

**Before the Subcommittee on Transportation,  
Committee on Appropriations**

**United States Senate**

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# **U.S. Coast Guard Budget and Management Issues**

**Statement of**

**The Honorable Kenneth M. Mead**

**Inspector General**

**U.S. Department of Transportation**



Madam Chairwoman and Members of the Subcommittee:

We appreciate the opportunity to discuss Coast Guard's budget and management issues. We have identified balancing Coast Guard's missions and budget needs in light of post September 11 priorities as 1 of the top 10 management challenges in the Department of Transportation.

The Coast Guard is seeking a significant increase in its budget to be able to deal with an expanded security mission, perform its other major missions, and proceed with an extraordinary set of important major acquisitions. The budget will increase from \$5.7 billion in fiscal year (FY) 2002 to \$7.3 billion in FY 2003. There are currently a number of uncertainties about Coast Guard mission requirements, how it will execute major acquisition projects, and control costs. Coast Guard needs an effective cost accounting system that meets Federal accounting standards to provide a basis for accurately measuring the costs of specific activities and making decisions about where to apply resources.

My testimony today will address three areas.

***First, the budget request for 2003.*** Coast Guard is seeking an increase of \$1.6 billion for FY 2003. The largest portion of the increase is \$736 million for a required payment to Coast Guard's military retirement fund. Two other categories, operating expenses (up by \$733 million) and acquisitions (up by \$92 million), account for most of the remaining increase. The increase in Coast Guard's operating capacity is not as large as the increase in operating expenses makes it appear. About half of the operating expenses increase will pay for entitlements and other inflationary adjustments and not add to operating capacity. The other half of the increase will fund the operation of new assets, such as seagoing buoy tenders and coastal patrol boats, continue increased security operations begun after September 11<sup>th</sup> and fund new security operations.

Immediately after September 11<sup>th</sup>, Coast Guard devoted 58 percent of its resources to port safety and security, while deployment to other core missions fell. For FY 2003, Coast Guard plans to dedicate 27 percent of its resources to port safety and security programs. This is roughly twice the amount that Coast Guard planned to dedicate to these missions for FY 2002 prior to September 11<sup>th</sup>. The relative amount of resources Coast Guard plans to devote to drug interdiction and fisheries enforcement in FY 2003 is expected to decrease from planned FY 2002 levels. Coast Guard views its FY 2003 budget request as the initial phase of a 3-year plan to enhance its homeland security missions while still conducting other diverse missions that remain national priorities. It is not clear to us if Coast Guard intends to request additional increases in FYs 2004 and 2005 to support this plan.

***Second, the Search and Rescue program.*** Last year we reported that the readiness of the Coast Guard's small boat station search and rescue program was declining because it did not have sufficient numbers of qualified personnel, a formal training program for key staff, and equipment that was up to standards. Coast Guard developed a strategic plan to improve readiness and the Congress provided \$14.5 million for FY 2002 for added search and rescue program personnel and equipment. We have been directed to audit Coast Guard's use of these added funds and certify that the \$14.5 million supplements and does not supplant Coast Guard's level of effort in this area in FY 2001. The FY 2003 budget proposal seeks \$22 million to follow through on Search and Rescue program enhancements such as adding crew members to the 47-foot motor life boats and procuring small search and rescue boats.

Small boat stations are also playing a key role in port security activities since September 11<sup>th</sup>. More than half of all station hours are devoted to port security, and operating tempo has increased significantly. Given the emphasis on security missions, it is unclear whether Coast Guard has implemented its plan to address the Search and Rescue program deficiencies we identified. As part of our audit to certify the use of FY 2002 funds, we will determine the status of Coast Guard actions to address the deficiencies identified in our prior audit report.

***Third, major acquisition projects.*** The FY 2003 budget seeks \$590 million for Coast Guard's two largest acquisition projects, the Deepwater Capability Replacement and the National Distress and Response System Modernization. Both projects are critical to improving Coast Guard's operations, but both also have significant uncertainties that the Subcommittee should expect to see resolved this fiscal year.

- ***Deepwater*** - This is the second year that the Congress is being asked to appropriate procurement funding for the Deepwater project without a detailed cost and schedule estimate. If the Congress appropriates the \$500 million Coast Guard is seeking for 2003, it will have \$790 million available for the procurement phase of the project. Given the acquisition approach that Coast Guard is using, reliable estimates that describe what assets will be modernized or replaced, at what cost, when that will occur, and when funding will be required, will not be available until after a contractor is selected. The selection is currently scheduled for the third quarter of FY 2002.

Another area of uncertainty is how long the project will take to complete. Although Coast Guard originally stated this would be a 20-year project, the request for proposals states that the performance period for the contract could be up to 30 years. It is not clear to us whether this means that (1) previously planned annual funding levels will remain the same and result in increased

cost, or (2) the planned annual funding levels will be spread out and reduce the level of funding required each year.

- ***National Distress and Response System (NDS)*** - Coast Guard has increased its estimate for the NDS project—the 911 system for mariners in distress—from \$300 million to \$580 million and it is seeking \$90 million in the FY 2003 budget to begin procurement. If the Congress appropriates the \$90 million Coast Guard is seeking for FY 2003, it will have \$125 million available for the procurement phase of the project.

The current system has many deficiencies including more than 88 communication coverage gaps, totaling 21,490 square nautical miles along the U.S. coastline where Coast Guard cannot hear mariners. The revised system will provide a significant improvement over the existing system.

However, we are concerned that Coast Guard reduced or eliminated capabilities in the revised system that it initially considered essential. This occurred because Coast Guard reduced performance specifications after contractors estimated that a system meeting Coast Guard requirements would cost more than \$1 billion. As a result of the reduced performance specifications, the revised system will still contain gaps in communication coverage. Because the acquisition strategy being used on NDS is following the same approach as that used on Deepwater, the number, size, and location of the gaps will not be known until a contractor's system is selected. Also, the time allowed to restore critical functions, if the system becomes unavailable, has been increased from 6 to 24 hours. However, at some time in the future, Coast Guard may have to upgrade the system to provide some or all of the capabilities that were to be provided by the \$1 billion system. We have recommended that Coast Guard develop an acquisition plan that includes cost and schedule estimates for upgrading the system to provide these capabilities.

## Coast Guard's Budget Request Represents a 27.6 Percent Increase

Coast Guard's FY 2003 budget request seeks an increase of \$1.6 billion or 27.6 percent over the FY 2002 budget. As shown in the following table, most of the increase is in three categories: operating expenses; acquisition, construction, and improvements; and military retirement fund payment.

Comparison of Coast Guard's FY 2002 Budget With Its  
FY 2003 Budget Proposal  
(\$ 000)

	FY 2002 Enacted	FY 2003 President's Budget	Change	Percent Change
Operating Expenses	\$3,902,679	\$4,635,268	\$732,589	18.8%
Acquisition, Construction and Improvements (AC&I)	\$643,900	\$735,846	\$91,946	14.3%
Environmental Compliance and Restoration	\$17,181	\$17,286	\$105	0.6%
Alteration of Bridges	\$15,466	0	-\$15,466	-100%
Retired Pay	\$876,346			
Coast Guard Military Retirement Fund		\$889,000	\$12,654	1.4%
Reserve Training	\$100,251	\$112,825	\$12,574	12.5%
Research, Development, Test and Evaluation	\$21,077	\$23,106	\$2,029	9.6%
Oil Spill Recovery	\$61,200	\$61,200	\$0	0.0%
Boating Safety	\$64,000	\$64,000	\$0	0.0%
Gift Fund	\$80	\$80	\$0	0.0%
<b>Sub Total</b>	\$5,702,180	\$6,538,611	\$836,431	14.7%
Payment to Coast Guard Military Retirement Fund		\$736,000	\$736,000	N/A
<b>Total</b>	\$5,702,180	\$7,274,611	\$1,572,431	27.6%

The increase includes approximately \$736 million for payment to Coast Guard's military retirement fund consistent with legislation proposed in October 2001 by the Administration. The \$736 million will fund the future retirement benefits of

current Coast Guard uniformed personnel. The \$889 million funding item in the above table for the Coast Guard Military Retirement Fund finances payments to existing retirees.

Acquisition funding would increase by \$92 million (14 percent) to \$736 million. This includes \$500 million for the Deepwater project, and \$90 million for the NDS project.

The FY 2003 budget request seeks \$4.6 billion for Coast Guard operations, a \$733 million (19 percent) increase over FY 2002. About half of the increase will fund entitlements such as pay raises, increased health care costs, and other inflationary adjustments. The other half of the increase will fund the operation of new assets (such as seagoing buoy tenders and coastal patrol boats), continue increased security operations begun after September 11<sup>th</sup>, and fund new and enhanced operations including port security. Funding for new security initiatives includes \$48 million for marine safety and security team; \$19 million for maritime escorts and safety patrols; \$60 million for enhanced communications, information, and investigations; and \$37 million for force protection.

### **The FY 2003 Budget Seeks to Balance Current Priorities With Coast Guard's Multiple Missions**

In response to the September 11<sup>th</sup> attacks, Coast Guard deployed 58 percent of its resources to port safety and security missions. These resources included its fleet

of rescue boats at small boat stations around the country. The redeployment, however, came at the expense of other important core missions. For example, resources deployed to drug interdiction fell from approximately 18 percent to 7 percent. Other missions such as fisheries enforcement, recreational boating safety, aids to navigation, and migrant interdiction were also hard hit.

For FY 2003, Coast Guard plans to use 27 percent of its operating expense budget for port safety and security programs. This is roughly twice the amount that Coast Guard planned to dedicate to these missions for FY 2002 prior to September 11<sup>th</sup>. To help fund the increased port safety and security program, Coast Guard will continue reduced levels of activity in other missions such as drug interdiction and fisheries enforcement. The following chart shows the resources projected to be used for major missions during FY 2003 compared to FY 2002. Because the amount of operating funding is different in each year, the change reflects the difference in the relative amount of resources projected by mission.

U.S. COAST GUARD MISSION PROFILE  
Percent of planned Operating Expenses Budget by Major Programs

<b>Program</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>Change</b>
<b><i>Programs Increased in FY 2003</i></b>			
Marine Safety	14%*	5%	+13%
Ports, Waterways, and Coastal Security		22%	
Aids to Navigation	15%	17%	+2%
Defense Readiness	2%	3%	+1%
<b><i>Programs Unchanged in FY 2003</i></b>			
Search and Rescue	12%	12%	0%
<b><i>Programs Decreased in FY 2003</i></b>			
Ice Operations	4%	3%	-1%
Other Law Enforcement	3%	2%	-1%
Migrant Interdiction	5%	4%	-1%
Marine Environmental Protection	11%	8%	-3%
Living Marine Resources	16%	11%	-5%
Drug Interdiction	18%	13%	-5%

\*Combined in FY 2002

The Coast Guard is in the process of balancing its enhanced port safety and security mission requirements with its other missions. According to Coast Guard, the FY 2003 budget request represents the initial phase of a 3-year plan to address its needs. The Coast Guard's goal is to enhance all of its homeland security missions while still conducting other diverse missions that remain national priorities. It is not clear to us if Coast Guard intends to request additional increases in FYs 2004 and 2005 to support this plan.

**FY 2003 Budget Continues Efforts to Address Deficiencies in the Small Boat Station Search and Rescue Program**

Coast Guard's small boat station Search and Rescue program provides the first line of response for mariners in distress. During FY 2000, the 188 small boat stations responded to approximately 40,000 calls for help and saved over 3,300 lives.

As we reported to you last year, the small boat station Search and Rescue (SAR) program was suffering from serious staffing, training, and equipment problems that go back more than 20 years. Our findings were:

- staff shortages required personnel at 90 percent of the SAR stations to work an average of 84 hours per week;
- high attrition rates among enlisted personnel were impacting experience levels at small boat stations;
- 70 percent of vacant positions at small boat stations were filled with Coast Guard boot camp graduates with little or no training in seamanship, piloting and navigation, small boat handling, water survival, or search and rescue techniques;
- there was no formal training for boatswain's mates, who are key SAR staff and one of the largest of the Coast Guard's enlisted job specialties;
- 84 percent of the standard rescue boat fleet inspected by the Coast Guard in FY 2000 were found to warrant a "Not Ready for Sea" evaluation; and
- Coast Guard had not requested funding to replace or extend the useful life of its 41-foot utility boat fleet, which is reaching the end of its service life.

In response to our recommendations, Coast Guard initiated a multi-year strategy to improve readiness at small boat stations. For example, during FY 2002, Coast

Guard added 199 billets to support station operations and is in the process of expanding training opportunities for station boatswain's mates. In its FY 2002 supplemental funding request, Coast Guard received an additional 54 billets and funding to purchase 18 port security boats to augment station port security operations.

In DOT's FY 2002 Appropriations Act, Congress directed Coast Guard to use \$14.5 million to add personnel, purchase personnel protection equipment, and begin the process of replacing its aging 41-foot utility boat fleet. We have been directed to audit and certify that the \$14.5 million supplements and does not supplant Coast Guard's level of effort in this area in FY 2001. The FY 2003 budget proposal seeks \$22 million to follow through on SAR program enhancements, such as adding crew members to the 47-foot motor life boats and procuring small search and rescue boats.

In December 2001, the Coast Guard briefed us on its strategic plan for the small boat station SAR program. The plan identified actions to address the deficiencies found during our audit by, for example, adding personnel at stations to reduce the hours crew members are on duty and to provide administrative support to station management, freeing up management to train and certify crew members. Coast Guard also planned to increase the number of coxswains receiving advanced training, purchase personnel protection equipment for boat crews, and begin the process of designing and procuring a replacement for the 41-foot utility boat.

Since September 11th, the operating tempo at small boat stations more than doubled as they responded to support port safety and security efforts while maintaining a successful search and rescue capability. More than half of all station hours are now devoted to the port security mission. In addition, Coast Guard called up reservists and enlisted the Coast Guard auxiliary to support the port security mission. This mission includes: enforcing security/safety zones around high-risk vessels, oil/gas/chemical terminals, and power plants; conducting harbor patrols; providing round-the-clock force protection around U.S. Navy and Coast Guard vessels and facilities; escorting high-risk vessels in and out of ports, and transporting sea marshals and boarding teams to and from vessels. Given the emphasis on security, it is unclear whether Coast Guard has implemented its plan to address the SAR program deficiencies we identified. As part of our audit to certify the use of FY 2002 funds, we will determine the status of Coast Guard actions to address the deficiencies identified in our prior audit report.

### **Acquisition, Construction, and Improvements Budget Provides a Significant Funding Increase for NDS and Deepwater**

The FY 2003 budget request seeks an acquisition funding increase of \$92 million (14 percent) to \$736 million. The funding request includes \$90 million and \$500 million for the NDS and Deepwater projects, respectively. As proposed, the NDS and Deepwater projects account for 80 percent of Coast Guard's capital budget for FY 2003.

## **The NDS Project Is Likely to Experience Cost Growth**

The 30-year old National Distress System no longer supports Coast Guard's short-range communication needs. System deficiencies, such as communication coverage gaps and limited direction finding capabilities, complicate Coast Guard's ability to effectively and efficiently perform search and rescue missions. For example, at least 88 major communication coverage gaps exist where Coast Guard cannot hear calls from mariners in distress. Totalling about 21,500 square nautical miles, the communication coverage gaps represent 14 percent of the total NDS coverage area and range in size from 6 to more than 1,600 square nautical miles.

Over the last 6 years, Congress appropriated \$56 million for planning the NDS project. In the planning phase, Coast Guard and its technical support agent performed a significant amount of technical and market research and worked directly with three contractors to design a system that would meet Coast Guard's needs. During March 2001, each of the contractors submitted a cost proposal that individually exceeded \$1 billion—nearly three and a half times Coast Guard's \$300 million estimate.

When the contractors' cost estimates came in higher than expected, Coast Guard revised the system's performance specifications to lower the costs to an estimated \$580 million. The proposed system will provide significant improvement over the

existing system. However, Coast Guard eliminated or reduced capabilities in the \$1 billion system that Coast Guard originally considered essential to address deficiencies in the existing system and to improve the SAR program efficiencies.

As currently designed the proposed system:

- Contains communication coverage gaps, meaning Coast Guard will not be able to hear and locate all mariners in distress even when they are within the system's planned range of 20 nautical miles of shore. While it is anticipated that the gaps will not be as large or as numerous as the 88 gaps in the existing system, the exact size and location will not be known until a contractor is selected later this year.
- Cannot pinpoint the location of distressed mariners. The proposed system will provide only the general direction of the distress call. Compared to the \$1 billion system, the revision has negatively impacted Coast Guard's original project goal to take the "search" out of search and rescue. Consequently, Coast Guard may have to perform other investigative procedures and conduct wide-area searches to locate distressed mariners.
- Restoring system outages will take longer. In the proposed system, the specified time allowed to restore critical system functions if they become unavailable has been extended from 6 hours to 24 hours and full system functions from 12 hours to 7 days. Coast Guard has no set parameters for restoring critical functions if the existing system becomes unavailable.

- Reduced the capability to support an increased level of operations during a national emergency or a natural disaster. Capabilities that were eliminated, such as the ability to send classified information and to talk with other agencies such as the Department of Defense, may be necessary to support some Coast Guard homeland security activities.

While it is notable that Coast Guard has taken aggressive action to reduce cost estimates for NDS, Coast Guard may have to restore capabilities that were reduced or eliminated as the system is deployed to meet operational requirements. This will not only increase the cost of the NDS project, but will further compound Coast Guard's capital acquisition challenge.

We have recommended that Coast Guard develop an acquisition plan for approval of the Department prior to obligating any funds appropriated for the procurement contract, which is anticipated to be awarded in the fourth quarter of FY 2002. Coast Guard fully concurred with our recommendation. However, given our concern over the reduction in capabilities, we have since recommended that Coast Guard ensure the acquisition plan also contains cost estimates and milestones for adding the capabilities that were reduced or eliminated. In addition, we recommended that the plan should identify how Coast Guard intends to meet its short-range communication needs in response to its increased homeland security mission.

## **Uncertainties With the Deepwater Project Should Be Resolved This Year**

The Deepwater project proposes to replace or modernize 209 aircraft, 92 vessels, and associated sensor, communications, and navigation systems that are approaching the end of their useful life. This project involves replacing or modernizing all of the Coast Guard assets that are critical to missions that occur 50 miles or more offshore, including drug interdiction, search and rescue, and migrant interdiction.

This project is unusual not only because of its size, but also because, if all goes as planned, it concentrates the responsibility for project success with one contractor (called the Integrator) and subcontractors extending over a planned period of at least 20 years. Given this, the Coast Guard should expect a high level of scrutiny by the Department and the Congress regarding this project.

The Congress supported the planning phase of the project by appropriating about \$117 million. The Coast Guard plans to replace its Deepwater capability as an integrated system rather than a series of distinct procurements. For example, instead of specifying that it wants a medium endurance cutter or a long-range helicopter, Coast Guard tasked three industry teams to propose vessels and aircraft that can work together to meet mission needs more effectively. The planning

process has been comprehensive and provides Coast Guard a good basis for identifying its needs and developing an acquisition strategy.

The Coast Guard is rapidly approaching an important crossroads with respect to the Deepwater project. Although it previously planned to award the Integrator contract in the second quarter of FY 2002, Coast Guard has appropriately delayed the award to provide additional time to further analyze industry proposals. The award is currently scheduled for the end of the third quarter of FY 2002. The award of the integrator contract will start the Coast Guard moving forward on a course that is likely to be difficult and potentially expensive to alter once funding has been committed and contracts have been executed.

Coast Guard has not yet provided a reliable cost estimate for the Deepwater project, but that should be resolved once the Integrator is selected. The selection of the contractor will mark the beginning of discussions and negotiations between the Coast Guard and the winning contractor to devise the exact system the contractor will provide. It is likely the final system will not be exactly what the contractor proposed but will combine certain aspects from all three contractors' proposals. Once the final system design and configuration is determined, Coast Guard will be able to establish a cost estimate and deliverable schedule.

Coast Guard received \$290 million for the Deepwater procurement in FY 2002. If it receives the \$500 million requested in FY 2003, Coast Guard will have

\$790 million available for the procurement phase of the project. Although Coast Guard originally thought this would be a 20-year project, the request for proposal states that the performance period for the contract could be up to 30 years. It is not clear to us whether this means that (1) previously planned annual funding levels will remain the same and result in increased cost, or (2) the planned annual funding levels will be spread out and reduce the level of funding required each year.

Madam Chairman, this concludes my statement. I would be happy to answer any questions the Subcommittee may have.