

CRS Report for Congress

Coast Guard Deepwater Program: Background, Oversight Issues, and Options for Congress

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Ronald O'Rourke
Specialist in National Defense
Foreign Affairs, Defense, and Trade Division



Prepared for Members and
Committees of Congress

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Summary

The Integrated Deepwater Systems (IDS) program, or Deepwater program for short, is a \$24-billion, 25-year project to replace and modernize the Coast Guard's aging fleet of deepwater-capable ships and aircraft. It is the largest and most complex acquisition effort in Coast Guard history, encompassing 91 new cutters, 124 new small surface craft, and 244 new or converted airplanes, helicopters, and unmanned aerial vehicles (UAVs). The issue for Congress is whether to approve, reject, or modify the Administration's annual funding requests and overall approach for the program.

The Coast Guard is pursuing the Deepwater program as a system-of-systems acquisition project, under which a combination of cutters, patrol boats, aircraft, and supporting assets is to be procured as a single, integrated package. To execute this system-of-systems acquisition approach, the Coast Guard is using a lead system integrator (LSI) — a private-sector entity responsible for designing, building, and integrating the various elements of the package.

On June 25, 2002, the Coast Guard awarded the Deepwater LSI role to Integrated Coast Guard Systems (ICGS) — an industry team led by Lockheed Martin and Northrop Grumman's Ship Systems division. ICGS was awarded a contract that includes a five-year baseline term and five potential additional award terms of up to five years (60 months) each. On May 19, 2006, the Coast Guard announced that it was awarding ICGS a 43-month first additional award term.

Some observers have strongly criticized the management and execution of the Deepwater program, particularly regarding the decision to use an LSI, the execution of a project for modernizing 49 Island-class 110-foot patrol boats and keeping them service until they are replaced by the 58 planned Fast Response Cutters (FRCs), and the FRC design effort. The Coast Guard and industry have acknowledged problems but defended their management and execution of the Deepwater program.

Potential options for Congress regarding the Deepwater program include but are not limited to the following: continuing with the program as currently planned; instituting additional or stricter reporting requirements; compressing the acquisition period from 25 years to 15 or 10 years; replacing ICGS as the LSI; dropping the use of an LSI in favor of direct Coast Guard management and integration of the program; and replacing the Deepwater program with a series of separate procurement programs for replacing individual classes of cutters, boats, and aircraft.

The Coast Guard's FY2007 budget requested \$934.431 million for the Deepwater program. The conference report (H.Rept. 109-699 of September 28, 2006) on **H.R. 5441/P.L. 109-295, the FY2007 Department of Homeland Security (DHS) appropriations act**, provides a total \$1,144.566 million in FY2007 funds for the Deepwater program. **H.R. 889/P.L. 109-241, the Coast Guard and Maritime Transportation Act of 2006**, establishes certain reporting requirements for the Deepwater program. This report will be updated as events warrant.

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Introduction

The Integrated Deepwater Systems (IDS) program, or Deepwater program for short, is a \$24-billion, 25-year project to replace and modernize the Coast Guard's aging fleet of deepwater-capable ships and aircraft. It is the largest and most complex acquisition effort in Coast Guard history, encompassing 91 new cutters, 124 new small surface craft, and 244 new or converted airplanes, helicopters, and unmanned aerial vehicles (UAVs). The issue for Congress is whether to approve, reject, or modify the Administration's annual funding requests and overall approach for the program.

This report supersedes an earlier CRS report on the Deepwater program.¹

The Coast Guard's FY2007 budget requested \$934.431 million for the Deepwater acquisition program. The conference report (H.Rept. 109-699 of September 28, 2006) on H.R. 5441/P.L. 109-295, the FY2007 Department of Homeland Security (DHS) appropriations act, provides a total \$1,144.566 million in FY2007 funds for the Deepwater program.

Background²

Deepwater Missions

The Coast Guard performs a variety of missions in the deepwater environment (which generally means waters more than 50 miles from shore), including the following: drug interdiction, alien migrant interdiction, fisheries enforcement, search and rescue, the International Ice Patrol in northern waters; overseas maritime intercept (sanctions-enforcement) operations, overseas port security and defense, overseas peacetime military engagement; general defense operations in conjunction with the Navy; marine pollution law enforcement, enforcement of lightering (i.e., at-

¹ CRS Report RS21019, *Coast Guard Deepwater Program: Background and Issues for Congress*, by Ronald O'Rourke.

² For additional background information on the Deepwater program on the internet, log onto [<http://www.uscg.mil/deepwater/>] and [<http://www.teamdeepwater.com>].

sea cargo-transfer) zones, and overseas inspection of foreign vessels entering U.S. ports. Deepwater assets are also used closer to shore for various operations.

Legacy Deepwater-Capable Assets

When the Deepwater program began in the late 1990s, the Coast Guard's existing (i.e., "legacy") assets for performing deepwater missions included 93 aging cutters and patrol boats and 207 aging aircraft. Many of these ships and aircraft are expensive to operate (in part because the cutters require large crews), increasingly expensive to maintain, technologically obsolete, and in some cases poorly suited for performing today's deepwater missions.

Deepwater Acquisition Program

System-of-Systems Acquisition With Lead System Integrator (LSI).

Rather than replacing its various deepwater-capable cutters, patrol boats, and aircraft through a series of individual procurement programs, the Coast Guard decided to pursue a system-of-systems acquisition, under a combination of new and modernized cutters, patrol boats, aircraft, along with associated C4ISR systems³ and logistics support, would be procured as a single, integrated package. To execute this system-of-systems acquisition approach, the Coast Guard is using a lead system integrator (LSI) — a private-sector entity responsible for designing, building, and integrating the various elements of the package so that it meets the Coast Guard's projected deepwater operational requirements at the lowest possible cost.

The Coast Guard believes that a system-of-systems approach would permit the Deepwater project to be optimized (i.e., made cost effective) at the overall, system-of-systems level, rather than suboptimized at the level of individual platforms and systems. The Coast Guard decided on using an LSI to execute the Deepwater program in large part because the size and complexity of the project could have strained the management and system-integration capabilities of the Coast Guard's relatively small in-house acquisition work force. Another major acquisition effort being pursued as a system-of-systems acquisition with an LSI is the Army's Future Combat System (FCS).⁴

Contract Award and Extension. The Coast Guard ran a competition for the Deepwater LSI role. Three industry teams competed, and on June 25, 2002, the Coast Guard awarded the role to Integrated Coast Guard Systems (ICGS) — an industry team led by Lockheed Martin and Northrop Grumman's Ship Systems division. ICGS was awarded an indefinite delivery, indefinite quantity contract for the Deepwater program that includes a five-year baseline term that ended in June 2007 and five potential additional award terms of up to five years (60 months) each. On May 19, 2006, the Coast Guard announced that it was awarding ICGS a 43-month

³ C4I stands for command, control, communications, computers, intelligence, surveillance, and reconnaissance.

⁴ For more on the FCS program, see CRS Report RL32888, *The Army's Future Combat System (FCS): Background and Issues for Congress*, by Andrew Feickert.

first additional award term, reflecting good but not excellent performance by ICGS. With this additional award term, the contract will extend to January 2011.

Revised Implementation Plan. The original (1998) Deepwater implementation plan reflected a pre-9/11 analysis of Coast Guard mission demands. On March 25, 2005, the Coast Guard submitted to Congress a revised Deepwater implementation plan reflecting a post-9/11 analysis of Coast Guard mission demands. The revised implementation plan increased the Deepwater program's estimated acquisition cost from \$17 billion to \$24 billion, and the program's acquisition period from about 20 years to 25 years.

Systems to Be Procured or Converted. The revised implementation plan includes the acquisition of the following:

Ships, boats, and surface craft:

- 8 new *National Security Cutters*, or NSCs, displacing about 4,000 tons each (i.e., ships analogous to today's high-endurance cutters);
- 25 new *Offshore Patrol Cutters*, or OPCs, displacing about 3,200 tons each (i.e., ships analogous to today's medium-endurance cutters);
- 58 new *Fast Response Cutters (FRCs)* displacing 200 tons each;
- 33 new *Long Range Interceptor (LRI) craft* displacing 15 tons each;
- and
- 91 new *Short Range Prosecutor (SRP) craft* displacing 9 tons each.

Aircraft:

- 6 missionized HC-130J and 16 converted HC-130H *Long Range Search (LRS) aircraft*;
- 36 new HC-144A *Medium Range Maritime Patrol Aircraft (MPA)* based on the European Aeronautic Defence and Space Company (EADS) CASA HC-235 *Persuader MPA aircraft* design;
- 42 converted HH-60J *Medium Range Recovery (MRR) helicopters*;
- 95 converted HH-65C *Multi-Mission Cutter Helicopters (MCHs)*;
- 45 new HV-911 *Eagle Eye VTOL (vertical take-off or landing) Unmanned Aerial Vehicles (VUAVs)*; and
- 4 leased RQ-4A *Global Hawk High Altitude Endurance UAVs (HAEUAVs)*.

Potential Oversight Issues for Congress

Program Cost Growth

Some observers have expressed concern that the revised Deepwater implementation plan submitted on March 25, 2005, increased the Deepwater program's estimated total acquisition cost from \$17 billion to \$24 billion. An April 2006 Government Accountability Office (GAO) report stated the following:

The revised Deepwater implementation plans change the balance between new and legacy assets, alter the delivery schedule for some assets, lengthen the overall acquisition schedule by 5 years, and increase the projected program cost from \$17 billion to \$24 billion. The higher cost generally relates to upgrading assets to reflect added homeland security mission requirements. Upgrades to vessels account for the single largest area of increase; with upgrades to the command, control, communications and other capabilities being second highest. In contrast, because the revised plans upgrade rather than replace most legacy aircraft and reduce the number of unmanned aircraft, the cost for Deepwater aircraft drops. The revised plans, like the original plan, are heavily dependent on receiving full funding each year. Coast Guard officials state that a shortfall in funding in any year could substantially increase total costs.⁵

Program Management and Execution

Some observers have strongly criticized the management and execution of the Deepwater program, particularly regarding the decision to use an LSI, the execution of a project for modernizing 49 Island-class 110-foot patrol boats and keeping them service until they are replaced by the 58 planned Fast Response Cutters (FRCs), and the FRC design effort. The Coast Guard and industry have acknowledged problems but defended their management and execution of the Deepwater program.

Use of a Lead System Integrator (LSI). Some observers are concerned about the use of LSIs in general, arguing that they transfer too much responsibility from government to the private sector, reduce the government's visibility into program costs, system tradeoffs, and contractor performance, and create a potential for conflicts of interest on the part of the LSI in executing the program, particularly in selecting sources for potential elements of the overall system.

Other observers support the concept of using LSIs — because they offer potential advantages in permitting industry to design the most cost-effective system possible and because the government in some cases does not have sufficient in-house program-management and system-integration capability to take on the role itself — but argue that the Coast Guard in the case of the Deepwater effort has not implemented the concept well.

Still other observers believe that using an LSI on a large system-of-systems acquisition program is a relatively new approach for the government and that the Coast Guard's implementation of the strategy, while not perfect, is improving.⁶

⁵ Government Accountability Office: *Coast Guard[:] Changes to Deepwater Plan Appear Sound, and Program Management Has Improved, but Continued Monitoring Is Warranted*, GAO-06-546, Jun. 2006.

⁶ For further discussion of the LSI issue as it relates to the Deepwater program, see Statement of Ronald O'Rourke, Specialist in National Defense, Congressional Research Service, Before the Senate Commerce, Science, and Transportation Committee, Subcommittee on Fisheries and the Coast Guard, hearing On The Coast Guard's Revised Deepwater Implementation Plan, June 21, 2005, pp. 12-15.

110-Foot Patrol Boat Modernization Program. The program to modernize the 110-foot patrol boats lengthens them to 123 feet. The first of the modernized 123-foot boats was delivered in March 2004. Structural problems were soon discovered in the modernized boats. In June 2005, the Coast Guard stopped the modernization effort at eight boats after determining that the modernized boats lacked capabilities needed for meeting post-9/11 Coast Guard operational requirements. In August 2006, a former Lockheed engineer posted on the Internet a video alleging significant other problems with the modernization effort.⁷

On November 30, 2006, the Coast Guard announced that it was suspending operations of the eight modernized 123-foot patrol boats (which were assigned to Coast Guard Sector Key West, FL), due to the discovery of additional structural damage to their hulls. The suspension prompted expressions of concern that the action could reduce the Coast Guard's border-enforcement capabilities in the Caribbean. The Coast Guard said it was exploring options for addressing operational gaps resulting from the decision.⁸

Fast Response Cutter (FRC). As a result of the problems in the 110-foot patrol boat modernization project, the Coast Guard accelerated by several years the planned entry into service of the replacement FRCs. Problems, however, were discovered in the FRC design, and the Coast Guard in February 2006 suspended work on the design.

In a June 2006 report on the FRC, GAO stated that "The Coast Guard does not have a formal, documented contingency plan should the FRC fail to meet performance requirements. However, Coast Guard officials said it plans to pursue certain mitigation strategies ... to keep the current [110-foot] patrol boats operating longer."⁹

The Coast Guard has now divided the 58-ship FRC effort into two classes — 12 FRC-Bs, which are to be procured as a near-term stop-gap measure and which are to be based on an existing patrol boat design, and 46 subsequent FRC-As, which are to be based on a fixed version of the new FRC design. The Coast Guard by mid-November 2006 reportedly had looked at 27 candidate designs submitted by 19

⁷ Patricia Kime, "Video Alleges Security Problems With Converted U.S. Coast Guard Cutters," *DefenseNews.com*, Aug. 7, 2006. See also Griff Witte, "On YouTube, Charges Of Security Flaws," *Washington Post*, Aug. 29, 2006. The video is posted on the Internet at [<http://www.youtube.com/watch?v=qd3VV8Za04g>].

⁸ "Coast Guard Statement on Suspension of Converted Patrol Boat Operations," *InsideDefense.com*, Nov. 30, 2006; Patricia Kime, "U.S. Coast Guard Pulls 123s Out of Service," *DefenseNews.com*, Nov. 30, 2006; Calvin Biesecker, "Coast Guard Suspends 123-Foot Patrol Boat Operations," *DefenseDaily*, Dec. 1, 2006; Robert Block, "Coast Guard Fleet Cuts Could Hurt Border Patrols," *Wall Street Journal*, Dec. 1, 2006; Renae Merle, "Coast Guard Finds Flaws In Converted Patrol Boats," *Washington Post*, Dec. 2, 2006; Renae Merle and Spencer S. Hsu, "Costly Fleet Update Falts," *Washington Post*, Dec. 8, 2006.

⁹ Government Accountability Office: *COAST GUARD[:] Status of Deepwater Fast Response Cutter Design Efforts*, GAO-06-764, June 2006.

manufacturers for the FRC-B effort.¹⁰ In December 2006, the Coast Guard issued a Request for Proposals (RFP) to ICGS for the FRC-B.

National Security Cutter (NSC). On November 14, 2006, it was reported that:

The Coast Guard withheld from Congress warnings raised more than two years ago by its chief engineer about structural design flaws in its new National Security Cutter....

The lack of full disclosure about that and other problems in the Coast Guard's \$24 billion modernization effort, known as Deepwater, has created a credibility gap that some members of Congress say now jeopardizes the endeavor.

"The Coast Guard clearly does not understand that transparency and accountability are essential to a program of this magnitude," said Senator Olympia J. Snowe, Republican of Maine, the chairwoman of the Senate panel that oversees the service's operations.

Ms. Snowe and other Congressional leaders said they were unaware until this past week that the Coast Guard's chief engineer, Rear Adm. Erroll Brown, had written in March 2004 to the Coast Guard official in charge of the Deepwater program, Rear Adm. Patrick M. Stillman, to warn him that the design for the National Security Cutter had "significant flaws" and that construction should not begin until they were addressed.

"Importantly, several of these problems compromise the safety and viability of the hull, possibly resulting in structural failure," said the letter....

Representative Harold Rogers, Republican of Kentucky, who heads the House panel that oversees the Coast Guard budget, said the lack of full disclosure was distressing.

"Withholding information leads to poor decisions for the nation, as we are witnessing now with this cutter modernization initiative," Mr. Rogers said. Coast Guard officials said Wednesday that they have tried to keep Congress fully informed about progress on the Deepwater project, which is replacing or rebuilding almost all of the service's ships, planes and helicopters. "The Coast Guard takes very seriously its obligation to keep its authorizers and appropriators informed," a spokesman, Cmdr. Jeffrey Carter, said.

Representative Bob Filner, Democrat of California, said the shortcomings in the Deepwater program are so severe that the contract should be terminated....

¹⁰ Christopher P. Cavas, "USCG Starts Bid Process for New Cutter Design," *DefenseNews.com*, November 15, 2006; and Geoff Fein, "Deepwater Program Seeking Designs For Coast Guard's Fast response Cutter B-Class," *Defense Daily*, November 16, 2006.

“This has now threatened our national security,” said Mr. Filner, the ranking Democrat on the House panel that oversees the Coast Guard. “After four years and billions of dollars, we have nothing to show for it.”

Unless structural modifications are made, the [NSC] will be susceptible to buckling of its superstructure, premature cracks in its hull and decks, and, in an extreme case, the possible failure of the hull girder, which is a ship’s backbone, said Chris Cleary, a senior naval architect at the Coast Guard.

An independent analysis by Navy engineers early this year has confirmed that the ship, as designed, may be susceptible to premature fatigue cracking, although top Coast Guard officials said they had been assured that the problems would not present a safety hazard for the ship, which is to start sailing next year.

Coast Guard officials in the last year did tell some Congressional committees that the service was addressing contractual issues with Northrop that might require additional work to the first ship, staff members on the House and Senate committees said.

During a June 2006 hearing on the Deepwater program, the Coast Guard commandant, Adm. Thad Allen, briefly mentioned the difficulties, telling a House panel that “there are some technical issues associated with the construction that we will address in subsequent hulls.”

The Coast Guard intends to reinforce the first two versions of the National Security Cutter and to change the design of the remaining six versions, a plan it notified Congress of last week. The service has not disclosed how much the repairs to the first two ships will cost or who will be responsible for the bill.

Coast Guard leaders said in interviews that any new class of ship has design challenges that must be resolved. Given that the start of the National Security Cutter construction had already been planned in 2004 — and that any delays would add to the ship’s cost — they decided to allow the first ship to be built, while continuing to investigate their engineers’ reports of design flaws.¹¹

In response to this news report, the Coast Guard on December 20, 2006, provided CRS with a point paper on the NSC program stating that:

the first [NSC], the BERTHOLF, was christened Nov. 11, 2006, and will be delivered in 2007. The keel for the second, the WAESCHE, was laid Sept. 11, 2006, and is scheduled for delivery in 2008.

During the Coast Guard’s review of the NSC’s design from 2002 to 2004, concerns were raised about certain aspects of the ship’s structure that could prevent it from achieving its required 30-year service life. Specifically, Coast Guard and independent technical experts questioned whether some of the cutter’s structural components would experience fatigue damage prior to the service-life objective, a critical consideration given the extended, high-tempo operations expected of the NSC.

¹¹ Eric Lipton, “Lawmakers Say Coast Guard Withheld Warning Of Flaws In Cutter Design,” *New York Times*, Dec. 14, 2006: 38.

The NSC structure does not pose an immediate safety concern; rather, it presents a risk that it may need some structural repairs during its service life. The areas of greatest concern include details along the vessel's weather deck where bending stresses are greatest and where the structural configuration of topside arrangements are relatively more complex.

After thorough review, the Coast Guard determined that it is in the government's interest to increase the fatigue tolerance of the NSC to ensure that the ship's basic structures will meet its projected 30-year service life. Engineering changes to address the desired structural enhancements, developed in collaboration with the U.S. Navy and other naval engineering experts, were approved by the Deepwater Program's technical authority, the Engineering and Logistics Directorate at Coast Guard Headquarters. To improve the current design, a Request for Proposal (RFP) was issued to [ICGS] for a contract proposal to implement [the changes] on NSC 3.

A variety of methods are commonly used to enhance the strength of a ship's structure (e.g., treatment of welded joints, material upgrades, increased thickness of plates and structures, revised geometry for components, etc.). Specific details of the structural configuration changes needed to implement the design enhancements will be finalized when ICGS reviews the Coast Guard's recommendations, identifies possible alternatives, and develops detailed design drawings of the changes. Structural enhancements to improve the NSC's fatigue life need not be done immediately. Hulls one and two will have much of the work done at their first yard availability. NSC hulls three through eight will incorporate design changes during construction. Any known or suspected fatigue concerns will be addressed when this design change is incorporated on the NSC. In the end, the NSC will be designed to achieve a 30-year fatigue life.¹²

C4ISR Systems and Information Technology (IT). An August 2006 report by the DHS Inspector General (IG) on the Coast Guard's acquisition of information technology (IT) for the Deepwater program stated:

We audited the Coast Guard's efforts to design and implement command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR) systems to support the Integrated Deepwater System program. As a result of our audit, we determined that the Coast Guard's efforts to develop its Deepwater C4ISR systems could be improved. Although Coast Guard officials are involved in high-level Deepwater IT requirements definition processes, they have limited influence over contractor decisions toward meeting these requirements. A lack of discipline in requirements change management processes provides little assurance that the requirements remain up-to-date or effective in meeting program goals. Certification and accreditation of Deepwater C4ISR equipment has been difficult to achieve, placing systems security and operations at risk. Further, although the Deepwater program has established IT testing procedures, the contractor has not followed them consistently to ensure that C4ISR systems and the assets on which they are installed perform effectively.

Additionally, the Coast Guard faces several challenges to implementing effectively its Deepwater C4ISR systems. Due to limited oversight as well as

¹² Coast Guard point paper on NSC program provided to CRS on December 20, 2006.

unclear contract requirements, the agency cannot ensure that the contractor is making the best decisions toward accomplishing Deepwater IT goals. Insufficient C4ISR funding has restricted accomplishing the “system-of-systems” objectives that are considered fundamental to Deepwater asset interoperability. Inadequate training and guidance hinder users from realizing the full potential of the C4ISR upgrades. Instituting effective mechanisms for maintaining C4ISR equipment have been equally challenging.¹³

A December 2006 DHS IG report on major DHS management challenges reiterated these points.¹⁴

Views On Program Management and Execution.

GAO View. In earlier reports and testimony, GAO expressed several concerns about the Coast Guard’s ability to manage the Deepwater program.¹⁵ In an April 2006 report, GAO stated:

Actions by the Coast Guard and the system integrator have fully implemented three of the eight GAO [program-management] recommendations that were not fully addressed during GAO’s review in 2005, and three more recommendations appear to be nearly implemented. The remaining two have unresolved concerns, but the Coast Guard is taking steps to resolve them. A program of this size, however, will likely experience other challenges beyond those that have emerged so far, making continued monitoring by the Coast Guard important.¹⁶

DHS Inspector General View. A December 2006 DHS IG report on major DHS management challenges stated:

USCG has also encountered a number of challenges in executing its Deepwater Acquisition program despite the expenditure of more than \$3 billion over four years. This is particularly true within the Deepwater surface and air

¹³ U.S. Department of Homeland Security, Office of Inspector General. *Improvements Needed in the U.S. Coast Guard’s Acquisition and Implementation of Deepwater Information Technology Systems*, August 2006. (Office of Information Technology, OIG-06-55) p. 1.

¹⁴ U.S. Department of Homeland Security, Office of Inspector General, *Major Management Challenges Facing the Department of Homeland Security (Excerpts from the FY 2006 DHS Performance and Accountability Report)*, December 2006. (OIG-07-12) p. 13.

¹⁵ See Government Accountability Office, *COAST GUARD[:] Preliminary Observations on the Condition of Deepwater Legacy Assets and Acquisition Management Challenges*, GAO-05-307T, Apr. 20, 2005; Government Accountability Office, *Coast Guard[:] Observations on Agency Priorities in Fiscal Year 2006 Budget Request*, GAO-05-364T, March 2005; General Accounting Office, *Contract Management: Coast Guard’s Deepwater Program Needs Increased Attention to Management and Contractor Oversight*, GAO-04-380, March 2004; and General Accounting Office, *Coast Guard: Deepwater Program Acquisition Schedule Update Needed*, GAO-04-695, June 2004.

¹⁶ Government Accountability Office, *Coast Guard[:] Changes to Deepwater Plan Appear Sound, and Program Management Has Improved, but Continued Monitoring Is Warranted*, GAO-06-546, April 2006.

domains. For example, the 110-foot patrol boat conversion project was curtailed at eight cutters due to design, construction, performance, and cost concerns. Further, strict operational restrictions have been imposed on these cutters until additional structural analyses can be completed. In response to these challenges, USCG accelerated plans to design, construct, and deploy the composite Fast Response Cutter (FRC) by more than 10 years as a replacement for the 110-foot patrol boat. However, an independent analysis confirmed that the FRC design is outside patrol boat design parameters, i.e., too heavy, too overpowered, and not streamlined enough to reduce resistance. These concerns led to USCG's April 2006 decision to suspend work on the FRC until these issues could be resolved or an alternative commercial off-the-shelf design identified. In the Deepwater air domain, the HH-65C helicopter⁷ and unmanned aerial vehicle (VUAV) acquisitions have encountered schedule delays and cost increases. These Deepwater design, construction, performance, scheduling, and cost issues are expected to present significant challenges to USCG's Deepwater Program during FY 2007.¹⁷

Coast Guard View. In response to late-2006 criticisms about management and execution of the Deepwater program, the Coast Guard on December 20, 2006, provided CRS with a point paper on the issue stating:

The Integrated Deepwater System (IDS) Program's progressive sustainment, conversion, and recapitalization are producing results, especially with the modernization of existing cutters, helicopters, airplanes, and supporting C4ISR systems. Without minimizing today's challenges, a more balanced understanding of their context is helpful.

- The Deepwater Program is not foundering; it is vital to Coast Guard readiness and its top capital priority.
- We take all concerns seriously and have adopted past recommendations from GAO and other agencies.
- We will resolve problem areas through a wide range of management reforms-many improvements have already been implemented, and other steps are planned.
- We should avoid a temptation to rush to judgment as we redouble efforts to execute the program responsibly....

Clearly, the Deepwater Program has encountered a formidable array of obstacles during the early years of this complex, 25-year performance-based acquisition (the largest in Coast Guard history). Deepwater has benefited enormously, however, from rigorous oversight by Congress, the Government Accountability Office (GAO), DHS Inspector General (IG) and others. Past challenges-and progress in surmounting them-are well documented in GAO reports and other studies. We recognize the need for continued program management reforms to improve acquisition project execution. We are proceeding with the sense of urgency to be expected from an agency whose core value is public service.

GAO's framework for acquisition management is used to assess the program and identify areas where improvement is necessary. A series of

¹⁷ U.S. Department of Homeland Security, Office of Inspector General, *Major Management Challenges Facing the Department of Homeland Security (Excerpts from the FY 2006 DHS Performance and Accountability Report)*, December 2006. (OIG-07-12) p. 6.

measures are being aggressively implemented to ensure more effective oversight, sound stewardship of taxpayer dollars, and timely delivery of much-needed assets.

- Business processes have been strengthened.
- New evaluation criteria have been developed for Deepwater's follow-on contract term.
- The primacy of Coast Guard technical authority has been reaffirmed; Coast Guard's chief engineer has been assigned greater responsibility to review ship designs.
- Independent, third-party technical evaluations of industry's proposed designs for new assets are now required and regularly obtained.
- Staffing at manufacturing facilities for Deepwater platforms is being increased to place a sharper focus on higher quality contract performance.
- We are filling vacancies in our own Deepwater workforce and improving its training, certification, recruitment, and retention.
- We have shifted more funding to program management activities.

Other steps to improve program management and oversight are in motion but will take longer to implement:

- All acquisition activities will be consolidated in 2007 into one directorate at Coast Guard Headquarters to increase efficiency and leverage acquisition expertise.
- Early in 2007, at his initiative, Deepwater's Program Executive Officer (PEO) will receive independent, third-party recommendations from a panel of acquisition experts sponsored by the Defense Acquisition University. Its findings will make additional important contributions to improved contract planning, execution, and performance.

The Coast Guard has not followed a "hands-off management" approach to allow industry to run the Deepwater Program. The Coast Guard's authority and the PEO's responsibilities and oversight are well-defined and exercised regularly. The Coast Guard follows a well-established process for progressive reviews of new designs, for example, and has exercised its authority on numerous occasions—including its decision to stop 110-foot patrol boat conversions, to defer design work on the Fast Response Cutter pending resolution of design issues, and to direct structural enhancements to the National Security Cutter....

Program costs are not "sky-rocketing." Cost growth in [Deepwater] shipbuilding is not primarily responsible for the post-9/11 IDS implementation plan's adjustment to a 25-year, \$24-billion effort.

- Planning to adjust the pre-9/11 Deepwater Program began following the Sept. 11, 2001, to include enlarging the National Security Cutter's flight deck to approximately 4,000 square feet to allow tail-wheel equipped helicopters of other agencies to launch and recover. The NSC design also was modified to incorporate chemical-biological-radiological detection and defense capability, a helicopter capture system, increased crew and accommodations, a Shipboard Sensitive Compartmentalized Information Facility (S/SCIF), and Integrated Combat Management System. Unavoidably, such upgrades do increase costs.
- Early in 2004, the Coast Guard's comprehensive, year-long performance-gap analysis of post-9/11 mission requirements validated need for additional IDS capability improvements. A revised IDS Mission Need Statement was approved by DHS and, as part of the FY-2006 budget process, the Department of Homeland Security (DHS) approved a revised post-9/11 Deepwater Implementation Plan early in 2005.

— The revised IDS plan provides for modifications to the original assets that would have been delivered by the Deepwater project to incorporate improved post-9/11 capabilities. As a result, the administration approved the Deepwater Program's revised delivery schedule as a projected 25-year, \$24-billion effort. The preponderance of overall program cost growth results largely from new post-9/11 capability requirements, longer use of aging assets that are more costly to operate and maintain, and economic factors (e.g., inflation for materials and labor, impact of hurricanes at shipyard in 2005, etc.)....

Concerns that the Coast Guard's reliance on [ICGS] reduces competition (thus increasing costs) have not been substantiated. Competition is governed by provisions of the Federal Acquisition Regulation (FAR). It is assessed annually by a Contractor Purchasing System Review. ICGS now relies on 566 suppliers in 41 states.

— As GAO noted in its March 2004 report on the Deepwater Program: "The benefits of competition may be viewed as sufficient in the contract's early years because, for the initial 5-year contract period, prices proposed by ICGS for equipment and software were based on competitions held among various subcontractors."

— The Coast Guard embraced GAO's recommendations to take two additional actions to facilitate controlling future costs through competition and incorporated them into future award-term contracts.

— The Deepwater Program also contracted for independent, third-party assessment of second-tier competition conducted by ICGS and tier-one subcontractors during 2004. This assessment, which included a review of the competitive procedures the purchasing and/or contracting departments of both contractors had in place, determined that competitive procedures were being followed....

Substantial progress is being made in a number of program areas:

— Selected shore stations and all medium and high endurance cutters have received IDS C4ISR upgrades-they are making a difference now in improved mission effectiveness. Follow-on increments are planned.

— Two thirds (62) of 95 HH-65 helicopters have been re-engined and modernized as part of their eventual conversion to multi-mission aircraft. Pilots give their improved performance and reliability high marks.

— In December, the Coast Guard accepted delivery of the first new HC-144A medium-range maritime patrol aircraft procured under the Deepwater acquisition.

— The configuration of six HC-130J long-range search aircraft to equip them for Coast Guard missions is progressing well. The first of six more capable HC-130Js will begin its modifications for USCG missions early in 2007, with delivery projected later in the year.

— Deepwater also has successfully provided armed-helicopter services for the Coast Guard squadron (HITRON) responsible for critical counter-drug operations-it completed its 100th successful interdiction since program inception earlier this year with a value of confiscated drugs of more than \$8 billion.¹⁸

Industry Views. A news article reporting industry views on the issue of program management and execution stated:

¹⁸ Coast Guard point paper on management of Deepwater program provided to CRS on December 20, 2006.

Northrop Grumman and Lockheed Martin acknowledge the difficulty with the upgrades to existing Coast Guard vessels. However, they say the overall program is not suffering from broad-based performance problems.

Since winning Deepwater four years ago, the contract team has delivered a suite of successful airplane and helicopter upgrades. It is also on track to deliver a new ship next year that will be the Coast Guard's first new large cutter in 35 years, program executives said.

"There is no performance issue with this team," said Jamie Anton, Northrop Grumman's vice president for Coast Guard systems. "We've had challenges. We're working with the Coast Guard to solve them."...

Anton and Lockheed Martin executive Leo Mackay, president of the joint venture, said the companies so far have not been penalized financially for any of the program changes.

Specifications have changed for the new big cutters and a second class of ships, known as fast-response cutters, but there have not been chronic technical problems, the executives said. They downplayed the importance of a sharply worded Coast Guard memo from 2004 that slammed the ship design process....

In the case of the [110-foot] patrol boat upgrades, performance problems are more evident. The Coast Guard has sidelined all eight of the upgraded boats because of hull cracks and other structural flaws.

But the contractors so far have not been penalized for these troubles because it is not clear why the cracks have occurred, Anton and Mackay said. The patrol boats are between 17 and 25 years old, and all the upgrades passed a rigorous design approval process before taking place, the contractors said.

The Coast Guard generally has stood by the contractor team. In May, the contractors received a 43-month extension of their contract for the program.

But the program needs to improve, Coast Guard spokesman Cmdr. Jeff Carter said. He said the service wants to beef up its acquisition management and its technical expertise, so it can do a better job of managing the program.

"We have a good working relationship with the contractors, but we are trying to strengthen some of the oversight issues," Carter said Tuesday.¹⁹

Another new article reporting industry views on the issue stated:

While the Coast Guard's Deepwater effort has been the subject of scrutiny regarding platforms, program costs, and program management, industry officials contend that issues such as cost growth reflect the re-baselining of the effort and that the government and the contractor team are working together every step of the way....

¹⁹ Rebecca Christie, "Study Urges Congress To Rethink Big Coast Guard Program," *Dow Jones Newswires*, December 19, 2006.

“We are in a position where we have already started to deliver significant capability to the Coast Guard. We are poised to build on that success. When you look to ‘07, you see the new medium and long range Maritime Patrol Aircraft (MPA), we look forward to [the National Security Cutter] going to sea trials in the first half of year and delivery in the second half,” [ICGS president Leo] Mackay said. “We look forward to moving from an era where we have been building capability into the legacy fleet into a part of the program where we are starting to deliver some of the new assets.”

The Coast Guard, along with the ICGS team... christened the [cutter] Bertholf (WMSL-750), the first of the new NSCs, in mid November. And, yesterday, the first medium-range surveillance maritime patrol aircraft, designated HC-144A, landed at Elizabeth City, N.C., where its mission system pallet will be integrated at the Coast Guard Aviation Repair & Supply Center.... A second HC-144A is expected to make the trip from Spain to Elizabeth City in January, Mackay said. A third aircraft will make the trip across the Atlantic a few months later. ICGS is negotiating a contract for follow-on aircraft, Mackay said.

The first C-130J underwent installation of its electronic systems on Dec. 18 to make it a serviceable Maritime Patrol Aircraft (MPA), Mackay said. “It will be the most long-range and capable MPA.”

“[The six C-130Js] were bought with [Department of Defense] funds, but they were not missionized. We put together a fixed-price development program that missionizes them,” he added. “It will be a real boost in capability.” The ICGS will get all six missionized MPAs back to the Coast Guard by 2008, he added.

As for suggestions that there has been no oversight of the industry team, Mackay said ICGS works in an integrated product team environment with the Coast Guard. “There is a lot of transparency in that arrangement,” he said. “We have the full array of normal programmatic reviews — [preliminary design review, critical design review], production readiness reviews, test readiness reviews, and at every step, data is presented to the Coast Guard and they approve it.”

In addition to Coast Guard oversight, Mackay added there is additional oversight brought about by Government Accountability Office (GAO) reports and the Congressional Research Service (CRS) as well as constitutional oversight. “There has been a good deal of oversight. It’s not true to think that industry has been left alone to do this,” he said.

Another issue that routinely surfaces is the cost of the Deepwater effort. Originally slated as a 20-year, \$17 billion program, the Coast Guard’s modernization effort is now a 24-year, \$25 billion effort. Mackay said the change is not an issue of cost growth.

After the events of 9/11... a new mission need statement document with technical and performance specifications was issued in July 2005. “It refigured the program for the post 9/11 world,” Mackay said.

The Coast Guard also saw its mission requirements increase to include homeland security and counter terrorism, Mackay added. “That was a long and involved process.”

“The program was re-baselined. It went from \$17 billion to \$24 billion and from 20 to 25 years. So when somebody says it is a cost increase or cost growth, that’s not true,” he said. “That shift represents the working out of those post-9/11 requirements and the issuing of [a new mission need statement].”

Another issue is the effort to build a new fleet of Coast Guard patrol ships and cutters. In particular, concerns have been raised about the design of the NSCs, which could lead to structural problems such as hull and deck cracking.

James Anton, executive vice president of ICGS, said a lot of what is being read about NSC is a lot of data on structure. “In [Rear] Adm. [Erroll] Brown’s memo, he says even the best engineers are going to disagree on analysis, so from that perspective we are still having a healthy dialogue with the Coast Guard on their perspective of the analysis,” Anton said. He noted that a lot of the concerns have been satisfied and are [now incorporated] in the Bertholf.

“The Coast Guard is looking at some structural changes. We are looking at those with them, having a dialogue. We have to get the engineers to agree that the changes are good changes and won’t impact the performance characteristics or design characteristics,” Anton said. “Getting those engineers in agreement is where we are at today. We have recommended changes from the Coast Guard; we just got them. We are working through [them] with the Coast Guard, engineer to engineer, reviewing those and looking at them. We are going to do our due diligence, both us and the Coast Guard, and then we will implement those on hull three.”

Anton said he could not elaborate any further on what changes or how many the Coast Guard had recommended. “We just got it. The engineers are embroiled in it. I can’t tell you what they are. We got a set of red-line drawings; they are very early,” he said.

Anton said the notion that there is a feud between the Coast Guard and ICGS is just not true. “We are working side-by-side with the customer to make sure all the stakeholders are satisfied in the end. But it takes time, you just don’t walk up and start making changes without doing due diligence and analysis so both parties can conclude that what we are doing here is absolutely the right thing to do,” he explained....

Anton said there have been an array of very challenging requirements with the FRC, combined with a cost cap. “It produced a design that the dimensions of the patrol boat itself were outside of the typical dimensions of a patrol boat. This is not a typical patrol boat. It has much more capability.”

The Coast Guard and industry need to ensure that this is what they really want to do, Anton said. “We are going to take this ship through a design spiral, make sure we have the balance between the requirements and this typical dimension to get this ship into typical dimensions,” he said.

“We are going to balance the cost of operations, the acquisition costs, and all the requirements and capabilities, to make sure we get this right,” Anton

added. “This is the prudent thing to do, the healthy thing to do, because this patrol craft is the workhorse of the Coast Guard. Did we get it wrong? No, we designed a vessel that had all the capabilities within the cost cap, and we are going to go through a design spiral, to ensure the FRC-A, again, satisfies all the stake holders.”

The FRC-B, an acquisition effort that addresses the need for patrol boat capability with minimal developmental and programmatic risk, just issued a request for proposals [RFP]. Anton said responses [to the FRC-B RFP] are due back in January..... “From there, working with the Coast Guard, we will come up with recommendations for that particular craft,” he said. “We will prepare a contract design, go through all the gates we go through. Delivery [of the first FRC-B] is in the first quarter of FY ‘10.”²⁰

Adequacy Of Proposed Assets

Many observers expected the revised Deepwater implementation plan submitted in 2005 to include more ships and aircraft than the original (1998) Deepwater plan. A 2004 RAND Corporation report recommended substantially increasing the numbers of cutters and aircraft to be acquired under the original plan.²¹ The revised implementation plan, however, did not substantially increase ship and aircraft numbers. The Coast Guard says the revised force would have considerably more capability than the 1998-planned force because the ships and aircraft would be individually more capable than under the 1998 plan. Coast Guard officials have also acknowledged, however, that the revised force would not have enough capacity to meet long-term (FY2005-FY2009) Government Performance and Review Act (GPRA) goals. An April 2006 GAO report concluded that

The Coast Guard’s analytical methods were appropriate for determining if the revised asset mix would provide greater mission performance and whether the mix is appropriate for meeting Deepwater missions. GAO and other independent experts found the Coast Guard’s methods were reliable for assessing

²⁰ Geoff Fein, “Coast Guard’s Deepwater Effort Poised To Move Forward In 2007,” *Defense Daily*, December 22, 2006. Some of the words in brackets appear as they were in the article as published; some words in brackets were added or changed by CRS for purposes of clarity in this citation.

²¹ John Birkler, et al., *The U.S. Coast Guard’s Deepwater Force Modernization Plan: Can It Be Accelerated? Will It Meet Changing Security Needs?* RAND, National Security Research Division, MG-114, 2004.

the effects of changing the asset mix and a Department of Defense review board facilitated accreditation of the Coast Guard's approach."²²

Program Acceleration

Some Members are interested in accelerating procurement of Deepwater assets and thereby compressing the Deepwater acquisition period from 25 years to 15 or 10 years, so as to reduce total Deepwater acquisition costs and more quickly replace legacy assets. Some of these Members have expressed disappointment that the Coast Guard's revised implementation plan lengthened the program's acquisition period from about 20 years to 25 years. Compressing the Deepwater program's acquisition period to 15 or 10 years would require increasing annual Deepwater acquisition funding to substantially more than \$1 billion per year, and possibly something closer to \$2 billion per year.

Section 888(I) of H.R. 5005/P.L. 107-296 directed DHS to report to Congress on the idea of compressing the Deepwater program from 20 years to 10 years. On March 12, 2003, the Coast Guard submitted the report, which concluded that compressing the Deepwater acquisition period to 10 years was feasible, that it would increase Deepwater acquisition costs over the period FY2005-FY2011 by about \$7.4 billion in then-year dollars, but reduce total Deepwater acquisition costs over the long run from \$16.022 billion in then-year dollars to \$11.473 billion in then-year dollars.²³

A 2004 RAND Corporation report, using the original (pre-2005) Deepwater implementation plan, concluded that "the shipbuilding and air vehicle industrial bases could produce the USCG's Deepwater assets on either the 15-year or the 10-year schedule. Manufacturers would require no major facility upgrades to accommodate acceleration." The report further concluded that:

Accelerating the acquisition from the original 20-year schedule to a 15- or 10-year timetable would have a negligible effect on total operating and support costs over a 20-year period, on annual operating and support costs, and on total acquisition costs....

By accelerating acquisition, the USCG would benefit from enhanced mission performance at an earlier date. We found that acquiring Deepwater assets over 15- or 10-year schedules would allow the USCG to operate surface and air assets for significantly more mission hours and to increase the detection

²² Government Accountability Office: *Coast Guard[:] Changes to Deepwater Plan Appear Sound, and Program Management Has Improved, but Continued Monitoring Is Warranted*, GAO-06-546, Jun. 2006.

For further discussion regarding the adequacy of proposed Deepwater assets, see Statement of Ronald O'Rourke, Specialist in National Defense, Congressional Research Service, Before the Senate Commerce, Science, and Transportation Committee Subcommittee on Fisheries and the Coast Guard Hearing on the Coast Guard's Revised Deepwater Implementation Plan, June 21, 2005, pp. 1-5.

²³ U.S. Coast Guard, *Report to Congress on the Feasibility of Accelerating the Integrated Deepwater System*, 2003.

coverage area for airborne sensors as compared with the capabilities it would acquire using a 20-year acquisition schedule. For instance, the total number of mission hours over a 20-year period would increase by 12 percent with the 15-year schedule and by 15 percent with the 10-year schedule. The total airborne sensor coverage area over a 20-year period would increase by 4 percent with the 15-year schedule and by 7 percent with the 10-year schedule.

Acceleration would have a negligible effect on total acquisition costs; however, it would result in increased annual outlays for acquisition. The average annual outlays (in FY1998 constant-year dollars) would increase from \$400 million to \$500 million under the 15-year plan and to \$700 million under the 10-year plan. The peak annual outlay would increase from \$600 million to \$1 billion under the 15-year plan and to \$1.3 billion under the 10-year plan.²⁴

GAO has cautioned that accelerating the Deepwater program could increase program-management risks, but has also acknowledged that accelerating selected parts of the program might be more feasible.²⁵

Potential Options for Congress

Potential options for Congress regarding the Deepwater program include but are not limited to the following, some of which might be combined:

- continuing with the program as currently planned;
- instituting additional or stricter reporting requirements;
- compressing the acquisition period from 25 years to 15 or 10 years;
- replacing ICGS as the LSI;
- dropping the use of an LSI in favor of direct Coast Guard management and integration of the program; and
- replacing the Deepwater program with a series of separate procurement programs for replacing individual classes of cutters, boats, and aircraft.

Legislative Activity in 2006

H.R. 5681 (FY2007 Coast Guard Authorization Bill)

In its report (H.Rept. 109-614 of July 28, 2006) on H.R. 5681, the House Transportation and Infrastructure Committee recommends authorizing a total of

²⁴ John Birkler, et al., *The U.S. Coast Guard's Deepwater Force Modernization Plan: Can It Be Accelerated? Will It Meet Changing Security Needs?* RAND, National Security Research Division, MG-114, 2004. pp. xxv-xxvi.

²⁵ For further discussion of this issue, see Statement of Ronald O'Rourke, Specialist in National Defense, Congressional Research Service, Before the Senate Commerce, Science, and Transportation Committee Subcommittee on Fisheries and the Coast Guard Hearing on the Coast Guard's Revised Deepwater Implementation Plan, June 21, 2005, pp. 6-9.

\$1,735.9 million for the Deepwater program for FY2007. **Section 407** would require the Coast Guard to use a competitive contracting procedure among U.S. shipyards for acquiring the FRC. **Section 408** requires DHS to submit a report on Coast Guard plans for managing “the annual readiness gap of lost time for 110-foot patrol boats” from FY2007 through FY2013. The report expresses strong concerns regarding the increase of the Deepwater time line to 25 years and Coast Guard efforts to maintain and replace its 110-foot patrol boats, and support for acquiring Deepwater assets as soon as possible. The report recommends that the Coast Guard examine ways to reduce costs for maintaining legacy assets and expresses support for acquiring new assets in an expedited manner.

H.R. 889/P.L. 109-241 (Coast Guard and Maritime Transportation Act of 2006)

This act can be viewed in part as **the FY2006 Coast Guard authorization act**. **Section 408(a)** of the conference report (H.Rept. 109-413 of April 6, 2006) on the act requires the Coast Guard to provide a detailed annual report on the implementation of the Deepwater program. **Section 408(b)** requires a separate report on accelerating the Deepwater acquisition period to 15 or 10 years. **Section 408(c)** requires the Coast Guard, in consultation with GAO, to provide a third report on the Coast Guard’s implementation of the recommendations made in GAO report GAO-04-380. **Section 408(d)** permits the Coast Guard to conduct an analysis of all or part of the Deepwater program and assess whether (1) the choice of assets and capabilities selected as part of the program meets the Coast Guard’s goals for performance and minimizing total ownership costs; or (2) additional or different assets should be considered. **Section 409** requires a study on the impact of requiring that helicopters, or major parts thereof, acquired by the Coast Guard, be U.S.-made, including the contractual impact on the Deepwater program. The conference report expresses strong concerns for the Coast Guard’s legacy deepwater vessels and aircraft, particularly 110-foot patrol boats and HH-65 helicopters, and support for accelerating the Deepwater program. The conference report also provides additional discussion of what the conferees expect to see in the reports required by Section 408.

H.R. 5441/P.L. 109-295 (FY2007 DHS Appropriations Act)

House. The House-reported version of H.R. 5441 (H.Rept. 109-476 of May 22, 2006) recommended \$892.64 million for the Deepwater program. The report directed GAO to continue its oversight of the program and stated:

The Committee denies \$41,580,000 for the production of the Fast Response Cutter (FRC) requested by the President. This program is experiencing substantial difficulties and the estimated delivery date of the first FRC has been pushed back at least three fiscal years (2010). Until ongoing problems are resolved, the Committee cannot continue to support a program that has so much risk of failure that it may be terminated or substantially revised.... The Coast Guard has \$79,347,002 in unobligated balances available to the FRC and for service life extensions of the 110-foot patrol boat. Bill language (Sec. 521) has been included that reprograms these unobligated balances to the acquisition of traditional patrol boats.... Also, funding may continue to be used for service life extensions of the 110-foot patrol boat. Procuring new patrol boats and

completing service life extensions is even more critical now that the Navy has informed the Coast Guard that they are not willing to extend the current Memorandum of Agreement to permit the Coast Guard to continue operating the Navy's five 179-foot patrol boats past 2008.

Senate. The Senate-reported version of H.R. 5441 (S.Rept. 109-273 of June 29, 2006) recommended \$993.631 million for the program. **Section 533** rescinded \$20 million in unexpended balances for development of the Offshore Patrol Cutter. The report "notes that \$101,610,954 in carryover balances from prior-year appropriations continue to be available" for the OPC, and stated:

The Committee notes a Government Accountability Office report (GAO-06-546) states 'changes to Deepwater plan appear sound, and program management has improved, but continued monitoring is warranted.' The Committee agrees with these conclusions. The Deepwater program is critical to the Coast Guard's ability to address its homeland and maritime border security mission, and therefore should be accelerated toward completion in 2016 rather than 2026. The Committee encourages the Coast Guard to request sufficient funding in the fiscal year 2008 budget request to accelerate the Deepwater program accordingly.... The Committee recommendation includes \$41,580,000, as proposed in the budget, for the Fast Response Cutter program. This amount shall be used to conduct a business case analysis on the cutter, develop a proposal, and fund the preliminary design and contract design. The Committee commends the Coast Guard for suspending the program to re-evaluate the design to more accurately reflect the Coast Guard's critical mission needs. However, the Committee notes significant value in pursuing the Fast Response Cutter program to address the Coast Guard's long-term needs. In the short term, the Committee is concerned with the current gap in patrol boat hours. To address this gap, the recommendation rescinds \$79,200,000 from balances in the Fast Response Cutter program and reappropriates these funds for the purchase of off-the-shelf replacement patrol boats to address the patrol boat gap as soon as possible.

Conference. The conference report on H.R. 5441 (H.Rept. 109-699 of September 28, 2006) provides \$1,065.872 million in FY2007 funds for the Deepwater program provided, among other things,

That the Secretary of Homeland Security shall submit... a review of the Revised Deepwater Implementation Plan that identifies any changes to the plan for the fiscal year; an annual performance comparison of Deepwater assets to pre-Deepwater legacy assets; a status report of legacy assets; a detailed explanation of how the costs of legacy assets are being accounted for within the Deepwater program; a description of how the Coast Guard is planning for the human resource needs of Deepwater assets; a description of the competitive process conducted in all contracts and subcontracts exceeding \$5,000,000 within the Deepwater program; and the earned value management system gold card data for each Deepwater asset: Provided further, That the Secretary shall submit ... a comprehensive review of the Revised Deepwater Implementation Plan every five years, beginning in fiscal year 2011, that includes a complete projection of the acquisition costs and schedule for the duration of the plan through fiscal year 2027....

Section 521 rescinds \$78.694 million in prior-year funds for the FRC and the service 110-foot patrol boat service life extension program, and appropriates an equal amount in new funding for the 110-foot patrol boat service life extension program and acquisition of traditional patrol boats (making for a total FY2007 appropriation of \$1,144.566 million). **Section 539** rescinds \$20 million in prior-year funding for the OPC. The report also provides \$26.550 million “to acquire, repair, renovate, or improve vessels, small boats, and related equipment,” \$15 million “to increase aviation capability,” and \$119.823 million “for other equipment.” The report states:

The conferees remain concerned with the lack of Coast Guard leadership in addressing the impending patrol boat crisis and note Coast Guard’s surface ship management assessment is ‘red’ for cost, schedule and contract administration. The Coast Guard has yet to decide the deployment profile, dry-docking, service life, crewing, and concept of operations of the much needed replacement patrol boat in part because the Coast Guard did not admit to the need for a replacement patrol boat until recently despite repeated direction from the conferees. Given the significant gap in patrol boat hours and the delays of the Fast Response Cutter (FRC) program, the conferees strongly encourage the Coast Guard to proceed expeditiously to evaluate replacement patrol boat designs and conduct a proposal effort as early in 2007 as possible. The conferees provide \$126,693,508 for replacement patrol boats to address an immediate need. This funding consists of a reappropriation of \$78,693,508 as discussed in section 521 of this Act and a new appropriation of \$48,000,000 as shown on the table above. Any delay in this acquisition negates the purpose of this funding: to fill the gap in patrol boat hours until the Fast Response Cutters are operational. This funding may also be used for service life extensions of the existing 110-foot Island class patrol boats, which become increasingly critical as replacement patrol boat decisions are delayed. The conferees direct the Coast Guard to provide monthly briefings on the patrol boat replacement effort and development of FRC, as well as a detailed plan for the replacement patrol boat, including critical decision points and dates, and planned service life extensions of existing 110-foot patrol boats, within two months after enactment of this Act.... Even though C4ISR is pointed to by the Coast Guard as a Deepwater success due to new capabilities like AIS and SIPRNET, Coast Guard listed C4ISR design efforts as over cost and behind schedule in a report submitted to the Committees on Appropriations in August 2006. The conferees understand a stop work order has been issued for Increment 2 and this increment is being ‘rescoped’. The conferees are concerned the Coast Guard needs to devote more management attention to resolving C4ISR design problems and directs the Coast Guard to provide a briefing on its plan to resolve them. Furthermore, the conferees direct the Coast Guard to improve the linkage between C4ISR and demonstrate its value to operations. (Page 146)