves acquisition-wise, because we were dealing with this contract early on. We decided at that time when we reviewed the prime contractor's look at Alaska, that they had no clue on what the cost and risk was involved in going there. Their cost estimates were unrealistically low.

We looked at it. We are experts in the area, we are the ones who have maintained the infrastructure up there for years, and felt that we could do it again organically as we switch and add incrementally to the capability up there, but do it better from a government organization perspective than through our prime contractor.

So, when those decisions were made, they were tough decisions, and I believe the subcommittee has been advised of those in the past. I stand by them. I think they make good business sense. But for the original contract, we will finish in fiscal year 2012.

Mr. LARSEN. So you finish in fiscal year 2012, but, again, is there a timeframe then for Alaska, or not?

Admiral CURRIER. Sir, at this time, as I said, this isn't a complete conversion of Alaska from legacy systems to Rescue 21. It is an incremental change. As equipment fails, we will service the site. We likely will upgrade the site at that time. So this is going to be a longer term.

Mr. LARSEN. And will the approach you take to that, like you take to the Western Rivers, will that be organic, or is that going to be built into your acquisition, your ACI?

Admiral CURRIER. We are looking at that closely now. But the current plan is to maintain the system that is there, do incremental improvements under our maintenance funding scheme,

with some minor AC&I for planning purposes as we go forward with this.

To be perfectly honest, we don't have a rock solid plan at this point for Alaska. We can maintain Alaska to the current capabilities with our current funding base. But if we look to recapitalize Alaska or add sites beyond the operational requirement that was originally established, we will have to look at an acquisition program that is AC&I funded. Currently, we have no plans to do that.

Mr. LARSEN. Mr. Hutton, I asked the Admiral earlier about sustainment budgets for the Coast Guard, sustainment for the legacy assets. And has GAO looked at the sustainment budget for the Coast Guard and whether or not it is adequate, how it fits into supporting the Coast Guard mission, how it fits into supporting the movement to new assets? And do you have an assessment of it?

Mr. HUTTON. While I am responsible for the acquisition side, I have a colleague that often looks at the operational issues. I believe they did some work last year. I don't have all the details. But we would be happy to close the loop with you on that and see how we could fill in the details.

Mr. LARSEN. Thanks. Thank you, Mr. Chairman.

Mr. LOBIONDO. Admiral Currier, Mr. Hutton, I would like to thank you very much for being here today. This was informative.

Admiral Currier, I have got good news. We are going to be spending a lot more time together in the future. It is only bad news if we can't meet some of these benchmarks. So thank you all very much. The meeting is adjourned.

[Whereupon, at 11:05 a.m., the subcommittee was adjourned.]

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**VICE ADMIRAL JOHN P. CURRIER  
DEPUTY COMMANDANT FOR MISSION SUPPORT  
BEFORE THE COMMITTEE TRANSPORTATION & INFRASTRUCTURE  
SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION**

**APRIL 13, 2011**

Good morning Mr. Chairman and distinguished members of the Subcommittee. I appreciate the opportunity to update you on the Coast Guard's acquisition enterprise and the outlook for our ongoing and much-needed recapitalization projects.

Earlier this year, our Commandant, Admiral Robert J. Papp, Jr., stated that the recapitalization of our legacy cutters, air assets and systems is one of our top priorities for Fiscal Year (FY) 2012, and is essential in order to provide the men and women serving in the Coast Guard with the tools they need to ensure the Coast Guard remains well-equipped and prepared to protect our nation's waterways and maritime borders and support our nation's military operations.

In recent years, the Coast Guard has made significant changes to its acquisition enterprise to increase the efficiency and efficacy of our programs. We have consolidated our acquisition, contracting, foreign military sales, and research and development functions under the Acquisition Directorate to support timely delivery of complex and interoperable cutters, boats and aircraft to our frontline forces. The Coast Guard Acquisition Directorate has reclaimed a leadership role in systems integration at all levels, and is now the Systems Integrator for all major and non-major acquisition projects across the Service.

My testimony today will update you on the progress we have made over the past 12 months. I will discuss where our acquisition enterprise stands, outline the steps taken to enhance governance, highlight the accomplishments of our acquisition workforce, update you on the status of our acquisition projects and note some of the challenges that we still face.

**ACQUISITION TODAY**

The Acquisition Directorate was established nearly four years ago through the integration of programs previously governed under Integrated Deepwater Systems and the Service's legacy acquisition programs. Since then, we have progressed as an organization, and we are implementing effective processes and improving our project management capability and capacity.

The Acquisition Directorate established itself as a learning organization, building on our experiences and incorporating relevant lessons learned and best practices from within and outside of the Coast Guard. We are committed to sound management and comprehensive oversight of all aspects of the acquisition process by leveraging the expertise of our acquisition workforce, technical authorities and governmental partners. The acquisition reform measures recently enacted in the Coast Guard Authorization Act of 2010 provide the Coast Guard with the needed tools and authorities to build upon the efforts that were already underway to enhance our acquisition programs. The Coast Guard has ensured that compliance with the Act's requirements is a priority, and we continue to make progress in implementing these required programmatic changes.

The Coast Guard has always adapted to meet the needs of the nation, whether those needs are well-known and long-standing—saving lives, enforcing federal law, protecting the marine environment, and contributing to national security—or responding to emergent threats. We have been, and will always be, America’s maritime guardians, safeguarding the nation’s maritime interests. However, as we face new threats, we must be prepared to adapt our tactics and processes to meet mission requirements. Recapitalization of our aging, costly-to-maintain assets and infrastructure is critical to meeting current missions as well as ensuring that we are ready for the future. Due in large part to this Subcommittee’s efforts, we are creating a more unified and agile organization focused on the sustained delivery of mission support to enhance mission execution.

The Acquisition Directorate is actively working with our mission support partners—who also act as technical authorities for our ongoing acquisition programs—to provide efficient and effective logistics and maintenance support to our assets in the field.

These organizational changes have come in concert with the significant changes in our acquisition processes and project management, in which the Department of Homeland Security (DHS) and this Subcommittee have played integral roles. Consolidation of the Acquisition Directorate, assumption of the Systems Integrator responsibilities and implementation of the recently released *Blueprint for Continuous Improvement, Version 5.0*, have better equipped us to manage cost, schedules, and contractor performance. We have achieved several accomplishments in key areas:

***Coast Guard as the Systems Integrator***

The Coast Guard Acquisition Directorate is now the Systems Integrator for all Coast Guard acquisition projects. Our contract with Integrated Coast Guard Systems (ICGS), a joint venture of Northrop Grumman and Lockheed Martin, expired in January 2011 and will not be renewed. As Systems Integrator, the Coast Guard is responsible for all phases in the lifecycle of its assets, from concept development to decommissioning.

We are carrying out these responsibilities through active collaboration with our technical authorities, who set technical standards for the projects, and project sponsors who set the requirements.

The Asset Project Office (APO) was added to the Acquisition Directorate last year to ensure new surface assets smoothly transition from acquisition to sustainment by integrating life cycle support early in the acquisition process, and establishing a strong link between the acquisition and maintenance communities.

***Documentation***

Major systems acquisitions are complex and require disciplined processes and procedures. In 2010, the Acquisition Directorate completed a comprehensive revision of the Coast Guard’s *Major Systems Acquisition Manual* (MSAM), which defines policies and procedures for project managers to plan, coordinate and execute major systems acquisition projects. The MSAM is closely aligned with DHS acquisition management policy Directive 102-01. The revised MSAM ensures that uniform procedures for acquisition planning and project management are applied to every major systems acquisition, aligning the Coast Guard with the requirements of the Coast Guard Authorization Act of 2010, our Department’s acquisition management policy and processes, and federal acquisition rules and procedures. We have made significant progress in ensuring that acquisition projects already underway comply with MSAM policies.

In 2010 we also released an updated strategic plan, the *Blueprint for Continuous Improvement, Version 5.0*—the top-level planning document for the Coast Guard’s acquisition enterprise for the next two years. It builds on the action plans included in previous versions by shifting toward a performance measurement and management structure. Furthermore, this plan fits within a broader Mission Support plan, recently signed, that addresses all aspects of support for our people, systems, and assets.

***Role of Governance and Oversight***

The Coast Guard’s revitalized and improved acquisition organization has been informed and aided by the support of this Subcommittee, DHS and the Government Accountability Office. Effective oversight requires well-defined and repeatable processes, and we have worked hard during the last few years to improve our transparency to Congress and the public. In addition, this Subcommittee was closely involved in developing reforms to our acquisition program that were enacted as part of the Coast Guard Authorization Act of 2010. We are working diligently to institute these reforms, which build on programmatic improvements that the Coast Guard had begun implementing prior to the Act’s passage.

We have also benefited from the guidance provided by DHS as the Coast Guard’s acquisition decision authority. The Department’s Acquisition Lifecycle Framework provides the Coast Guard with a disciplined, phased acquisition approach and governance by department-level Acquisition Review Boards, which evaluate the direction of each program according to consistent criteria. This oversight function not only ensures Coast Guard acquisition programs are soundly conceptualized, developed and managed, but also fosters a strong collaborative component-department relationship. The acquisition process support and clear guidance provided by the Department’s Office of the Chief Procurement Officer and Acquisition Program Management Division have played a considerable role in the maturation of the Coast Guard’s Acquisition Directorate as a cost-conscious and milestone-driven acquisition organization.

***Organizational Realignment and Partnerships***

A key component of the reorganized and revitalized acquisition organization is the strong relationships forged with our technical authorities in the Coast Guard’s mission support community, including Human Resources; Engineering and Logistics; and Command, Control, Communications, Computers and Information Technology (C<sup>4</sup>IT). We have institutionalized collaborative partnerships with these authorities in their roles as our technical authorities for the platforms and mission systems the acquisition enterprise produces and delivers.

We continue to benefit from a robust partnership with the U.S. Navy, leveraging its expertise in acquisition processes, common systems planning, engineering, and testing.

While the Coast Guard maintains its position as the final authority for asset and system certification, we are committed to seeking out independent validation by third-party experts. These experts provide valuable input to the Coast Guard’s own certification process, allowing our technical staff and other professionals to make better-informed decisions regarding designs and operational capabilities of assets and systems.

**CAPITAL INVESTMENT PLAN**

The Capital Investment Plan (CIP) estimates Acquisition, Construction and Improvement (AC&I) funding levels from FY 2012 through FY 2016 for the program of record for each acquisition project. The plan includes the President's Request for FY 2012, the estimated cost of completion (identified as the Total Acquisition Cost), estimated funding levels for fiscal years 2013 through 2016, and estimated completion dates. The Total Acquisition Costs and estimated completion date identified in the CIP are based upon the cost estimates and schedules associated with the latest DHS-approved project-specific Acquisition Program Baseline (APB) when available, or the Integrated Deepwater System APB for acquisitions that do not yet have a DHS-approved project APB.

Funding levels included in the CIP are subject to change based upon adjustments to fiscal guidance, congressional action, changes to the Coast Guard's strategic plan, as well as direction provided by DHS leadership, including Future Years Homeland Security Programs (FYHSP). The CIP is limited to projects funded in the budget request. Projects in the sustainment phase, and no longer requiring AC&I funding, are not included.

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FY 2012-2016 Five Year Capital Investment Plan (CIP)  
Acquisition, Construction & Improvements

(Thousands of dollars, budget year dollars)	Annualized CR?	FY 2012 Request	FY 2013	FY 2014	FY 2015	FY 2016	Total Acquisition Cost <sup>1</sup>	Estimated Completion Date
<b>Vessels</b>	\$775,000	\$642,000	\$1,251,000	\$1,265,000	\$1,895,000	\$1,193,000		
Survey and Design - Vessel and Bows	\$0	\$6,000	\$1,000	\$1,000	\$1,000	\$1,000	Not Applicable	Not Applicable
In-Service Cutter Sustainment	\$0	\$14,000	\$23,000	\$40,000	\$36,000	\$48,000	Not Applicable	Not Applicable
Response Bow - Medium (RB-M)	\$42,000	\$110,000	\$775,000	\$795,000	\$833,000	\$45,000	\$610,000	2015
National Security Cutter (NSC)	\$615,000	\$77,000	\$30,000	\$30,000	\$64,000	\$760,000	\$4,749,000	2018
Offshore Patrol Cutter (OPC)	\$43,000	\$25,000	\$30,000	\$35,000	\$35,000	\$35,000	\$8,095,000	2021
Fast Response Cutter (FRC)	\$240,000	\$338,000	\$4,000	\$4,000	\$4,000	\$4,000	\$3,926,000	2022
Cutter Bows	\$3,000	\$5,000	\$25,000	\$25,000	\$25,000	\$25,000	\$110,000	2026
Medium Endurance Cutter Sustainment	\$30,000	\$17,000	\$0	\$0	\$0	\$0	\$296,000	2014
<b>Aircraft</b>	\$196,531	\$939,900	\$128,500	\$148,100	\$127,300	\$185,400		
CGR-6017 Airframe Replacement	\$0	\$18,300	\$0	\$0	\$0	\$0	\$18,300	2013
Maritime Patrol Aircraft (MPA)	\$119,531	\$129,500	\$45,000	\$60,000	\$45,000	\$90,000	\$2,222,600	2025
HH-60 Conversion Projects	\$12,000	\$56,100	\$5,500	\$24,100	\$17,300	\$25,500	\$451,000	2020
HH-60 Conversion/Sustainment Projects	\$0	\$24,000	\$15,000	\$35,000	\$35,000	\$39,000	\$1,135,600	2020
HC-130H Conversion/Sustainment Projects	\$25,000	\$62,000	\$25,000	\$29,000	\$30,000	\$30,000	\$690,000	2022
HC-130H Fleet Introduction	\$4,000	\$0	\$4,000	\$0	\$0	\$0	\$162,500	2011
Other	\$17,500	\$166,140	\$101,600	\$123,000	\$110,000	\$120,000		
Government Program Management	\$45,000	\$35,000	\$35,000	\$35,000	\$35,000	\$35,000	\$1,518,000	2031
Systems Engineering and Integration	\$29,000	\$17,140	\$15,000	\$15,000	\$15,000	\$15,000	\$1,118,100	2031
COBRN	\$10,500	\$34,500	\$34,500	\$35,000	\$30,000	\$40,000	\$1,353,000	2025
Technology Obsolescence Prevention	\$1,000	\$0	\$0	\$0	\$0	\$0	\$345,000	2031
CS-JMS	\$6,000	\$6,500	\$5,600	\$20,000	\$10,000	\$30,000	Not Available	Not Available
Nainiville Automatic Identification System (NAIS)	\$0	\$5,000	\$6,000	\$13,000	\$0	\$0	\$120,000	2015
Rescue 21	\$56,000	\$65,000	\$1,000	\$0	\$0	\$0	\$1,066,200	2017
Emergency Operations Centers (EOCs)	\$0	\$3,000	\$4,000	\$5,000	\$0	\$0	\$83,000	2015
Shore and ATON	\$113,200	\$193,692	\$114,611	\$120,290	\$126,039	\$144,609		
Major Shore, ATON and S&D	\$69,200	\$92,900	\$50,000	\$44,100	\$50,000	\$60,000	Not Applicable	Not Applicable
Major Acquisition Systems Infrastructure	\$44,000	\$99,500	\$64,611	\$76,190	\$76,039	\$79,609	Not Applicable	Not Applicable
Minor Shore	\$0	\$6,292	\$0	\$0	\$0	\$0	Not Applicable	Not Applicable
Military Housing	\$15,964	\$20,000	\$0	\$0	\$0	\$0		
<b>Personnel and Management</b>	\$106,083	\$118,192	\$114,589	\$116,969	\$119,194	\$121,566		
ACC&I Core	\$310	\$600	\$600	\$600	\$600	\$600	Not Applicable	Not Applicable
Direct Personnel Costs	\$105,773	\$109,592	\$113,989	\$116,369	\$118,594	\$120,966	Not Applicable	Not Applicable
<b>TOTAL</b>	\$ 1,536,280	\$ 1,421,924	\$ 1,702,300	\$ 1,774,659	\$ 2,351,484	\$ 1,744,575		

Notes: (1) FY 2013-16 funding levels are subject to change based upon agreement to out-year funding and finalization of the FY 2013-16 Future Year Homeland Security Program.  
 (2) For purposes of display, 2011 project funding levels are a distribution of the annualized March 4, 2011 Continuing Resolution. The distribution of funds in each project is consistent with the FY 2011 President's Budget with the following exceptions:  
 (3) \$410 million for NSC; \$776 million for the FY 2011 President's Budget, reduced amount from the 2011-2012 civilian pay raise, consistent with the March 4, 2011 Continuing Resolution.  
 (4) The number of boats is 455.  
 (5) The number of boats is 455.  
 (6) Total project costs and estimated completion date are based on individual project BBS Acquisition Program Budget (ACPB) when available, or the 2007 Inaugural Program Budget (IPB).

## ACQUISITION WORKFORCE

The Coast Guard has been able to make accomplishments in the acquisition field over the past year due in large part to the quality of our people and the great work that they do. The Acquisition Directorate has placed a tremendous emphasis on ensuring workforce quality through professional development and retention, as well as enhancing training and certification opportunities for our acquisition personnel. Project managers for all major acquisition projects within the Acquisition Directorate have attained DHS Level III program manager certification. Both military and civilian Level III program managers have risen through the ranks of our acquisition organization, learning from their leaders, tapping into previous experience in other programs, and increasing leadership continuity in the acquisition enterprise.

In addition to maintaining a trained and certified workforce, the expedited hiring authority provided in the Coast Guard Authorization Act of 2010 proved vital to filling many critical civilian positions with individuals who have the appropriate acquisition experience and capabilities. The Service is also establishing military and civilian career paths within the acquisition enterprise to give members of our workforce the opportunity to establish themselves in the acquisition field.

## MAJOR ACQUISITION PROJECT UPDATES

### *National Security Cutter*

A critical element of our recapitalized fleet, the 418-foot Legend-class National Security Cutter (NSC) is the largest and most technically advanced class of cutter in the Coast Guard. The NSCs are replacing the capability of the Coast Guard's aging and obsolete High Endurance Cutters (WHECs) to execute today's homeland security and maritime law enforcement missions with agility and endurance.

BERTHOLF (NSC #1) attained "Ready for Operations" status in May 2010. During a 90-day patrol that ended in November 2010, her crew interdicted approximately 12,400 kilograms of cocaine worth nearly \$400 million, detained nine persons suspected of illegal activity and entered 27 associated smugglers into national databases. The BERTHOLF's Sensitive Compartmented Information Facility (SCIF) is proving integral to operations, providing real-time tactical intelligence and classified information-sharing with our operational partners. WAESCHE (NSC #2) was commissioned in May 7, 2010, with final acceptance in November 2010. STRATTON (NSC #3) is nearly 75 percent complete and was christened on July 23, 2010 by First Lady Michelle Obama in Pascagoula, MS. Delivery is scheduled for later this year.

After nearly a year of negotiations, a fixed-price incentive contract for the production and delivery of NSC 4 was awarded to Northrop Grumman Shipbuilding in November 2010, allowing future costs for the NSC program to be much more predictable. Valued at \$480 million, this was the first NSC production contract awarded directly to the shipbuilder and is significantly lower than their original proposal. In January 2011, we awarded a firm fixed price contract option to procure Long Lead Time Material for the fifth NSC. Negotiations for the production and delivery option for NSC 5 are ongoing, with a contract to be awarded as soon as full funding for this ship is received.

### *Offshore Patrol Cutter*

The Offshore Patrol Cutter (OPC) will replace the capability of our current fleet of 29 aging Medium Endurance Cutters (WMECs). We are continuing pre-acquisition work for the 25-cutter OPC class. The Operational Requirements Document was approved by DHS in August 2010 and work continues on developing total acquisition and lifecycle cost estimates for the project. We have directly engaged with

industry throughout the early stages of the design process, including an industry day held in Tampa, Fla., on November 4, 2010. We anticipate that a draft Request for Proposal (RFP) will be released soon, with a pre-solicitation conference for industry to follow.

#### *Fast Response Cutter*

The 154-foot Sentinel-class Fast Response Cutter (FRC) project will provide critically needed patrol boats, helping to close an existing patrol boat operational gap and replace the capabilities of the aging 110-foot Island-class patrol boat fleet.

The FRC project is using a proven, in-service parent craft design modified to meet Coast Guard specifications and mission requirements, and that meets American Bureau of Shipping design, build, and class standards. This allows the project to minimize cost and schedule risk as well as deliver these cutters to the fleet quickly, where they are needed to perform operations. Delivery of the first FRC is scheduled for the fall of 2011.

#### *Response Boat-Medium*

Replacing the Coast Guard's aging 41-foot utility boats that have been in use for more than 25 years, the 45-foot Response Boat-Medium (RB-M) is conducting a broad range of vital Coast Guard missions and offers significant improvements in performance, crew efficiency and operational availability. 105 RB-Ms have been ordered and 52 have been delivered to date to Coast Guard stations nationwide. RB-M boat crews have already put this new capability to work for our nation – this vessel is credited with contributing to successful outcomes in numerous mission areas. Full-fleet Operational Capability is scheduled for FY 2015.

The value of the enhanced multi-mission capabilities of the RB-M were demonstrated during the successful interdiction of a suspect vessel transiting the Mona Passage in January. Operating in coordination with the Coast Guard Cutter MATINICUS, and CBP Air and Marine assets, Sector San Juan's RB-M and her crew were able to apprehend the sinking vessel while its crew was attempting to throw its cargo overboard. Following positive tests for illegal drugs, two crewmembers were arrested and transferred to U.S. Immigration and Customs Enforcement, and more than 95 kilograms of cocaine were seized.

#### *Mission Effectiveness Project*

Under the Mission Effectiveness Project (MEP), 210-foot and 270-foot WMECs as well as 110-foot Island-class patrol boats are undergoing refurbishment at the Coast Guard Yard in Curtis Bay, MD. The MEP provides selected equipment upgrades and enhancements to increase service life and performance and reduce future maintenance costs. The 14<sup>th</sup> and final 210-foot WMEC completed MEP availability in September 2010. Six of 19 270-foot WMEC availabilities have been completed, and funds to perform five more are requested in the FY 2012 Budget. Additionally, 13 of 17 110-foot patrol boats have completed MEP availabilities. Availability and reliability of the cutters that have undergone MEP have increased markedly. The Coast Guard intends to continue this cost-effective major system obsolescence and reliability improvement strategy for other classes of aging vessels.

The FY 2012 President's Budget includes a request to initiate a MEP on the 140-foot Icebreaking tugs (WTGB), the oldest of which has been in service for 32 years. The WTGB fleet lagged against operational readiness targets due to major equipment failures, which reduce operational capacity, and, in some cases, have precluded cutters from getting underway or resulted in aborted missions. Like other

MEPs, this project is intended to increase the reliability and operational availability of these cutter classes through replacement of equipment and components that have been identified as the highest contributors to increasing maintenance costs and decreasing cutter availability. The WTGB fleet performs domestic icebreaking missions that provide safe passage of more than 20 million tons of cargo during peak winter months in the Great Lakes region, and millions of tons in coastal regions along the Northeast Atlantic, and notably, contributed to oil spill response efforts associated with the Deepwater Horizon Oil Spill.

*HC-144A Maritime Patrol Aircraft*

The HC-144A fixed-wing Ocean Sentry Maritime Patrol Aircraft (MPA) is replacing the fleet of aging HU-25 Guardian jets. The HC-144A has significantly greater endurance than its predecessor and is equipped with a Mission Systems Pallet (MSP) that provides new command-and-control surveillance technologies to enhance maritime domain awareness. The HC-144A is a multi-mission and adaptable aircraft that will perform maritime patrol, law enforcement, search and rescue, disaster response, and cargo and personnel transport. In December 2010, the aircraft participated in its first drug interdiction out of Air Station Miami by tracking a vessel with 4,500 lbs. of marijuana aboard until surface assets could arrive on scene. The MPA's increased endurance allowed the crew to maintain contact with the vessel for more than five hours until it could be interdicted by Coast Guard surface assets. The HC-144A was also instrumental in providing critical overflights during the Deepwater Horizon oil spill.

Eleven aircraft and 12 MSPs have been delivered to date. In July 2010, with the Coast Guard acting as Systems Integrator, a contract for delivery of three additional HC-144As was awarded competitively, with options available for six additional aircraft. Aviation Training Center Mobile is now fully operational with five aircraft conducting training and standing duty, and Air Station Miami achieved Initial Operating Capability with three HC-144As in October 2010. As of March 2011, the HC-144A has assumed all immediate response search and rescue responsibilities at Air Station Miami.

*HC-130J/H Long Range Surveillance Aircraft*

The sixth missionized HC-130J Super Hercules Long Range Surveillance Aircraft was delivered in May 2010, with two more on order. The HC-130J is based on the robust C-130 basic airframe design but with advanced engines, propellers, avionics, and cargo-handling equipment. Each HC-130J missionization includes a nine-month refit of its airframe and installation of integrated radar, sensor and communications systems. The first HC-130s features a 360-degree, belly-mounted, multi-mode surface search radar that significantly enhances operators ability to detect surface craft on the water. The HC-130J mission system is installed on the flight deck, allowing full sensor capability while carrying a full load of cargo. This has allowed the HC-130J to excel in recent disaster response missions as DHS's only heavy air lift provider.

The HC-130H fleet will also receive structural refurbishments and necessary avionics upgrades to extend their service lives.

*HH/MH-60 and HH/MH-65 Helicopter Conversions*

Legacy HH-60J helicopters will be upgraded to MH-60Ts and used as medium-range aircraft that execute the full range of Coast Guard programs including Law Enforcement, Maritime Security, Maritime Response, Defense Operations, and Maritime Transportation System Management. To date, 17 out of 40 in-service MH-60Ts have been delivered with upgraded avionics and an enhanced electro-optic/infrared sensor system in the first two discrete segments of this project, and 132 MH-60T pilots have been fully qualified. Four air stations—Elizabeth City, San Diego, Sitka and Cape Cod—are operational with MH-60Ts.

The first two discrete segments of the MH-65 project—replacing engines on all 95 in-service aircraft and procuring seven more to meet National Capital Region Air Defense capability requirements—are complete. 74 of 102 aircraft have been upgraded with Airborne Use of Force capability. Obsolete component modernization began in August 2010, and six aircraft have been delivered with these modifications, including a new dual-digital embedded GPS/inertial navigation system used by the Department of Defense (DoD).

#### *C4ISR*

Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (*C4ISR*) includes information technology recapitalization for shore sites and surface and aviation platforms. *C4ISR* provides interoperability, improved situational awareness, and new levels of maritime domain awareness. *C4ISR* projects include legacy cutter upgrades, aircraft MSPs and mission support systems, and associated shore facility upgrades. Recent milestones include receiving authority to operate classified local area networks on the HC-144A's MSPs in September 2010, completing the Mission Systems Integration Lab for the MSPs in October 2010, and ongoing testing and installation of the next increment of NSC software.

#### *Rescue 21*

Rescue 21, our new system for responding to mariners' distress calls that is expected to be deployed along more than 41,000 miles of U.S. coastline, is a vast improvement over the legacy National Distress Response System. To date, we have delivered Rescue 21 to 26 of 35 Coast Guard regions/sectors, covering the Atlantic, Gulf, and Pacific Coasts – approximately 36,985 miles of U.S. coastline. Work is progressing this year for deployment in the Great Lakes, Hawaii, Guam, and Puerto Rico. With increased communications coverage and advanced direction-finding capabilities, Rescue 21 dramatically enhances our ability to conduct search and rescue, and we regularly hear of remarkable rescues at sea enabled by the new system.

#### *Nationwide Automatic Identification System*

The Nationwide Automatic Identification System (NAIS) is a maritime data system that tracks vessel positions using vessel identification and navigation data. Developed and fielded in individual increments, NAIS information will be displayed in the maritime common operating picture and shared with partner agencies. We are currently receiving AIS messages in all 58 high priority ports and 11 coastal areas. We have completed integrated factory acceptance testing and have installed core system equipment at the Coast Guard's Command and Control Engineering Center, Navigation Center and Operation Systems Center. Communications equipment has been installed at Sectors Mobile, Hampton Roads, and Delaware Bay. Developmental test and evaluation will occur this year and the program is on track to be completed by 2015.

#### *Interagency Operations Centers*

The SAFE Port Act 2006 directed the creation of Interagency Operations Centers (IOC) to better coordinate port security in high priority ports. The Secretary delegated the authority to establish IOCs to the Coast Guard in 2009. This authorization is tied directly to the associated 2006 and 2010 Coast Guard Authorization Acts, and the guidance provided by the DHS Maritime Port Operations Handbook (MPOH) signed by the Secretary in January 2009. In most ports, IOCs will exist as a coalition of federated maritime agencies, connected by IT solutions and executed by in-person collaboration, rather than a physical facility where multiple agencies work on a joint watch floor; however, in some ports,

collocation of agencies is or will be possible as well. In addition to improving coordinated responses to incidents by improving interoperability, IOCs will enable alignment of multiple agencies' targeting and operational planning processes around an interagency framework, thereby supporting a higher level of interoperability while preserving each agency's autonomy.

The implementation of IOCs for port security improves collaboration and coordination, situational awareness, operations monitoring, rules-based processing and tactical decision-making in the interagency environment. A key enabler of the IOC package is a web-based information management system called WatchKeeper which consolidates and presents port security information from various authoritative data bases to help the Coast Guard and its port partners make the most efficient and effective, risk-based employment of their resources to keep America's ports safe. WatchKeeper is interoperable with Coast Guard law enforcement and communications systems and other government agencies' authoritative data systems.

#### *Shore Infrastructure Backlog*

To deliver a Coast Guard shore infrastructure that will meet mission needs, our shore assets and their appropriated funding sources must be managed as a system.

- The American Recovery and Reinvestment Act (ARRA) provided \$98 million in AC&I projects; \$89.2 million was approved to complete multiple shore projects from the FY 2010 and FY2011 Shore Facilities Requirements List. Projects included the recapitalization and rebuild of boat houses and maintenance facilities and housing and barracks improvements in addition to utility upgrades to water distribution systems.
- The President's FY 2011 Budget requested \$83.2 million for Shore AC&I and includes military housing projects, WLB moorings in Newport, RI, Chase Hall Barracks renovations, and completion of the renovations of Thrun Hall at Support Center Elizabeth City.
- The President's FY2012 Budget submission requests \$119.2M for Shore AC&I and includes military housing projects, establishing consolidated facilities at Sector Corpus Christi, recapitalization of the patrol boat pier at Cape May and renovations of Chase Hall Barracks at Coast Guard Academy, replacement of Station Menemsha and Station Fairport facilities in addition to recapitalization of the wastewater treatment facilities at Coast Guard Training Center Petaluma.

#### **ACQUISITION CHALLENGES**

While our reform efforts have enabled notable successes and positioned us to maintain that momentum for future efforts, some challenges still remain for our acquisition enterprise.

#### *Our Aging Fleet*

The urgency to recapitalize our fleet of cutters, boats, aircraft, and C<sup>4</sup>ISR systems continues. Many of our ships were commissioned in the 1960s and 1970s, and the loss of operational availability due to unanticipated repairs of cutters and aircraft has a direct impact on our ability to meet planned operational patrol hours. This challenge is most prominent with our High Endurance Cutters. While our front line forces and support personnel are working hard to keep these assets operational, it is beyond the time to replace this capability so we may decommission these costly assets as soon as possible.

*Portfolio Management*

As the Coast Guard faces obsolescence across its fleet of aging air and surface assets, C<sup>4</sup>ISR, and shore infrastructure, the Coast Guard must carefully manage resources to ensure funding is allocated toward its highest priority requirements. The Coast Guard has established a senior level governance body, known as the Executive Oversight Council, to provide guidance and direction to ensure acquisition resources target the Service's highest priority recapitalization needs and are leveraged to best achieve cost, schedule, and performance objectives.

**LOOKING TO THE FUTURE**

The motto of the Coast Guard's Acquisition Directorate states, "Mission execution begins here." Our job is to recapitalize the Coast Guard, and we are tasked with the responsibility of delivering the highest level of readiness in a sustainable manner. The dedicated efforts of our acquisition workforce, combined with guidance from DHS, the Administration and Congress, have had a lasting impact on Coast Guard men and women serving in the field. We have processes and procedures in place to ensure successful program management and oversight, and we have demonstrated their effectiveness. By adhering to and improving upon what we now have in place, we will be able to successfully meet and address any future challenges and deliver assets and systems with capabilities to meet our evolving mission needs.

Thank you for the opportunity to testify today. I look forward to your questions.

United States Government Accountability Office

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**GAO**

Testimony

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

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**COAST GUARD**

**Observations on Acquisition  
Management and Efforts to  
Reassess the Deepwater  
Program**

Statement of John P. Hutton, Director  
Acquisition and Sourcing Management



April 13, 2011

## COAST GUARD

## Observations on Acquisition Management and Efforts to Reassess the Deepwater Program



Highlights of GAO-11-535T, a testimony before the Subcommittee on Coast Guard and Maritime Transportation, Committee on Transportation and Infrastructure, House of Representatives

### Why GAO Did This Study

The U.S. Coast Guard manages a broad major acquisition portfolio. GAO has reported extensively on the Coast Guard's significant challenges with its major acquisition programs, including its Deepwater Program. GAO has also recognized steps the Coast Guard has taken to improve acquisition management. Additionally, GAO has recommended that the Coast Guard complete a review of the Deepwater Program to clarify the mix of assets that are needed to meet mission needs and trade-offs while considering fiscal constraints, because the program had exceeded its \$24.2 billion baseline. This testimony updates (1) Coast Guard efforts to manage major acquisitions, (2) challenges programs are facing in the areas of cost and schedule, and (3) the status of the Deepwater fleet mix analysis.

This statement is largely based on GAO-11-480, which is being issued today. In that report, GAO recommended that the Coast Guard formalize its database of agreements with the Department of Defense (DOD). The Department of Homeland Security agreed with the recommendation. This statement also draws from prior GAO reports and ongoing work related to Deepwater. GAO reviewed the first phase of the Coast Guard's fleet mix analysis, contract documents, and budget information. GAO also interviewed Coast Guard officials responsible for conducting the fleet mix analysis. For the new information, GAO obtained Coast Guard views and incorporated technical comments where appropriate.

View GAO-11-535T or key components. For more information, contact John Hutton at (202) 512-4841 or [huttonj@gao.gov](mailto:huttonj@gao.gov).

### What GAO Found

The Coast Guard continues to improve its acquisition management capabilities by updating policies, reducing acquisition workforce vacancies, and leveraging DOD contracts. In November 2010, the Coast Guard updated its *Major Systems Acquisition Manual* to further incorporate best practices and respond to prior GAO recommendations, such as aligning the roles and responsibilities of independent test authorities to DHS standards. Additionally, the Coast Guard reduced its acquisition workforce vacancies from about 20 to 13 percent from April through November 2010. Shortfalls in hiring staff for certain key areas persist, though, and some programs continue to be affected by unfilled positions. The Coast Guard has entered into 81 memorandums of agreement and other arrangements—primarily with DOD—to support its major acquisition programs, but program staff currently have access to only 5 of the 81 agreements.

Most of the Coast Guard's 17 major acquisition programs continue to experience challenges in program execution, schedule, and resources. Furthermore, the Coast Guard's unrealistic budget planning exacerbates these challenges. When programs receive funding lower than planned, schedule breaches and other problems are more likely to occur. In fact, 4 of the major acquisition programs have reported a baseline breach caused, at least in part, by reduced projected funding levels. Additionally, projected funding levels in the Coast Guard's fiscal years 2012-2016 capital investment plan are significantly higher than budgets previously appropriated or requested and therefore may be unrealistic. This is particularly true given the rapidly building fiscal pressures facing the nation. For example, the Coast Guard plans to request \$2.35 billion for acquisitions in fiscal year 2015—including funding for construction of three major Deepwater surface assets—but the agency has not received more than \$1.54 billion in any recent year. The Coast Guard has developed action items to address budget planning challenges.

In July 2010, GAO recommended that because of significant cost growth in the Deepwater Program, the Coast Guard should review the cost and mix of assets and identify trade-offs given fiscal constraints. The Department of Homeland Security agreed with the recommendation; however, the Coast Guard has not yet implemented it. The Coast Guard began a fleet mix analysis in 2008 that considered the current Deepwater Program to be the "floor" for asset capabilities and quantities and did not impose cost constraints on the various fleet mixes. Consequently, the results will not be used as a basis for trade-off decisions. The Coast Guard has now begun a second analysis, which includes an upper cost constraint of \$1.7 billion annually—more than Congress has appropriated for the entire Coast Guard acquisition portfolio in recent years. Further, Coast Guard officials told GAO that this analysis will not assess options lower than the current program of record. It therefore will not prepare the Coast Guard to make the trade-offs that will likely be needed in the current fiscal climate. The Coast Guard expects to complete the analysis this summer.

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Chairman LoBiondo, Ranking Member Larsen, and Members of the Subcommittee:

I am pleased to be here today to discuss the U.S. Coast Guard's management and oversight of its major acquisitions. The Coast Guard manages a broad acquisition portfolio of aviation, surface, and information technology programs intended to acquire capabilities to conduct missions that range from marine safety to defense readiness. The portfolio includes 17 major acquisition programs and projects, 13 of which constitute the Deepwater Program, an ongoing effort to recapitalize the Coast Guard's operational fleet. A contractor originally served as the lead systems integrator for Deepwater, but in 2007, acknowledging cost, schedule, and performance problems, the Coast Guard took over the role of systems integrator.

For several years we have reported on the Coast Guard's significant challenges in managing its major acquisitions that have contributed to delivery delays and other operational challenges for certain assets. Our work also recognized several steps the Coast Guard has taken to improve acquisition management, including actions that addressed our past recommendations, some of which we will discuss today. Most recently, in July 2010, we recommended that the Coast Guard complete a comprehensive review of the Deepwater Program to clarify the overall cost, schedule, quantities, and mix of assets that are needed to meet mission needs and what trade-offs need to be made considering fiscal constraints.<sup>1</sup> This recommendation was based on our work that found the Deepwater Program exceeded the \$24.2 billion cost baseline approved by the Department of Homeland Security (DHS) in May 2007 and that future cost growth was likely. DHS concurred with our recommendation, and the Coast Guard continues to assess its fleet mix.

My statement is largely based on our report, which is being released today in response to Section 402(a) of the Coast Guard Authorization Act of 2010 that directed us to report on Coast Guard acquisition management for major acquisition programs.<sup>2</sup> Additionally, my statement draws on information in our July 2010 Deepwater report and related ongoing work

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<sup>1</sup>GAO, *Coast Guard: Deepwater Requirements, Quantities, and Cost Require Reevaluation to Reflect Knowledge Gained*, GAO-10-790 (Washington, D.C.: July 27, 2010).

<sup>2</sup>GAO, *Coast Guard: Opportunities Exist to Further Improve Acquisition Management Capabilities*, GAO-11-480 (Washington, D.C.: Apr. 13, 2011).

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that we are conducting under the Comptroller General's authority. Our ongoing work will be issued later this year.

My focus today will be on

- the Coast Guard's efforts to improve how it manages its major acquisitions;
- cost and schedule challenges that its major acquisition programs face; and
- the status of the Coast Guard's efforts to conduct a trade-off analysis of the costs, capabilities, and quantities of Deepwater assets needed to meet mission needs.

In addressing the first two points listed above, we largely relied on work conducted in support of the report we are issuing today. The scope of this report includes all 17 major acquisition programs which are listed in appendix I to this statement. For this report, we reviewed key Coast Guard documentation such as the Coast Guard's *Major Systems Acquisition Manual*, the October 2010 *Blueprint for Continuous Improvement*, approved acquisition program baselines, acquisition status reports, and acquisition workforce information.<sup>3</sup> We interviewed Coast Guard acquisition directorate officials, including program managers and contracting staff, about the cost, schedule, and performance of Coast Guard programs as well as any instances in which the Department of Defense (DOD) or other agencies provide support. In addition to our report, to provide more insight on acquisition budget planning for this testimony, we reviewed Coast Guard budget documents since 2007. In addressing the third point listed above—the status of the Deepwater fleet mix analysis—we relied on our July 2010 Deepwater report as well as reviewed the phase 1, December 2009, analysis.<sup>4</sup> We also reviewed the contracts and statements of work for phase 1 and for the Coast Guard's ongoing fleet mix analysis. We also reviewed budget information since 2007. Additionally, we interviewed Coast Guard officials responsible for the analysis. All work for this statement was conducted in accordance with generally accepted government auditing standards. Additional information on our scope and methodology is available in issued products.

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<sup>3</sup>The Coast Guard's *Major Systems Acquisition Manual* articulates its acquisition objectives for planning, coordinating, and executing its major programs.

<sup>4</sup>GAO-10-790.

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For new information that was based on work not previously reported, we obtained Coast Guard views on our findings and incorporated technical comments where appropriate.

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### Continued Improvement in Acquisition Management Capabilities, Including Leveraging DOD Expertise

The Coast Guard has updated policies and processes for major acquisition programs to better reflect best practices and respond to our prior recommendations. The Coast Guard also continues to make progress in reducing its acquisition workforce vacancies, and to some extent is leveraging DOD contracts and expertise to support its major acquisition programs. Some examples are below.

#### *Updates to Policies and Processes*

We found that the Coast Guard revised its *Major Systems Acquisition Manual* in November 2010 to include

- a description of the roles and responsibilities of a flag-level Executive Oversight Council, which was formed in 2009 to review programs and provide oversight;
- aligning roles and responsibilities of independent test authorities to DHS standards, which satisfied one of our prior recommendations;<sup>5</sup>
- a formal acquisition decision event before a program receives approval for low-rate initial production, which addressed one of our prior recommendations;<sup>6</sup> and
- a requirement to present an acquisition strategy when DHS is asked to validate the need for a major acquisition program.

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<sup>5</sup>GAO, *Coast Guard: As Deepwater Systems Integrator, Coast Guard Is Reassessing Costs and Capabilities but Lags in Applying Its Disciplined Acquisition Approach*, GAO-09-682 (Washington, D.C.: July 14, 2009).

<sup>6</sup>GAO, *Coast Guard: Change in Course Improves Deepwater Management and Oversight, but Outcome Still Uncertain*, GAO-08-745 (Washington, D.C.: June 24, 2008).

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*Addressing Workforce Vacancies*

The Coast Guard has made progress in reducing its acquisition workforce vacancies. From April through November 2010, the percentage of vacancies for government positions dropped from about 20 percent to 13 percent. Over the past several years, we have reported on the Coast Guard's efforts to build its in-house acquisition workforce capacity—one of the reasons the Coast Guard initially turned to a contractor as the Deepwater systems integrator was largely because it did not have that in-house capacity. Acquisition workforce vacancies have decreased, but program managers have ongoing concerns about staffing program offices. For example, the HH-65 helicopter program office has funded and filled 10 out of the 33 positions needed. To help make up shortfalls in filling systems engineer and other acquisition workforce positions, the Coast Guard uses support contractors. As of November 2010, the Coast Guard support contractors made up 25 percent of the Coast Guard's acquisition workforce. While we have cited the risks in using support contractors, we previously reported that the Coast Guard has acknowledged these risks and has taken steps to address them, such as releasing guidance on the appropriate oversight of contractors and the work they perform.<sup>7</sup>

*Leveraging Interagency Agreements*

According to the Coast Guard, it currently has 81 interagency agreements, memorandums of agreement, and other arrangements in place primarily with DOD to support its major acquisition programs. Support from DOD ranges from acquiring products and services from established DOD contracts to using the Navy's engineering and testing expertise. For example, the Coast Guard benefited from discounts by coordinating C-130J aircraft contracting efforts through the Air Force acquisitions office rather than contracting directly with the aircraft manufacturer. To leverage Navy engineering and testing expertise, most Coast Guard major acquisition programs use the Navy's Commander, Operational Test and Evaluation Forces, to support test activities. Coast Guard program managers, however, do not have a systematic way to gain insight into the existence and details of such agreements. According to Coast Guard contracting officials, the Coast Guard recently began to develop a database of all interagency agreements with DOD and other agencies, but at this point program staff have access to only 5 of the approximately 81

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<sup>7</sup>See GAO-10-790.

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agreements. Today's report contains a recommendation that the Commandant of the Coast Guard take steps to ensure that all interagency agreements are captured in a database or other format and to make this information readily accessible to program staff. DHS agreed with the recommendation.

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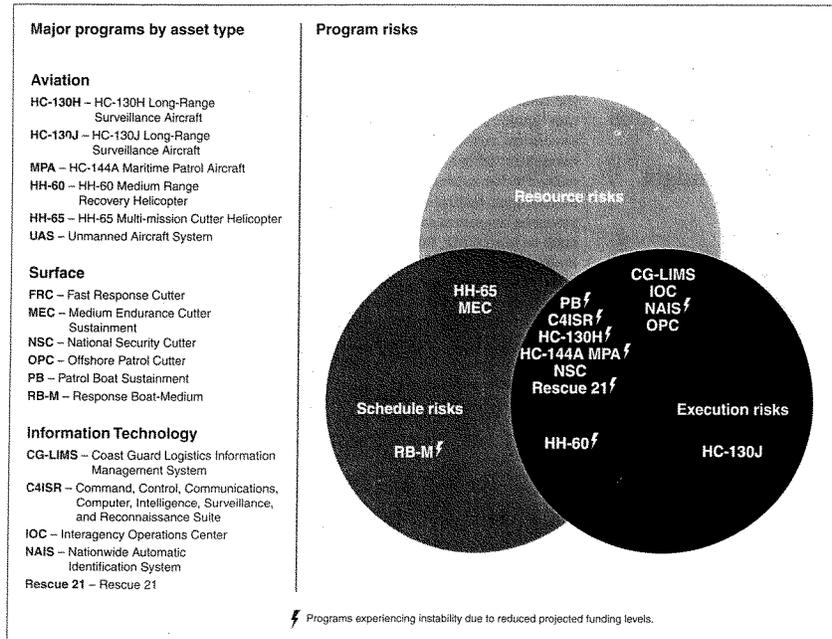
### Challenges in Major Acquisition Programs Exacerbated by Unrealistic Budget Planning

We have previously reported that the Coast Guard has gained insights into the risks it faces in managing its major acquisitions. At the same time, most major programs continue to experience challenges in program execution, resources, and schedule. The Coast Guard assesses program execution using a composite metric that includes the following factors: earned value management, a performance assessment, logistics assessment, testing status, risk assessment, and technical maturity. It also assesses resources using a composite metric that includes several factors, such as budgeting, funding, staffing, and contractor health, that is, contractor personnel and facilities. These challenges are exacerbated by the Coast Guard's budget planning, which includes developing capital investment plans that project outyear funding levels. The Coast Guard has reported that projected funding levels in the fiscal years 2011-2015 capital investment plan were lower than previously planned for some major acquisition programs.<sup>8</sup> This plan includes Deepwater Program assets as well as other acquisitions. Figure 1 illustrates these risks for each major acquisition program.

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<sup>8</sup>The Coast Guard's capital investment plan is a 5-year plan that includes Acquisition, Construction and Improvements. The Coast Guard updates the capital investment plan annually, and it represents the Coast Guard's submission for the President's Budget in any given year.

**Figure 1: Coast Guard Programs with Program Execution, Schedule, Resources, and Budget Planning Challenges as of December 2010**



Source: GAO analysis of Coast Guard data.

When a capital investment plan has projected funding levels that are lower than what a program planned to receive, the program is more likely to

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have schedule breaches and other problems.<sup>9</sup> Such breaches have already occurred. Three major acquisition programs—HH-60, HC-130H, and C4ISR—reported a baseline breach caused, at least in part, by reduced funding projections in the fiscal years 2011-2015 capital investment plan. A fourth program, NAIS, had previously reported a baseline breach caused in part by reduced funding projections in the fiscal years 2009-2013 capital investment plan. DHS acquisition oversight officials informed the Coast Guard that future breaches in other programs would be almost inevitable as funding resources decrease.

We reported in 2009 that the administration's budget projections indicated that the DHS annual budget was expected to remain constant or decrease over the next decade.<sup>10</sup> When the Coast Guard submitted its fiscal year 2012 budget request, it also released its fiscal years 2012-2016 acquisition capital investment plan. In reviewing this plan, we found that the Coast Guard's projected funding levels for fiscal years 2013 through 2016 are significantly higher than budgets previously appropriated or requested and therefore may be unrealistic. This unrealistic acquisition budget planning exacerbates the challenges Coast Guard acquisition programs face. As seen in figure 2, the average annual budget plan from fiscal year 2013 through fiscal year 2016 is about \$520 million, or approximately 37 percent, higher than the average Coast Guard acquisition budgets previously appropriated or requested during the past 6 years.<sup>11</sup>

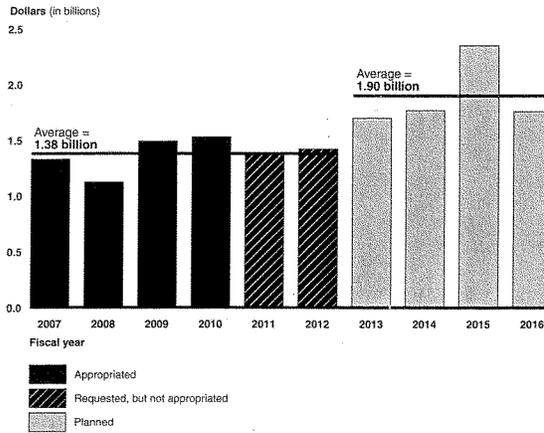
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<sup>9</sup>An acquisition program baseline breach of cost, schedule, or performance is an inability to meet the threshold value of the specific parameter.

<sup>10</sup>GAO, *Coast Guard: Observations on the Fiscal Year 2010 Budget and Related Performance and Management Challenges*, GAO-09-810T (Washington, D.C.: July 7, 2009).

<sup>11</sup>We used fiscal year 2007 as a starting point for this analysis because that is the year the Coast Guard took over as the lead systems integrator for Deepwater.

**Figure 2: Coast Guard Acquisition, Construction, and Improvements: Appropriated and Requested Budgets from Fiscal Years 2007 through 2012 Compared to Projected Funding Levels for Fiscal Years 2013 through 2016 (Then-Year Dollars)**



Source: GAO analysis of budget documents and Coast Guard's Capital Investment Plans.

Note: Acquisition, Construction, and Improvements includes dollars for Deepwater assets as well as other acquisitions.

To illustrate further, the Coast Guard plans to request \$2.35 billion for acquisitions in fiscal year 2015, but the Coast Guard has not received more than \$1.54 billion for its yearly acquisition budget in recent years. In fiscal year 2015, the Coast Guard is planning to request funding for construction of three major Deepwater surface programs: National Security Cutter, Offshore Patrol Cutter, and Fast Response Cutter. But the Coast Guard has never requested funding for construction of three major Deepwater surface assets in the same year before, and therefore this plan appears to be unrealistic. This is particularly true given the rapidly building fiscal pressures facing our national government.

The Coast Guard developed several action items in its October 2010 update to its *Blueprint for Continuous Improvement* to address budget planning challenges. According to Coast Guard acquisition officials, the

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most important step is for Coast Guard leadership to establish a priority list for the major programs based on actual acquisition budgets received in prior years and then to make trade-offs between programs to fit within historical budget constraints. Our previous work on DOD acquisitions has shown that without clear priorities, over time, the annual competition among programs for funding forces them to view success as the ability to secure the next funding increment rather than delivering capabilities when and as promised.<sup>12</sup> Our DOD work further shows that when programs focus on securing funding, it can lead to inefficient funding adjustments, like moving money from one program to another or deferring costs to the future.<sup>13</sup>

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### Coast Guard Has Not Completed a Comprehensive Trade-off Analysis for the Deepwater Assets

To support its role as systems integrator, the Coast Guard planned to complete a fleet mix analysis in July 2009 to eliminate uncertainty surrounding future mission performance and to produce a baseline for the Deepwater acquisition. We previously reported that the Coast Guard expected this analysis to serve as one tool, among many, in making future capability requirements determinations, including future fleet mix decisions.<sup>14</sup> The analysis, which began in October 2008 and is now termed fleet mix analysis phase 1, was led by the Coast Guard directorate responsible for identifying and providing capabilities. In July 2010, we reported that while the Coast Guard had not yet released the results, officials told us that the analysis considered the 2007 Deepwater baseline to be the “floor” for asset capabilities and quantities and did not impose financial constraints on the outcome.<sup>15</sup> The Coast Guard initiated a second phase of the analysis to impose cost constraints. We recommended in our July 2010 report that since the 2007 DHS-approved baseline of \$24.2 billion was no longer feasible because of cost growth, the Coast Guard should conduct a comprehensive review of Deepwater cost, schedule, quantities, and mix of assets needed to meet mission needs, identify trade-offs given

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<sup>12</sup>GAO, *DOD Acquisition Outcomes: A Case for Change*, GAO-06-257T (Washington, D.C.: Nov. 15, 2005).

<sup>13</sup>GAO, *Defense Acquisitions: A Knowledge-Based Funding Approach Could Improve Major Weapon System Program Outcomes*, GAO-08-619 (Washington, D.C.: July 2, 2008).

<sup>14</sup>GAO, *Coast Guard: Efforts to Identify Arctic Requirements Are Ongoing, but More Communication about Agency Planning Efforts Would Be Beneficial*, GAO-10-570 (Washington, D.C.: Sept. 15, 2010).

<sup>15</sup>GAO-10-790.

fiscal constraints, and report the results to Congress.<sup>16</sup> The Coast Guard's efforts to date have not addressed this recommendation.

We recently obtained and analyzed the phase 1 fleet mix analysis. We found that to conduct this analysis, the Coast Guard assessed asset capabilities and mission demands to identify a fleet mix—referred to as the objective fleet mix—that would meet long-term strategic goals. Given the significant increase in the number of assets needed for this objective fleet mix from the approved Deepwater program of record—the \$24.2 billion baseline—the Coast Guard developed, based on risk metrics, incremental fleet mixes to bridge the two.<sup>17</sup> Table 1 shows the quantities of assets for each incremental mix, according to the Coast Guard's analysis.

**Table 1: Alternative Fleet Mix Asset Quantities According to Coast Guard's Phase 1 Fleet Mix Analysis**

Surface/aviation platforms	Program of record	Fleet mix 1	Fleet mix 2	Fleet mix 3	Fleet mix 4 (objective)
NSC	8	9	9	9	9
OPC	25	32	43	50	57
FRC	58	63	75	80	91
HC-130	22	32	35	44	44
MPA HC-144A	36	37	38	40	65
HH-60	42	80	86	99	106
HH-65	102	140	159	188	223
UAS, Land-Based	12	19	21	21	22
UAS, Cutter-Based	18	15	19	19	19

Source: December 2009 Coast Guard data.

Phase 1 also analyzed the performance of these fleet mixes to gain insight into mission performance gaps. However, the analysis was not cost constrained, as noted above. For instance, the Coast Guard estimated that

<sup>16</sup>GAO-10-790.

<sup>17</sup>For fleet mix analysis phase 1, the Coast Guard adjusted the \$24.2 billion program of record to account for changes in characteristics and requirements for several of the Deepwater assets that had occurred since the last performance gap analysis. For example, in this analysis, the per-flight hours for the HC-144A were reduced from 1,200 to 800 based on an initial capabilities assessment and the number of unmanned aircraft systems was reduced. Officials stated that these adjustments did not result in significant changes to the program of record.

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the costs associated with the objective fleet mix could be as much as \$65 billion. This is approximately \$40 billion higher than the DHS-approved \$24.2 billion baseline. As a result, as we reported last year, Coast Guard officials stated that they do not consider the results to be feasible because of cost and do not plan to use them to provide recommendations on a baseline for fleet mix decisions.<sup>18</sup>

In May 2010, the Coast Guard undertook phase 2, a cost-constrained fleet mix analysis. Officials responsible for the analysis explained that it will primarily assess the rate at which the Coast Guard could acquire the Deepwater program of record within a high and low bound of annual acquisition cost constraints. They told us that the lower- and upper-bound constraints are, respectively, \$1.2 billion and \$1.7 billion annually; however, the basis for selecting these cost constraints is not documented. Based on our review of recent budget data, this upper bound for Deepwater is more than Congress has appropriated for the Coast Guard's entire acquisition portfolio in recent years. Moreover, the Coast Guard officials stated that this analysis will not reassess whether the current program of record is the appropriate mix of assets to pursue and will not assess any mixes smaller than the current program of record. Alternative fleet mixes will be assessed, but these mixes are based on purchasing additional assets after the program of record is acquired, if funding remains within the yearly cost constraints. Coast Guard officials stated that they are only analyzing the program of record or a larger fleet mix because they found that the first phase of the analysis validated pursuing, at the minimum, the program of record. The Coast Guard expects to complete its phase 2 analysis in the summer of 2011. Because fleet mix analysis phase 2 will not assess options lower than the program of record, it will not prepare the Coast Guard to make the trade-offs that will likely be needed in the current fiscal climate.

Furthermore, it is our understanding that DHS is conducting a study examining the mix of surface assets, which is expected to be completed later this year. As part of our ongoing work, we will continue to monitor these efforts as they relate to the fleet mix analysis.

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<sup>18</sup>GAO-10-790.

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**Concluding  
Observations**

In conclusion, I would like to emphasize several key points as we continue to review the Coast Guard's management of acquisitions. It is important to recognize that the Coast Guard continues to make progress in strengthening its capabilities to manage its acquisition portfolio by updating acquisition policies and practices, reducing vacancies in the acquisition workforce, and leveraging DOD contracts and resources to help support its major acquisitions. Nevertheless, the Coast Guard still faces significant challenges in carrying out these major acquisitions within a fiscally constrained environment, especially given continued cost growth and schedule delays that are exacerbated in part by unrealistic budget plans. Additionally, as costs continue to grow and capabilities are delayed, the Coast Guard has yet to consider the trade-offs in capabilities, quantities, and costs of the Deepwater assets—a significant portion of its major acquisition portfolio—in order to identify an affordable fleet. We expect to continue reviewing and reporting on its progress in this regard.

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Chairman LoBiondo, Ranking Member Larsen, this concludes my prepared statement. I would be happy to respond to any questions you or other members of the subcommittee may have at this time.

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**Contacts and  
Acknowledgements**

If you have any questions on matters discussed in this statement, please contact John P. Hutton at (202) 512-4841 or [huttonj@gao.gov](mailto:huttonj@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Other individuals making key contributions to this testimony include Michele Mackin, Assistant Director; John Neumann, Assistant Director; Jessica Drucker; Laurier Fish; Carlos Gomez; Kristine Hassinger; Morgan Delaney Ramaker; William Russell; Molly Traci; and Rebecca Wilson.

## Appendix I: Information on Coast Guard Major Acquisition Programs

Asset	Description
National Security Cutter (NSC)	The NSC is intended to be the flagship of the Coast Guard's fleet, with an extended on-scene presence, long transits, and forward deployment. The cutter and its aircraft and small boat assets are to operate worldwide.
Offshore Patrol Cutter (OPC)	The OPC is intended to conduct patrols for homeland security functions, law enforcement, and search and rescue operations. It will be designed for long-distance transit, extended on-scene presence, and operations with multiple aircraft and small boats.
Fast Response Cutter (FRC)	The FRC, also referred to as the Sentinel class, is conceived as a patrol boat with high readiness, speed, adaptability, and endurance to perform a wide range of missions.
Medium Endurance Cutter (MEC) sustainment	The MEC sustainment project is intended to improve the cutters' operating and cost performance by replacing obsolete, unsupportable, or maintenance-intensive equipment.
Patrol Boat (PB) sustainment	The PB sustainment project is intended to improve the boats' operating and cost performance by replacing obsolete, unsupportable, or maintenance-intensive equipment.
HC-144A Maritime Patrol Aircraft (MPA)	The MPA is a transport and surveillance, fixed-wing aircraft intended to be used to perform search and rescue missions, enforce laws and treaties, and transport cargo and personnel.
HC-130J Long-Range Surveillance Aircraft	The HC-130J is a four-engine turbo-prop aircraft that the Coast Guard has deployed with improved interoperability, Command, Control, Communications, Computer, Intelligence, Surveillance, and Reconnaissance (C4ISR), and sensors to enhance surveillance, detection, classification, identification, and prosecution.
HC-130H Long-Range Surveillance Aircraft	The HC-130H is the legacy Coast Guard long-range surveillance aircraft, which the Coast Guard intends to update in multiple segments.
HH-65 Multi-mission Cutter Helicopter	The HH-65 Dolphin is the Coast Guard's short-range recovery helicopter. It is being upgraded to improve its engines, sensors, navigation equipment, avionics, ability to land on the NSC, and other capabilities in multiple segments.
HH-60 Medium Range Recovery Helicopter	The HH-60 is a medium-range recovery helicopter designed to perform search and rescue missions offshore in all weather conditions. The Coast Guard has planned upgrades to the helicopter's avionics, sensors, radars, and C4ISR systems in multiple segments.
Unmanned Aircraft System (UAS)	The land-based and cutter-based UASs are in the Need phase. The UAS strategy is to range UASs and low altitude cutter-based tactical UASs to fulfill mission requirements while emphasizing (1) commonality with existing Department of Homeland Security and Department of Defense programs, (2) ensuring that projects mature, and (3) where possible, leveraging other government organizations' UAS development and nonrecurring engineering costs.
Response-Boat Medium (RB-M)	The RB-M is intended to replace the aging 41-foot utility boats and other medium nonstandard boats.
C4ISR Suite	The Coast Guard is incrementally acquiring C4ISR capabilities, including upgrades to existing cutters and shore installations, acquisitions of new capabilities, and development of a common operating picture to provide operationally relevant information and knowledge across the full range of Coast Guard operations.
Coast Guard Logistics Information Management System (CG-LIMS)	CG-LIMS will replace or integrate legacy logistics business processes and their supporting information systems.
Nationwide Automatic Identification System (NAIS)	NAIS is a data collection, processing, and distribution system that provides information to enhance safety of navigation and improve Maritime Domain Awareness.

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Asset	Description
Interagency Operations Center (IOC)	IOC is intended to improve operational capabilities, situational awareness, tactical decision making and joint, coordinated emergency response.
Rescue 21	Rescue 21 is an advanced command, control, and communications system intended to improve the Coast Guard's search and rescue mission by leveraging direction-finding technology to more accurately locate the source of distress calls.

Source: GAO analysis of Coast Guard information.

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