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DEPARTMENT OF HOMELAND SECURITY

U. S. COAST GUARD

STATEMENT OF

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ON THE

COMPLIANCE WITH REQUIREMENTS OF THE DEEPWATER CONTRACT

BEFORE THE

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

U. S. HOUSE OF REPRESENTATIVES

APRIL 18, 2007

Chairman Oberstar, Ranking Member Mica, distinguished members of the Committee: I am pleased to appear before you today to discuss the Deepwater program. In particular, I appreciate the opportunity to outline how we are positioning ourselves to move forward to better meet your expectations and to deliver much-needed assets to sustain Coast Guard operations well into the 21st century.

First and foremost, as Deepwater's Program Executive Officer, I would like to establish that my overarching goal–and the top capital priority for the Coast Guard–is the modernization and recapitalization of our aging fleet of cutters, aircraft and sensors. Our ability to save lives, interdict drugs and alien smugglers, and protect ports, waterways and natural resources depends on our successful accomplishment of that goal. We must get this right and I echo the commitment of our Commandant, Admiral Allen, to do just that.

Moreover, I am truly grateful for all that this committee has done to bring attention to our challenges. Your continuing interest in Deepwater has served as a catalyst for the kind of real change needed to promote sound stewardship and effective program management at all levels.

Looking Forward

Yesterday, I completed my first year at the helm of this largest acquisition program in Coast Guard history. Undoubtedly, we've faced our share of challenges these past 12 months and it would be easy to dwell on what's gone wrong. It would be easy—but it wouldn't be fair. As you have just heard from those who preceded me at this table, we have indeed learned some lessons the hard way. But I assure you that education has not been wasted. As a result of those lessons learned and with the full support of the Commandant and the Department of Homeland Security (DHS), we are taking action every day to strengthen program management and execution and to ensure mistakes like those made with the 123-foot patrol boats will not be repeated.

While acknowledging that there remains room for improvement, I hope we won't overlook some significant recent accomplishments. Deepwater assets are in the fleet today, contributing to the successful execution of an array of Coast Guard missions. As of the end of March, all air stations with HH-65 Dolphin helicopters are now flying the "C" model with new Turbomeca Arriel 2C2 engines and upgraded gearboxes, installed as part of our legacy asset modernization program. With a 40 percent power increase and greater reliability, the HH-65C has re-established itself as a workhorse of our helicopter fleet.

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

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

million per aircraft. This is a cost reduction of almost $900,000 per aircraft between Nos. 4 and 5 and Nos. 6 thru 8. These are but a few examples of the program's forward momentum.

Room for Reflection

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

But, as has been discussed in detail before this Committee, early hull deformation led the Coast Guard to re-examine the plan for the 123-foot patrol boats and halt conversions in May 2005 at just eight hulls, instead of 46 as originally planned. When repeated efforts to repair the hulls proved unsuccessful and even more significant structural problems surfaced, Admiral Allen last November suspended operation of the cutters until a comprehensive engineering solution was identified. I commit to you today, as the Program Executive Officer for Deepwater, that the type of design and structural program management decisions that occurred with the 123-foot patrol boats will not happen with future Deepwater assets.

I want to clearly state that the decision to suspend operation of these boats was in no way related to C4ISR (Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance) or topside equipment issues. Rather, the decision was based entirely on ongoing structural problems.

That notwithstanding, clarifying and addressing issues with C4ISR and topside equipment on the cutters is of utmost concern to us. I appreciate the cooperative relationship we've had with the Department of Homeland Security Inspector General as his office has looked at these issues. We've benefited from his staff's frank assessments. We're actively addressing both of these areas to ensure the National Security Cutter does not experience the same problems.

We faced significant staffing challenges throughout the 123-foot conversion project. The Coast Guard had only one person working in the Program Manager's Representative Office (PMRO) overseeing the contractor at the shipyard when the first 110-foot patrol boat was delivered for conversion. By the time the stop work order was issued after conversion of the eighth boat, the staff had grown to a still-slim total of seven members. These personnel are essential to a successfully run program, because they provide on-site technical and contract oversight throughout the construction process.

Moving Beyond

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

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

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

I would like to spend just a moment addressing the issue of TEMPEST certification for secure communications onboard our cutters. I know that a lot has been said here and elsewhere about this topic, so I want to be very clear in stating that the TEMPEST certification process for the 123-foot patrol boats was consistent with Space and Naval Warfare Systems Center (SPAWAR) and National Security Agency (NSA) standards. The testing protocol included both visual and instrumented assessments, among other activities, and did what it's designed to do; that is, it identified system or equipment discrepancies which were then corrected or mitigated prior to receipt of the Authority to Operate (ATO).

This testing, conducted during the evaluation period for our vessels and by independent, certified experts outside of Deepwater, ensures that national security is not compromised. I assure you that at no time did our 123-foot patrol boats engage in mission operations without first successfully completing standardized testing. I have directed adherence to the same rigorous testing protocols in certifying systems aboard the National Security Cutter and any discrepancies will be resolved prior to its entering active service.

Leading Change

The lessons we have learned through our experience with the 123-foot patrol boats are being applied across the program. In fact, these lessons are improving acquisition management throughout the Coast Guard.

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

We've also talked a lot in recent months about the effectiveness of Integrated Product Teams (IPTs). These teams can serve a useful function by enabling regular oversight of the contractor and providing an avenue for resolution of non-major technical concerns or, where concerns persist, an avenue for them to

be raised to program managers and contracting officers. Our IPTs were previously chaired by Integrated Coast Guard Systems (ICGS) and haven't always functioned as envisioned. That needed to change. So, based on direction to all program managers, each IPT is now led by a government employee and IPT charters are being examined to determine if/where additional changes should be made.

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

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

Based on our ongoing and positive relationship with the Naval Sea and Air Systems Commands, the Coast Guard's preference is to keep these third party assessments within the government whenever possible. Specifically, NAVSEA's Carderock Surface Warfare Center has provided us with valuable design reviews and recommendations. As funding allows, we will continue this exchange to the maximum possible.

In fact, the Coast Guard is leveraging sound principles of systems engineering and integration to derive high levels of sub-system and component commonality, improve interoperability with the U.S. Navy and other agencies, and achieve significant cost avoidances and savings. This approach conforms with and directly supports the National Fleet Policy.

Beginning in 2002, the Program Executive Officer of Deepwater formalized a collaborative partnership with his Navy and Marine Corps counterparts in order to identify common systems, technologies and processes for improved interoperability. By incorporating common and interoperable Navy systems into Deepwater assets, the Coast Guard has also avoided paying unnecessary costs.

As examples, the National Security Cutter will use 75 percent of the Navy's AEGIS Command and Decision System. Deepwater assets also will incorporate Navy Type/Navy Owned systems, including the 57-mm deck gun, selected for major Deepwater cutters and the Navy's Littoral Combat Ship and DD(X) programs. The Operation Center Consoles on the NSC use 70 percent of the design of the Navy's Display Systems (AN/UYQ-70). And, by using more than 23,000 lines of software code from the Navy's Antisubmarine Warfare Improvement Program (AIP) in the CASA Maritime Patrol Aircraft's command and control systems, we are maximizing the use of mission systems that are installed on more than 95 percent of the world's maritime surveillance aircraft. The CASA Maritime Patrol Aircraft will utilize more than 50 percent of the functionality of the Navy's P-3 AIP system.

Navy and Coast Guard personnel even train side-by-side at the Coast Guard's training facility in Petaluma, California.

A Consolidated Coast Guard Acquisition Directorate

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

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

Additional efforts are underway within Deepwater and the Coast Guard to develop more appropriate staffing in order to efficiently obligate program funding and to enable affordable and timely delivery of needed assets to the fleet. We're reinvigorating our acquisition training and certification process to ensure that technical and support staff, program managers and contracting officers have the requisite skills and education needed to manage complex acquisitions. Our desired end state is to become the model for mid-sized federal agency acquisition and procurement, in full alignment with the Department of Homeland Security acquisition objectives.

Other Insights from my First Year

Some insights gained over the past year, and during the program's first five years, may not be as intuitive as the need to increase staffing or refine oversight processes. In that vein—and this has particular relevance to the 123-foot Patrol Boats—we must consider the ever-present tension between the trend in government agencies to seek to purchase Commercial Off-the-Shelf (COTS) equipment and the sometimes conflicting requirement to certify that equipment to federal agency standards. While COTS equipment is often less expensive, easier to buy and more available, it may not meet the sometimes very long list of federal agency performance requirements. The requirement on the 123-foot patrol boats for low-smoke cabling is one example of this challenge. If COTS equipment contains pre-fabricated circuitry that utilizes non-low smoke cables, the cost to modify that equipment can be very steep– not to mention schedule impacts from such modifications. Often, COTS equipment may even have components that meet certification standards but that lack manufacturer testing data to the needed level of specificity. So, program and contracting officers make decisions based on perceived risk.

We've also learned a great deal about performance-based contracts, especially as they relate to complex acquisitions like a Coast Guard cutter. When Deepwater was developed it was envisioned as a purely performance-based acquisition While there may be some elements of performance-based acquisition that we would wish to retain, we have concluded that our Deepwater ship contracts should be much more specification-based. That means the government has a responsibility to establish specifications, including certification requirements, and to not change them mid-stream without good cause. Requirements are dynamic and the need for detailed specification and constant collaboration and oversight from the government is intense. Based on this realization, we're working with industry to

redefine future procedures and contract development to ensure more adequate, detailed specification and oversight. In fact, Admiral Allen recently signed a joint letter of strategic intent with the CEOs of Lockheed Martin and Northrop Grumman to encourage further alignment as we move toward the new award term.

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

In Summary

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

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

This is an exciting time for the Coast Guard and for Deepwater. Our past challenges have made us stronger today. And the need for the assets Deepwater is providing has never been greater. I was convinced of that when, while touring a 110-foot Island Class patrol boat in Key West, the young commanding officer pointed across the pier to a 123-foot patrol boat and told me that what her crew really wanted was the C4ISR system installed on that cutter. Despite the hull buckling issues and operational restrictions, the crews of other Coast Guard cutters recognized the improved capabilities that its sensor package delivered and anxiously looked forward to utilizing those improved capabilities on their own ships.

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

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