

# A REVIEW OF COAST GUARD ACQUISITION PROGRAMS AND POLICIES

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(111-95)

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

March 11, 2010

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Washington, DC 20515

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March 9, 2010

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**SUMMARY OF SUBJECT MATTER**

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

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

**SUBJECT:** Hearing on "A Review of Coast Guard Acquisition Programs and Policies"

**PURPOSE OF THE HEARING**

The Subcommittee on Coast Guard and Maritime Transportation will meet on Thursday, March 11, 2010, at 10:00 a.m., in room 2167 of the Rayburn House Office Building to examine the Coast Guard's current acquisition programs, as well as the policies and procedures the service is implementing to strengthen its management of the entire acquisition process.

**BACKGROUND**

**I. Coast Guard's Acquisition, Construction, and Improvement Budget**

Coast Guard capital expenditures are funded through the appropriations made by Congress to it for the Acquisition, Construction, and Improvement (AC&I) account, which funds expenses related to "acquisition, construction, renovation, and improvement of aids to navigation, shore facilities, vessels, and aircraft, including equipment related thereto; and maintenance, rehabilitation, lease and operation of facilities and equipment."<sup>1</sup> The President's fiscal year (FY) 2011 budget requests \$1.58 billion for the AC&I account. This request would be approximately \$155 million below the \$1.54 billion enacted for the AC&I account in FY 2010.

The largest single acquisition program funded through the AC&I budget is the Deepwater acquisition program, which received \$1.15 billion in enacted funding in FY 2010 and for which \$1.11 billion is requested by the Administration for FY 2011.

<sup>1</sup> Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, 2009, Pub. L. 110-329 (2008).

## II. Coast Guard AC&I Projects

The chart below details AC&I acquisition initiatives with individual Acquisition Program Baselines (APB) exceeding \$10 million.

### Coast Guard Acquisition Directorate AC&I Projects with Baseline Costs Exceeding \$10 Million

<u>Name of Project</u>	<u>Brief Description</u>	<u>Estimated Cost As of 3/24/09</u> (S in Millions)	<u>Anticipated Date of Completion</u> As of 3/24/09	<u>Estimated Cost</u> (\$ in Millions)	<u>Anticipated Date of Completion</u>
<b>DEEPWATER PROCUREMENTS</b>					
<b>National Security Cutter (NSC) (Legacy Class)</b>	Acquire eight NSCs to replace 12 existing 378-foot high endurance cutters (HHCs).	\$4,749	FY 16	\$4,749	FY 16
<b>Offshore Patrol Cutter</b>	Acquire 25 cutters to replace existing 270-foot and 210-foot medium endurance cutters.	\$8,098	FY 21	(\$8,098)**	TBD
<b>Fast Response Cutter (FRC) (Sentinel Class)</b>	Acquire up to 58 cutters (153.5 feet in length) to provide coastal and high seas response capability.	\$3,206	FY 12	\$3,928 (APB approved 8/25/09)	FY 22
<b>Cutter Small Boats</b>	Acquire 33 cutter small boats that are 36 feet in length and 99 cutter small boats that are 25 feet in length to launch from and support cutter operations.	\$110	FY 27	(\$110)**	TBD
<b>110-foot to 123-foot Patrol Boat Extension</b>	Program was intended to extend existing 110-foot patrol boats to 123 feet. Program was discontinued after failure of eight extended vessels.	\$95	Discontinued	\$95	Discontinued
<b>HC-144A (Maritime Patrol Aircraft)</b>	Purchase 36 new Maritime Patrol Aircraft (CASA models).	\$2,222.6	FY 20	\$2,222.6	FY 20
<b>C4ISR</b>	Install C4ISR <sup>3</sup> information technology in CG stations to provide operationally relevant information to Coast Guard commanders to support effective exercise of authority and the monitoring of assigned forces	\$1,353	FY 14	(\$1,353)**	TBD

<sup>3</sup> C4ISR stands for Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance systems

	across the full range of Coast Guard operations.				
<b>HC-130J Fleet Introduction</b>	Missionize six existing long range surveillance aircraft by installing mission electronics, CHSR upgrades, surface search radar, and other information technology systems.	\$138.8	FY 09	\$162.5 (APB approved 5/22/09)	FY 10
<b>HC-130H Conversion/Sustainment</b>	Install structural enhancements, surface search radar, and upgraded digital electronics on 16 existing HC-130H aircraft to extend their service lives to 2033.	\$610	FY 17	\$690 (APB approved 6/19/09)	FY 17
<b>HH-60J Conversion</b>	Provide avionics upgrades, engine sustainment upgrades, and other improvements to extend the lives of 42 existing medium recovery aircraft.	\$451	FY 19	\$451	FY 20
<b>HH-65 Conversion/Sustainment</b>	Provide upgrades to extend the service lives of 102 existing HH-65 helicopters, including installing airborne use of force equipment and CHSR multi-function display screens.	\$901.2	FY 13	\$1,133.6 (APB approved 5/22/09)	FY 17
<b>Unmanned Aerial System (UAS)</b>	Obtain a UAS for use on the NSC and other assets. The Coast Guard is currently using Research, Development, Testing, and Evaluation (RDTE&E) to further maritime technology development for the UAS and to inform acquisition strategies.	\$503	TBD	(\$503)**	TBD
<b>Patrol Boat Sustainment</b>	Provide system upgrades to sustain 20 existing 110-foot patrol boats by installing major system upgrades and completing repairs to internal structures.	\$179.7	FY 13	\$179.9 (APB approved 12/11/08)	FY 13
<b>Medium Endurance Cutter (MEC) Sustainment</b>	Sustain 14 existing 210-foot cutters and 26 270-foot cutters by providing mission effectiveness upgrades.	\$296.8	FY 16	\$296.8	FY 16
<b>Deepwater Logistics/Logistics Information Management System (LIMS)</b>	Strengthen Coast Guard logistics integration management systems to support operational effectiveness, including development of Coast Guard LIMS and modification of shore	\$481	TBD	(\$481)**	TBD



	facilities to support Deepwater assets.				
<b>ADDITIONAL DEEPWATER PROGRAM ACQUISITION ACTIVITIES</b>					
<b>Government Program Management Costs</b>	Cost of management provided by Coast Guard Acquisition Directorate personnel and other personnel, encompassing such activities as technical reviews, technology analysis, testing and evaluation, and performance monitoring.	\$1,518	Will likely continue for as long as Deepwater programs continue.	\$1,518	Will likely continue for as long as Deepwater programs continue.
<b>Systems Engineering</b>	Perform necessary systems engineering activities to support acquisition efforts and ensure effective integration of acquired assets.	\$1,118		\$1,118	
<b>Technology Obsolescence Prevention</b>	Encompasses pre-planned replacement costs for C4ISR hardware and software associated with the multi-year nature of this acquisition effort.	\$345		\$345	
<b>Total</b>		\$26,376		\$27,434	

\*\* Estimated costs represent the project specific allocation within the total Integrated Deepwater System (IDS) cost, per the IDS APB version 1.1 approved by the Department of Homeland Security (DHS) on May 15, 2007. Costs and/or schedule are under review pursuant to the development of an individual asset-based APB.

NON-DEEPWATER ACQUISITIONS					
<b>Coastal Patrol Boat</b>	Acquire 69 multi-mission 87-foot patrol boats to replace aging 82-foot patrol boats.	\$357	FY 09	\$357	FY 10
<b>Response Boat-Medium</b>	Acquire 180 new station boats to replace aging 41-foot utility boats.	\$610	FY 15	\$610	FY 15
<b>Rescue 21</b>	Install advanced command, control, and communications system in all 39 Coast Guard sectors to upgrade search and rescue capabilities and improve mission performance in coastal zones.	\$1,066	FY 17	\$1,066	FY 17
<b>Nationwide Automatic Identification System (NAIS)</b>	NAIS is a system by which ships provide notification of their positions. This project involves the installation of the necessary communications, network, and processing equipment to enable the Coast Guard to track vessels' NAIS data.	\$276.8	FY 13	\$276.8	FY 13
<b>Command 21</b>	Per section 108 of the Safe Port Act, create Sector Command Centers and establish new joint, coordinated interagency operations centers combining personnel from the Coast Guard, the Federal Bureau of Investigation, and Customs and Border Protection to ensure effective situational awareness and emergency response. Command-21 encompasses the development of these centers.	TBD	TBD	TBD	TBD

### III. Integrated Deepwater Acquisition Program

The Coast Guard's Deepwater program is a multi-year acquisition program that will upgrade or replace the service's existing surface and air assets; the program will also modernize the command and control information technology systems that the service relies on to manage asset deployments.

The Coast Guard began conceptualizing the Deepwater acquisitions in the 1990s. Given the complexity of the intended procurements, the service decided to follow the lead of the Department of Defense and engage a private firm to serve as a Lead Systems Integrator (LSI). This firm was to manage the acquisition process and integrate the acquired assets into a system-of-systems, which are to share a common operating picture (the common view of current operational activities obtained using information technology systems). The Deepwater LSI's responsibilities were to include

selecting the individual assets -- and quantity of assets -- to be procured to create the Deepwater system-of-systems. As a system-of-systems, Deepwater was priced as a single system (individual asset procurements were not priced individually); additionally, testing and operational assessments were to be performed on the system as a whole rather than at the level of individual assets.

At the conclusion of a competition involving three industrial teams, the Lockheed Martin/Northrop Grumman team (which operated through a joint venture called the Integrated Coast Guard System [ICGS]) was awarded a \$17 billion, Indefinite Delivery/ Indefinite Quantity (IDIQ) in June 2002 for the Deepwater procurements. The initial five-year contract included five additional five-year options -- meaning that the contract could have been in place for up to 25 years.<sup>3</sup>

Almost from the signing of the Deepwater contract, the Coast Guard encountered challenges in managing the LSL. Because of the complexity of the effort, the Coast Guard decided to manage the Deepwater program outside its existing acquisition management structures. Coast Guard program managers (PMs), who should have been ultimately responsible for the performance of individual procurement efforts under Deepwater, functioned more as "team members" rather than as managers with full authority over all project decisions. Other problems both with the overall management of the Deepwater program and with the acquisition of individual assets were documented by the Government Accountability Office (GAO), the Department of Homeland Security's Office of Inspector General (DHS's OIG), and the Defense Acquisition University, which was engaged by the Coast Guard to conduct a review of Deepwater and which issued its findings in February 2007.

Perhaps the most highly publicized failure in the early years of the Deepwater program was the effort to lengthen existing 110-foot patrol boats to 123 feet and install new, upgraded information technology suites into the boats. The original task order for this procurement was issued on August 2, 2002; in June 2005, the Coast Guard decided that the conversion process would be suspended at eight boats because "the converted cutters lacked adequate capabilities to meet their expanded post 9/11 operational requirements."<sup>4</sup> In November 2006, the eight converted boats were removed from service due to concerns about their operational safety. Examinations of the vessels conducted just prior to their removal from service found that they had "significant buckling," "displayed deck cracking and hull deformation," and had "developed shaft alignment problems related to other structure issues."<sup>5</sup>

On May 19, 2006, the Coast Guard awarded an additional award term totaling 43 months to the ICGS consortium, which extended the contract through January 2011.<sup>6</sup> Unlike the first contract award, however, this contract extension did not guarantee any quantity of assets to be procured from ICGS.

At a hearing convened by the Subcommittee on Coast Guard and Maritime Transportation on March 24, 2009 to examine the Deepwater procurements, the Coast Guard stated that on that morning, it had signed a bilateral agreement with the ICGS team which stated, "[t]he Government

<sup>3</sup> U.S. Coast Guard, *Report on the Revised Deepwater Implementation Plan 2005* (2005), at 3.

<sup>4</sup> Coast Guard Press Release, *Coast Guard Suspends Converted Patrol Boat Operations* (November 30, 2006), <https://www.piersystem.com/ga/doc/786/135897/>.

<sup>5</sup> *Id.*

<sup>6</sup> GAO, *Status of Selected Aspects of the Coast Guard's Deepwater Program* (March 11, 2008), at 1-2.

has determined that it is in the best interest not to award any future award terms after January 24th, 2011. Therefore, by this modification, the parties agree that for the purpose of ordering any new contractual requirements the rights and obligations of both parties will expire when this award term ends, January 24th, 2011.<sup>77</sup> As such, no further extensions of the Coast Guard's IDIQ Deepwater contract with the ICGS team are expected.

In April 2007, the Coast Guard announced a series of major changes in its management of Deepwater – changes that would also affect its management of all its acquisition efforts. Specifically, Admiral Thad Allen, Commandant of the Coast Guard, announced that the service would:

- Assume the role of LSI for all Deepwater assets and other major acquisitions as appropriate;
- Assume responsibility for life cycle logistics functions for Deepwater assets;
- Expand the role of the American Bureau of Shipping and other third-parties as appropriate to ensure assets meet design and construction standards;
- Work with the ICGS team to resolve outstanding contract issues pertaining to the NSC;
- Consider procuring assets directly from prime vendors when this was in the best interests of the government; and,
- Convene regular meetings between the Commandant and the ICGS team to adjudicate and resolve Deepwater contracting issues.<sup>8</sup>

Concomitant with these changes, the Coast Guard began reorganizing its acquisition processes. The Coast Guard also began to move away from the system-of-systems acquisition approach and toward a more traditional, asset-by-asset acquisition approach in which the acquisition of each asset is managed and assessed as an individual procurement.

After announcing the changes to its management of the Deepwater procurements, the Coast Guard began developing APBs for each acquisition project contained within the Deepwater program. Consequently, the overall Deepwater APB will not be updated again. As individual APBs for individual asset procurements are developed, the costs for some of the assets are exceeding the initial estimates developed for the assets when Deepwater was treated as a system-of-systems with a single program APB. The total costs of the Deepwater program now appear to be approaching (or even exceeding) \$27 billion. This does not include any plans to replace or maintain polar icebreaking capabilities or recapitalize aging buoy tenders.

#### **IV. Acquisition Processes**

The Coast Guard is now one of the 22 Federal agencies combined within the DHS.

DHS's current acquisition policy is established in the Department's Acquisition Directive 102-01 which was signed on January 20, 2010. Within each constituent agency of DHS, the agency can nominate a Component Acquisition Executive (CAE) who is to be responsible for managing the acquisition portfolio within that agency; this individual may also execute acquisition management

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<sup>77</sup> Testimony of Rear Admiral Gary Blore before the Subcommittee on Coast Guard and Maritime Transportation (March 24, 2009), at 9.

<sup>8</sup> U.S. Coast Guard Press Release, Statement by ADM Thad Allen on the Converted 123-Foot Patrol Boats and Changes to the Deepwater Acquisition Program (April 17, 2007), <https://www.piersystems.com/doc/786154307/>.

authorities within the agency for Level III investments as directed by the head of the agency and Level II acquisitions as delegated.

As set forth in Directive 102-01, acquisition efforts are divided into three levels, based on the life cycle cost of the acquisition. The term “life cycle cost” is broadly defined to include all costs associated with the development of an acquisition effort, including the cost of developing an asset’s technology, the cost of acquiring and deploying the asset, and the cost of operating and eventually disposing of the asset. The use of the life cycle cost metric is intended to provide a complete picture of the total costs associated with acquiring and operating an asset over time (including as the asset ages).

**Levels of Acquisition Programs within the Coast Guard**

<b>Investment Level</b>	<b>Definition</b>
Level I	Programs that exceed \$1 billion in life cycle costs.
Level II	Programs with life cycle costs between \$300 million and \$1 billion.
Level III	Programs with life cycle costs that are less than \$300 million; oversight resides with the Component Head.

Individual acquisition programs are led by PMs. In the Coast Guard, PMs can be either military officers or members of the civil service. PMs achieve varying levels of certification based on their education and professional experience in acquisition management; level III certification is the highest level of certification available to a PM. There is currently no law specifying that Level III-certified PMs are required to be assigned to the largest procurement efforts; however, the Coast Guard has indicated that it assigns a Level III-certified PM to each of its largest acquisition efforts (Level I procurements).

According to Directive 102-01, the individual PMs assigned to each acquisition program are “responsible for managing their assigned acquisitions and for ensuring that they effectively deliver required capability (i.e., performance) to their customers while remaining within the allocated resources (i.e., cost and schedule) provided by their organizations. If a program breaches an approved APB parameter threshold (or the PM determines that the program will breach in the near future), the PM is responsible for promptly notifying the Component leadership.”

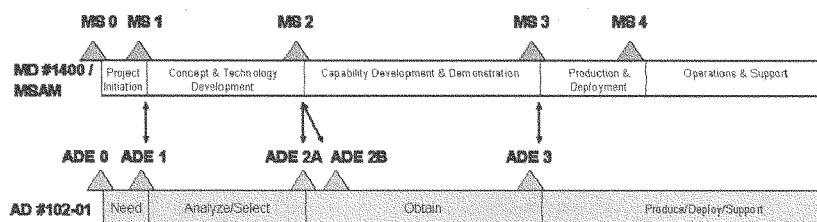
The Coast Guard indicates that there are now 70 PMs in the Coast Guard with Level III certification; 43 are members of the military and 27 are civilians. Of these, 16 Level III certified PMs are managing major acquisition projects.

In 2008, the Coast Guard assigned the Admiral currently serving as the Assistant Commandant for Acquisition (who is a Level III-certified PM) to be the commander of District 13 (headquartered in Seattle); this was part of the Coast Guard’s regular process for rotating its personnel. The Program Executive Officer for the Deepwater acquisition effort, also a Level-III certified PM, was assigned to be the Assistant Commandant for Acquisition. A Captain recently promoted to Rear Admiral who lacked a Level III PM certification at the time of his selection was named to be the Program Executive Officer (PEO) for Deepwater. These assignments took effect in mid-2009. The now Rear Admiral assigned as the PEO for Deepwater still lacks the Level III PM

certification. This individual has completed all requirements for certification except for length of experience; the individual will have the required experience level to receive the Level III certification in June 2010.

Directive 102-01 requires each acquisition effort to complete a series of “acquisition decision events” (ADE) (formerly called “milestones”) as the effort moves through the acquisition process. The decision-making authority for the various ADEs resides with different officials depending on the investment level of the program (I, II, or III). Before an acquisition effort can cross a specific ADE, there are a number of documents that must be developed and submitted to the appropriate decision authority to justify the advancement of the program through the ADE. These documentation requirements are intended to ensure that acquisition efforts respond to clear and valid asset needs; that the functions the asset will be built to serve are clearly specified; that the technical plan for building the asset is in place and is reasonable; that the costs and schedules associated with the acquisition process are clearly identified; and that the total costs of constructing, operating, and eventually disposing of the assets are known. The chart below shows the current ADEs through which an acquisition effort advances; the chart also illustrates the acquisition effort stages and milestones that were previously used.

**Stages of an Acquisition Effort within the Coast Guard**  
 (showing old milestones as well as the new Acquisition Decision Events adopted in Directive 102-01)



Source: U.S. Coast Guard

**V. Coast Guard Acquisition Directorate**

The Coast Guard created its current Acquisition Directorate (known as CG-9) on July 13, 2007. The Acquisition Directorate was created to better integrate the Coast Guard’s acquisition-related functions into a single unit employing standard processes for managing acquisition efforts.

The Directorate now includes program management personnel, contracting management personnel, and personnel with expertise in cost estimation, risk assessment, training and certification, and strategic planning. Also located within the Directorate – and reporting to the Assistant Commandant for Acquisition – is the PEO for the Deepwater acquisition effort (who simultaneously serves as the Director of Acquisition Programs).

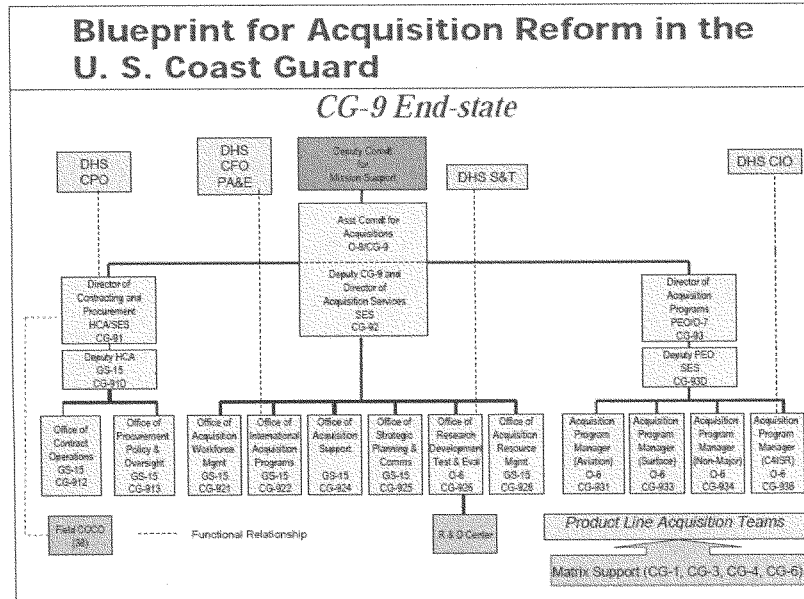
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The Acquisition Directorate is supervised by the Assistant Commandant for Acquisition (CG-9). Currently, the Assistant Commandant for Acquisition reports directly to the Chief of Staff, who in turn reports to the Vice Commandant, who then reports to the Commandant. On January 22, 2009, DHS requested that the Coast Guard nominate a CAE. On March 2, 2009, the Coast Guard nominated the Vice Commandant to be the CAE. On August 10, 2009, DHS designated the Vice Commandant as the CAE for the Coast Guard. This designation remains effective for three years unless significant changes are made to Coast Guard acquisition policies. Per the memorandum approving the designation, the Coast Guard is required to provide a biographical summary of any new individual assigned as the Coast Guard Vice Commandant before that person may assume the responsibilities of the CAE position.

The Coast Guard has proposed re-organizing its top-level military leadership. Under the proposed reorganization, the Vice Commandant position would become a 4-star position (it is currently a 3-star position); additionally, the Chief of Staff's position as well as the Atlantic Area and Pacific Area Commander positions would be eliminated and four new 3-star positions would be created (each of which would report directly to the Vice Commandant). One of the four Deputy Commandant positions to be created is the Deputy Commandant for Mission Support, who in turn is to have four direct reports:

- Assistant Commandant for Acquisition (which currently is and would remain a 2-star position);
- Chief Information Officer;
- Chief Sustainment Officer (essentially overseeing lifecycle maintenance); and
- Chief Human Resource Officer.

The Coast Guard believes that its projected organization of the Acquisition Directorate – and its placement under the Deputy Commandant for Mission Support – would enable the service to better manage the entire life cycle of an acquired asset. The end-state organization of the Acquisition Directorate is illustrated in the chart below, which also projects the placement of the Assistant Commandant for Acquisition under the Deputy Commandant for Mission Support.



The Coast Guard issued a “Blueprint for Acquisition Reform” to guide the implementation of new policies and procedures to strengthen the management of Coast Guard acquisition initiatives and to guide the organization of the Acquisition Directorate. The first version was issued on July 9, 2007; the document is updated in July of each year and the most recent Blueprint was published on July 24, 2009. The “Blueprint” lays out the Coast Guard’s plans for organizational alignment and leadership, the development of new policies and procedures, human capital management and development, and information management and stewardship.

In a study on the Deepwater procurements issued in June 2008 entitled “Coast Guard: Change in Course Improves Deepwater Management and Oversight, but Outcome Still Uncertain,” the GAO found that the changes in the Deepwater management and the creation of the Acquisition Directorate has “increased accountability” because “Coast Guard project managers and technical experts now hold the greater balance of management responsibility and accountability for program outcomes.”<sup>9</sup> Nonetheless, the GAO found that the Coast Guard still “faces challenges in building a capable government workforce to manage this large acquisition.”<sup>10</sup>

<sup>9</sup> GAO, *Coast Guard: Change in Course Improves Deepwater Management and Oversight, but Outcome Still Uncertain* (June 2008), at 3.

<sup>10</sup> *Id.*



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Among the challenges that GAO identified in the Coast Guard's new Acquisition Directorate are an on-going shortage of civilian acquisition staff members (which is a problem throughout the Federal Government), the lack of an acquisition career path within the Coast Guard for military personnel, and continued reliance on contractors for technical and programmatic expertise.<sup>11</sup>

The table below shows the total number of Coast Guard acquisition positions for civilians and military personnel as well as the number of positions currently vacant and vacancy rates at the end of FY 2009.

**Coast Guard Acquisition Positions  
(Data from the end of FY 2009)**

Total Positions			Positions Vacant			Percent of Total Positions Vacant		
CIVILIAN	MILITARY	TOTAL	CIVILIAN	MILITARY	TOTAL	CIVILIAN	MILITARY	TOTAL
493	349	842	56	36	92	11.4%	10.3%	10.9%

Source: U.S. Coast Guard

The FY 2010 appropriation added new positions to the Coast Guard acquisition program, increasing the total number of positions to 957; the vacancy rate has risen as the Coast Guard works to fill these new positions.

In an effort to create a career path in the acquisition field for military members, the Coast Guard chartered a working group to assess this issue; the group is expected to report its findings in the spring of 2010. The Coast Guard has also issued a "Military Acquisition Career Guide" that presents the acquisition opportunities available to Coast Guard members.

In 2009, the Coast Guard developed estimates of the number of contractors working in its acquisition efforts; estimates are made by government managers in terms of full time equivalent (FTE) positions based on the terms of the contracts under which contractor personnel are engaged. The Coast Guard has also developed estimates of the numbers of "Other Government Agency" personnel supporting its efforts; such personnel are typically drawn from the U.S. Navy, the Defense Contract Management Agency/Defense Contract Audit Agency, Federally funded research and development centers, and university affiliated research centers. The chart below details contractor and "Other Government Agency" FTEs engaged in Coast Guard acquisition efforts and funded by the Coast Guard AC&I account.

<sup>11</sup> *Id.* at 13-14.

Non-Coast Guard FTEs Funded by AC&I Account		
	April 2009	December 2009
Support Contractors	215.3	244.7
Personnel from Other Government Agencies	33.4	46.1
<b>TOTAL</b>	<b>248.7</b>	<b>290.8</b>

Source: United States Coast Guard

Among other recommendations, the GAO recommended in its June 2008 report that DHS “rescind the delegation of Deepwater acquisition decision authority” that had been granted to the Coast Guard.<sup>12</sup> Following the issuance of the GAO report, explanatory language was written to accompany the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act of 2009, which stated, “Due to the Coast Guard’s failure to adequately oversee the Deepwater program, the Secretary shall rescind the delegation of acquisition authority provided to the Coast Guard for Deepwater in order to keep oversight within the OCPO [Office of the Chief Procurement Officer], as recommended by GAO.” On November 4, 2008, the Secretary of DHS implemented the GAO recommendation and the instructions in the language accompanying the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act of 2009 by formally rescinding the Coast Guard’s decision authority and re-designating DHS as the acquisition decision authority for Deepwater projects within the parameters of Directive 102-01.

#### VI. Current Major Acquisitions

Presented below is a review of pending issues with some current AC&I procurements with APBs exceeding \$10 million.

##### A. *National Security Cutter*

The NSC is the largest individual cutter to be acquired under the Deepwater program and will be the most technologically advanced cutter the Coast Guard has ever sailed. The NSC will be 418 feet in length and will replace the existing 378-foot HEC. The first HEC, the *Hamilton*, was delivered to the Coast Guard in 1965; the HECs have reached the end of their service lives. The Coast Guard continues to expect that a total of eight NSCs will be acquired – and that these eight NSCs will adequately replace all 12 existing HECs. The current procurement schedule anticipates that the eighth cutter will be put on contract in FY 2014 and delivered to the Coast Guard in 2017.

NSC 1 (*Bertholf*) was commissioned on August 4, 2008. NSC 2 (*Waesche*) was transferred from the ICGS team to the Coast Guard on November 6, 2009 and placed in “In-Commission, Special” status; the vessel is expected to be commissioned in May 2010 and is expected to complete its first operational patrol between February and May 2011. While in “In Commission, Special” status, crew members will work on *Waesche* and test the ship’s equipment while issues identified in earlier testing of the vessel are addressed and the ship is prepared for final acceptance trials (which are likely to occur in approximately one year). The third NSC, which will be called *Stratton*, is now approximately 35 percent complete. Long-lead materials have been ordered for the fourth NSC.

<sup>12</sup> *Id.* at 30.

The Coast Guard intends to contract directly with Northrop Grumman – rather than contracting through the ICGS team – for the construction of NSC 4. The service received Northrop Grumman’s production proposal for NSC 4 on November 25, 2009. The Coast Guard is currently conducting negotiations with Northrop Grumman prior to signing a construction contract for NSC 4.

The original NSC acquisition baseline cost for eight NSCs approved in November 2005 was \$2.875 billion; this figure increased to \$3.45 billion in May 2007. In December 2008, the acquisition baseline for the purchase of eight NSCs rose to \$4.75 billion. These cost increases are attributable in part to increases in labor rates and in the costs of raw materials and to the decline of the dollar against the Euro; additional costs were incurred through the consolidated contracting action taken by the Coast Guard to resolve ICGS’s outstanding costs and claims associated with the production of NSCs 1 and 2. The table below shows the APB for each of NSCs 1, 2, and 3 as well as the obligations made to date and the estimated costs to complete the vessels.

**Costs Associated with NSCs one, two, and three  
(Costs in Millions of Dollars)**

	NSC #1	NSC #2	NSC #3
Acquisition Program Baseline – 2008	\$701	\$525	\$530
Obligations to Date	\$663	\$472	\$445
Cost to Complete (as of January 2010)	\$696	\$523	\$530

Source: U.S. Coast Guard

The first three NSCs are to be homeported in Alameda, California. In December 2009, the Coast Guard made a preliminary decision to homeport NSCs 4 through 6 at the San Diego Naval Base in San Diego, California, contingent upon the completion of a memorandum of understanding with the Navy and the completion of required environmental impact assessments. The completion of these documents and the finalization of the homeporting decision are expected by early 2011.

The NSCs are designed to be deployed with helicopters, vertical unmanned aerial vehicles (VUAV), and three cutter small boats. The NSCs can accommodate the following combinations of aircraft:

- Two helicopters;
- One helicopter and two VUAVs; or
- Four VUAVs.<sup>13</sup>

This combination of assets was expected to “provide the NSC with surveillance and other capabilities beyond those of the HECs.”<sup>14</sup> However, the NSCs are not currently expected to be deployed with all of their planned assets for some time. After expending approximately \$119 million on the initial development of the VUAV, the Coast Guard ceased work on the project in 2007 when

<sup>13</sup> GAO, *Better Logistics Planning Needed to Aid Operational Decisions Related to the Deployment of the National Security Cutter and Its Support Assets* (July 2009), at 18.

<sup>14</sup> *Id.* at 19.

the initial design failed.<sup>15</sup> The Coast Guard has developed a new UAS Strategy to guide its acquisition of VUAV systems; the strategy was approved by DHS in February 2009. The Coast Guard received FY 2010 Research and Development funding for “UAS priority research.” The Coast Guard has established a formal partnership with the Navy to examine its Fire Scout UAS and is planning to conduct an at-sea, cutter-based UAS technology demonstration of the Fire Scout in 2010. This demonstration project is intended to validate current research findings; the Coast Guard also anticipates completing a Congressionally mandated study of its UAS system in March 2010.

Implementation of the DHS-approved UAS strategy was expected to lead to approval in late FY 2012 of a UAS type for procurement; however, implementation of this schedule was based on a projected FY 2010 through FY 2012 funding stream. No funding was approved for the UAS procurement in FY 2010 and none has been requested by the Administration in FY 2011; as such, the completion of the acquisition approval event has been postponed pending funding availability. Until VUAVs are deployed on the NSC, the Coast Guard has indicated that it will prioritize manned aviation support to the NSCs in the manner provided to the HECs.

The Coast Guard has also restarted the procurements for new cutter small boats. There are two types of small boats that will be utilized with the NSC and on the other cutter assets to be procured under Deepwater. The Coast Guard anticipates acquiring 33 boats that are 36 feet length and maintaining a fleet of approximately 99 boats that are 25 feet in length. The ICGS team developed a single prototype 36-foot Interceptor at a cost of nearly \$3 million<sup>16</sup>, but developed a mix of features – including speed, range, and information technology capabilities – that proved to be unworkable together and did not yield a boat that could meet the Coast Guard’s operational requirements. The Coast Guard has restarted the procurement process for these small boats.

The service expects to issue a Request for Proposals for the smaller boat in the spring of 2010 and then conduct a “boat off” through which the four best teams will each build a single prototype boat. The boats will then be tested by the Coast Guard and the winning team will be awarded a five-year IDIQ contract. The Coast Guard relies on these small boats extensively and will utilize them throughout its cutter fleet; the small boats will have a life span of approximately seven years and will be replaced as needed on a rolling basis from the existing contract.

The GAO found in 2009 that as a result of the delay in the delivery of the VUAVs and the small boats – and of the malfunction of certain systems during the GAO’s summer 2009 audit of *Bertholf* – “the Coast Guard cannot determine the extent to which the NSC’s final capabilities will exceed those of the HECs at this time and it may take several years before some of these capabilities are realized.”<sup>17</sup>

In July 2009, the GAO also reported that work lags on developing the logistics support plans necessary to ensure proper maintenance of the NSCs. One of the central documents guiding logistics planning is the Integrated Logistics Support Plan. The Coast Guard’s acquisition management policies require that this document should have been completed before the

<sup>15</sup> GAO, *As Deepwater Systems Integrator, Coast Guard is Reassessing Costs and Capabilities but Lags in Applying its Disciplined Acquisition Approach* (July 2009), at 5.

<sup>16</sup> GAO, *Change in Course Improves Deepwater Management and Oversight, But Outcome Still Uncertain* (June 2008), at 24.

<sup>17</sup> GAO, *Better Logistics Planning Needed to Aid Operational Decisions Related to the Deployment of the National Security Cutter and Its Support Assets* (July 2009), at 12.

construction of the first NSC; however, though a document has been drafted, it is not yet complete. The ICGS team, which was initially expected to manage logistics planning as part of its role as LSI, developed some initial logistics management guides but these were deemed insufficient when the Coast Guard moved to assume the LSI function and to bring all logistics management responsibilities in-house.<sup>18</sup>

Delays in the delivery of the NSCs have led to a significant loss of NSC operational days compared to the projected delivery schedule; the GAO indicates that comparing the operational days expected in the 2007 delivery schedule to the revised 2008 delivery schedule yields a loss of more than 3,000 operational days.<sup>19</sup>

The Administration has proposed as part of its FY 2011 budget the decommissioning of four HECs. Currently, the service expects that the cutters *Hamilton* and *Chase* (both homeported in San Diego, California) and the cutters *Jarvis* and *Rush* (both homeported in Honolulu, Hawaii) will be decommissioned. To ensure that these regions have available the capabilities of an HEC, it is further proposed that two HECs will be moved from Alameda (where NSCs 1-3 will be homeported) and one will be sent to San Diego and one will be sent to Honolulu. However, even if both NSCs 1 and 2 are fully operational by the end of FY 2011, the proposed decommissionings will reduce the total number of cutters in the Coast Guard fleet and yield a concomitant reduction in overall capabilities.

#### **B. Fast Response Cutter**

The FRC will eventually replace the Coast Guard's existing 110-foot patrol boats. The FRC is expected to be 154 feet long and will be built to achieve speeds of or exceeding 28 knots. It was originally expected that the FRC would be procured through the ICGS team; however, that team's initial efforts to develop an FRC using a composite hull failed (at a cost of approximately \$35 million) and the Coast Guard eventually decided to manage this project itself rather than through the LSI.<sup>20</sup>

In June 2007, the Coast Guard issued a Request for Proposals (RFP) for the procurement of a FRC. Among other requirements, the RFP specified that bidders had to propose a boat that used the design of a vessel already in service somewhere in the world as a patrol boat though some modifications to the parent-craft design were allowed. The GAO reports that the Coast Guard received six proposals from five separate offerors.<sup>21</sup> Bollinger Shipyards, Inc. was selected as the winning bidder; its proposed patrol boat was based on the Damen 4708 design of a patrol boat currently in service in South Africa. The contract awarded to Bollinger is worth \$88 million. Under the contract, the Coast Guard could order up to 34 FRCs at a cost of \$1.5 billion. However, the contract also allows the Coast Guard to end its relationship with Bollinger at any of a number of points, including after ordering only one FRC. To ensure maximum flexibility to the Coast Guard, the contract includes six individual one-year options.<sup>22</sup>

<sup>18</sup> *Id.* at 27.

<sup>19</sup> *Id.* at 14.

<sup>20</sup> GAO, *Status of Selected Aspects of the Coast Guard's Deepwater Program* (March 11, 2008), at 3.

<sup>21</sup> GAO, *Decision on Marinette Marine Corporation protest of Coast Guard Fast Response Cutter Procurement* (January 12, 2009).

<sup>22</sup> GAO, *Status of Selected Aspects of the Coast Guard's Deepwater Program* (March 11, 2008), at 3.

The first FRC is expected to be delivered late in FY 2011. On December 15, 2009, the Coast Guard awarded a contract option worth just over \$140 million to Bollinger to fund the initial low-rate production of three FRCs.

### **C. Offshore Patrol Cutter**

The most expensive single procurement under the Deepwater program will be the procurement of the Offshore Patrol Cutters (OPC), which are planned to replace the service's existing 210-foot and 270-foot MECs. The Coast Guard anticipates procuring 25 OPCs. They are expected to be approximately 357 feet in length and will be able to be at sea for 60 to 90-day patrol cycles. An OPC will accommodate one helicopter and two VUAVs or other potential combinations of aircraft and is expected to be outfitted with two cutter small boats.

## **VII. Non-Deepwater Procurements**

The largest current non-Deepwater acquisition being implemented by the Coast Guard is the Rescue 21 command, control, and communications system procurement. Rescue 21 is intended to replace the Coast Guard's National Distress Response System, which was activated in the 1970s, with an upgraded Very High Frequency-Frequency Modulated (VHF-FM) communications system that will improve the service's ability to locate mariners in distress, coordinate with Federal, State, and local first responders, and reduce communication coverage gaps in coastal areas. The Coast Guard indicates that by the end of September 2009, Rescue 21 had been deployed to 21 of the Coast Guard's 39 sectors and covered more than 28,000 miles of coastline.

The original acquisition baseline for the Rescue 21 project was adopted on April 16, 1999; at that time, the system was projected to cost \$250 million and the acquisition was projected to be completed in FY 2006. The baseline for this project was revised five times between 1999 and 2008. The acquisition baseline now stands at nearly \$1.1 billion and the projected completion date is FY 2017; this most recent acquisition program baseline was adopted on May 27, 2008.

In a Report to Congressional Committees issued in May 2006, the GAO found that the "Key factors that contributed to Rescue 21 cost overruns and schedule delays were inadequacies in requirements management, project monitoring, risk management, contractor cost and schedule estimation and delivery, and executive-level oversight."<sup>23</sup>

## **VIII. H.R. 1665, The Coast Guard Acquisition Reform Act of 2009**

On July 29, 2009, the House of Representatives passed H.R. 1665, *the Coast Guard Acquisition Reform Act of 2009*, introduced by Subcommittee Chairman Cummings. This legislation would strengthen the Coast Guard's acquisition management processes by building on the reforms the Coast Guard has already put in place. Specifically, the legislation ensures the effective definition of operational requirements to guide acquisition efforts and requires the service to develop processes to ensure that the trade-offs among performance, cost, and schedule are understood and assessed for each acquisition; require complete testing and evaluation of all assets acquired by the Coast Guard to ensure that they meet the highest standards of quality and all contractual requirements; and require

<sup>23</sup> GAO, Report to Congressional Committees, *United States Coast Guard: Improvements Needed in Management and Oversight of Rescue Systems Acquisition* (May 2006), at 3.

the development of independent cost estimates for the service's largest acquisitions. The legislation also requires the appointment of a Chief Acquisition Officer who, at the Commandant's choice, can be either a civilian or military officer but who must be a Level III-certified PM and have at least 10 years of professional experience in acquisition management. Further, the legislation requires the appointment of Level III-certified PMs to manage the Coast Guard's largest acquisitions. The legislation bars the Coast Guard's use of lead systems integrators beginning on September 30, 2011.

**PREVIOUS COMMITTEE ACTION**

In the 110<sup>th</sup> Congress, the Subcommittee on Coast Guard and Maritime Transportation held two hearings on Deepwater.

The Subcommittee met on January 30, 2007, to receive testimony regarding the Deepwater acquisitions. At that time, the Subcommittee heard testimony from the Coast Guard Commandant, Admiral Thad Allen; Dr. Leo Mackay, President of Integrated Coast Guard Systems; and Mr. Phillip Teel, President of Northrop Grumman Ship Systems.

The Subcommittee met on March 8, 2007, to consider the Administration's FY 2008 budget requests for the U.S. Coast Guard. At that time, the Subcommittee also received additional testimony from the Coast Guard as well as from the Inspector General of the Department of Homeland Security (DHS IG) and the GAO on the Deepwater Acquisition Program.

The Committee on Transportation and Infrastructure convened a hearing on April 18, 2007, to review the results of an investigation of the Deepwater program conducted by Committee investigation staff that probed deeply into the contract management and decision-making processes within the Coast Guard and ICGS. The hearing also examined the specific failures of the effort to lengthen the 110-foot patrol boats.

In the 111<sup>th</sup> Congress, the Coast Guard Subcommittee held a hearing on March 24, 2009, to examine the status of Coast Guard acquisition programs and policies, including the Deepwater procurements and the Rescue-21 program.

**WITNESSES**

**Rear Admiral Ronald J. Rabago**  
Assistant Commandant for Acquisition & Chief Acquisition Officer  
United States Coast Guard





# HEARING ON A REVIEW OF THE COAST GUARD ACQUISITION PROGRAMS AND POLI- CIES

Thursday, March 11, 2010,

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

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

Mr. CUMMINGS. The Subcommittee will come to order.

The Subcommittee convenes today to continue what has been our ongoing examination of the Coast Guard's acquisition programs and policies. As I have repeatedly said during my tenure, I believe that one of our central responsibilities as a Congress is to conduct effective oversight and effective oversight requires diligent and continuing follow-up. This is the fourth hearing the Subcommittee has convened on the Coast Guard's acquisition efforts during my tenure as Subcommittee Chairman, and I feel confident in saying it will not be the last.

The Coast Guard's acquisition programs, particularly its Deepwater Program, are procuring the fleet of ships and aircraft on which the service will rely on for decades. In fact, if history is any guide, the Coast Guard will rely on these assets many years after they have reached the end of their useful service lives.

There is absolutely no question that the Coast Guard needs new assets. The extent of this need was most recently illustrated during the service's response to the earthquake in Haiti, when 10 of the Coast Guard's 12 responding ships suffered what Admiral Allen termed in his testimony before our Subcommittee last month as mission-affecting breakdowns. Several had to return to port to undergo emergency repairs.

To ensure that the Coast Guard has assets that can meet its mission needs for the decades during which they will be used, and to ensure that the Coast Guard gets the full value for the taxpayer funding it expends to purchase these assets, the service must manage its ongoing acquisition efforts effectively and efficiently. Obviously, in the past, the Coast Guard faced significant challenges managing Deepwater.

However, as the Government Accountability Office stated during the budget hearing we convened last month to consider the Admin-

istration's fiscal year 2011 budget request for the Coast Guard, we are now in a far better place, and I commend Admiral Allen, Admiral Blore, and now Admiral Rabago, today's witness, and their teams for their enormous work in modernizing and strengthening the Coast Guard's acquisition and management processes.

Today's hearing will enable us to examine where we are now and to assess the Coast Guard's current acquisition management challenges. Of particular concern, the Coast Guard has brought the lead systems integration function in-house. We want to review how the service's assumption of these responsibilities is proceeding, including whether the Coast Guard has the personnel it needs to effectively and efficiently carry out these functions. Further, the Coast Guard is appropriately treating the Deepwater procurements on an asset-by-asset basis, rather than as a system of systems that the private sector contractor team previously serving as the lead systems integrator had envisioned.

The service is now developing individual acquisition program baselines for these assets, and while I know that cost estimates developed by the ICGS team were likely costs to contract rather than true program baselines, nonetheless, the costs of the individual assets appear to be rising as the baselines are developed. As such, the total cost of the acquisitions planned under Deepwater are uncertain, but it is unlikely that the costs will fall below earlier projections. In fact, it appears that, if implemented as currently planned, the Deepwater acquisitions may equal or exceed \$27 billion.

We look forward to a frank discussion of Deepwater's likely costs as we seek to understand how cost increases during a time of constrained budgets will shape the Coast Guard's acquisition plans, including the tradeoffs that are made in the selection of technologies for individual assets.

Before I close, I note that I authored legislation that has already passed the House by a vote of 426 to nothing that would put new statutory requirements in place to strengthen the Coast Guard's acquisition management processes. This legislation would require the appointment of a chief acquisition officer who could be either a member of the military or civilian member of the Senior Executive Service, but who must be a Level 3 program manager and who must have 10 years of professional experience in acquisition management.

Additionally, the legislation would require that the Coast Guard put in place systems to ensure that it effectively defines operational requirements before initiating acquisition efforts and to ensure all acquired assets undergo thorough developmental and operational testing. This legislation would also require the service to develop and maintain a career path in acquisition management to ensure that it has the acquisition professionals it needs to effectively manage its acquisitions.

This legislation, like so many other bills already passed by the House, still awaits consideration in the Senate. I would hope that they would move this bill before the end of the current session.

Mr. CUMMINGS. We will recognize Mr. LoBiondo when he arrives; he is at a conference right now and he will be coming in shortly.

With that, we will now hear from our first witness. Rear Admiral Ronald J. Rabago is the Assistant Commandant for Acquisition & Chief Acquisition Officer with the United States Coast Guard.

Rear Admiral, welcome, and we look forward to hearing your testimony.

**TESTIMONY OF REAR ADMIRAL RONALD J. RABAGO, ASSISTANT COMMANDANT FOR ACQUISITION & CHIEF ACQUISITION OFFICER, UNITED STATES COAST GUARD**

Admiral RABAGO. Good morning, Mr. Chairman, distinguished Members of the Subcommittee. As the Coast Guard's Assistant Commandant for Acquisition, I appreciate the opportunity to appear before you today to update you on the Coast Guard's acquisition enterprise and our strategy going forward for our critically needed recapitalization efforts.

It has been three years since our Commandant, Admiral Thad Allen, outlined the beginnings of a comprehensive acquisition reform effort, reforms this Subcommittee helped initiate and shape. While there is still work to be done, we have made tremendous progress transforming ourselves into an acquisition organization that can deliver complex, interoperable, multimillion dollar assets to our frontline forces that meet clear documented requirements. We have institutionalized consistent processes from our Major Systems Acquisition Manual, and our multi-year strategic plan, the Blueprint for Continuous Improvement, provides a guiding framework of actionable and measurable goals.

The Department of Homeland Security's role in acquisition management and oversight has also matured. We now benefit from their careful review of all of our highest dollar programs at each key decision milestone. The Coast Guard now relies on an interactive framework of checks and balances inherent in the roles of requirement sponsors and technical authorities. We regularly employ mutually beneficial partnerships with third-party entities such as the U.S. Navy.

I can definitively state that the Coast Guard is the lead system integrator for all of our major acquisition projects. We control the requirements, the technical baselines, the integration of systems, asset interoperability, and sequence delivery of new capability. We are responsibly phasing out our existing contractual lead system integrated relationships. For example, the current award term contract with integrated Coast Guard systems expires in January 2011 and will not be renewed.

We hired 90 new acquisition professionals in fiscal year 2009, thereby reducing our civilian vacancy rate from nearly 24 percent to less than 11 percent. We are grateful to Congress for its fiscal year 2010 appropriation that permits us to hire 100 additional acquisition professionals. We are already recruiting to fill those positions. Furthermore, we are committed to the quality and retention of our valued acquisition workforce through professional development and credentialing. We are in full compliance with our Department's requirement for Level 3 program manager certification for our 15 highest dollar programs. Focusing on our people has made us a better acquisition organization.

As we continue to improve, one of the best measures of success is timely and cost-effective delivery of critically-needed assets and systems to the men and women executing Coast Guard missions for our Nation. In May of last year, we took final acceptance of the first National Security Cutter, *Bertholf*, and she has already conducted successful operational patrols while completing her remaining post-delivery work and certifications.

*Waesche* just arrived to our Alameda, California home port and is preparing for her commissioning in May. She enjoyed numerous process improvements during construction and testing, including receiving the authority to operate her classified systems a year faster than *Bertholf*. *Stratton*, our third National Security Cutter, is 37 percent complete and will be launched this summer. We received a production proposal for the fourth National Security Cutter that we are evaluating prior to entering into formal negotiations with the shipbuilder.

We successfully completed a critical design review for the sentinel class fast response cutters and now have four cutters on contract. Construction of the lead ship is underway. We have finalized the requirements for the offshore patrol cutter, and in the coming year we intend to complete our acquisition strategy, initial cost estimates, alternatives analysis, as we prepare our request for proposal to industry.

Since October of last year, the HC-144A Maritime Patrol Aircraft has been standing the watch at Mobile, Alabama, and most recently performing missions in support of the earthquake response over Haiti. Our new maritime distress and response, *Rescue 21*, stands watch over 35,000 miles of our coastline and has already saved the lives of numerous mariners.

As we move forward, some challenges remain. Stable budgets and continued strong support by the Administration and Congress are key to the Coast Guard's ability to efficiently recapitalize our aging assets and systems. Accurate cost estimates, stable requirements, and timely delivery of capability to the field all depend on predictable funding streams.

Our trained and experienced acquisition workforce is central to our future success, and the Coast Guard must compete on a level playing field with our military counterparts for acquisition talent here in Washington, D.C. and throughout the Nation. Parity in hiring and compensation authorities will enable us to compete fairly, especially as other agencies increase the size of their acquisition workforce.

The Coast Guard's Acquisition Directorate's job is to recapitalize the Coast guard, and I am committed to continue to improve our processes and to always be a good steward of the taxpayers' dollar. The Coast Guard men and women who serve our Nation and the American public deserve nothing less.

Mr. Chairman, I would like to request that my full written statement be submitted for the record. Thank you again for the opportunity to come before you today to discuss Coast Guard acquisition, and I look forward to your questions.

Mr. CUMMINGS. Without objection, your full statement will become a part of the record. I want to thank you for your testimony.

I was just looking at your testimony and was listening to you, and you were saying that in fiscal year 2010 the appropriation allowed you to hire 100 additional acquisition professionals. In fiscal year 2009 you say we hired 90 new acquisition professionals, reducing our civilian vacancy rate from nearly 24 percent at the end of fiscal year 2008 to less than 10 percent by the end of 2009.

The new budget, the one the President proposes, 2011, does that affect you in any way?

Admiral RABAGO. Yes, it does. It does——

Mr. CUMMINGS. I mean as laid out right now. We have made it clear in this Subcommittee that we are going to fight to restore funding so we can get our personnel level up and do all the things that the Coast Guard needs to do. But assuming it stays as it is, how would that affect your acquisition efforts?

Admiral RABAGO. Sir, our acquisition program baselines you spoke of earlier, sir, or our plans for executing our acquisition projects efficiently, effectively, and laying out a plan for the contracts that do that work, they are based on funding budgets that are laid out, and the fiscal year 2011 budget is a change from what we saw previously, so what we have to do is take a look at our acquisition program baselines, update those based on the funding that we see in fiscal year 2011 plus what is in our capital investment plan for the out-years all the way through to fiscal year 2015, and we are in the process of doing that, sir.

Mr. CUMMINGS. Has it been difficult to find the civilians to go into those positions? It seems like you made some significant hires. And where do you find these folks; who are they?

Admiral RABAGO. The first part of your question, sir, it is difficult, but we have a very good human resource team and they are able to bring in some tremendously qualified and very capable people into our organization. That includes not only our civilian professionals that we are hiring, but also our military professionals that we bring in which round out our acquisition organization.

The military, of course, we bring in from our technical authorities, our sponsor, our field offices that have experience operating and working in the Coast Guard; and, of course, our civilian counterparts, they come from a variety of places, they come from other agencies, they come sometimes from the private sector. All of those, though, rounded out together, have given us a really high quality acquisition workforce.

Mr. CUMMINGS. And what about training? You know, one of the things that we were concerned about is that we grow and train people inside the military, the Coast Guard, and a concern, too, was that because of the rotational requirements or rules, that a lot of times people are not able to stay long enough to be seasoned, and then they move on to something else. How do you deal with that?

Admiral RABAGO. That is an area that we have really tackled very aggressively. In the last five years we have increased the number of certified acquisition professionals from around 30 up to 630. Many of those individuals are not directly in the Acquisition Directorate; they reside in our technical authority areas, they work in our sponsor shop, they work in a resource shop, they work in a variety of places in the Coast Guard.

And that really represents the future of bringing in and rotating military personnel that have acquisition experience into the Acquisition Directorate and then back out again into the technical authorities. So that really becomes our center of gravity in the sense of having professionals not just in acquisition, but really throughout the Coast Guard that are learning the skills necessary to be successful acquirers.

Mr. CUMMINGS. Now, is the acquisitions, is that something that is attractive to people in the military? In other words, I know that there are various fields that people are automatically attracted to, but is acquisition something that folks seem to be excited about?

Admiral RABAGO. Yes, sir. We find, especially in the last two or three years, that we have been able to have a great deal of interest in our military professionals wanting to join the team and be part of acquisition, not necessarily in the Acquisition Directorate, but also in the technical authorities. They want to be part of recapitalizing the Coast Guard and they are excited about that.

Mr. CUMMINGS. Now, the Coast Guard has, as you stated in your testimony, assumed responsibility for acquisition efforts that comprises the Deepwater program. The service is now developing individual acquisition program baselines with these assets, and while I know that the core system is developed by ICGS team or likely cost to contract, rather than true program baselines, nonetheless, the cost of individual assets appear to be rising as the baselines are developed, such the total cost of the acquisitions planned under Deepwater are uncertain. But it is unlikely that the costs will go below what was projected when we held our last hearing to examine the Deepwater programs back in March 2009.

What do you estimate the cost of the procurements currently envisioned under Deepwater to be and will the costs exceed the \$27 billion?

Admiral RABAGO. Yes, sir. As part of our process, you mentioned disaggregating the original integrated Deepwater system, APB, which had all of the system-of-systems strategy in terms of how the individual assets were to be procured. We have moved away from that at direction of GAO, at direction of this Subcommittee, as well as our Department, into individual acquisition program baselines, which are really a plan that talk about cost schedule and performance of the asset. Managing them all in a single acquisition program baseline, we could not do that effectively, and that is why we are doing them individually.

As we go through and do the individual acquisition program baselines, we subject those projects to the full rigor of our major systems acquisition manual, all of the requirements that are in our Coast Guard policy for acquisition, but also concurring with our departmental policy, and make sure that we have accurate cost estimates, that we have a plan that is based on the budgets that we project, we have contracts in place that will deliver the capability to the Coast Guard in a timely and effectively fashion.

And when you put that level of accuracy on there, the dollars are going to be different from what was done originally by the ICGS contract. These are accurate, much more improved in terms of the quality and the fidelity of the information in those acquisition program baselines by asset is much better, and therefore we are con-

fident that those then represent the true cost, true schedule, and true performance characteristics of the assets that we are acquiring.

Mr. CUMMINGS. Mr. Coble.

Mr. COBLE. Thank you, Mr. Chairman. I am sorry I am belated today; I am running between different meetings.

Good to have you with us, Admiral. Admiral, the Coast Guard recently completed a fleet mixture analysis to determine the number and types of vessel platforms that will be necessary to support the Coast Guard missions in the future. Ranking Members Mica and LoBiondo requested this report I think last month. When can we expect that report to be submitted to the Subcommittee, Admiral?

Admiral RABAGO. Sir, our Operational Directorate is overseeing that effort; it is in its final review at the Coast Guard and is expected to be briefed to the Department shortly and then out to the committees after that point, sir.

Mr. COBLE. Does the analysis take into account limitations resulting from budget constraints or, rather, does it only make recommendations on the capabilities and qualities of assets that would compose an optimal fleet mixture?

Admiral RABAGO. It takes into account the missions that the Coast Guard assets are to work on, it builds off the alternatives analysis that was done with the Deepwater Program, and it takes a look at the missions that the Coast Guard is executing, again, with those assets; and it is looking across the board at all those assets and how the Coast Guard would execute with the ships and planes that are there. So it is a very comprehensive review and that is why it is taking the time for the Coast Guard to complete its final evaluation of it.

Mr. COBLE. I thank you for that. Admiral, does the report offer alternatives that the Coast Guard is considering?

Admiral RABAGO. I have not seen that, sir. I will make sure I get back to the record for you on that, sir.

Mr. COBLE. If you would do that, I would appreciate it. Thank you, Admiral.

Thank you, Mr. Chairman.

Mr. CUMMINGS. Thank you, Mr. Coble.

Let's go back, Admiral, to my question a little earlier. And if you can't tell me, tell me that you can't tell me, but, again, do you expect the cost of Deepwater to exceed the \$27 billion?

Admiral RABAGO. Sir, with the additional four acquisition program baselines that we have done since the hearing in 2009, the estimate at this point is approximately \$27.4 billion, and that is, again, with those four additional baselines that now have more fidelity and accuracy in our cost estimating. We still have four APBs that we are pouring out of the original IDS APB, and once that is done, then we will then have the full cost of the Deepwater capability as originally envisioned.

Mr. CUMMINGS. Now, the budget proposes that the funding for the next NSC's combined funding for long-lead materials and construction in a single year's appropriation, what is the likely impact on production if funding for long-lead materials is not available before the production of funding?

Admiral RABAGO. There is an impact. Long-lead materials are bought in—what we have previously done—approximately one year prior to the award of a production contract. That is because the materials and the systems that are purchased with that money sometimes have as much as two years from the day of order to the day of delivery to the shipyard, so it is important that you sequence the arrival of that equipment—like engines and other important components of the ship—in time to meet the construction schedule for the ship itself. If it is not ordered in advance, you have to make adjustments to the way you build the ship, which could produce inefficiencies and increase cost.

Mr. CUMMINGS. I notice that we have some guests in the room. Welcome to our hearing. So that you will know what we are talking about, this is the Coast Guard Subcommittee of the Transportation Committee, and a few years ago some legislation was put forth to acquire some \$25 billion worth of assets over the course of 25 years, and what happened is that the Coast Guard, because we needed strong acquisitions personnel and because of the way the contract was structured, we literally were not getting the products that we needed for our Coast Guard.

So we have now sort of revamped that so that we are more effective and efficient in acquiring boats and planes, and the Admiral here from the Coast Guard is just telling us what we have been able to accomplish with regard to that program and revamping it so that we can more effectively and efficiently acquire assets for our United States Coast Guard.

The Coast Guard is approximately 42,000 personnel. It is a small agency, but they do a lot of very, very important things.

So I just wanted you to know what we are doing here today, and we thank you and we are glad to have you with us.

Admiral, when you look at where we are, do you think the—do you have any comments on the fiscal year 2011 budget? I know you are sort in a—you have to go along with what Homeland Security is saying, but any comments so that we can—because I don't want us to go backwards. We have made a lot of progress. I am extremely impressed with what has happened, although the Senate has not moved on our legislation. But I am extremely impressed with what the Coast Guard has done and I don't want to see us go backwards. So do you have anything that you would want us to consider as we move forward in trying to make sure that the Coast Guard has all the money that it needs to do its job?

Admiral RABAGO. Sir, we appreciate the support of the Subcommittee and you, sir, as Chairman. Our fiscal year 2011 budget is—we are in the process now, as I said before, of evaluating its impact and also the plan that came with it in terms of what the out-year funding is predicted to be, and we are adjusting and adapting our projects through a re-look at our acquisition program baselines to make sure that we account for the planned budget and funding stream.

Steady budgets for the Coast Guard, steady stream of funding is very important in terms of an acquisition program baseline. If you are going to be acquiring an asset for many years, it is very important that you set forth contracts that anticipate funding at certain levels and at certain times. So we watch that very closely. We are



always appreciative when the funding in the budget is stable as we move forward; it allows us to plan better and to be more efficient in delivering the capability to the Coast guard.

Mr. CUMMINGS. Now, tell me what are the main challenges that you have encountered in assuming the lead systems integration responsibilities, and I guess specific challenges you have not yet met in performing those tasks? Because, again, going from the lead systems integration, that is quite a shift difference that we made, with the two contractors pretty much being in charge now the Coast Guard taking on its own responsibilities. You can go ahead and answer the question.

Admiral RABAGO. Yes, sir. The task of being a lead system integrator is a challenging task; it is one the Coast Guard is embracing and we are making great progress with that. We understand what it is. We are grateful for the appropriations that have provided the additional acquisition professionals to our organization; it has enabled us to manage it. And, again, not just in our Acquisition Directorate, but with our technical authorities, our sponsor, and the other entities in the Coast Guard that are required, including our ability to deliver these assets and put them out for the Coast Guard to use.

As the lead system integrator, it is two parts for us. One is a transition from the commercial contract that is in place. That is progressing well and winnowing down, and, as I said, we will not renew that contract when it expires in 2011 for the ICGS and the Deepwater contract.

Mr. CUMMINGS. Now, some—no, you go ahead. I am sorry.

Admiral RABAGO. The other part of it is what we are doing within the Coast Guard. One is a human resource issue, which is the certification, the qualification and experience of our acquisition professionals, again, within the Directorate and without; and then also putting the policies, the processes, the discipline, the internal controls necessary to manage complex acquisition that run over multiple years and also, as a system integrator, to make all of those assets and all of those projects work together effectively so that we deliver capability that is integrated and interoperable for our Coast Guard forces.

Mr. CUMMINGS. Now, one of the things that had come up earlier, we had wanted to make sure that we were using the Navy because the Navy had such a sophisticated acquisitions body to address acquisitions, and we got the impression at one point that the Coast Guard had a lot of pride, and we understand that, but we also want it to be effective and efficient. So we were wondering how has the relationship been with the Navy.

Admiral RABAGO. The relationship with the Navy is excellent, sir. We utilize their expertise in a number of different areas. We also contribute to their expertise with some of the work that we do. We are at the table with them when it comes to looking at rates at shipyards where we both have Navy work and Coast Guard work going on; we use some of their expertise for some of the testing and evaluation and capability that they have. We put a Coast Guard flavor on it to make sure, though, that the assets being tested are suitable for Coast Guard missions.

And the Navy has worked very well with us to do exactly that. So we have literally dozens of connection points to the U.S. Navy and other agencies, including within our own Department, other components like Customs and Border Protection. We look for great partnerships in a multitude of areas to make sure that we are informed, because even with our growth of acquisition expertise and personnel, we can leverage expertise and resources and capacity in the other agencies, and we are doing exactly that, sir.

Mr. CUMMINGS. Now, some cost estimates for the offshore patrol cutter seem to indicate that these vessels could cost as much as the NSCs. Are the OPCs envisioned to be just slightly smaller versions of the NSC? Further, without completion of the fleet mix analysis, which will presumably lay out detailed mission requirements for the OPC, is the Coast Guard in a position to move forward on the design of the OPC?

Admiral RABAGO. Yes, sir. We have just complete the requirements. The requirements are at the Department for their approval. The OPC, as laid out, is going to be a very capable ship. It is not an NSC. It will provide great capability that is set forth. We spent a lot of time on the requirements to make sure they were right. The sponsor has given me a good set of requirements and I, as an acquirer, can use those requirements and go off and design and continue to work collaboratively with the sponsor and the technical authorities to produce a great ship that is going to be able to perform Coast Guard missions.

Mr. CUMMINGS. Now, do you still expect to procure Aden NSCs and will the cost come in at or under the \$4.7 billion acquisition program baseline currently in place? Further, are there differences between the assumptions made in the APB for the NSC and the funding assumptions in your long-range capital plan? If so, what are they and what will be done to reconcile them? One of the things that I noticed with the NSCs is that it seems as if the costs were steadily rising, far above what we had anticipated, because they were trying to work out the little problems and whatever, but those problems seem to be quite costly. What do you anticipate with regard to cost overruns?

Admiral RABAGO. Yes, sir. We do plan for eight NSCs. That is what is in our APB. We will continue with that. We are evaluating what the fiscal year 2011 capital investment plan, the out-year plan, and how it lays out the funding and the funding in fiscal year 2011, how that will affect our APB. It is a different funding strategy than what is in our acquisition program baseline, so, again, our APB is a plan. We now need to go back and take a look at what the realities of the current budget is against that plan and come back, and I could then tell you what the changes in cost, if any, will be.

I am sorry, sir.

Mr. CUMMINGS. No, you go ahead.

Admiral RABAGO. As far as the ships in terms of cost management, the Department has been working closely with us. We have actually taken a close look at cost. One of the biggest drivers for cost is changing requirements. The National Security Cutter has very stable requirements. We intend to build the same ship all the way through to the eighth ship, and we are doing that on the cur-

rent set of ships, on the ships that are under construction right now, and we intend to continue to manage the cost.

There were a number of cost increases due to material increases and other things that have been put in. Some of those are reflected in our current acquisition program baseline; others are inflation and other factors that we will look at when we reevaluate what the fiscal year 2011 budget, how it affects our acquisition program baseline.

Mr. CUMMINGS. Do you think we have pretty much perfected the NSCs now?

Admiral RABAGO. Yes, sir. We are ready to continue to build those ships out. When it comes time to—once you have a stable set of requirements, you have your manufacturing processes figured out in the shipyard, the most efficient and effective thing to do is to build the ships as quickly as you can. The costs only rise as you stretch the program.

Mr. CUMMINGS. Now, the boats that couldn't float, the ones that end up in the Coast Guard yard there in Baltimore, I understood they took some of the—they were able to use some parts of those, is that right?

Admiral RABAGO. Yes, sir. Those are the 123s, sir, and those eight vessels are the subject currently of a Department of Justice investigation. We are supporting that investigation, preserving the evidence, but at the same time we have worked closely with them to be able to start to remove critical components off of those vessels to support our in-service 110-foot vessels which are out, of course, executing Coast Guard missions.

We have taken engines and reduction gears off of two vessels. We intend to take the same equipment off of three more so we can put them into our repairable pipeline and repair those engines and get them out in service back for the Coast Guard.

Mr. CUMMINGS. Again, we are going to call the hearing to an end, but I want to thank you very much for your—hold on a second.

It is my understanding that Mr. LoBiondo has a statement. We will make that statement a part of the record, without objection.

Mr. CUMMINGS. I want to thank you very much, and, again, I reiterate what I said a little bit earlier. I was very, very pleased—and I think I speak for Mr. LoBiondo also—at the progress that we have made with regard to acquisitions. It has simply been phenomenal and we are very proud of what you all have been able to achieve, and I think that the American people, when we compare where Deepwater was a few years ago and where it is now, it is light years, and I just want to congratulate you and all of those in the Coast Guard who have been a part of making that happen.

The other thing I would say is I want to thank the Coast Guard for your response in Haiti. All the reports that have come back said that the Coast Guard performed at the top of its game, no doubt about it, just as they did in Katrina. And I just want to make it clear to all the Coast Guard's men and women that we in this Congress are very grateful for all that they have done and all they are doing.

With that, this hearing is at its end.

Admiral RABAGO. Thank you, sir.

[Whereupon, at 10:40 a.m., the Subcommittee was adjourned.]



**STATEMENT OF THE  
HONORABLE FRANK A. LoBIONDO  
RANKING REPUBLICAN  
SUBCOMMITTEE ON COAST GUARD AND  
MARITIME TRANSPORTATION  
OVERSIGHT HEARING  
A REVIEW OF COAST GUARD ACQUISITION  
PROGRAMS AND POLICIES  
MARCH 11, 2010**

Just two weeks ago, the Subcommittee reviewed President Obama's fiscal year 2011 budget request for the Coast Guard. That request slashes funding for Coast Guard acquisitions by 10 percent. This comes at a time when the service is desperately trying to upgrade or replace aging and obsolete aircraft, vessels and technology that are severely

hindering mission success. Unfortunately, the President's budget request pulls the rug out from under these plans.

The President's Budget request zeros out funding to keep the 110 foot patrol boats afloat, dramatically cuts the buy for new Maritime Patrol Aircraft and Response Boats. It delays technology upgrades to the HH-65 helicopters and puts off the deployment of the Nationwide Automatic Identification System. Finally, the

budget request jeopardizes the on time delivery of the final three National Security Cutters.

These severe reductions in the acquisitions budget come on top of the drastic cuts the President wants to make to Coast Guard operations. As I said at our hearing last week, these cuts not only significantly undermine mission success, they increase our vulnerability to another terrorist attack. I was pleased there was strong agreement on these points during our last hearing, and I want to thank Chairmen

Cummings and Oberstar for their assistance in including these restorations as part of the Committee's recommendations to the Budget Committee.

In addition to the problems posed by inadequate resources, the Coast Guard lacks critical authorities needed to enhance its acquisitions capabilities. Thanks to the 'other body', it has been nearly four years since we have enacted a bill to reauthorize the Coast Guard. As a result, we have missed

opportunities to provide the Coast Guard with direct hire authority or the capability to create special pay rates which would attract qualified candidates to the service's acquisition workforce. Congress must address the existing deficiencies in the service's authorities, or we run the risk of jeopardizing the progress we have made in acquisition reform.

While the Deepwater program is the largest single Coast Guard acquisition program and takes up the majority of the acquisition budget, I



remain concerned about the declining state of the Coast Guard's shoreside infrastructure.

Over the past year, the already staggering backlog of identified shoreside projects has grown by another \$500 million, to more than \$1.5 billion. Facility and infrastructure needs are being identified at an alarming rate, and there does not appear to be any strategy to begin to address this issue.

We cannot afford to delay the acquisition of new aircraft, vessels, and support systems while

legacy assets are deteriorating and incurring increasingly higher operational and repair costs. We also cannot afford to continue kicking the can down the road on the service's shoreside needs. The President's budget is not acceptable, and I look forward to working with other Members to restore this critical funding.

We all have an interest in providing the Coast Guard with the most capable assets at the best price to the taxpayer. I look forward to hearing about the current status of acquisitions

and how the service plans to maintain its efforts  
in future years under the current budget forecast.



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**TESTIMONY OF REAR ADMIRAL RONALD RÁBAGO  
ASSISTANT COMMANDANT FOR ACQUISITION**

**“COAST GUARD ACQUISITIONS STATUS UPDATE”**

**BEFORE THE  
HOUSE SUBCOMMITTEE ON  
COAST GUARD AND MARITIME TRANSPORTATION**

**11 MARCH 2010**

Good afternoon Mr. Chairman and distinguished members of the Subcommittee. I appreciate the opportunity to update you on the Coast Guard’s acquisition enterprise and the outlook for ongoing and much-needed recapitalization projects. As the Coast Guard’s Assistant Commandant for Acquisition, I ensure that each of our major acquisition projects is developed, executed and completed in the most efficient and cost-effective manner possible and that delivered systems and assets meet mission requirements.

Three years ago, our Commandant, Admiral Thad Allen, outlined the beginnings of a comprehensive acquisition reform effort within the Coast Guard. My office has transformed itself into an Acquisition Directorate capable of delivering multiple multimillion-dollar assets to our frontline forces; further, we have reclaimed a leadership role in systems integration and are now the Lead Systems Integrator (LSI) for all major acquisition projects across the Coast Guard.

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

**ACQUISITION TODAY**

In July 2007, the Integrated Deepwater Systems acquisition projects were integrated into a new and fully unified acquisition enterprise. Since then, we have undergone foundational changes: we have changed as an organization, and we have changed our processes and project management approach.

From our founding 220 years ago, the more well-known missions of the U.S. Coast Guard – saving lives, law enforcement, protecting the maritime environment and national security – have been central to how we serve our nation. We have been, and will always be, America’s maritime guardians, safeguarding our nation’s maritime interests. Today, we face a new threat environment that has broadened these missions. While recapitalization of our aging, costly to maintain assets and infrastructure is critical to meet today’s missions, equally important is the Coast Guard’s transition to a function-based organization that improves sustainable mission execution and standardizes and aligns our business processes. This effort, known as modernization, will lead to a more flexible, unified, and agile organization with a sharpened focus on the sustained delivery of mission support to enhance mission execution.

Notable strides have been made in the last year through the establishment of the Aviation Logistics Center, Surface Forces Logistics Center and Asset Project Office to improve critical support services we provide to assets. These facilities are responsible for sustaining Coast Guard aircraft and vessels over their entire operational lifecycle and provide units with a one-stop, 24-hour source for depot-level maintenance, engineering, supply and logistics services. These centers support the Coast Guard's transition to a centralized, bi-level maintenance support organization with a single point of accountability for asset management.

These organizational changes have come in concert with the significant changes in our acquisition processes and project management, in which the Department of Homeland Security (DHS) and this Subcommittee have played integral roles. Efforts to consolidate the Acquisition Directorate, assume LSI responsibilities, and implement the *Blueprint for Continuous Improvement* (formerly the *Blueprint for Acquisition Reform*) have better equipped us to manage cost, schedules, and contractor performance. I would like to highlight our accomplishments in some key areas.

#### *Coast Guard as the Lead Systems Integrator*

As I stated in my introduction, the Coast Guard is now the LSI for all Coast Guard major acquisition projects. Since 2007, we have drastically reduced the role of Integrated Coast Guard Systems (ICGS), a joint venture of Northrop Grumman and Lockheed Martin, for Deepwater capabilities and assets. While we continue to work with ICGS on some systems engineering transition work for the Deepwater program, we are working to responsibly close out existing contractual LSI relationships. The current award term contract expires in January 2011 and will not be renewed.

#### *Documentation*

Major systems acquisitions are complex and require disciplined processes and procedures. The *Major Systems Acquisition Manual* (MSAM) ensures that uniform procedures for acquisition planning and project management are applied to every major systems acquisition, aligning the Coast Guard with the Department's acquisition management policy and processes. Without major impacts to cost or schedule, we have worked hard to bring acquisition projects already under way into MSAM compliance.

Additionally, the *Blueprint for Continuous Improvement* is our long-term strategic plan for achieving acquisition excellence. We wrote the *Blueprint* to guide us in developing the internal functional capabilities necessary to manage the cost, schedule, and performance of our most complex acquisition projects. Version 4.0, published in July 2009, ensures that the acquisition reforms we have implemented become institutionalized and are continuously improved.

#### *Policy and Process Improvements*

Over the last year, we have accomplished much. We have:

- Codified and implemented procedures to monitor acquisition plan submittals with advanced acquisition planning forecasts;
- Published and distributed a standard operating procedure for conducting independent verification and validation of cost, schedule, and performance measurement baselines for major systems;
- Developed processes to highlight the value of program and project manager positions within the Coast Guard;

- Codified and implemented cross-functional reviews of acquisition/contracting strategies and Requests for Proposals for major systems;
- Documented processes to monitor corrective action remediation plans;
- Instituted a mandatory requirement for independent cost estimates;
- Established a milestone documenting completion of Critical Design Review and approval to enter Low-Rate Initial Production (LRIP);
- Provided additional guidance for standardizing and improving the requirements generation process;
- Mandated a requirement for individual project risk management plans;
- Added a requirement for program managers to document completion of Preliminary Design Review, Technical Readiness Review, and Critical Design Review in a memo to acquisition stakeholders;
- Improved the review and approval process for acquisition planning documents to ensure timely action;
- Required approval of all test plans prior to testing;
- Provided detailed guidance for solicitation planning;
- Developed project metrics to assess an acquisition project's likelihood of success and provide that assessment in a clear and consistent manner to Coast Guard leadership; and
- Provided guidance for standardizing and improving cost estimating techniques and best practices, integrating organic acquisition and life-cycle cost-estimation into all aspects of project planning and execution.

#### *Role of Oversight*

The Coast Guard's revitalized and improved acquisition organization has been informed and aided by the support of this Subcommittee, DHS, and the Government Accountability Office (GAO). Effective oversight requires full transparency, and we have worked hard during the last few years to improve our transparency to Congress and the public.

In September 2008, we re-established DHS as the Coast Guard's acquisition decision authority. The Department's Acquisition Lifecycle Framework provides the Coast Guard with a disciplined, phased acquisition approach and important access to department-level Acquisition Review Boards, which evaluate the direction of each program according to consistent criteria. This oversight function not only ensures Coast Guard acquisition programs are soundly conceptualized, developed, and managed, but also fosters a strong collaborative component-department relationship. The acquisition process support and clear guidance provided by the Department's Office of the Chief Procurement Officer and Acquisition Program Management Directorate have played a considerable role in the maturation of the Coast Guard's Acquisition Directorate as a cost-conscious and milestone-driven acquisition organization.

#### *Organizational Realignment and Partnerships*

A key component in the reorganized and revitalized acquisition organization is the strong relationships forged with our technical authorities in the Coast Guard's mission support community, including Human Capital; Engineering and Logistics; and Command, Control, Communications, Computers and Information Technology (C4IT). We have reestablished collaborative partnerships with these authorities in their roles as technical warrant holders for

the platforms and mission systems the acquisition enterprise produces and delivers. We also have forged a close working partnership with the Coast Guard headquarters directorates responsible for requirements generation and resources. These vital linkages, which are codified in the MSAM and implemented through well-defined procedures, ensure our projects are managed from a solid foundation of validated operational requirements and funding support.

Further, we continue to benefit from a robust partnership with the U.S. Navy that spans nearly a dozen of its entities, leveraging its expertise in acquisition processes, common systems planning and testing. We have also heavily leveraged both Navy and U.S. Customs and Border Protection (CBP) lessons learned in our efforts to develop viable cutter- and land-based Unmanned Aircraft Systems.

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

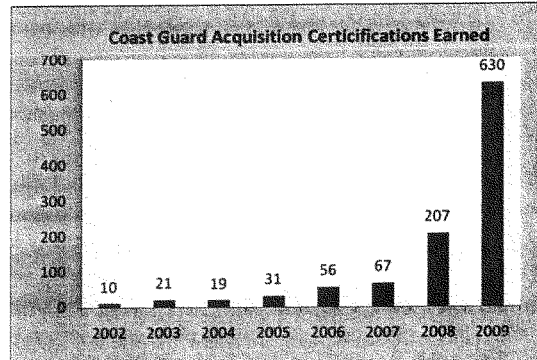
#### **ACQUISITION WORKFORCE**

It is my distinct pleasure to serve with the truly outstanding professionals who comprise the Coast Guard's acquisition enterprise. Our workforce is approximately 60 percent civilian and 40 percent military; our military personnel bring operational and support perspectives from the field, while our civilian personnel bring continuity and specialized acquisition knowledge to the enterprise.

The Fiscal Year (FY) 2010 appropriation allows us to hire 100 additional acquisition professionals. In FY 2009, we hired 90 new acquisition professionals, reducing our civilian vacancy rate from nearly 24 percent at the end of FY 2008 to less than 10 percent (before adding new positions) by the end of FY 2009. Our military and civilian acquisition workforce now stands at more than 950 personnel, including core and support positions across the enterprise, and we have already begun to fill the new positions we received in FY 2010.

We have placed a tremendous emphasis on ensuring the quality of our workforce through professional development and retention. We are also focused on our training and certification programs. Having a certified workforce across the entire Coast Guard acquisition enterprise is important to ensure we communicate with a common lexicon and follow transparent, consistent, and documented processes. We have seen a dramatic increase in the number of acquisition certifications earned through DHS since 2002. Our total number of acquisition certifications in 2009 was 630, a 205 percent increase over the previous year. Of those 630 certifications, 532 were in program management. We have also achieved and maintained 100 percent compliance with the Department's requirement for Level III program manager certification for our 15 Level I (highest-dollar) programs. Some of our Level III program managers have risen through the ranks of our acquisition organization, learning from their superiors and tapping into previous experience in other programs. We expect to see this occurring more frequently, allowing for increased leadership continuity in the acquisition enterprise.

In addition to maintaining a trained and certified workforce, we remain focused on recruiting and retaining our people. Recruitment efforts such as the Department's Acquisition Professional Career Program, the Coast Guard Career Entry-Level Opportunity Program, the Presidential Management Fellows Program, and a referral bonus program for Contract Specialist hires ensure we maintain a pipeline



of qualified candidates. We have created a Military Acquisition Career Guide to highlight opportunities for military personnel to serve as acquisition professionals. Additionally, we have begun an innovative Contracting Career Opportunity Program, in which active duty military personnel earn certification in preparation for a potential transition to the civilian contracting workforce. We have established an advanced one-year professional development program with the Naval Postgraduate School for DHS Level III program manager certification. Version 2.0 of our *Human Capital Strategic Plan*, published in 2009, is focused on long-term planning and management of the acquisition workforce and the strategies that will help ensure we have the right workforce with the right skills at the right time to achieve our acquisition objectives.

#### ACQUISITION PROGRAM UPDATES

##### *National Security Cutter*

The centerpiece of our recapitalized fleet, the 418-foot Legend-class National Security Cutter (NSC) is the largest and most technically advanced class of cutter in the Coast Guard. In May 2009, we took final acceptance of the first-in-class BERTHOLF (WMSL 750). BERTHOLF was granted an Authority to Operate her classified networks approximately one year after delivery, meaning her systems are TEMPEST-compliant and meet all Information Assurance standards. Upon assuming an operational status, BERTHOLF conducted West Coast patrols and provided immediate results, disrupting a drug smuggling operation 80 miles off the coast of Guatemala. In February 2010, we received DHS certification of the shipboard Sensitive Compartmented Information Facility (SCIF), the first for a Coast Guard cutter.

We capitalized on lessons learned from BERTHOLF during construction of the second NSC, WAESCHE, and took delivery in November 2009 of a cutter that had a higher level of quality and completeness than the first in class. WAESCHE, which is now in "In-Commission Special" status, is at her homeport of Alameda, CA, to prepare for commissioning in May 2010. Following her acceptance trials, the Navy's Board of Inspection and Survey (INSURV) reported WAESCHE was a "very clean and capable platform" that met or exceeded readiness expectations. Compared to BERTHOLF, we saw significant reductions in the number of trial cards, which identify discrepancies needing to be addressed to ensure the cutter meets contractual requirements. While BERTHOLF had eight



“starred” cards, which note major discrepancies that must be waived or corrected prior to delivery, WAESCHE had three. Further, WAESCHE was granted the Authority to Operate her classified networks just over two months after delivery.

Acceptance Trial Comparison	NSC 1	NSC 2	Percent Improvement
Total trial cards	9,289	7,657	18%
Cards open after acceptance trials	4,030	2,166	46%
Starred cards	8	3	63%
Priority I safety cards	78	54	31%
Compartments accepted at acceptance trials (353 total)	193	320	66%

We continue to work with the shipyard to realize efficiencies in the third NSC, STRATTON, which is more than 30 percent complete. The shipyard has reduced the number of hull assemblies and grand blocks – multiple assemblies stacked together – that are constructed in halls away from the waterfront. Thirty-two assemblies were used in the construction of BERTHOLF, 29 for WAESCHE, and the shipyard plans to construct STRATTON using only 14. This enables more sub-assembly work in each grand block in a controlled environment, which allows for improved oversight and inspection of work in progress and potentially leads to fewer construction hours and higher quality.

A production proposal for NSC 4, HAMILTON, was received from Northrop Grumman Shipbuilding in November 2009. We are currently evaluating the proposal and conducting a fact-finding process with the offeror prior to entering into formal negotiations.

#### *Fast Response Cutter*

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

We now have four patrol boats on contract with Bollinger Shipyards, having made a contract award option for three boats in December 2009. The award, which marks the beginning of LRIP, followed completion of a Critical Design Review and concurrence from the DHS Acquisition Review Board. The lead FRC, with delivery expected in the third quarter of FY 2011, will be homeported in Miami, FL. The initial contract awarded in September 2008, worth up to \$1.5 billion if all options for 34 cutters are exercised, was a highly competitive process. Our source selection process was closely scrutinized by GAO and the Court of Federal Claims during two post-award protests and both times our decision was upheld. This speaks to the quality of our source selection process and overall execution of our acquisition strategy.

The acquisition strategy for the FRC includes using a proven, in-service parent craft design to minimize cost and schedule risk and mitigate the patrol boat gap in the shortest time possible. The FRC is based on the Damen Stan Patrol 4708, uses state-of-the-market technology, and meets American Bureau of Shipping design, build and class standards.

We are leveraging lessons learned from past patrol and small boat acquisition programs and have an onsite Project Residence Office and contracting officer at Bollinger's shipyard, enabling close collaboration and oversight. The keel laying ceremony for the lead FRC is scheduled for April 2010.

#### *Offshore Patrol Cutter*

The Offshore Patrol Cutter (OPC) will be the Coast Guard's largest acquisition program in terms of dollars. It is currently undergoing the development of requirements and acquisition strategy. It will be conducted entirely under the purview of the Coast Guard as the LSI and will be fully compliant with the MSAM, ensuring the program follows disciplined processes based on acquisition best practices. In the first half of 2009, we conducted extensive market research, including a Request for Information, and a market survey to discern whether a platform currently exists that could meet our requirements. In May 2009, the OPC concept of operations was approved. Key activities for the project in FY 2010 include completing operational requirements, acquisition strategy, cost estimates – including total acquisition costs and life cycle costs – and an analysis of alternatives.

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

The fourth missionized HC-130J Hercules Long Range Surveillance Aircraft was delivered to Air Station Elizabeth City, NC, in August 2009, and the fifth was delivered in January 2010. The sixth and final HC-130J is scheduled for delivery in May 2010. As the HC-130J project nears completion, we are already seeing the benefits of the aircraft's state-of-the-art radar, sensor, and communication systems. In January 2010, Elizabeth City conducted a successful search and rescue mission with the HC-130J when the sailboat of a mariner was sinking in severe weather in the Atlantic Ocean 250 nautical miles east of Hatteras, NC. The HC-130J crew used the aircraft's direction-finding and sensing equipment to locate the vessel, directing a Navy helicopter to the scene to rescue the mariner. The lifesaving technology made possible through this acquisition project will take the "search" out of search and rescue for cases involving the use of satellite-detected distress signals.

In addition, 14 of 17 legacy HC-130H aircraft have new surface search radars installed, the first part of their material condition and capability upgrade. The aircraft will also receive new DF-430 direction-finding radio equipment. Later efforts will include upgrades to obsolete avionics and cockpit display suites, as well as structural enhancements to extend the operational lives of the aircraft.

#### *HC-144A Maritime Patrol Aircraft*

The HC-144A fixed-wing Ocean Sentry Maritime Patrol Aircraft is replacing the fleet of aging HU-25 Falcon jets. Each of the 36 aircraft will be equipped with a Mission Systems Pallet (MSP) that ushers in new command-and-control, surveillance, and intelligence technologies to enhance maritime domain awareness. The Ocean Sentry will perform a variety of tasks, including search and rescue, drug interdiction, migrant interdiction, law enforcement, and transport missions. The aircraft achieved Initial Operational Capability (IOC) in April 2009. As of October 2009, the HC-144A has been standing the watch at Aviation Training Center, Mobile, AL, and performing multiple missions, most recently in support of the earthquake response to Haiti. The HC-144A conducted overflights of affected areas, gathering video and Global Positioning System (GPS) data for command centers as they coordinated rescue efforts and supply deliveries.

Eight aircraft and three MSPs have been delivered, with three more aircraft and nine more MSPs on contract, to be delivered by calendar year 2011. The Coast Guard is pursuing a new acquisition strategy for aircraft and MSPs beyond those currently on contract and will no longer contract through ICGS. Our goal is to be on contract for three more aircraft, with options for additional aircraft, by this summer to meet planned siting requirements and the HU-25 decommissioning schedule.

#### *Helicopters*

The HH-60J Jayhawk helicopters will be upgraded to MH-60Ts and used as medium-range responders for offshore operations, shore-based aviation surveillance, and transport. The first MH-60T was delivered to the Coast Guard in June 2009, and the project achieved IOC in October 2009. To date, 10 MH-60Ts have been delivered. Nearly 70 MH-60T pilots have also been fully qualified. The MH-60T project will upgrade 42 in-service MH-60J helicopters with an enhanced electro-optic/infrared sensor system, radar sensor system, and Airborne Use of Force (AUF) capability.

The Coast Guard's 101 MH-65C Multi-Mission Cutter Helicopters perform search and rescue, law enforcement, and homeland security missions. We have configured and delivered 53 MH-65Cs, which includes the installation of AUF kits, with the latest delivered in February 2010 to Air Station Borinquen, PR. Developmental testing continues on the next phase of the upgrade, the MH-65D, prototypes of which were delivered in 2009 for validation and verification. This phase will replace additional obsolete avionics subsystems, including the aircraft navigation systems and gyroscopes, with digital GPS and inertial navigation systems.

#### *Unmanned Aircraft Systems*

The Acquisition Directorate is working with the project sponsor and technical authorities to identify and assess land- and cutter-based Unmanned Aircraft Systems (UAS) and payload technologies that will meet operational requirements. Based upon lessons learned from our own studies and from cooperative experiments with other agencies, we have developed, and DHS has approved, a UAS strategy to study both low-altitude, cutter-based, tactical UASs and mid-altitude, land-based, long-range UASs. The UAS strategy emphasizes partnering and commonality with existing DHS and Department of Defense (DoD) programs. For both the land-based and cutter-based UASs, mission needs statements, concepts of operations, and operational requirement documents are in various stages of development and approval.

In pursuing a land-based UAS, we have partnered closely with CBP. In December 2009, the first maritime variant of the UAS Predator-B was delivered. This Predator version carries maritime radar suitable for acquiring and tracking surface contacts and has exceptional endurance. This year, we will be working with CBP to test this UAS in a maritime environment. Ongoing progress is the result of close collaboration by a Joint Program Office established by CBP and the Coast Guard in September 2008 to integrate our UAS efforts.

We continue to work closely with the Navy on the evaluation of potential cutter-based UASs. Maritime radar integration is critical for the Coast Guard and we participated in a radar selection analysis test flight at Naval Air Station Patuxent River, MD, with the Navy in October 2009. In the same month, Coast Guard personnel deployed with the Navy frigate

USS MCINERNEY (FFG-8) to observe its first operational deployment of the Fire Scout unmanned aerial vehicle. We are developing plans to demonstrate Fire Scout on the BERTHOLF later this year.

#### *Rescue 21*

Rescue 21, our new system for responding to mariners' distress calls, is a vast improvement over the legacy National Distress Response System. We have delivered Rescue 21 to 24 of 39 sectors, covering 34,912 nautical miles of coastline, including the entire Eastern Seaboard and Gulf Coast. The next sectors to receive Rescue 21 will be Sectors San Francisco and San Diego this spring. Rescue 21 is expected to be deployed along more than 41,000 miles of U.S. coastline, including Hawaii, Guam, Puerto Rico and the U.S. Virgin Islands, by the end of 2012. With increased communications coverage and advanced direction-finding capabilities, Rescue 21 dramatically enhances our ability to conduct search and rescue. In November 2009, the Coast Guard rescued two people off the coast of New Jersey after their boat caught fire. Using Rescue 21's direction-finding technology, the rescue crews were directed to the boat's proper coordinates, 10 miles away from the reported position. We regularly hear of remarkable rescues at sea enabled by the new system, with distress calls heard and responded to quickly.

#### **ACQUISITION CHALLENGES**

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

#### *Our Aging Fleet*

Many of our ships were commissioned in the 1960s and 70s, and our readiness is challenged by our reliance on outdated, rapidly-aging ships and aircraft, systems, and shore infrastructure. Loss of operational availability due to unanticipated repairs of cutters and aircraft have a direct impact on our ability to meet planned operational patrol hours. The Coast Guard is a capital-intensive organization, and the cost of operating our major cutters is increasing while their availability continues to decline. This challenge is felt keenly with our 378-foot High Endurance Cutters, which the NSCs will replace. While our front line forces and support personnel are masterful at keeping these assets operational, it is beyond the time to replace them, as we see costs to sustain them rise while reliability declines. Our experience with the declining readiness of our cutter fleets imparts a sense of urgency to the OPC project, as it will recapitalize the workhorse fleet of Medium Endurance Cutters that will have an average age of 31 (270-foot cutters) or 48 (210-foot cutters) years before the first OPC is delivered.

#### *Project Stability*

The Coast Guard's ability to recapitalize increasingly outdated and unreliable assets is critical to ensuring that we can provide service to the public in the future. Effectively managing our more than 20 major acquisition programs 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 line.

*Workforce Hiring*

While we have made significant strides in hiring, we are still experiencing challenges growing and maintaining our acquisition workforce – a challenge felt throughout the federal government.

With many agencies competing for qualified acquisition professionals, it is critically important for the Coast Guard to achieve and maintain parity in hiring authority so that the Coast Guard remains competitive in the labor market. We need to be able to compete on a level playing field with our military counterparts for all acquisition positions. Hiring parity will allow us to continue to build and develop the quality workforce we need to manage complex acquisitions.

The Acquisition Directorate is committed to improving upon the progress we have already made in developing a talented acquisition workforce and appreciates the Subcommittee's role in the success we have achieved.

**LOOKING TO THE FUTURE**

As our Acquisition Directorate motto states, "Mission execution begins here." Our job is to recapitalize the Coast Guard. The dedicated efforts of our acquisition workforce, combined with guidance from our overseers, have had a lasting impact on Coast Guard men and women serving in the field. With acquisition reform complete and continuing improvements ongoing, the future of Coast Guard acquisition is bright. Reformed processes have already led to acquisition success, but I am confident our greatest successes lay ahead. Today, I am pleased to represent an acquisition organization that is the LSI for all of our major projects. We have processes and procedures in place to ensure successful program management and oversight, and we have demonstrated they work. By adhering to and improving upon what we now have in place, we will be able to meet and address any future challenges successfully and deliver assets and systems with capabilities to meet our mission needs of today and tomorrow.

Thank you. I look forward to your questions.