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WHAT WILL IT COST? PROTECTING THE TAXPAYER FROM AN UNACHIEVABLE COAST GUARD ACQUISITION PROGRAM

(112–53)

HEARING

BEFORE THE

SUBCOMMITTEE ON
COAST GUARD AND MARITIME TRANSPORTATION

OF THE

COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

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

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September 30, 2011

MEMORANDUM

TO: Members, Subcommittee on Coast Guard and Maritime Transportation

FROM: Staff, Subcommittee on Coast Guard and Maritime Transportation

RE: Hearing on "What Will It Cost?: Protecting the Taxpayer from an Unachievable Coast Guard Acquisition Program".

PURPOSE

On Tuesday, October 4, 2011, at 10:30 a.m., in room 2167 of the Rayburn House Office Building, the Subcommittee on Coast Guard and Maritime Transportation will meet to examine Coast Guard Acquisitions programs. The Subcommittee held a hearing on the issue on April 13, 2011. This hearing will review issues raised in the July 2011, Government Accountability Office (GAO) report entitled "Action Needed as Approved Deepwater Program Remains Unachievable".

BACKGROUND

Coast Guard Recapitalization

The Coast Guard began a process of replacing its aging vessels and aircraft in the late 1990's. The program's focus was those assets that carry out missions farther than 50 miles from shore and the modernization of the information technology systems that the Service relies upon to coordinate its operations. The program was known as the Integrated Deepwater Program (Deepwater). To manage the acquisition program, the Coast Guard engaged a Lockheed Martin/Northrop Grumman team, called the Integrated Coast Guard system (ICGS).

Deepwater encountered significant quality and cost issues. It was the subject to several hearings and an investigation by the Committee, and is the subject of continuing review by the GAO. The Coast Guard has terminated the Deepwater contract with ICGS and is now performing the acquisition functions in-house. The assets scheduled for recapitalization remain the same.

Recent GAO Report: Approved Deepwater Program Remains Unachievable

The GAO released a report entitled "Action Needed As Approved Deepwater Program Remains Unachievable" in July 2011. This title refers to the GAO's finding that it will be impossible for the Coast Guard to complete its major acquisitions without breaching its 2007 baseline of 20 to 25 years for construction and delivery at a total cost of $24.2 billion. The GAO estimates it could take an additional 10 years to complete and could cost at least an additional $5 billion. Below is a summary of the GAO's specific findings:

Findings:

- The 2007 baselines for Deepwater are no longer valid or achievable because:
  - The Coast Guard has developed new baselines for some assets that indicate the estimated total acquisition cost could be as much as $29.3 billion, or about $5 billion over 2007's $24.2 billion baseline.
  - Additional cost growth is likely because the Coast Guard has yet to develop revised baselines for all assets, including the Offshore Patrol Cutter (OPC) which is the largest cost driver in the program, Cutter Small Boats, and Unmanned Aerial Systems.
  - The reliability of the estimated costs and schedules for selected assets is undermined because the Coast Guard did not follow key best practices for developing these estimates, contained in the Service's Major Systems Acquisition Manual.
  - Coast Guard and DHS officials agree that the annual funding needed to support all approved Deepwater baselines substantially exceed levels of funding appropriated by Congress or requested by any administration, as well as anticipated future-years funding levels.
- The Coast Guard is taking delivery of assets and technological upgrades that have yet to meet promised capabilities:
  - The National Security Cutter (NSC) - 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. Three NSC's have been delivered to date without VUAVs. The Service is currently examining a less capable unmanned aerial system for potential deployment aboard the NSC (see below).

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 two boats did not perform as required and the Service recently began another process to acquire two new classes of small boats (see below).

Without the VUAV and the cutter boats, the NSC is not fully mission capable. The DHS Inspector General recently found that in the absence of a UAS, "the aerial surveillance capability of the NSC is reduced from 58,160 square nautical miles to 18,320 square nautical miles, a 68 percent decline" (OIG-09-82). Without these planned capabilities, the NSCs cover little more range than the 40 year old cutters they replace.

- C4ISR (Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance): The Deepwater Program was designed as a "systems-of-systems" which would improve asset interoperability and mission success. Key to that approach was a single command and control architecture for use on all assets providing a common operating picture to ensure communication and data sharing between all assets and shore units. The GAO found that several new assets cannot fully share data, a centralized network has yet to be established, and many upgraded assets planned for future delivery will no longer receive the C4ISR software necessary for interoperability.

- The Coast Guard has not successfully completed initial operational test and evaluation on any of its new assets delivered to date. This procedure is a critical step in the acquisition process that indentifies deficiencies in asset design and operation and ensures delivered assets meet required capabilities. Without this procedure, costs could increase as problems would need to be corrected on a larger number of assets. To date, the Service has acquired the following new assets without successfully completing initial operation test and evaluation:
  - Five NSCs under contract (more than half the planned buy of 8) of which three have been delivered at a total cost of more than $3 billion.
  - 15 Maritime Patrol Aircraft under contract (almost half the planned buy of 36) of which 11 have been delivered at a total cost of $640 million.
  - Six HC-130Js have been delivered at a cost of $153 million.

- The Coast Guard has not provided a comprehensive reanalysis of the current program of record for major acquisitions to examine tradeoffs between budget constraints, timelines, capabilities, and asset quantities. While the Service recently produced a Fleet Mix Analysis unconstrained by cost, it has failed to deliver its recently completed cost-constrained Fleet Mix Analysis. The unconstrained Fleet Mix Analysis provided an accurate picture of what assets would be needed for the Coast Guard to fully perform its required missions. However, it is unachievable in the current constrained fiscal environment. As

such, the cost-constrained Fleet Mix Analysis is vital to any objective reevaluation of the program of record.

In addition to a cost constrained Fleet Mix Analysis, DHS recently completed, but has not made public an independent review of the program of record for the NSC, OPC, and Fast Response Cutter (FRC). Both the analysis and the DHS study could have a tremendous impact on the future of the recapitalization program

- The Coast Guard is gaining a better understanding of cost, schedule, and technical risks, but does not always fully convey these risks in reports to Congress. In fact, the quarterly reports to Congress have omitted information contained in reports the Service submits to DHS.

Recommendations:

The GAO recommends that DHS identify trade-offs to the approved program of record and ensure that the OPC design is achievable. It goes on to recommend that the Coast Guard identify priorities, incorporate cost and schedule best practices, increase confidence that assets will meet mission needs, and report complete information on risks to Congress in a timely manner. DHS concurred with the recommendations. Finally, the report suggested that Congress consider including a permanent reporting requirement that ensures timely and complete information on risks. Section 307 of H.R. 2838, the Coast Guard and Maritime Transportation Act of 2011 consolidates several reports on Coast Guard acquisitions and expands the reporting requirements beyond the former Deepwater Program to encompass all major acquisitions projects.

Recent Coast Guard Acquisitions Developments

Since the Subcommittee's April hearing on Coast Guard Acquisitions, the Service has moved forward in its acquisition program in the following manner:

- *Over the Horizon (OTH)*- The Coast Guard has awarded contracts for four prototype Over the Horizon (OTH) cutter small boats. Those four will be down selected to a final award in a "boat off." The Service hopes to award the final contract for the first 19 OTHs (two for each National Security Cutter and three spare) in the second quarter of fiscal year 2012.

- *Long Range Interceptor (LRI)*- The Coast Guard recently released a Request For Proposals (RFP) on the Long Range Interceptor (LRI) cutter boat. The first LRI failed to meet mission requirements specifications and the contract was terminated. The Service will not conduct a boat off for this acquisition and hopes to award a final contract for eight LRIs (one for each National Security Cutter) within the next year.

- *Shipboard Unmanned Aerial System (SUAS)* - The Service recently began investigations into a Shipboard Unmanned Aerial System (SUAS) to serve as a stopgap aerial surveillance capability until the Vertical Unmanned Aerial Vehicle is ready for production. The SUAS is smaller and has less range and capability than the VUAV, but it can operate up to 20 hours per day, is cheaper than VUAV, and has been tested and employed on ships by the U.S. Navy for over 100,000 hours.

- *National Security Cutter* - The Coast Guard accepted the third NSC, USCGC STRATTON, on September 2, 2011. This ship is now in a special commissioning status while it is tested and further prepared for service. The Service also awarded the contract for the fifth NSC to Huntington Ingalls Industries on September 9, 2011.

- *Fast Response Cutter* - The Coast Guard's second 154-foot FRC, USCGC RICHARD ETHERIDGE, was launched at Bollinger Shipyards in Lockport, La., on August 18, 2011. The Service also awarded Bollinger Shipyards a contract option to acquire FRCs nine through twelve.

- *Offshore Patrol Cutter* - The Coast Guard released draft specifications to industry on the OPC. It is currently receiving and reviewing industry comments. The comments will help the Service draft a RFP which may be released in the next two years.

- *Maritime Patrol Aircraft* - The Coast Guard recently exercised a contract option to purchase the service's 15th HC-144A "Ocean Sentry" MPA from EADS North America for $41 million.

WITNESSES

Admiral Robert Papp
Commandant
United States Coast Guard

Mr. John Hutton
Government Accountability Office

WHAT WILL IT COST? PROTECTING THE TAXPAYER FROM AN UNACHIEVABLE COAST GUARD ACQUISITION PROGRAM

TUESDAY, OCTOBER 4, 2011

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

The subcommittee met, pursuant to notice, at 10:30 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 major acquisition program, and hear from the commandant on what his plans are to restore public faith in the program.

Though the subcommittee previously held an acquisition hearing in April, we promised to revisit the issue often to ensure that the Coast Guard's major acquisition programs continue to improve by addressing valid concerns over rising costs, schedule delays, and capability shortfalls.

As part of our oversight effort, the committee asked the Government Accountability Office to review the current program to determine whether it is still on track, and to make recommendations to ensure its success. The GAO is here today to present those findings and recommendations.

In 2002 the Coast Guard signed the contract to begin the acquisition program formally known as Integrated Deepwater System. Deepwater was supposed to provide a complete recapitalization and modernization of the Service's larger aging assets, as well as its outdated communications and information systems over a 20-year period. Now nearly a decade later, the subcommittee is concerned that the Service has less to show for the investment of over $7 billion in taxpayer money than it should.

The GAO found that the 2007 rebaseline for Deepwater programs is no longer viable. Using that rebaseline as a guide of the Coast Guard's 17 large acquisition programs, 10 are over budget, 8 are behind schedule, and 6 are both over budget and behind schedule. I hope that the commandant will address this issue and update the subcommittee on his efforts to provide a more realistic appraisal of total acquisition costs and timelines.

The GAO also questioned the Service's assertions that new assets are providing increased capability. It noted that some new assets are not performing at full capability, while others still need to go through operational tests and evaluation to assure they do perform as required. Take, for example, the National Security Cutter. Despite an investment of over $3 billion, the GAO and inspector general have both reported that the National Security Cutter is currently not performing at its planned capability. The subcommittee is very concerned, and I don't know how to underscore that enough; they are very concerned that the Coast Guard has not yet taken steps to address those capability gaps.

The Service needs to develop a plan to provide air surveillance support for the NSC and achieve 225 days away from home port. The Service also needs to expedite the acquisition small boats for the NSC.

The Transportation and Infrastructure Committee felt strong enough about these issues to include proscriptive language on the National Security Cutter in the Coast Guard and Maritime Transportation Act of 2011. The National Security Cutter is a critically needed asset. The Service must identify ways to mitigate the shortcomings in the near term, and fully rectify them in the long term.

I know I speak for many, if not all of my colleagues, when I say that I cannot support an acquisition program that spends billions of dollars on so-called state-of-the-art assets, only to find out they are not performing as promised. I understand the Service has made several strides lately, and I want to applaud the Coast Guard for taking those steps. However, since precious time and money was wasted under the old Deepwater program, I feel that we are now at a critical point where the rate of decline and legacy assets has overtaken the rate of progress in bringing new assets online.

I am very concerned that, unless the Coast Guard can get this program back on track, the Service will not be able to perform its critical missions. I know that the Service is working hard to ensure that doesn't happen. I look forward to hearing from the commandant on how these acquisitions are a good investment for the taxpayer, and how we are going to get the results that we were promised.

I want to thank the witnesses for being here today, and now I will turn to Mr. Larsen.

Mr. LARSEN. Mr. Chairman, thank you for convening this morning's hearing to discuss the latest in a series of reports released by the Government Accountability Office concern the U.S. Coast Guard's major acquisition programs.

I appreciate the opportunity to hear once again from the GAO and the Coast Guard on the progress that has been made to recapitalize the Coast Guard's surface and air assets, and, more importantly, to discuss the challenges that remain outstanding since the subcommittee last visited this topic in April.

In general, I want to commend Admiral Papp and the Coast Guard for continuing their efforts to implement internal reforms to improve the efficiency, transparency, and accountability of its recapitalization program. As a sign the Coast Guard has turned the corner, the Coast Guard reports since April it has awarded four contracts totaling approximately $728 million for major system ac-

quisitions. These contracts, which will provide hundreds of high-paying jobs for U.S. shipbuilders will allow the Coast Guard to acquire a new National Security Cutter and a new Maritime Patrol Aircraft to provide enhanced capabilities for surveillance, interdiction, and fisheries enforcement operations.

Additionally, these contracts will allow the construction of 4 additional Fast Response Cutters, and 10 new Medium Response Boats, which will improve the Coast Guard's marine operations along the 95,000 nautical miles of U.S. coastline, and strengthen the Coast Guard's capabilities to secure our ports and our harbors.

In addition, the Coast Guard reports progress on several other important capital initiatives. The third National Security Cutter, the *Stratton*, was delivered when the Coast Guard launched two new Fast Response Cutters. Also, vital sustainment programs were completed for two legacy Medium Endurance Cutters, which will improve their operational effectiveness.

Additionally, the Coast Guard maintained its efforts to upgrade its H–60 and H–65 helicopters, and expanded its deployment of the rest of the 21 emergency response system to 4 additional sectors around the Great Lakes and in southern California. Each of these accomplishments is a positive development.

Notwithstanding this demonstrable progress, however, the recent GAO report finds that several substantial challenges remain with the Coast Guard's recapitalization program. These challenges raise a legitimate question: Does the approved program of record remain achievable?

When the Coast Guard began its recap program in 1996, everyone recognized that the scale and complexity of replacing or modernizing its aging fleet of over 90 cutters and some 200 aircraft was an unprecedented event in the Coast Guard's long history. But as no less than 18 GAO reports and numerous subcommittee oversight hearings in this and prior Congresses has made clear, the Coast Guard's past oversight and management of its major system acquisitions, especially of the $24.5 billion Deepwater program was ineffective. Moreover, this deficiency has led to substantial cost overruns, shifting baselines, design flaws, and delays in the delivery of new assets.

I want to commend the former chairman of this subcommittee, Congressman Elijah Cummings, for his determined efforts in past Congresses to instill greater accountability and transparency to this initiative, which is of critical importance to our maritime security. GAO reports that the absence of baseline estimates for several assets might drive up the overall cost for major system acquisitions to over $29 billion. New baselines, especially for the Offshore Patrol Cutter, could push this estimate even higher.

The GAO also asserts that cost estimates and schedules developed by the Coast Guard may be unreliable because the Coast Guard has not adhered consistently with its own best management practices. Additionally, the GAO raises concerns about the viability of achieving a system-of-systems capability, noting complications and false starts with the development of command and control and communication technologies generally known as C4ISR.

Also important: GAO states that the Service has failed to conduct adequate operational testing and evaluation for the assets that

have been delivered. These findings raise valid questions about achieving the long-term concept envisioned by the former Deepwater program.

I look forward to hearing this morning from John Hutton, GAO's director for acquisitions and management, to further discuss these issues and other concerns contained in the new report. I am also interested in hearing from Admiral Papp on his views regarding the Coast Guard's progress in implementing their internal reforms and what, if anything, the Coast Guard intends to do to adjust its capital investment plan to better correspond with what the Coast Guard can reasonably expect the Congress to provide in appropriations.

Mr. Chairman, acquisition policy is not just a function of a process. Our policies also are reflected in the budgetary resources we devote to programs and in the attention we give to emerging demands, such as the Coast Guard's need for new heavy and medium polar ice-breakers in the Arctic. But before the Congress appropriates any funds, agencies in the executive branch must provide us with timely, accurate, and reliable budget estimates. I share your frustration when the administration does not make such information available.

Everyone in this room wants the Coast Guard to succeed. The Coast Guard deserves the best vessels and aircraft that modern technology can provide. The American public certainly expects no less. If we hope to achieve the Coast Guard's approved program of record for Deepwater, we must engage each other as genuine partners and determine a common path forward. I hope that this morning's hearing moves us in that direction.

Mr. LOBIONDO. Thank you, Mr. Larsen. Our first witness today is Mr. John Hutton, director of acquisition and sourcing management for the GAO. Mr. Hutton, we welcome you and look forward to your testimony.

TESTIMONY OF JOHN P. HUTTON, DIRECTOR, ACQUISITION AND SOURCING MANAGEMENT, GOVERNMENT ACCOUNTABILITY OFFICE

Mr. HUTTON. Thank you, Mr. Chairman. Chairman LoBiondo, Ranking Member Larsen, and members of the subcommittee, thank you for inviting me to discuss our July 2011 report, "Action Needed as Approved Deepwater Program Remains Unachievable." This is our latest in a series of reports over the past decade where we have informed Congress and others not only of the problems and uncertainties related to this large, complex acquisition, but also of the many positive steps the Coast Guard has taken to strengthen its acquisition management capabilities as it assumed the systems-integrator role.

Today, I would like to focus my remarks by simply posing three questions that we believe, if answered by the Coast Guard and DHS, should help improve the overall recapitalization efforts. First, what is the true cost of the current recapitalization effort? Second, what are the assets and capabilities the Coast Guard needs while considering fiscal constraints? And, third, how can the Coast Guard manage its recapitalization effort, given its expected funding levels over the next several years?

With respect to cost, there are several factors that preclude a solid understanding of the true cost of the program. Over the years, we have reported on cost growth and as of May 2011, the total Deepwater program could cost as much as $29.3 billion, about a 20-percent increase over the past 4 years.

But further cost growth is looming because the Coast Guard's current plans do not reflect all known updated costs. This contributes to the approved 2007 baseline no longer being achievable. For example, the Coast Guard has not developed a revised cost estimate for the Offshore Patrol Cutter. That is the largest cost driver in the 2000 baseline, at $8 billion.

Further, the approved baseline for the National Security Cutter, which was revised in 2008, reflects a total acquisition cost of $4.7 billion. However, our recent review of budget documents found that the program may cost an estimated $5.6 billion, representing a 19-percent increase over this asset's 2008 revised baseline.

With respect to the second question, what assets and capabilities are needed, we recommended in July 2010 that the Coast Guard conduct a comprehensive review to clarify the mix of assets required to meet mission needs within fiscal constraints. While the Coast Guard's initial fleet mix analysis provided insight on the performance of fleets larger than the program of record, the analysis was not cost-constrained. The Coast Guard undertook a second analysis that considered various funding scenarios. However, we were told it would not assess any mixes smaller than the current program.

In the meantime, DHS has conducted its own study to examine alternatives to the planned cutter recapitalization. We continue to recommend that DHS and the Coast Guard work together, using the information contained in the three studies, to help identify cost, capability, and quantity trade-offs.

With respect to the third question, DHS and the Coast Guard are managing a recapitalization effort that is expected to cost more than what its annual budget will likely support. For example, Coast Guard officials said that they need up to $1.9 billion per year to support the approved baseline. However, these officials expect actual funding levels to be closer to $1.2 billion for these assets.

Coast Guard-wide support is required to reliably plan and execute an achievable recapitalization program. Thus, this year we recommended that the Coast Guard engage in an agency-wide effort to ensure that recapitalization programs are funded within the resource constraints. This effort should involve the acquisition, resource, and capabilities directorates.

In commenting on our report recommendations, DHS stated that the Coast Guard already does make trade-offs as part of its annual budget process. However, under this budget process, DHS and the Coast Guard have continued to face the problem of approved acquisition programs not being feasible.

In closing, fiscal realities underscore the importance of answering these questions so that more realistic budgets can be submitted to Congress and the Coast Guard can better manage the modernization of its ships, aircraft, and other supporting capabilities.

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

Mr. LOBIONDO. Thank you very much. Your report declared that the acquisition of Deepwater assets is unachievable with the 2007 baseline. Can you tell us, or do you have any idea what the Coast Guard is doing to prevent acquisition costs from rising beyond the expected level?

Mr. HUTTON. Well, I think one of the important things that we pointed out in our report is that, as you gain more knowledge and you see that your current baselines aren't accurate, that you revise those as quickly as possible, get them approved so you have a good handle on cost, schedule, and other performance parameters.

We noted in the report that there are several assets—at least two, in particular, the UAS and the OPC—which represent about 35 percent of the dollars considered under the original 2007 baseline, and no baselines have been updated. So I think there are issues, as it relates to keeping all your baselines as accurate as the knowledge that you currently have. But also, as our report mentioned, you need to have good life-cycle cost estimates, good schedules. And I think that the best practices that GAO used in looking at the Coast Guard's activities for a couple of the assets showed that there could be some improvements in those areas, and we had a recommendation directed at that.

Mr. LOBIONDO. We have—your report states that the Service is not getting the full plan capability out of the National Security Cutters delivered to this date. Do you know if the Coast Guard has any performance metrics that prove that we are getting greater capability out of the National Security Cutter than the High Endurance Cutter?

Mr. HUTTON. That's a great question, and we thought a lot about that, just in terms of performance overall for the assets that they are acquiring.

One thing we do note is that the assets have not gone through operational test and evaluation. That is a very key phase of the acquisition process. That is where you help ensure that when you establish your mission needs statement up front, when you establish your operational requirements document, when you establish your baselines, that you have traceability through all those, that you're going to test it in an operational situation and be able to assure yourself that what you are buying is actually what you thought you were buying, and is going to meet the mission gap that you were hoping to.

Mr. LOBIONDO. Mr. Larsen.

Mr. LARSEN. Mr. Hutton, on that point can you be more specific about what the implications for those assets are for not completing initial operating and testing?

Mr. HUTTON. Well——

Mr. LARSEN. Initial operational testing.

Mr. HUTTON. Right. They are scheduled—several assets are scheduled to go through initial operational testing within the next year or two. Those are planned. I have every reasonable expectation that the Coast Guard is going to follow through with those processes. There is a certain appropriate time when you do that. They are working towards that. So it's not necessarily that it's something they're not considering, not caring to do. They know

they need to do it. And those are going to be scheduled within the next year or so.

But again, I think that's where you get some insights. The Coast Guard does a lot of different kind of testing along the way, operational assessments and things of that nature. That's where they gain some insights, early insights. They try to take corrective actions where necessary. But I think, ultimately, you would like to see the results of the initial operational test.

Mr. LARSEN. Does the Coast Guard have a separate operational test and evaluation units, much like the Department of Defense does, or is it tied in with their acquisition?

Mr. HUTTON. Under the process, they have officials that are involved in developing the test and evaluation plan. But I think what's also important is that the Department of Homeland Security, over the last couple of years, has really stepped up and refined their departmental processes. They have submitted a new directive on test and evaluation probably a couple years ago, and I would suspect that the Coast Guard's plans are going to be reviewed by the Department as another set of eyes, to make sure that they are testing the things that they should be testing, and that the way they're conducting the tests you can expect a reasonable answer to the questions that you have.

Mr. LARSEN. Now, we know on this committee from previous hearings—not just this year, but over the last several years—this—the Deepwater program, this acquisition program, has been under a lot of scrutiny. We have put it under a lot of scrutiny. We have actually changed how the Coast Guard is organized to implement this. You know, we went from an outside integrator and acquisition oversight to inside.

How much of that do you think that—how much of this change do you think is contributing to this cost growth? In other words, is this a hiccup, but a big hiccup, in the steps to get to where we have wanted to go with the acquisition process in the Coast Guard?

Mr. HUTTON. Well, I personally have been tracking this over the last 5, 6 years. I have seen what was going on while they were part of the systems integrator. And then I was also here when the Coast Guard decided to pull away and start beginning to manage their assets on an asset-by-asset basis.

We have commented in past reports how the Coast Guard, in fact, had taken some steps to realign their directorates. They had a blueprint for acquisition improvement, which had a lot of key steps. That was based on a GAO framework for, basically, a best practice of an acquisition organization. So, we saw that they were taking a lot of good steps.

Two points, though. One, it is hard to say for sure, but what you're seeing now is, on one level, a result of the fact that they now are looking at these systems on an asset-by-asset basis. They are not relying on the contractor to do a lot of things. I think they are getting a lot more insight on these assets than they may have had 3 years ago and probably wouldn't have, to this day, if they were still under that model, in my opinion.

So, what you're seeing is you're getting a lot more insights probably earlier—well, in this case maybe later, because——

Mr. LARSEN. Right.

Mr. HUTTON [continuing]. Of the way it worked out. But they're getting insights now that they didn't have before. But the key always comes down to, if you have better knowledge—and you want knowledge as you're going along the acquisition process—the key is what are the individual decisions you're making as you're going along, and are you putting the acquisition program and the acquisition directorate on the best footing to have success, by making sure that you have resources that match what you're trying to do.

Mr. LARSEN. Yes. Judging from the criticism of the handling of the fleet mix analysis, and the optimistic funding projections in the Coast Guard's capital investment plan, in your estimation is the Coast Guard's acquisition directorate adhering to its own policies establishing their blueprint for acquisition reform?

Mr. HUTTON. Well, that is an acquisition directorate blueprint. And what we noted in our report is that while they laid out something that we thought made a lot of sense, such as looking at what the needs are and the funding requirements, the acquisition directorate needs then to interact with the resources people and the capabilities people.

And that's what we were trying to do, that they better connect or better yet, make decisions about what trade-offs have to be made, given the available funding. Once that decision is made, then plan realistically in future budgets, so that you don't have a lot of churn over time. If you will notice, in their 5-year capital investment plan, where we looked at it over a series of years, you could see where one year they wanted to spend their money a certain way, but each year that mix of what they're going to put on aviation assets versus surface assets changed, mainly because of some of the things they had to deal with.

So, it wasn't really going to help them have a smooth acquisition, because they were planning for more money than what they really were going to reasonably get.

Mr. LARSEN. And finally, if that's the case, you know, as recently as, you know, a couple of years ago we were expecting a $24.5 billion program over a period of years. And you are now estimating, at a minimum—you are seeing, at a minimum, $29 billion, based on what happens with Offshore Patrol Cutter.

This program seems—at least right now, without some changes—seems to be headed towards spending up to a certain amount until the money is gone, but the Coast Guard still hasn't built out everything they wanted. That's where this seems to be going.

Mr. HUTTON. Yes. And I think, in part, that is why our title was stated that way. I think there is an issue that they need to address, as it relates to here is what we have said we're going to buy, recognizing that even the current baseline may not fully represent what we think ultimately we're going to need to carry out this program.

And our concern is that you need to basically make those priority trade-offs now. And then make sure that your budget submissions are representative and linked to what they think they can buy.

I do want to mention, though, the thing that's hard for us to get behind is the relationship between when a Coast Guard budget goes to the Department, when the Department sends the budget to

OMB, when it goes to you all on the Hill, the ins and outs. We don't have good visibility into that. So I will be open for that.

Mr. LARSEN. What was the original estimate on this program?

Mr. HUTTON. Well, I think it depends. The pre-9/11 estimate——

Mr. LARSEN. All right.

Mr. HUTTON [continuing]. I think was in the $14 billion range. Is that right? Seventeen billion. I stand corrected.

Mr. LARSEN. Pre-September 11, 2001.

Mr. HUTTON. Yes, and I think even if you go back in the late 1990s, you might find another estimate in a GAO report—but, of course, you know, a lot has changed.

Mr. LARSEN. Right.

Mr. HUTTON. Missions and requirements. But it was less than that.

Mr. LARSEN. And I think generally—not—I don't want to speak for all of Congress, but generally, when we looked at the program inflating up to $24 billion, it was obviously an eye-opener, a bit of a shock, but there was some understanding and some give-and-take between the Coast Guard and Congress about, well, we understand what the mission requirement is, post-9/11.

But at some point now we are getting—we are looking at north of $29 billion, and we are back to scratching our heads. And it's not a place we would like to get back to.

Mr. HUTTON. Well, again, I would like to just say, if I could, the key is do you have good information to make good decisions. And I think, up until now, we are seeing them get more insights into what they are actually buying. But as our report notes, there are still some areas that we are going to be interested in seeing, what the new estimates are going to look like. And then, to what extent there are going to be any trade-offs. Because, as our report mentioned——

Mr. LARSEN. Right.

Mr. HUTTON [continuing]. There are several studies that we understand are to be used to consider those trade-offs. But it's early; we haven't seen what those are.

Mr. LARSEN. Yes, good. Thank you, Mr. Chairman.

Mr. LOBIONDO. Master Chief Coble.

Mr. COBLE. Thank you, Mr. Chairman. Mr. Hutton, it's good to have you with us.

Mr. HUTTON. Thank you.

Mr. COBLE. I was going to put this question to the commandant, but I will run it by you, as well. During previous testimony by Secretary Napolitano, she emphasized her commitment to building eight National Security Cutters. The fiscal year 2012 budget, you will recall, request included a projected $77 million to complete the fifth National Security Cutter. But the ship was funded in its entirety, I'm told, in fiscal year 2011.

Since that ship's funding has been secured, what are the Coast Guard's plans, if you know, during the fiscal year 2012 for National Security Cutters 6, 7, and 8?

Mr. HUTTON. I believe, as the budget is going through the process, your characterization is the way I understand it. Unless Congress were to put some money in the budget that the Coast Guard might not have asked for, I don't expect you would see anything

for 2012 if the bills pass the way they are currently being considered.

I also think you are asking about buying the eight NSCs. And I think what I find interesting is when you look out at the 2012 through 2016 range, you will see in 2015, in their capital improvement plan—investment plan, you will see that there is money in there to buy three surface ships, three classes: the OPC, NSC, and the FRC. And we point that out because that is the first time you will see three major surface ships being put into the budget for the same year. And what I think is in that particular year is a little over $2 billion.

Mr. COBLE. I thank you, sir. No further questions. Thank you, Mr. Chairman.

Mr. LOBIONDO. OK. Rick, do you have anything else?

Mr. LARSEN. Thank you, Mr. Chairman. Just with regard to the system of systems and your thoughts on that, how far is the Coast Guard from achieving this concept than it was originally proposed? And is it possible for the Coast Guard to deliver that capability within these budget constraints?

Mr. HUTTON. Well, that's a great question. As the report points out, there are a lot of questions we still have on the system of systems, Mr. Larsen. We noted in our report that some of the newer assets like the NSC, the MPA, and the HC–130 right now are not in a position to fully share data.

One thing that we do point out, is this is a very complex, integrated-type system. When they decided to go in-house with the acquisition, one of their biggest challenges was to get insights into what the prior systems lead integrator was doing, what software and technical data they had, to gain a good understanding of where they were headed.

But there are still some major decisions to be made. For example, there is an approved baseline. I think it was February 2011. But even when that was approved by the Department, it's our understanding that it was essentially out of date, particularly because of some questions about the life-cycle cost estimate.

So I just think there is a lot of open questions. That is one area that we got into a little heavier this past year than we have in the past. And I would expect that, in doing any future work, we would continue to look at that issue. Because, as you know, that was the key piece to integrate all the assets, surface and air and land, that's going to allow you to get maybe a better outcome, leverage all the collective capabilities and get more. And that's where some of the trade-off comes in with the assets, as well, the quantity of assets.

Mr. LARSEN. OK. You're right in pointing out that's exactly why you do these kinds of things with the—on the communications side, the technology side. You integrate them, and you basically multiply——

Mr. HUTTON. You have a multiplier.

Mr. LARSEN. You multiply your capability, as opposed to just having a few ships out there, a few boats out there, a few fixed-wing or rotor aircraft in the air.

So, I would look forward to your continuing to look at that aspect of this a little more in-depth.

Mr. HUTTON. Thank you.

Mr. LARSEN. Thanks. Thanks, Mr. Chairman.

Mr. LOBIONDO. Well, Mr. Hutton, I want to thank you very much, and I also want to thank your team for helping us better understand how this is coming together or not coming together, and what we need to focus on. I know you have spent an enormous amount of time and energy and years on this, and we just want to tell you how very much we appreciate it.

So, we thank you very much and——

Mr. HUTTON. Thank you, Mr. Chairman.

Mr. LOBIONDO. And we will now switch over to our second panel, which will be Admiral Robert Papp.

Admiral Papp, I want to thank you for being here today. We also want to thank you for your leadership on this issue. Very challenging issue. I want to assure you that the subcommittee supports the acquisition goals of the Service. Nothing we would love to see more than to have this all completed.

Legislation that I introduced was recently reported from the transportation committee, authorizing funding for the Coast Guard's acquisition at a level that is significantly higher than was requested by the President or provided by the appropriators. We did so because we understand the critical importance of recapitalization, the program, and we want it to succeed.

We are looking to you to continue the progress made by the previous commandant to get the ship on the right course, address remaining concerns, and move forward effectively and efficiently. And once again, I want to thank you for being here. And you are recognized.

TESTIMONY OF ADMIRAL ROBERT J. PAPP, JR., COMMANDANT, UNITED STATES COAST GUARD

Admiral PAPP. Thank you, Mr. Chairman, for welcoming me here. It is great to be back here. Ranking Member Larsen, thank you, sir, as well. And distinguished members of the subcommittee, it's an honor to appear before you today to discuss the Coast Guard's top priority: recapitalizing our fleet of cutters and aircraft.

I welcome the opportunity to update you on our acquisition efforts and discuss the GAO's report. But more importantly, I want to speak to you about how the ships and aircraft we buy today will not just take shape, but in large part will define the Coast Guard's next 50 years of capability, and to discuss their value to America.

Let me begin by expressing my complete understanding and full appreciation for the historic times that we are in, and for the challenges both you and the President face. Without question, the Nation faces fiscal challenges that are causing us, all of us, to confront some of the toughest choices that we faced in our respective public Service roles. In my case, these are some of the toughest choices I have confronted in nearly four decades of Coast Guard service.

But I must admit I was a bit discouraged by the title of the hearing: "Protecting the Taxpayer from an Unachievable Coast Guard Acquisition Program." I want to assure you, Mr. Chairman, that every Coast Guardsman, including our acquisition professionals, knows that protecting Americans from maritime threats is job number one.

But our Coast Guardsmen cannot fulfill this duty without the tools they need to do the job. So I welcome the opportunity to discuss our acquisition program, a portfolio of projects designed to protect Americans from maritime threats, and to discuss why and how this project is not only achievable, but necessary.

As a Service chief, it is my responsibility and duty to convey my best military advice. For the Coast Guard, this subcommittee serves as our de facto House Armed Services Committee. Just as my fellow Service chiefs report to the HASC, it is my job to advise you on what my Service needs in order to provide security and protection that our taxpayers deserve. We have been fortunate throughout the years to have members of this subcommittee who understand this and have given us their full support.

In the midst of an economic crisis in the 1930s, the President and the Congress chose to invest in America's Coast Guard, building a class of seven new major Coast Guard cutters. Why? Because America needed capable multimission ships to meet both its known maritime challenges, as well as its unknown future challenges.

These seven major cutters carried out missions never imagined in their original concept of operations, such as World War II convoy patrol, combat operations, and weather stations. They were able to do this because leaders foresaw that capable ships with speed, endurance, and versatility were a sound investment against an uncertain and what proved to be a menacing half-century to come.

The last of these cutters was decommissioned in the mid-1980s at over 50 years of age. Then, as now, building multimission cutters was not merely a budget decision, it was a leadership decision, a leadership decision that required vision, fortitude, and courage.

The current class of High Endurance Cutters, the 378s, were built in the late 1960s. When introduced, they were capable ships with space, endurance, and speed. They too were used for missions barely imagined, such as combat missions in Vietnam, and transitioning from ocean station program duty to prosecute the new threats of maritime drug trafficking and illegal migration. But this fleet is now well in excess of 40 years old. It is antiquated, expensive to maintain, and unreliable to operate.

What my shipmates and this country desperately need is a modern, reliable fleet of vessels, and aircraft equipped with effective command and control and communications systems to ably perform our expanding maritime missions. And that, members of the subcommittee, is why recapitalizing this fleet is my number one priority. And I reaffirm that the Coast Guard requires at least 8 National Security Cutters and 25 Offshore Patrol Cutters, the approved project baseline.

This subcommittee's oversight continues to play a vital role in our recapitalization. So do the GAO's thoughtful insights. The GAO report notes that we have already instituted reforms, and we continue to make significant progress. As our response to the GAO report confirms, we take its recommendations seriously. And I am personally committed to the continued improvement of our acquisition processes and program management.

But it is also important to note that the GAO's report analyzed data that was collected over a year ago. So today I want to focus

not where we were, but where we are. And I am proud to report to you that we are making real progress.

On September 2nd, we accepted the on-time delivery of the cutter *Stratton*, the third National Security Cutter. The fabrication of the cutter *Hamilton*, NSC number 4, started in August. And we awarded a fixed-price contract for the cutter *James*, NSC number 5, just this last month. These successes reflect benefits we have realized from stable requirements, rigorous adherence to our acquisition processes.

Of note, the recently awarded NSC number 5 costs almost exactly the same as NSC number 4, which is remarkable, when you consider the enormous inflation in material costs between the award periods. This demonstrates that the NSC program has turned the learning curve, and has tremendous positive momentum, momentum that must be sustained.

The NSCs *Bertholf* and *Waesche* are both now operational. Initial mission results are impressive. During *Bertholf*'s first Alaska patrol this spring, she demonstrated superior sea-keeping ability while launching her boats, recovering her helicopters, and conducting over 40 fishery boardings in the treacherous Bering Sea. Last year, her enhanced C4ISR capabilities were instrumental in interdicting a drug-smuggling vessel carrying a multiton load of cocaine.

In April and August, the first two Fast Response Cutters, the replacement for the venerable Island-class patrol boat, were launched. Production of hulls 3 through 8 are underway, and we just exercised a fixed-price contract for the production of hulls 9 through 12. We have also delivered 12 of 36 HC–144 Maritime Patrol Aircraft, and we have 3 more on order. And I could go on and on about the successes of these ships and those aircraft.

Are there challenges we must overcome to deliver the full set of capabilities and mission results that the President, the Congress, and the American public rightly demands of our Coast Guard? Certainly. But our dedicated and professional acquisition directorate has made great strikes in identifying and correcting gaps between projected and realized capability.

But it is also clear America needs these capabilities. These ships, boats, and aircraft will assist our crews in defending our homeland against maritime threats for the next half-century. Can we attain the program of record? I submit to you that this is the very least the Americans will demand of us.

Unachievable? I think not. We have stable prices and requirements. We simply need the courage, foresight, and conviction to move forward in recapitalizing our Coast Guard in order to protect our vital maritime interests, interests which impact every American.

I want to thank this subcommittee for the rigorous oversight that you have given us throughout the years on this project. I don't deny errors, mistakes, trying to climb a very steep learning curve in executing this project. But I want to reconfirm our commitment for doing this right. And while I respect and admire everybody's responsibilities, whether it is GAO holding us accountable for proper practices, the Congress giving us its proper oversight, it is my job to come up here as the leader of the Coast Guard and give you my

best military advice on what we need to carry out our missions for the country.

So, thank you for the opportunity, sir, and I am ready to answer your questions.

Mr. LOBIONDO. Well, thank you, Admiral Papp. I mean there is no daylight between what you would like to see and your vision, and what we would like to see for the men and women of the Coast Guard. But some of these findings require a little probing, a little asking, a little clarification as we move through this.

One of the things I want to focus on a little bit is where we're bouncing around with these numbers. There was a GAO report that noted an annual appropriation level of about $1.2 billion. There is an assumption that maybe to do the program we need $1.9 billion. Or maybe it's $1.7 billion. The legislation, as I mentioned before, that I introduced, is $1.5 billion for the next 3 fiscal years, because the highest level of appropriations thus provided for the program, and I felt that it was the most robust and realistic number that was achievable in the current budget climate, which I don't have to remind you is pretty tough.

Can you tell me what the current value of the Coast Guard's capital assets are: cutters, small boats, aircraft, et cetera?

Admiral PAPP. Yes, sir, I can, because, as you know, we have also, at the same time as improving our acquisition programs, we have also been improving our audit programs, as well, as we are being held to new rules.

We have done a full capital review of the entire Coast Guard. And when I say our capital assets come out roughly $30 billion, having learned a little bit about this, that also reflects depreciation. In other words, that doesn't reflect the replacement value of the ship's aircraft and everything that we have. It's just that the current evaluation of all our capital assets is about $30 billion. Obviously, it would cost much more to replace all those ships and aircraft.

Mr. LOBIONDO. Can you give us your take on what percentage of value must be invested each year to maintain current levels of effort, and to allow the Coast Guard to fully carry out its missions?

Admiral PAPP. I think I can, Mr. Chairman. Actually, in discussions and looking at our budget—and I will give you rough numbers here—what we do now is we have to live within the constraints of—we have been averaging about $1.4 billion in acquisition money each year.

If you look at our complete portfolio, the things that we would like to do, when you look at the shore infrastructure that needs to be taken care of, when you look at renovating our smaller ice breakers and other ships and aircraft that we have, we have done some rough estimates that it would really take closer to about $2.5 billion a year, if we were to do all the things that we would like to do to sustain our capital plan.

So, I am just like any other head of any other agency here. At the end of the day we are given a top line, and we have to make choices and trade-offs. And basically my trade-offs boil down to sustaining frontline operations, balancing that with trying to recapitalize the Coast Guard. And there is where the break is, and where we have to define our spending.

Mr. LOBIONDO. One of the things that we are trying to understand—and it is challenging to sort of get our arms around what the accurate information is—but what level of mission execution would the Coast Guard be able to carry out if the appropriation were, say, $1.2 billion versus $1.9 billion.

Because we are obviously the authorizers, the appropriators, have to have a case made. We have a concern that, based on some of the things they have seen, they may try to slice and dice a little bit harder than they have. So this—the question is posed to try to be able to frame an argument for mission execution that is necessary.

Admiral PAPP. Well, I can tell you, sir, that right now, for the fiscal year 2012 budget, the President's budget requests approximately $1.4 billion. It was very tough for us this year, as we analyzed our budget, and we tried to strike that balance between mission execution—in other words, maintaining frontline operations—and still continuing on our acquisition project baselines.

And we are able to keep our frontline operations going within the budget, but we had to make some very challenging choices in terms of distribution of resources within our acquisition accounts. In other words, in some of the projects we might have to choose only the minimum order quantity. Obviously, if you can order the maximum order quantity for any given year, you gain the benefits of economies of scale by ordering more in an individual year.

So, it's just a balancing act within that acquisition appropriation, in terms of numbers of ships, numbers of aircraft. And those are the tough decisions that we are having to make trade-offs on.

Mr. LARSEN. Thank you, Admiral, for coming today. The current baseline is at $24.2 billion, and then—but the GAO report, as you know, has a new overall baseline in its view of—estimated at about $29 billion. And I think, from our testimony and the report, that doesn't include the Offshore Patrol Cutter, so maybe it would be north of there.

Can you talk about some of the factors that have contributed to that—about 20-percent cost increase in the last 4 years?

Admiral PAPP. Yes, sir. Part of what has contributed to that cost increase is we are doing our job better now. I will be the first to admit that in the late 1990s we had reached a point where we had depleted most of our acquisition professionals within the Coast Guard. We didn't have a lot of large projects going on. We had a very small acquisition budget. We had been working for years to start what was then called the Deepwater project.

September 11, 2001, changed that equation. And all of a sudden the money started coming in. And people talk about analogies of trying to build an aircraft while you're flying, or trying to build a ship while you're sailing. That's exactly what we were doing within our acquisition community inside the Coast Guard. In part, that's what necessitated having a lead systems integrator, basically hiring people to run the project for us as we tried to build up the capacity within the Coast Guard.

Mr. LARSEN. Right.

Admiral PAPP. So, when it became evident that we should take on the role of leading this, as I think Mr. Hutton described, we

started our blueprint for acquisition reform. That was approximately 5 years ago.

I am intimately familiar with that, because I was chief of staff of the Coast Guard at the time. And then Rear Admiral Currier was the chief of acquisitions. And he did an outstanding job in leading that effort to build up our acquisition workforce. And that continues today. He is now on the job as the deputy commandant for mission support, and is supervising—continuing to supervise our acquisition reform.

We got about the business of hiring good people, some people we hired away from the Navy to bring them in, to give us an increase in expertise within our acquisition community. And then we set about coming up with training programs for our people. And what I would say is our people are good now, and they know how to take very rigorous reviews of costs, take into account all the costs that are out there. And what we have found is there were some costs that we didn't account for.

There were other things that complicated, such as Hurricane Katrina, which basically shut down the shipyard in Pascagoula for a time, delayed deliveries. There was our own changes to requirements that occurred after September 11, 2001, that added to the cost, as well, culminating in a 2007 review which showed the initial increase. And what I would say is we are working very hard to make sure that we have revised APBs and costs. We are working them with the administration right now.

And I fully recognize that the OPC, the Offshore Patrol Cutter, is going to be a major contributor. But when I came in as commandant, one of the first things we did was we took another review of the requirements on that ship, and we redirected our philosophy to say that the number one driving factor is going to be affordability. And we have, in fact, even reduced some of our threshold requirements, getting them where they're still acceptable for carrying out Coast Guard operations, but keeping into account that that ship is going to have to be affordable.

So, I can't sit here today and tell you that's not going to increase. Obviously, we are working very hard to stay within the numbers where we can. But I will be completely forthright and honest with you, as we determine what those numbers are going to be.

Mr. LARSEN. Would you say on the OPC that GAO is in the ballpark, in terms of its contribution to driving——

Admiral PAPP. Well, I—yes, sir. I think they are definitely within the ballpark, and I think that it's always a challenge. We are basing things on conditions as they exist right now. So you can pick a figure and, if it's reasonable, it's in the ballpark. But what conditions are going to change between now and when we start cutting steel on that project? What unforseen things are going to happen in the country? What's the price of steel going to do during that period? There is always going to be changes; that's the one thing I have learned from studying the acquisition process.

Mr. LARSEN. So then, is—at what point does the Coast Guard then look at realigning the budget projections in its capital investment plan to the level of funding that you're receiving? Or does this continue—does the plan continue to get pushed to the right on the spreadsheet?

Admiral PAPP. Well, sir, I hope it doesn't get pushed to the right, because the further you press it to the right, that's another contributing factor to costs going up.

What we have got right now, at least for the NSC, for MPA, for the FRC, we have stable programs. We know what the costs are. We are not changing our requirements. And, really, when you look at standard acquisition, there is this triangle of cost, performance, and schedule. We are controlling the costs now, we know what they are. We know what the performance is that we want. It's the schedule that will drive any cost increases, because the further you drive the schedule to the right, the prices will increase.

So, I am trying to make the effort to build the things we need as fast as we can. I fully understand there is fiscal constraints within our Government. But it's my job, as the commandant, to tell you what we need, and that the faster we build them, the lower our costs will be in the long run, because we are able to decommission aging costly assets and get a better price for the new assets if we build them quicker.

Mr. LARSEN. So, are you approaching, though—are you approaching your platform budget different than you are approaching your systems budget? Because your time-cost-performance triangle might apply to the ships, the boats, the aircraft, but it doesn't seem to apply yet to your—the C4ISR systems, because the integration that the Coast Guard has proposed in the past doesn't seem to be even near caught up with where you are in building actual platforms.

Admiral PAPP. Well, I think—sir, I think we are moving ahead.

Mr. LARSEN. Are you moving ahead from a place that's behind, though?

Admiral PAPP. Well, one of the challenges I think we all face, if you look at—I don't know what number iPhone is out there today, I think we're up to number 5, and they're already talking about number 6.

Mr. LARSEN. Tomorrow.

Admiral PAPP. Technology just continues to evolve faster than the budgetary process or even the engineering processes that we have. The things that we envisioned 10 years ago when we started thinking about this system of systems, putting these ships linked with aircraft and shore bases, is obsolete technology now, as we envisioned it then. It continues to evolve, it continues to improve.

On a daily basis, our technicians within the Coast Guard are making incremental improvements to our C4ISR systems in our legacy assets and in the new assets to optimize—maybe not get to the optimal, but to optimize what we have, what we have available, so that we can communicate between those assets. And I think we are doing a pretty good job on it, as is demonstrated by some of the cases we have prosecuted with our new AC–144, vectoring surface assets to interdict drug smugglers. The National Security Cutter, in its ability to communicate with Maritime Patrol Aircraft and other cutters, and its small boats—we are making those incremental improvements, and they are improvements. They might not be as fast as we would like them to do, but we are doing the best we can.

Mr. LOBIONDO. Master Chief Coble?

Mr. COBLE. Thank you. Thank you, Mr. Chairman. Admiral Papp, good to have you back on the Hill.

Admiral PAPP. Thank you, sir.

Mr. COBLE. Admiral, during the previous testimony with Secretary Napolitano in March, she emphasized her commitment to building eight National Security Cutters. The fiscal year 2012 budget request included a projected $77 million to complete the fifth cutter. But the ship was funded in its entirety in fiscal year 2011. Since that ship's funding has been secured, what are the Coast Guard's plans during the fiscal year 2012 for national cutters 6, 7, and 8?

Admiral PAPP. Well, first of all, I need to express once again my appreciation to the Congress for putting the full funding for National Security Cutter number 5 into our fiscal year 2011 budget. That will get that ship out there at a better price and sooner, to start serving the American people.

The challenge continues to be getting six, seven, and eight constructed. And right now we have—in our capital investment plan we have plans to put number 6 in the fiscal year 2013 budget, 7 in the fiscal year 2014 budget, and 8 in the fiscal year 2015 budget. And right now we are constructing it that way because of OMB circular A11, which requires full funding for a project in any given year. It's a little different constraint that we are dealing with right now, and we are adjusting our capital investment plan to be able to accommodate that.

Mr. COBLE. Thank you, Admiral. Admiral, OMB is insisting that the Coast Guard comply with full funding requirements under OMB circular A–11 for the National Security Cutters and other Service acquisition projects. This means, as I understand it, the Coast Guard must budget for and receive funds to cover the cost of long lead material, construction, and post-construction activities prior to awarding a contract for production of a new asset.

Let me put a two-part question to you, Admiral. What's the impact of the OMB policy on the cost of delivery schedule for the NSC program? And what is the impact of this policy on the Coast Guard's acquisition program? And will trade-offs be necessary?

Admiral PAPP. Well, sir, as I stated, it—the quicker you can spend the money, have the money available, the—it affects the cost of the ship.

Generally, the cost of the ship will be less, the earlier you can build it. And having long lead materials allows a shipyard to make certain assumptions about the stability of the program, certain assertions that, yes, in fact, we are going to be building six or seven or eight, and they can plan, they have to make management decisions as it relates to their workforce, to buying supplies and long lead materials, et cetera, which, if they have stability in schedule, they can give you a lower price. And I think we have confirmed that in what we did this last year, in keeping number 5 at virtually the same price as number 4.

We have, in the past—OMB has allowed us to spend long lead money, and it has generally provided—produced lower prices for a ship because the shipyard is able to get them, and it gets the ship out there faster. We had $77 million in the fiscal year 2012 budget, which was intended to be money to complete number 5, as I said

earlier. We are grateful that the Congress decided to put all the money for NSC number 5 in the fiscal year 2011 budget.

The Senate currently has a mark, or kept the $77 million in their mark, and designated that as long lead materials for NSC number 6. If that stands, and if in conference the House works with the Senate on that, what that does, it—I don't have authority to spend on long lead. I would have to go to OMB and get an exception to A–11 to be able to spend long lead money on number 6.

Mr. COBLE. Thank you, sir. Mr. Chairman, my time is about to expire. Can I have one more question?

Mr. LOBIONDO. For you, certainly.

Mr. COBLE. Thank you, sir. Admiral, finally, I am told that the Coast Guard has made several successful acquisitions since our hearing earlier this year in the spring—April, I think. What are some of these successes, A. B, were any of the successes achieved ahead of schedule? C, were they achieved for lower cost than originally expected?

Admiral PAPP. Well, I think that the biggest success, because it means the most in terms of value to the Coast Guard and value to the taxpayer, are the National Security Cutters. First of all, national security number 3, the *Stratton*, while it wasn't, sir, delivered ahead of schedule, it was ready to go early, it passed builder's ship trials and acceptance ship trials with flying colors. And this is not just a biased Coast Guardsman saying this. We bring Navy people on board to evaluate the ships. And as you might imagine, sir, as a Coastie, the Navy guys don't cut us any slack.

Mr. COBLE. Yes.

Admiral PAPP. So, they were astounded, though, at the quality of the ship, the lack of discrepancies, and the vast improvement that had been demonstrated by the shipyard from hull number 1 to hull number 3. So, delivering that on time within the cost designated is, I think, a very significant event.

The other very significant thing is our acquisition force now has taken over that project. And heretofore the first three ships were acquired under a cost-plus contract. What we needed was predictability and stability in pricing, and what we did—it was very hard, but we hammered out a fixed price contract for number 4. And many people were amazed, first of all, that we were able to do that. But then people were even more amazed that, within the same year, we were able to negotiate and execute a second fixed-price contract for hull number 5 when Congress gave us that money.

So, those are the major accomplishments. But I would say also the Fast Response Cutter, our new patrol boat, two of them are in the water right now, and we are anxiously awaiting delivery later this year. We have hulls 3 through 8 that are under construction, and we have just awarded a fixed-price contract for three more. That's another success. And our Maritime Patrol Aircraft, as well, we are taking deliveries on them, and they are performing outstanding.

Mr. COBLE. Thank you, Admiral. Mr. Chairman, I yield back.

Mr. LOBIONDO. Frank, do you have any questions?

Mr. GUINTA. Not at this time, Mr. Chairman.

Mr. LOBIONDO. OK. Rick?

Mr. LARSEN. Admiral, with regards to the fleet mix analysis, will phase two include an analysis of any trade-offs, not just between assets within the Deepwater, but trade-offs among major system acquisition programs? And when can we expect to see that?

Admiral PAPP. The fleet mix analysis number 2 is still being worked through the Department, through the administration. And I am not sure what timeline has been designated for getting it up here. Obviously, I will work as hard as I can to get it up here as quickly as possible.

The frustration I feel with fleet mix analysis and other analysis and other evaluations is none of them have refuted the basic assumption of the need for 8 National Security Cutters and 25 Offshore Patrol Cutters. All of these studies continue to point towards that is the right number to provide the services we need for our country.

In fact, the fleet mix analysis one, which we all acknowledge is an unconstrained study, demonstrates, that to carry out all our missions, we need more ships. What I will say today is I am satisfied with the acquisition project baseline, as the commandant, that those are the numbers of ships that I need to carry out the missions. And we need to move forward smartly with that. But we will continue to provide whatever documentation and work that through the administration to get it up here to substantiate what we need for our Service.

Mr. LARSEN. The conversation about the project baseline is one thing, but this gets back to the crux of the intent, I think, of the title of the hearing, which is the project and the platforms are one thing, but there is a certain dollar amount out there today.

Admiral PAPP. Right.

Mr. LARSEN. And at what point, then, does this approved program of record, you know, become unachievable? That is the question we are trying to answer, because we have to answer that eventually. And you want to answer that before we answer it.

Admiral PAPP. Right.

Mr. LARSEN. At some point. So, can you give me a perspective about decisionmaking that will have to take place within the Coast Guard about the platforms that you want under Deepwater versus what dollar amount is available over time to accomplish that? Again, short of pushing that spreadsheet out to the right, and adding costs to the program as a result.

Admiral PAPP. Right. Well, Mr. Larsen, I—as I was sitting up last night thinking about all that could be asked today and really thinking deeply about this project, one of the things that strikes me is probably—not probably. I would say is one of the things we had to do when we were trying to gain the attention—you know, remember, this project goes back to the 1990s. And there was a time when, in the mid-1990s, we were reduced by about 6,000 people. We were cutting back on frontline operations, and we couldn't get any money to recapitalize ships. The truth of the matter is 9/11 turned this around.

But our strategy, the way we were marketing this—and I think rightly at the time—was this system of systems approach, which then drives the need to quantify what's the cost of this system. So,

whenever anything changes with the system now we are rightly criticized for increasing costs.

What I would suggest is we have gone in the right direction, we have disaggregated this thing that was called Deepwater, and we have discrete ship-building functions, aircraft functions, and others. And we are more adept now at identifying what the real costs of those projects are, which is contributing to, once again, that total acquisition project baseline cost. And what we really need to do is focus on the discreet elements of it.

But more importantly than that, what we have done is we have said, "OK, what's the cost of this thing going to be at the end of the 30 years, or whatever it is that it's going to take to recapitalize?" And I would suggest that perhaps a better way to look at that is this discussion that we had up front, which—we are an enterprise. We have a capital plant in the Coast Guard that requires renewal each year. And there is probably some level of funding, a steady-state level of funding, that is required in order to do that. Is $1.4 billion enough to do it? Well, no. I don't think so. But at the end of the day, I am given a top line of what I have to fit within.

So, it would be very easy if I, right up front, said, "Yeah, sure, $1.4 billion is enough." But it's my job to tell you what we need, and then it's the administration and the Congress that then tells me how much I have to spend. And then I make informed military decisions within my Service on how we best spend those things, which, once again, are rightly subject to criticism by all of you, if you don't think I'm doing that the right way.

So, I think a better way of looking at it is, you know, is it going to be $30 billion over 30 years? Maybe. I don't know. But maybe perhaps another way of looking at it is when you have a business, an enterprise as large as the United States Coast Guard, there is probably some level of acquisition money that is required every year, just to sustain the things that we have. Because right now we are spending some of that acquisition money on sustaining our legacy fleet in order to keep them operational until we can start building the OPC.

So, it's a continuum. It's not one discreet project.

Mr. LARSEN. Just finally I will just make a note. I have some questions about ice-breakers, but I understand we're going to have a hearing in November on the Arctic. I understand it's going to be a field hearing. Just kidding, Mr. Chairman.

But I will save my questions, but I want you to stay up the night before that hearing as well, and think about your comments and maybe times where you said we were basically starting from ground zero when it comes to a presence in the Arctic to accomplish missions up there, and what that means for acquisition and capital investment, as well.

Admiral PAPP. Yes, sir.

Mr. LARSEN. Because those will be the gist of my questions.

Admiral PAPP. Thank you, sir. I welcome the opportunity.

Mr. LARSEN. Thank you.

Mr. LOBIONDO. Admiral Papp, we thank you very much. Appreciate your insight into this. And once again, to repeat and reiterate, we are completely in line with the goals that you have and what

you want to do. It's just that some of these reports become disconcerting if we can't get to the bottom of why they're that way.

And it had nothing to do with your leadership or the current leadership, but 6 or so years ago we had direct assurances about what was going to happen and how it was going to happen, and there were no problems, and just everything was fine, and it really wasn't. So we're trying to be cautious, but move forward in a positive way. I look forward to continuing to working with you, and thank you and your team and all the men and women of the Coast Guard for what they do.

Thank you. The hearing is adjourned.

[Whereupon, at 11:41 a.m., the subcommittee was adjourned.]

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Testimony

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

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COAST GUARD

Action Needed as Approved Deepwater Program Remains Unachievable

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

U.S. Government Accountability Office
GAO 90 YEARS 1921-2011
ACCOUNTABILITY * INTEGRITY * RELIABILITY

GAO-12-101T

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

I am pleased to be here today to discuss our recent work on the Coast Guard's Deepwater acquisition, which represents the majority of the Coast Guard's efforts to recapitalize its fleet of vessels and aircraft.[1] My statement today is based on our July 28, 2011, report, *Coast Guard: Action Needed as Approved Deepwater Program Remains Unachievable*.[2] This report discusses areas in which the Coast Guard has strengthened its acquisition management capabilities but also emphasizes actions the Coast Guard needs to take to address the cost growth, schedule delays, and capability shortfalls that have made the approved Deepwater Program unachievable. Today's climate of rapidly building fiscal pressures underscores the importance of assessing priorities—from a Coast Guard-wide perspective—so that more realistic budgets can be submitted to Congress. Such a step would help alleviate what has become a pattern of churn in revising program baselines when unrealistic planned funding does not materialize, which contributes to schedule delays and can lead to other issues such as unhealthy competition for funding. We also recognize several steps that the Coast Guard has taken to improve the management of the Deepwater Program. For example, the Coast Guard has updated its *Major Systems Acquisition Manual* to better reflect best practices and has significantly reduced its relationship with the prior lead systems integrator, Integrated Coast Guard Systems, by awarding fixed-price contracts outside of the prior construct. To continue this improvement, our July 2011 report made several recommendations with which the Department of Homeland Security (DHS) concurred.

[1]The Department of Homeland Security fiscal year 2012 budget request to Congress included a proposal to eliminate the term "Integrated Deepwater System" from its annual appropriation. At the time of this statement, Congress had not passed the department's fiscal year 2012 appropriations act; therefore, this statement continues to use the term Deepwater. The Coast Guard acquisition portfolio includes 17 major programs and projects, 13 of which constitute the Deepwater Program. In addition to vessels and aircraft, the Deepwater Program includes Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) referred to in this statement as information technology.

[2]GAO, *Coast Guard: Action Needed as Approved Deepwater Program Remains Unachievable*, GAO-11-743 (Washington, D.C.: July 28, 2011).

We have reviewed the Coast Guard's recapitalization efforts since 2001 and have built an extensive body of work over the last 10 years that has focused on the need for the Coast Guard to improve its acquisition workforce, contractor management, and oversight capability. For the July 2011 report, we assessed (1) the extent to which the Deepwater Program's planned cost and schedule baselines have been exceeded and the credibility of cost estimates and schedules for selected assets; (2) the progression of the execution, design, and testing of the assets within the Deepwater Program; and (3) whether the Coast Guard has undertaken a fleet mix study that addresses trade-offs in a cost-constrained environment. To conduct our work, we reviewed the Coast Guard's *Major Systems Acquisition Manual*, budget documents, and key asset documents including operational requirements documents, acquisition strategies and plans, acquisition program baselines, life-cycle cost estimates, test reports, and contracts. We interviewed Coast Guard and DHS officials responsible for the Coast Guard's acquisitions, budgeting and resources for Deepwater, testing assets, and developing operational requirements. Our work for the July 28, 2011, report was conducted from September 2010 through July 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

True Cost and Schedule for the Deepwater Program Are Not Known, Cost Increases and Delays Are Looming, and Budget Planning Exacerbates Program Uncertainties

The Deepwater Program continues to exceed the cost and schedule baselines approved by DHS in 2007, but we found that several factors preclude a solid understanding of the true cost and schedule of the program. Based upon approved baselines, as of May 2011, the total Deepwater Program could cost as much as $29.3 billion, an increase of more than 20 percent in 4 years. This $29.3 billion includes the latest revised baseline for assets that have updated cost and schedule estimates since the 2007 baseline. As we reported last year, these revised baselines reflect the Coast Guard's and DHS's efforts to understand acquisition costs of Deepwater vessels and aircraft and to gain insight into the drivers of the cost growth.[3] However, additional cost growth is looming because the Coast Guard has yet to develop revised baselines for all assets, including the Offshore Patrol Cutter—the largest cost driver in the program, comprising approximately $8 billion of the $24.2 billion 2007 baseline. In addition, Coast Guard officials stated that some of the more recently approved acquisition program baselines fall short of true funding needs. This not only exacerbates the uncertainty surrounding the total cost of the Deepwater acquisition, but also contributes to the approved Deepwater Program no longer being achievable. For example, the National Security Cutter baseline, as revised in December 2008, reflects a total acquisition cost of $4.7 billion.[4] However, our review of more recent Coast Guard documentation demonstrates that an estimated $5.6 billion is required to complete the planned acquisition of eight National Security Cutters—an approximately 19 percent growth over the approved 2008 revised estimate.

In addition to cost growth, forthcoming delays identified in the Coast Guard's fiscal years 2012-2016 capital investment plan indicate that the final asset delivery dates approved in the 2007 Deepwater baseline and some of the revised baselines are no longer achievable for most assets.[5] Figure 1 shows delays in final asset delivery dates according to (1) the

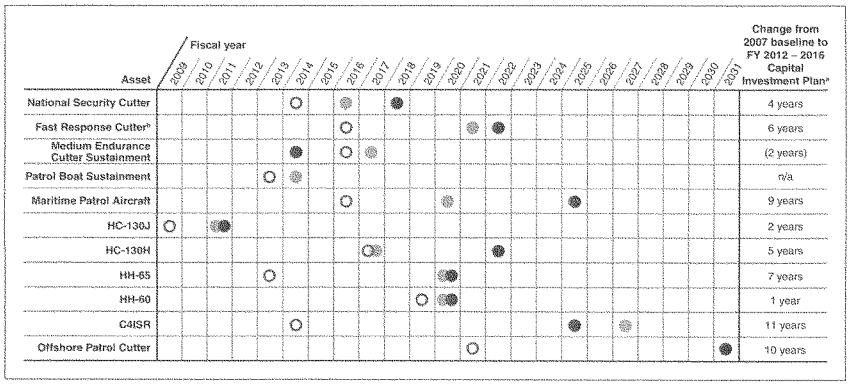
[3]GAO, *Coast Guard: Deepwater Requirements, Quantities, and Cost Require Revalidation to Reflect Knowledge Gained*, GAO-10-790 (Washington, D.C.: July 27, 2010).

[4]The total acquisition cost of $4.7 billion is in then-year dollars.

[5]The Coast Guard's capital investment plan is a 5-year plan presented to Congress that includes Acquisition, Construction, and Improvement. 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.

2007 baseline, (2) the asset's revised baseline, and (3) the fiscal years 2012-2016 capital investment plan submitted to Congress.

Figure 1: Final Asset Delivery Dates for Selected Deepwater Assets Identified in the 2007 Deepwater Baseline, Revised Baselines, and Fiscal Years 2012-2016 Capital Investment Plan



2007 Deepwater baseline

Revised baseline

FY 2012 – 2016 Capital Investment Plan

Source: GAO analysis of Coast Guard data.

[a]To calculate the change from the final asset delivery date reported in the 2007 Deepwater baseline to the final asset delivery date reported in fiscal years 2012-2016 capital investment plan, we used the first month of each fiscal year. If the approved baselines provide both threshold and objective dates, threshold dates (which are the latest allowable dates) are used.

[b]In the 2007 baseline, costs for two variants of the Fast Response Cutter were presented. For the 2007 baseline we used the last date reported for final asset delivery.

Delays in fielding new Deepwater assets increase the stress on the Coast Guard's aging fleet. For example, to keep the legacy cutters in service longer than expected requires costly maintenance and the understanding that these aging cutters will not be able to fully perform all types of missions. As a result, according to Coast Guard headquarters officials,

careful planning must occur to avoid placing a cutter in an operational emergency where it is incapable of adequately responding.[6] We recently began a review of the status of the Coast Guard's legacy vessel fleet.

Without cost and schedule estimates that are based on current and reliable information, the Coast Guard has difficulty formulating realistic budgets. The Coast Guard is currently managing an acquisition portfolio that is expected to cost more than what its annual budget will likely support. For example, Coast Guard acquisition officials stated that up to $1.9 billion per year is needed to support the approved Deepwater baselines, but these officials expect Deepwater funding levels to be closer to $1.2 billion annually over the next several years. Furthermore, the 2012-2016 capital investment plan demonstrates that the Coast Guard needs over $2 billion in funding for Deepwater in fiscal year 2015—a greater than 65 percent increase over the expected funding amount of $1.2 billion per year—to support the program as currently designed. When a program's funding levels are lower than what the program was previously projected to receive, the program can no longer remain on the planned schedule. As a result, program baselines need to be revised. For example, in September-October 2010, three of the projects within the Deepwater Program, the C4ISR, HC-130H, and HH-60 projects, reported potential baseline breaches due, in part, to reduced funding in the fiscal years 2011-2015 capital investment plan.

Coast Guard-wide support is required to fully plan, present, and fund an achievable program. In October 2010, the Assistant Coast Guard Commandant for Acquisition identified the need to develop and implement effective decision making to maximize results and manage risks within resource constraints. Action items to accomplish this are laid out in the Acquisition Directorate's *Blueprint for Continuous Improvement (Blueprint)*, which was signed by the Commandant. Acquisition officials responsible for implementing the *Blueprint* action items acknowledged that successful implementation requires buy-in from leadership. However, senior Coast Guard budget officials responsible for capital investment planning told us that they are not held responsible for accomplishing the objectives outlined in the *Blueprint*. And while DHS and the Coast Guard concurred with our recommendation that the Coast Guard should adopt

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

the *Blueprint* action items, DHS stated that the Coast Guard's resource governance process balances the agency's resource priorities across acquisition and front-line operations and makes trade-offs. We recognize that part of the standard budget development process includes trade-off decisions. However, under this standard process, DHS and the Coast Guard have continued to face the problem of approved acquisition programs not being feasible.

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

In July 2010, we recommended that the Coast Guard complete, and present to Congress, a comprehensive review of the Deepwater Program. Specifically, we recommended that the review clarify the overall cost, schedule, quantities, and mix of assets required to meet mission needs, including trade-offs in light of fiscal constraints, given that the currently approved Deepwater baseline was no longer feasible.[7] The Coast Guard's efforts, as of July 2011, have not addressed this recommendation. 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. However, the first phase of the Coast Guard's analysis, completed in December 2009 and termed fleet mix analysis phase 1, was not cost-constrained and is, according to Coast Guard officials, not feasible. For example, the Coast Guard estimated the total acquisition costs associated with the objective fleet mix could be as much as $65 billion—about $40 billion more than the $24.2 billion baseline approved in 2007.

While the Coast Guard has since undertaken a second, cost-constrained, phase of the fleet mix analysis, officials responsible for the analysis stated that the study primarily assesses the rate at which the Coast Guard could acquire the current Deepwater program of record. As of September 2011, according to Coast Guard officials, phase 2 of the fleet mix analysis has been finalized and is under review within the Coast Guard. In addition to the Coast Guard's analysis, DHS's Program Analysis & Evaluation office began a study to gain insight into the Deepwater surface program of record. A DHS official involved in the study stated that the analysis will examine performance trade-offs between the National Security Cutter, Offshore Patrol Cutter, a modernized 270' cutter, and the Navy's Littoral

[7]GAO-10-790.

Combat Ship.[8] According to DHS officials, the cutter study was provided to the Office of Management and Budget in July 2011. From a broader perspective, it is unclear how, or whether, DHS and the Coast Guard will reconcile and use these studies to make trade-off decisions regarding the Deepwater Program that balance effectiveness with affordability.

Key Decisions Remain to Ensure That Promised Capabilities Are Achieved

At the individual project level, knowledge-based decisions are needed as Deepwater enters its fourth year with the Coast Guard as systems integrator. Uncertainties about the information technology systems, which were intended to make Deepwater a system of systems, continue and are compounded as assets are designed and delivered without a clear vision for the overall program. For example, it is unclear whether or not full data sharing between assets remains a goal for the Coast Guard. According to the Coast Guard's recent cost estimating baseline document, only 127 air and surface assets—fewer than half of the approximately 300 assets within the approved Deepwater Program—will have information technology systems that enable full communication as envisioned. Key decisions also remain in acquiring the Offshore Patrol Cutter, even though DHS approved the requirements document for this asset in October 2010. For example, as of July 2011, the Coast Guard had yet to determine which information technology system will be used for the cutter, whether it will have a facility for processing classified information, and whether it will have air search capabilities.

Summary of Actions We Recommended to DHS and Coast Guard

In July 2011, we made a number of recommendations to DHS and the Coast Guard, with which DHS concurred on behalf of the department and the Coast Guard. For example, we recommended that directorates across the Coast Guard should adopt action items consistent with those in the *Blueprint* related to managing projects within resource constraints. We also recommended that DHS develop a working group with Coast Guard participation to review the results of the three studies to identify cost, capability, and quantity trade-offs that would produce a program that fits within expected budget parameters. Lastly, we made recommendations to help ensure that assets meet mission needs. For example, we made recommendations aimed at improving the affordability and feasibility of

[8]According to a DHS official involved in this analysis, the characteristics of the Offshore Patrol Cutter are based on the operational requirements document, and the characteristics of the modernized 270' are theoretical because this cutter does not exist.

the Offshore Patrol Cutter's requirements document and increasing the confidence that the information technology system, Maritime Patrol Aircraft, and cutter small boats will meet mission needs. We will be following up on these recommendations with the Coast Guard and DHS.

Chairman LoBiondo, Ranking Member Larsen, this concludes my prepared statement. I would be pleased to respond to any questions you or other Members of the Subcommittee may have.

GAO Contacts and Staff Acknowledgements

For further information about this report, please contact John P. Hutton, Director, Acquisition and Sourcing Management, at (202) 512-4841 or huttonj@gao.gov. Other individuals making key contributions to this report include Michele Mackin, Assistant Director; Molly Traci; Jose Cardenas; Mya Dinh; Laurier Fish; Carlos Gomez; Kristine Hassinger; and Rebecca Wilson.

Related Products

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U. S. Department of Homeland Security

United States Coast Guard

Commandant
United States Coast Guard

2100 Second Street, S.W.
Washington, DC 20593-0001
Staff Symbol: CG-0921
Phone: (202) 372-3500
FAX: (202) 372-2311

TESTIMONY OF ADMIRAL ROBERT J. PAPP, JR.
COMMANDANT, U.S. COAST GUARD

"COAST GUARD ACQUISITION PROGRAM"

BEFORE THE
HOUSE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION

OCTOBER 4, 2011

INTRODUCTION

Good morning Mr. Chairman and distinguished members of the Subcommittee. It is an honor to appear before you today to discuss the Coast Guard's top priorities– recapitalizing our fleet of cutters and aircraft while simultaneously maintaining front line operations. The Coast Guard's ability to save lives, interdict drug and alien smugglers, and protect our ports, waterways, and natural resources depends on providing our highly trained people with a modern, reliable fleet of vessels and aircraft equipped with effective command, control and communications systems. On behalf of the 40,000 Coast Guard men and women I have the privilege to lead, I want to thank you for your continuing support.

I also appreciate the opportunity to discuss the Government Accountability Office (GAO) Report 11-743. The GAO's insights are valuable, and as our response to their report indicates, we take them seriously. We are absolutely committed to sound stewardship, and continuing improvement, and we welcome your robust oversight as we continue to recapitalize our fleet. Our growing record of acquisition successes reflects this reality. Recent examples include shifting the NSC project to a fixed-price construct, delivery of the NSC # 3, the official start of fabrication on NSC # 4, the award of the NSC # 5 for nearly the same price as NSC # 4, the launching of 2 FRCs and many other advancements that are set forth in further detail below.

While the fiscal climate has changed since the Deepwater acquisition program was initiated in 1996, the need for our unique military, maritime and multi-mission capabilities missions has not. Demand for our services continues. This is why we continue to make informed trade-offs amongst acquisition projects and within our budget as a whole. I remain committed to achieving a force structure that will assure the future viability and effectiveness of our Service. We are also working closely with the Department of Homeland Security (DHS), to ensure our plans address our most pressing acquisition needs.

The Nation expects the Coast Guard to be true to our motto – Semper Paratus – Always Ready – to perform its vital maritime missions. They also expect us to respond promptly and effectively to disasters like Hurricane Katrina, the Haitian Earthquake, the BP Deepwater Horizon Oil Spill, and Hurricane Irene. In order to give our Coast Guardsmen the tools they need to perform these missions, we must have the right assets to do the job.

COAST GUARD ACQUISITIONS – WHERE WE ARE TODAY

For the past five years, we have served as the Systems Integrator for all of our acquisition programs. In that capacity, we have identified gaps and inefficiencies in management and oversight. Accordingly, we have made significant changes to both the foundation of our acquisition enterprise and the processes we use to govern each life cycle step.

In alignment with the GAO's recommendations, we are instituting reforms that lower risk and cost. As individual projects have matured, so too has our ability to more precisely estimate costs for individual assets. Furthermore, our shift from cost-plus to fixed-price contracts for the largest and most capital-intensive projects has further improved our ability to accurately assess out-year resource requirements. Within the past two months, we awarded fixed-price contracts for production of NSC # 5, the fifteenth Maritime Patrol Aircraft, a Training Simulator for the HC-144A Maritime Patrol Aircraft, and Fast Response Cutters #9-12.

We are currently managing more than twenty major and non-major acquisition projects. This necessitates that we provide stable requirements, control costs and establish realistic project schedules. Each project plan is built upon expectations of a stable and multiple-year cost, schedule and performance sequence of milestones. Instability increases costs and delays delivery of these critical assets to our men and women on the front lines.

As Commandant, I am committed to the continued improvement of our acquisition processes and program management. This includes the implementation of reforms enacted through the Coast Guard Authorization Act of 2010 and GAO's recommendations. A detailed update on the status of our acquisition projects follows.

National Security Cutter
8 Planned, 5 Ordered, 3 Delivered

The centerpiece of our recapitalized fleet, the Legend-class National Security Cutter (NSC) is the largest and most technically advanced class of cutter in the Coast Guard. NSCs are replacing our 12 legacy 378-foot High Endurance Cutters – most of which are more than forty years old. The NSCs are more capable, more efficient and their return on investment will far exceed their cost.

For example, BERTHOLF (NSC # 1) has attained "Ready for Operations" status and has already completed patrols in the Eastern Pacific and the Bering Sea. 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 and recently supported the successful interdiction of approximately 5,300 kilograms of cocaine with a street value of more than $153 million. WAESCHE (NSC # 2) was commissioned in May 2010 and has been preparing for Ready for Operations designation, including conducting

Combat Systems Ships Qualification Trails and at-sea refueling for the first time in May 2011. WAESCHE also recently completed her first patrol with an operational SCIF; the reach-back capability it provides to shore-side intelligence centers is a true force multiplier.

On September 2, we took preliminary acceptance of STRATTON (NSC # 3). STRATTON was delivered on schedule following very successful builder and acceptance trials where she received the fewest number of deficiencies of the class by U.S. Navy and Coast Guard evaluators. STRATTON has since been delivered to her crew in preparation for commissioning early next year. Fabrication of HAMILTON (NSC # 4) started in August, and we awarded a fixed-price production contract for JOSHUA JAMES (NSC # 5) last month.

We are achieving efficiencies in cost and schedule through the experience gained during the construction of the BERTHOLF, WAESCHE and STRATTON

Offshore Patrol Cutter
25 Planned, Zero Ordered, Zero Delivered

The Coast Guard's largest acquisition program in terms of investment, the Offshore Patrol Cutter (OPC) will replace our current fleet of twenty-nine Medium Endurance Cutters (WMECs), many of which are between twenty-five and forty years old. Earlier this year, we released the draft specification to industry which is based on the Operational Requirements Document approved and validated last year by DHS. We have received hundreds of comments and are adjudicating them to aid development of the Request for Proposal. We assisted DHS on the recently released Major Cutter Study and are using this analysis to inform final decisions on the number of OPCs needed and their capabilities in the context of overall cutter recapitalization.

We will continue to serve as systems integrator for the OPC project. The OPC project will also comply with the Major Systems Acquisition Manual and DHS acquisition policies. This will ensure the OPC program follows disciplined processes based on best practices.

We are employing a very deliberate process, to ensure the OPC is not only affordable but also provides the capabilities we need to meet our demanding operational requirements. This has resulted in some delay, but we are committed to getting the OPC right from the start.

Fast Response Cutter
58 Planned, 12 Ordered, 2 launched

The 154-foot Sentinel-class Fast Response Cutter (FRC) project will provide critically needed patrol boats to close our existing patrol boat gap and replace the aging 110-foot Island-class fleet. The FRCs, which are named after enlisted heroes, will offer a far wider range of capabilities over the 110-foot patrol boats they are replacing including increased speed, sea-keeping and better habitability. These enhanced capabilities will improve crew effectiveness, communications, and on-scene operational endurance. We are planning to deliver and conduct sea trials on the lead FRC, BERNARD C. WEBBER by early 2012. Production of hulls #2-8 is currently underway, and the Coast Guard recently exercised a fixed-price option for production of hulls #9-12. The President's Fiscal Year 2012 budget request includes funding for the Reprocurement Data and Licensing Package necessary to recompete the FRC production contract in the future as well as funds to acquire hulls #13-18.

We have experienced some delay in the delivery of the lead hull. The additional time was required to complete contractual requirements and incorporate additional structural work to ensure performance of the vessel in all anticipated operating conditions throughout the FRC's planned service life. We anticipate the first FRC will be delivered in 2011.

Cutter Boats
Long Range Interceptor II: 8 Planned, Zero Ordered, Zero Delivered
Over the Horizon IV: 19 Planned, 1 Ordered, Zero Delivered

We are planning to acquire two classes of cutter boats to operate aboard and in conjunction with the NSCs. Each NSC will be equipped with 1 Long Range Interceptor II (LRI-II) and 2 Over the Horizon IV (OTH-IV) boats. Earlier this summer, we awarded the contract for the lead OTH-IV; however, production is on hold due to a contract protest. In August, the LRI-II acquisition entered into the analyze/select acquisition phase, and the Request for Proposal was released in September.

Mission Effectiveness Project
44 Availabilities Planned, 36 Availabilities Completed

Under the Mission Effectiveness Project (MEP), 210-foot and 270-foot WMECs as well as 110-foot Island-class patrol boats are undergoing extended refurbishment at the Coast Guard Yard in Curtis Bay, MD. The MEP is designed to maintain and enhance legacy Coast Guard cutters until they are scheduled to be replaced with recapitalized assets. The MEP provides selected equipment upgrades and enhancements to sustain performance and stabilize future maintenance costs. The fourteenth and final 210-foot WMEC completed MEP availability in September 2010. Eight of nineteen 270-foot WMEC availabilities have also been completed. Additionally, fourteen 110-foot patrol boats have completed MEP.

HC-144A Maritime Patrol Aircraft
36 Planned, 15 Ordered, 12 Delivered

The HC-144A fixed-wing Ocean Sentry Maritime Patrol Aircraft (MPA) is replacing the fleet of aging HU-25 Falcon jets. The HC-144A gives our crews significantly more endurance to remain on scene to prosecute missions than its predecessor. MPAs are equipped with a Mission Systems Pallet (MSP) that provides new command-and-control, surveillance and intelligence technologies to enhance maritime domain awareness. The Ocean Sentry is a multi-mission aircraft that will perform maritime patrol, law enforcement, search and rescue, disaster response, and cargo and personnel transport. MPAs are currently standing watch at two air stations; a third air station will be fully operational by next year. We are also making major infrastructure improvements, including the construction of a new hangar at Air Station Cape Cod, to support operation of the HC-144A.

In December 2010, the HC-144A conducted its first drug interdiction out of Air Station Miami by tracking a vessel with forty-three bales of marijuana aboard until surface assets could arrive on scene. The HC-144A'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 clean up operations and wildlife evacuations during the BP Deepwater Horizon oil spill.

Last year, we awarded a fixed-price contract for delivery of three additional HC-144As to EADS-North America, with options available for six additional aircraft. The first of these aircraft was delivered in July of this year, four months ahead of schedule, with the next two aircraft moving at or ahead of schedule. In August, we also awarded the first option to acquire the fifteenth MPA.

Long Range Surveillance Aircraft
HC-130J: 11 Planned, 6 Ordered, 6 Delivered
HC-130H: 11 Planned, 23 Ordered, 23 Delivered

Our Long Range Surveillance (LRS) aircraft fleet currently consists of 6 HC-130J and twenty-three HC-130H Hercules models, for a total of thirty LRS aircraft.

The C-130J is based on the robust and long-serving C-130 airframe design but with advanced engines, propellers, avionics and cargo-handling equipment, and is the model currently in production. The Coast Guard-unique HC-130J is configured for our mission set through a 9-month refit to install a suite of sensor and communications systems. This is the first C-130 aircraft in the world to feature a 360-degree, belly-mounted surface search radar giving our operators more than one chance to see a person in the water—a capability that can truly mean the difference between life and death. We are working with our Air Force and Navy partners to acquire and missionize two additional HC-130J aircraft authorized for the Coast Guard in the FY 2010 Supplemental. We are simultaneously revising our basing and support plans for these aircraft to make best use of their advanced capabilities when they are delivered in 2015.

We are also upgrading our legacy HC-130H fleet. All HC-130Hs have been modified to operate a state-of-the-market Active Electronically-Scanned Array (AESA) surface search radar, which has already proven its value in search and rescue missions. This year, we will induct our first HC-130H into the Air Force's maintenance depot to extend its airframe service-life by replacing life-limiting center wing-boxes. We will also complete our design and integration efforts to provide an upgraded avionics suite that will improve interoperability, comply with increasingly stringent global air traffic management requirements, and replace obsolete systems.

HH/MH-60 Helicopter Conversion
42 Planned, 42 Ordered, 18 Delivered

Our legacy HH-60J helicopters are being upgraded to MH-60Ts for use as medium-range responders for offshore operations, shore-based aviation surveillance and transport. These conversions are being performed entirely organically by our Aviation Logistics Center (ALC). To date, twenty-one out of forty in-service MH-60Ts have been delivered with upgraded avionics in the first discrete segment of this project, and eighteen aircraft have been converted

with enhanced electro-optic/infrared sensor systems (EOIR) which have proved especially useful in locating people in cold surroundings such as water or snow where survival time is fleeting. Four air stations—Air Station Elizabeth City, Air Station San Diego, Air Station Sitka, and Air Station Kodiak—are operational with MH-60Ts. One-hundred and fifty-eight Coast Guard pilots have been fully qualified to operate the MH-60T model.

HH/MH-65 Helicopter Conversions
102 Planned, 102 Ordered, 84 Delivered

Our MH-65 multi-mission cutter helicopters perform search and rescue, law enforcement and homeland security missions; this project will extend their service lives through 2025. We have replaced the engines on all 95 original in-service aircraft and also procured 7 additional aircraft to conduct the National Capital Region Air Defense mission. Additionally, eighty-four of one-hundred and two aircraft have been upgraded to MH-65C models with Airborne Use of Force capability. Since August of 2010, we have been conducting obsolete component modernization, which is a significant enough upgrade to warrant re-designating the aircraft as MH-65D. These upgrades are being conducted entirely at the ALC. To date we have delivered seventeen modified aircraft, which feature a new dual-digital embedded GPS/inertial navigation system used by the Department of Defense (DoD) that improves interoperability, mission planning, reliability and reduces aircraft weight resulting in better performance.

Unmanned Aircraft Systems

Upon taking over Systems Integrator responsibilities, we terminated the legacy Deepwater Vertical Unmanned Aerial Vehicles (VUAV) project because of concerns regarding the rate of technology development and cost risk. Although this action has resulted in a delay of our planned Unmanned Aircraft Systems (UAS), it was unquestionably the right decision. We continue to work with the U.S. Navy and U.S. Customs and Border Protection (CBP) to leverage UAS development. We are also evaluating a smaller UAS that has successfully operated from U.S. Navy assets. While this smaller UAS will not be able to meet all of our requirements, for a limited investment, we anticipate it will expand our surveillance capabilities from the NSC while we continue to develop a concept of operations to leverage emerging UAS technology.

C4ISR

Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) systems are important for interoperability among our many resources and missions. C4ISR equipment and software provide situational awareness, data processing and information exchange tools required to modernize and recapitalize our shore sites, surface and aviation assets. Accomplishments include forty-two, class-wide system improvements and capability upgrades for surface and aviation assets. The C4ISR project has provided an updated training facility in Petaluma, CA, with a new NSC C4ISR Suite. The project also established a Coast Guard Independent Validation and Verification capability in Moorestown, NJ, for software testing and delivered a new NSC C4ISR design baseline to C3CEN in Portsmouth, VA, which includes new hardware and hardening against emerging information assurance threats. Finally, the C4ISR project has allowed us to shift to open architecture to sustain interoperability with DHS and the U.S Navy, and to increase information assurance and security.

CONCLUSION

Our dedicated and heroic Coast Guard men and women deserve nothing less than modern ships—which they not only serve aboard, but live aboard while at sea, as well as modern aircraft, boats and state of the art systems to perform our challenging maritime missions – missions that are vital to our security and our economy.

Our acquisition outlook is positive. We are on the path of continuous improvement. We have already completed and fielded several new assets, and they are already saving lives, protecting our fish stocks, and keeping dangerous drugs from reaching our shores and streets.

We recognize that there are significant challenges that we must overcome to continue to deliver these assets within the current fiscal environment. Our dedicated and outstanding acquisition professionals have made great strides in identifying and correcting shortfalls in our processes and procedures. They have been greatly assisted by the oversight of this Subcommittee, the Congress and the GAO, as they continue the work to provide our Coast Guard with the assets it needs to remain Semper Paratus – Always Ready – into our third century of service to the Nation.

Thank you for the opportunity to testify before you today and for all you do for men and women of the Coast Guard. I look forward to answering your questions.

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