



U.S. House of Representatives
Committee on Transportation and Infrastructure

Washington, DC 20515

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September 30, 2011

MEMORANDUM

TO: Members, Subcommittee on Coast Guard and Maritime Transportation

FROM: Staff, Subcommittee on Coast Guard and Maritime Transportation

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

PURPOSE

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

BACKGROUND

Coast Guard Recapitalization

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

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

Recent GAO Report: Approved Deepwater Program Remains Unachievable

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

Findings:

- The 2007 baselines for Deepwater are no longer valid or achievable because: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

The NSC was built to carry two classes of stern launched small boats each with a different size and capability to improve the cutter's range and effectiveness. The two boats did not perform as required and the Service recently began another process to acquire two new classes of small boats (see below).

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

- C4ISR (Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance): The Deepwater Program was designed as a "systems-of-systems" which would improve asset interoperability and mission success. Key to that approach was a single command and control architecture for use on all assets providing a common operating picture to ensure communication and data sharing between all assets and shore units. The GAO found that several new assets cannot fully share data, a centralized network has yet to be established, and many upgraded assets planned for future delivery will no longer receive the C4ISR software necessary for interoperability.
- The Coast Guard has not successfully completed initial operational test and evaluation on any of its new assets delivered to date. This procedure is a critical step in the acquisition process that identifies deficiencies in asset design and operation and ensures delivered assets meet required capabilities. Without this procedure, costs could increase as problems would need to be corrected on a larger number of assets. To date, the Service has acquired the following new assets without successfully completing initial operation test and evaluation:
 - Five NSCs under contract (more than half the planned buy of 8) of which three have been delivered at a total cost of more than \$3 billion.
 - 15 Maritime Patrol Aircraft under contract (almost half the planned buy of 36) of which 11 have been delivered at a total cost of \$640 million.
 - Six HC-130Js have been delivered at a cost of \$153 million.
- The Coast Guard has not provided a comprehensive reanalysis of the current program of record for major acquisitions to examine tradeoffs between budget constraints, timelines, capabilities, and asset quantities. While the Service recently produced a Fleet Mix Analysis unconstrained by cost, it has failed to deliver its recently completed cost-constrained Fleet Mix Analysis. The unconstrained Fleet Mix Analysis provided an accurate picture of what assets would be needed for the Coast Guard to fully perform its required missions. However, it is unachievable in the current constrained fiscal environment. As

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

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

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

Recommendations:

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

Recent Coast Guard Acquisitions Developments

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

- *Over the Horizon (OTH)*- The Coast Guard has awarded contracts for four prototype Over the Horizon (OTH) cutter small boats. Those four will be down selected to a final award in a "boat off." The Service hopes to award the final contract for the first 19 OTHs (two for each National Security Cutter and three spare) in the second quarter of fiscal year 2012.
- *Long Range Interceptor (LRI)*- The Coast Guard recently released a Request For Proposals (RFP) on the Long Range Interceptor (LRI) cutter boat. The first LRI failed to meet mission requirements specifications and the contract was terminated. The Service will not conduct a boat off for this acquisition and hopes to award a final contract for eight LRIs (one for each National Security Cutter) within the next year.

- *Shipboard Unmanned Aerial System (SUAS)* - The Service recently began investigations into a Shipboard Unmanned Aerial System (SUAS) to serve as a stopgap aerial surveillance capability until the Vertical Unmanned Aerial Vehicle is ready for production. The SUAS is smaller and has less range and capability than the VUAV, but it can operate up to 20 hours per day, is cheaper than VUAV, and has been tested and employed on ships by the U.S. Navy for over 100,000 hours.
- *National Security Cutter* - The Coast Guard accepted the third NSC, USCGC STRATTON, on September 2, 2011. This ship is now in a special commissioning status while it is tested and further prepared for service. The Service also awarded the contract for the fifth NSC to Huntington Ingalls Industries on September 9, 2011.
- *Fast Response Cutter* - The Coast Guard's second 154-foot FRC, USCGC RICHARD ETHERIDGE, was launched at Bollinger Shipyards in Lockport, La., on August 18, 2011. The Service also awarded Bollinger Shipyards a contract option to acquire FRCs nine through twelve.
- *Offshore Patrol Cutter* - The Coast Guard released draft specifications to industry on the OPC. It is currently receiving and reviewing industry comments. The comments will help the Service draft a RFP which may be released in the next two years.
- *Maritime Patrol Aircraft* - The Coast Guard recently exercised a contract option to purchase the service's 15th HC-144A "Ocean Sentry" MPA from EADS North America for \$41 million.

WITNESSES

Admiral Robert Papp
Commandant
United States Coast Guard

Mr. John Hutton
Government Accountability Office