



STATEMENT OF RICHARD L. SKINNER
INSPECTOR GENERAL
U.S. DEPARTMENT OF HOMELAND SECURITY
BEFORE THE
COMMITTEE ON HOMELAND SECURITY
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COMMITTEE ON HOMELAND SECURITY
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U.S. HOUSE OF REPRESENTATIVES

“DEEPWATER: Charting a Course for Safer Waters”

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Introduction

Good afternoon, Chairwoman Sanchez, Chairman Carney, and Members of the Subcommittees. I am Richard L. Skinner, Inspector General for the Department of Homeland Security (DHS). Thank you for the opportunity to discuss the challenges facing the United States Coast Guard, in particular, its Deepwater Program.

My testimony today will address the contract and program management challenges associated with the Deepwater Program and how these challenges have impacted specific Deepwater assets. I will also address the actions and challenges associated with the Coast Guard's decision to reorganize its acquisition workforce as outlined in their *Blueprint for Acquisition Reform*.

I want to note that Admiral Allen has been very responsive to our audit recommendations and has begun to institute changes that, if fully implemented, should improve program delivery. I have imbedded OIG staff into the Deepwater Program and will continue to monitor the effectiveness of these corrective actions and other aspects of the Deepwater Program. Given the broad scope of Deepwater, we have also prepared a scorecard summarizing the overall status of the program. We will release the scorecard soon as part of our Semiannual Report to Congress. The scorecard summarizes our existing work, supplemented by interviews with Coast Guard officials to update their efforts to enhance the Coast Guard's acquisition management system. We plan to produce this scorecard on an annual basis, along with scorecards covering other key management challenges throughout the Department of Homeland Security.

Deepwater Program

The Integrated Deepwater System Program (Deepwater) is a \$24 billion, 25-year acquisition program designed to replace, modernize, and sustain the Coast Guard's aging and deteriorating fleet of ships and aircraft. The Deepwater acquisition strategy provided for private industry to not only propose and develop an optimal system-of-systems mix of assets, infrastructure, information systems, and people solutions designed to accomplish all of the Coast Guard's Deepwater missions, but also to provide the assets, the systems integration, integrated logistics support, and the program management. Under a more traditional acquisition strategy, the government would have provided the program management support needed to oversee the administration of the contract.

In June 2002, the Coast Guard awarded Integrated Coast Guard Systems (ICGS) with a 5-year contract to serve as the Deepwater systems integrator. The current base contract expires in June 2007 and the Coast Guard may authorize up to five additional 5-year award terms. In May 2006, the Coast Guard announced its decision to award ICGS an extension of the Deepwater contract for 43 out of a maximum 60 months for the next award term beginning in June 2007. ICGS is a joint venture of Northrop Grumman and Lockheed Martin. The 2002 award decision followed a multiyear competitive phase where two other industry teams vied with ICGS.

Deepwater Program Management and Oversight

We have identified several common themes and risks from our audits of assets and information technology systems being acquired under the Deepwater contract. These include the dominant influence of expediency, unfavorable contract terms and conditions, poorly defined performance requirements, and inadequate management and technical oversight. These deficiencies contributed to schedule delays, cost increases, and asset designs that did not meet minimum Deepwater performance requirements.

Systems Integrator Approach -- The Coast Guard's decision to outsource program management to the systems integrator fully empowered the contractor with authority for making day-to-day decisions regarding all aspects of the contract. According to the Coast Guard, its acquisition workforce did not have the requisite training, experience, and certification to manage an acquisition the size, scope, and complexity of the Deepwater Program. Further, the Coast Guard was reluctant to exercise a sufficient degree of authority to influence the design and production of its own assets. As a result, the Systems Integrator (ICGS) assumed full technical authority over all asset design and configuration decisions while the Coast Guard's technical role was limited to that of an expert "advisor."

However, there was no contractual requirement that the Systems Integrator accept or act upon the Coast Guard's technical advice, regardless of its proven validity. Furthermore, there are no contract provisions ensuring government involvement into subcontract management and "make or buy" decisions. The Systems Integrator decided who is the source of the supply. Also, as the primary management tool for the Coast Guard to contribute its input on the development of Deepwater assets, the effectiveness of the contractor-led Integrated Product teams (IPTs) to resolve the Coast Guard's technical concerns, has been called into question by both the Government Accountability Office (GAO) and my office.

Contractor Accountability -- Our reviews have raised concerns with the definition and clarity of operational requirements, contract requirements and performance specifications, and contractual obligations. For example, in our National Security Cutter (NSC) report, we reported that the Coast Guard and the American Bureau of Shipping jointly developed standards that would govern the design, construction, and certification of all cutters acquired under the Deepwater Program. These standards were intended to ensure that competing industry teams developed proposals that met the Coast Guard's unique performance requirements. Prior to the Phase 2 contract award, the Coast Guard provided these design standards to the competing industry teams. Based on their feedback, the Coast Guard converted the majority of the standards (85% of the 1,175 standards) to guidance and permitted the industry teams to select their own alternative standards. Without a contractual mechanism in place to ensure that those alternative standards met or exceeded the original guidance standards, the competing teams were allowed to select cutter design criteria.

Additionally, the Deepwater contract gave the Systems Integrator the authority to make all asset design and configuration decisions necessary to meet system performance requirements. This condition allowed ICGS to deviate significantly from a set of cutter

design standards originally developed to support the Coast Guard's unique mission requirements, and ICGS was further permitted to self-certify compliance with those design standards. As a result, the Coast Guard gave ICGS wide latitude to develop and validate the design of its Deepwater cutters, including the NSC.

Deepwater Performance Requirements Are Ill-Defined -- Vague contract terms and conditions have also compromised the Coast Guard's ability to hold the contractor accountable by making possible competing interpretations of key performance requirements. For example, the performance specifications associated with upgrading the information systems on the Coast Guard's 123' Island Class Patrol Boats did not have a clearly defined expected level of performance. Also, in our review of the Helicopter Interdiction Tactical Squadron (HITRON) lease, we determined that vague contract performance requirements challenged the Coast Guard's ability to assess contractor performance. In another example, the performance specifications for the NSC were not clearly defined, which resulted in disagreements, both within the Coast Guard and between the Coast Guard and ICGS, regarding the actual intent behind the cutter performance requirements.

Deepwater Cost Increases -- The cost of NSCs 1 and 2 is expected to increase well beyond the current \$775 million estimate, as this figure does not include a \$302 million Request for Equitable Adjustment (REA) submitted to the Coast Guard by ICGS on November 21, 2005. The REA represents ICGS's re-pricing of all work associated with the production and deployment of NSCs 1 and 2 caused by adjustments to the cutters' respective implementation schedules as of January 31, 2005. The Coast Guard and ICGS are currently engaged in negotiations over the final cost of this REA. ICGS has also indicated its intention to submit additional REAs for adjusted work schedules impacting future NSCs, including the additional cost of delays caused by Hurricane Katrina.

In addition, the \$775 million cost estimate for NSCs 1 and 2 does not include the cost of structural modifications to be made to mitigate known design deficiencies. The cost of these modifications and the cost of future REAs could add hundreds of millions of dollars to the total NSC acquisition cost. We remain concerned that these and other cost increases within the Deepwater Program could result in the Coast Guard acquiring fewer and less capable NSCs, FRCs, and OPCs under the Deepwater contract.

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

The problems the Coast guard is experiencing with the Deepwater Program could impact the Coast Guard's short and long-term operational capabilities. For example, while the re-engining of the HH-65B helicopters resulted in aircraft with significantly improved capabilities, the program has experienced schedule delays and cost increases. The delivery of the first 84 re-engined HH-65Cs will be completed by the end of this month, 11 months beyond the Commandant's original July 2006 deadline. Extending the delivery schedule unnecessarily exposed HH-65B aircrews to additional risk due to the rate in which in-flight loss of power mishaps were occurring.

There are also problems with Coast Guard's acquisition of the Vertical Unmanned Aerial Vehicle (VUAV). VUAVs have the potential to provide the Coast Guard's flight-deck-equipped cutters with expanded air surveillance, detection, classification, and identification capabilities. Currently, the VUAV acquisition is over budget and more than 12 months behind schedule. On May 8, 2007, the Coast Guard issued a second work stop order and the Commandant recently testified that the VUAV was under review by Coast Guard's Research and Development Center. The review is expected to provide recommendations for the way ahead with the VUAV.

Not having VUAV capability would significantly reduce the long-range surveillance capability of the NSC and the Offshore Patrol Cutter (OPC) from 58,000 square nautical miles to that of the Coast Guard's Hamilton class high endurance cutters (13,500 square nautical miles). This represents a 76% reduction in Deepwater surveillance capability. The Coast Guard's Revised Deepwater Implementation Plan of 2005 called for the acquisition of 45 VUAVs at a total cost of approximately \$503.3 million. As of March 31, 2007, the Coast Guard had obligated \$113.6 million (76.9%) of the \$147.7 million to the project. According to the Coast Guard estimates, it would take an additional \$50 million and 18 months to deliver the first two VUAV systems.

The increased cost, schedule delays, and structural design problems associated with the 123-foot patrol boat have further impacted the Coast Guard's patrol boat operational hour and capability gap. The Coast Guard is attempting to mitigate the problem by extending an agreement with the U.S. Navy to continue the operation of the 179-foot "Cyclone" class patrol boats from 2009 to 2011, and to extend the operational capability of the 110-foot Island Class fleet through the use of multiple crews. While the increased operations tempo will help in the short-term, it will further increase the wear and tear (e.g., equipment breakdowns and other unscheduled casualties, etc.), on these aging patrol boats in the long term. As a result, we expect the maritime patrol boat gap (which has been reported to be in excess of 20,000 hours) to increase rather than decrease until which time the service life extensions on the 110's are completed and the FRC-Bs deployed.

Recent OIG Reports

Over the past 2 years, my office has issued reports on various assets being acquired under the Deepwater contract including:

- the re-engining of the HH-65B helicopter;
- the acquisition and implementation of Deepwater command, control, communications, computers, intelligence, surveillance, and reconnaissance (C⁴ISR) systems;
- the acquisition of the national security cutter, and,
- the modernization of the 110/123-foot maritime patrol boat.

We found serious cost, schedule, performance, and management oversight issues with each of the aforementioned Deepwater projects.

Re-engining of the HH-65B -- We reviewed the Coast Guard's HH-65 Dolphin helicopter re-engining project. The review was initiated in response to concerns that the re-engining requirements specified for the HH-65 helicopter were not sufficient for the needs of the Coast Guard over the Deepwater project time frame. Specifically, the HH-65 was experiencing a sharp increase in the number of in-flight loss of power mishaps that jeopardized the safety of HH-65 flight crews. We also identified concerns that the ICGS proposal did not meet the Coast Guard's desire to have 84 HH-65s re-engined by July 2006, as originally mandated by the Commandant.

Our review of the HH-65 re-engining project determined the replacement of the HH-65 engines with the Ariel 2C2 engine would resolve the safety and reliability issues that had plagued the HH-65 fleet for much of the past decade. Our report also determined that it would be timelier and more cost-effective to have the re-engining performed at the Coast Guard Aircraft and Repair Supply Center (ARSC) rather than to have responsibility for the re-engining placed under the auspices of ICGS. The Coast Guard's Assistant Commandant for Operations made a similar recommendation in May 2004.

The Coast Guard did not concur with any of our HH-65 recommendations. Coast Guard officials opined that ICGS minimized the operational, legal, cost, and contract performance risks associated with the re-engining. The Coast Guard also said it believed that it received significant benefits from the current ICGS contract that far outweighed the benefits of having Coast Guard aviation manage the project. We did not and do not believe that these benefits have been demonstrated in this instance. To date, 84 re-engined HH-65s have been delivered to the Coast Guard. The remaining 11 HH-65 helicopters are to be delivered to the Coast Guard by the end of FY 2007. As of March 31, 2007, the Coast Guard had obligated \$324 million (94.4%) of the \$343 million funded for the project.

C⁴ISR Systems Review -- We also reviewed the Coast Guard's efforts to design and implement C⁴ISR systems to support the Deepwater Program. We determined that the Coast Guard had limited influence over contractor decisions toward meeting information technology requirements. The lack of discipline in change management processes provided little assurance that the requirements remain up-to-date or effective in meeting program goals. Certification and accreditation of Deepwater C⁴ISR equipment was difficult to obtain, placing systems security and operations at risk. Further, although the Deepwater Program had established information technology testing procedures, the contractor did not follow them consistently to ensure the C⁴ISR systems and the assets on which they are installed performed effectively.

Recently, the Coast Guard provided an update regarding the progress being made to implement the recommendations contained in our report on C⁴ISR systems. In its response, the Coast Guard stated that the language contained in the Deepwater contract, including the contract's "award term" criteria, will be revised to further clarify contractor responsibilities for developing Deepwater C⁴ISR systems.

NSC Review -- We also conducted a review of the Coast Guard's acquisition of the NSC to determine the extent to which the cutter will meet the cost, schedule, and performance requirements contained in the Deepwater contract. We determined that the NSC costs have significantly increased and, as designed and constructed, will not meet performance specifications described in the original Deepwater contract. Due to design deficiencies, the NSC's structure provides insufficient fatigue strength to achieve a 30-year service life under Caribbean (General Atlantic) and Gulf of Alaska (North Pacific) sea conditions.

The Coast Guard's technical experts first identified and presented their concerns about the NSC's structural design to senior Deepwater Program management in December 2002, but this did not dissuade the Coast Guard from authorizing production of the NSC in June 2004, or from its awarding the systems integrator a contract extension in May 2006. We were unable to ascertain the basis underlying the Coast Guard's decision to proceed with the production of the first two cutters that had known design flaws. To mitigate the effects of these deficiencies, the Coast Guard has advised us that it intends to modify the NSC's design to meet the service and fatigue life requirements specified in its contract. However, this decision was made after the Coast Guard authorized production of 2 of the 8 cutters being procured.

NSC 1 was christened on November 11, 2006, and final delivery to the Coast Guard is scheduled for December 2007 or January 2008. NSC 2 is under construction and scheduled for delivery during the summer of 2008. As of March 31, 2007, Coast Guard had obligated \$769.6 million (50.6%) of the \$1,519.7 million funded for the project.

We recommended that the Coast Guard ensure the NSC is capable of fulfilling all performance requirements outlined in the Deepwater contract and improve the level of Coast Guard technical oversight and accountability. Although the Coast Guard has concurred with these recommendations, their written responses (to date) have not provided the requisite details. For example, the Coast Guard's 90-Day response did not specify whether the Engineering Change Proposals (ECPs) prepared by the Coast Guard and ICGS to address the structural design and performance issues associated with the NSC, would be fully-evaluated by an independent and qualified third party (e.g., U.S. Navy's Surface Warfare Center – Carderock Division). The response also did not include a detailed and verifiable plan (e.g., timelines, quarterly reporting requirements, identity of responsible parties, or the cost) as recommended in the final NSC report. We believe that such details need to be forthcoming before the Coast Guard goes ahead and authorizes construction of NSCs 3 through 8. In the meantime, we plan to monitor the Deepwater Program closely and report on the effectiveness of the Coast Guard's corrective actions.

110'/123' OIG Hotline Allegation -- In response to an OIG Hotline allegation, we reviewed certain deliverables under the Coast Guard's 110/123-foot Island Class Patrol Boats (123-foot patrol boats). Specifically, the complainant alleged that:

- the safety of the 123-foot patrol boat's crew was compromised by the contractor's failure to utilize low smoke cabling;

- the contractor knowingly installed external C⁴ISR systems aboard the 123-foot patrol boats that did not meet specific environmental requirements outlined in the Deepwater contract;
- the cable installed during the upgrade of the 123-foot patrol boat's C⁴ISR system represented a security vulnerability; and,
- the video surveillance system installed aboard the 123-foot patrol boat did not meet the vessel's physical security requirements.

We determined that low smoke cabling was not installed and that there were instances where the contractor installed C⁴ISR equipment aboard the 123-foot cutters that did not meet the design standards set forth in the Deepwater contract.

Our review raised many concerns about the Coast Guard's program and technical oversight of the Deepwater contractor responsible for the 110'/123' Modernization Project. For example, the contractor purchased and installed hundreds of non-low smoke cables prior to Coast Guard's approval of the Request for Deviation. In effect, the Coast Guard accepted delivery and operated four 123' cutters without knowing the extent of the hazards associated with the use of the non-low smoke cabling. The contractor also purchased and installed hundreds of C⁴ISR topside components aboard the 123' cutter and prosecutor knowing that they either did not meet contract performance requirements or compliance with the requirements had not been verified. Had the Coast Guard reviewed the contractor's self-certification documentation more thoroughly, it would have determined that the contractor had not complied with the specified weather environment standard. For these reasons, we are concerned that similar performance issues could impact the operational effectiveness of C⁴ISR system upgrades recently installed aboard its legacy fleet of cutters.

We recommended that the Coast Guard investigate and address the low smoke cabling and environmental issues associated with the equipment installation and take steps to prevent similar technical oversight issues from affecting the remaining assets to be modernized, upgraded, or acquired through the Deepwater Program. The Coast Guard concurred with our findings and recommendations and said it is in the process of implementing corrective measures. Subsequent to our review and for reasons unrelated to the issues identified during our inquiry, the 123-foot cutter fleet has been withdrawn from service and will be formally decommissioned.

Coast Guard's "Way Forward" - Blueprint for Acquisition Reform

To its credit, the Coast Guard recognizes that urgent and immediate changes are needed to meet the management challenges facing its Deepwater acquisitions program. As part of its endeavors to improve the Deepwater Program, the Coast Guard recently issued its *Blueprint for Acquisition Reform* (Blueprint), which catalogues many of the aforementioned challenges and risks that have impeded the efficient execution of the Deepwater contract. According to the Coast Guard, implementing this Blueprint will enhance its ability to execute asset-based "traditional" acquisition projects, effectively use

a governmental or commercial entity as a systems integrator for complex acquisitions, and execute minor acquisitions contracts for goods and services.

According to the Coast Guard, the Blueprint outlines its plans for reorganizing and rebuilding its acquisition workforce. Specifically, the Blueprint calls for the:

- Consolidation of all Coast Guard acquisition functions under one directorate;
- Reassertion of Coast Guard's technical authority;
- Use of independent, third party assessments; and,
- Redefinition of the contract terms and conditions.

While the Blueprint contains a number of key initiatives, the Coast Guard should adopt measures of performance or desired outcomes that would enable it to assess the progress being made. These include the specific numbers and types of acquisition professionals needed, when they are scheduled to arrive onboard, and the financial cost associated with the realignment, reorganization, retraining, and rebuilding of its acquisition workforce.

The Coast Guard is beginning to take aggressive action to resolve some of the management oversight issues identified in recent OIG reports. In the long term, if all goes as planned, the Coast Guard's reorganization of its Acquisitions Directorate will be fully implemented during FY 2010. But in the meantime, the Coast Guard is planning to move ahead with the second phase of the Deepwater contract with Award Term I, which will entail the estimated expenditure of more than \$3 billion dollars over a 43 month period starting June 2007.

Conclusion

We are encouraged that the Coast Guard recognizes these challenges and is beginning to take aggressive action to strengthen program management and oversight—such as technical authority designation; use of independent, third party assessments; consolidation of acquisition activities under one directorate; and redefinition of the contract terms and conditions, including award fee criteria. Furthermore, the Coast Guard is beginning to implement its plan to increase its staffing for the Deepwater Program, and to reinvigorate its acquisition training and certification processes to ensure that staff has the requisite skills and education to manage the program.

These steps should improve the Coast Guard's ability to oversee major acquisitions. However, we are mindful that the Coast Guard's system-of-systems approach will require the highest levels of planning and coordination to mitigate cost overruns, schedule delays, asset performance shortcomings, or potential operational gaps due to delays in asset acquisition. Most importantly, we believe that there is considerable risk associated with Coast Guard assuming the lead systems integrator role at this time without having fully implemented its *Blueprint for Acquisition Reform*, specifically without having closed the Deepwater human capital gap. We also believe the Coast Guard should exercise caution and take a slower or phased approach to assuming the systems integrator role.

In conclusion, we remain committed to the oversight of the Deepwater Program and other major acquisitions within the department. We are working with the Coast Guard to identify milestones and due dates to assess the most appropriate cycle for reporting the program's progress. If properly and fully-implemented, Coast Guard's steps should significantly increase its level of management oversight over the air, surface, and C⁴ISR assets that are acquired or modernized under the Deepwater Program. We look forward to working closely with the Coast Guard to continue the improvement of the efficiency, effectiveness, and economy of the Deepwater Program.

Chairwoman Sanchez and Chairman Carney, this concludes my prepared remarks. I would be happy to answer any questions that you or the Members may have.
