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Testimony

Before the Subcommittee on Coast Guard and Maritime
Transportation, Committee on Transportation and
Infrastructure, House of Representatives

For Release on Delivery
Expected at 10:00 a.m. EST
Wednesday
March 15, 2000

COAST GUARD

Budget Challenges for
2001 and Beyond

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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss challenges that the Coast Guard faces in its fiscal year 2001 and future budget requests. For fiscal year 2001, the Coast Guard is asking for \$4.7 billion, representing a 14-percent increase over this year's appropriations. Over the last 4 years, we have issued a series of reports¹ and testified before this Subcommittee² and others³ on budget challenges facing the agency. A major budget challenge facing the Coast Guard involves its Deepwater Project—an effort to replace or modernize the Coast Guard's cutter and aircraft fleets and their associated support systems. This project could cost about \$10 billion or more over the next 20 years. The Coast Guard is asking for \$42.3 million in fiscal year 2001 for the Deepwater Project, in part to pay three teams of contractors that are developing proposals for the agency's next generation of ships and aircraft. About a year from now, in its fiscal year 2002 budget request, the agency plans to ask for \$350 million for this project. Beginning in fiscal year 2003 and throughout the remaining life of the project, annual funding requests exceeding \$500 million are expected. Although large in its scope, the Deepwater Project is by no means the only budget issue that the Coast Guard faces. As we have reported previously, the Coast Guard has a number of opportunities to improve the efficiency and cost-effectiveness of its operations. Taking advantage of these opportunities will require the Coast Guard to make some tough decisions and reconsider some fundamental positions about its operations.

My testimony today, which is based on recently completed and ongoing work, addresses two topics: (1) the Coast Guard's progress in justifying and managing its Deepwater Project and (2) opportunities for improving the Coast Guard's operating efficiencies.

¹ *Coast Guard: Challenges for Addressing Budget Constraints* (GAO/RCED-97-110, May 14, 1997), *Coast Guard's Acquisition Management: Deepwater Project's Justification and Affordability Need to Be Addressed More Thoroughly* (GAO/RCED-99-6, Oct. 26, 1998), and *Coast Guard: Review of Administrative and Support Functions* (GAO/RCED-99-62R, Mar. 10, 1999).

² *Coast Guard: Key Budget Issues for Fiscal Years 1999 and 2000* (GAO/T-RCED-99-83, Feb. 11, 1999).

³ *Coast Guard: Strategies for Procuring New Ships, Aircraft, and Other Assets* (GAO/T-RCED-99-116, Mar. 16, 1999), and *Federal Management: Challenges Facing the Department of Transportation* (GAO/T-RCED/AIMD-99-94, Feb. 25, 1999).

In summary, our work shows the following:

- Our prior report on the Deepwater project questioned its justification and affordability. For example, the Coast Guard had significantly understated the remaining useful life of its aircraft and ships. In response to our report, the Coast Guard is addressing many of our concerns regarding the justification for the project by gathering additional data on the condition of its existing ships and aircraft. However, the Coast Guard plans to request significant funds—starting with \$350 million for fiscal year 2002—before the planning phase of the project is completed and without having some other key issues resolved. For example, the Coast Guard will ask the Congress to approve funding for the program before it has developed and proven the effectiveness of new technologies, such as the development of software used in communications equipment, and received assurance that the contractor can successfully produce a product on time and at cost. Experience has shown that when projects are undertaken before major uncertainties like these are resolved, cost, schedule, and performance risks increase. How the Coast Guard manages risks in the acquisition process—particularly in the next 12 to 18 months—is critical to the success of the program. At the request of this Subcommittee, we will examine the revised justification for the project and the Coast Guard's management of the acquisition process and report to you early next year.
- The Coast Guard has opportunities to improve the efficiency and cost-effectiveness of its operations. Past studies by us and others have recommended cost-cutting measures, such as consolidating or closing training centers and other facilities, lengthening rotation periods for military personnel, and more efficiently managing the spare parts inventories for cutters and aircraft. The Coast Guard has not taken action on many of these recommendations, although it is working on systems to improve the management of its spare parts inventories.

- In a report we issued earlier this month, we identified another area that would save money for the federal government, although not have a major effect on the Coast Guard's budget.⁴ It involves the potential conversion of commissioned officer positions in administrative and support positions to civilian positions. The Coast Guard has agreed to examine whether conversions of the military officer positions that we identified are possible.

The Coast Guard Is Addressing Our Concerns on the Deepwater Project, but Key Questions Remain as It Seeks More Funding

The Coast Guard is addressing many of our previous concerns about the justification of the Deepwater Project. However, numerous uncertainties still exist, including the project's affordability, the accuracy of estimates for project costs and delivery, the adequacy of management controls in place to oversee the project, and the contracting strategy to be used. These challenges must be addressed both before and after it awards a contract for its Deepwater system in January 2002.

Last year, we testified before this Subcommittee and others that the Coast Guard lacked accurate and complete data as a basis for justifying the Deepwater Project, including information on the useful life, performance shortfalls, and capability gaps of the Coast Guard's existing fleet of aircraft and ships. According to Department of Transportation guidelines, these data should have been available before the Coast Guard had its contractors design a new deepwater system starting in August 1998. Two important actions have occurred since we testified before this Subcommittee last year:

- First, in December 1999, an Interagency Task Force on U.S. Coast Guard Roles and Missions—spearheaded by the Office of Management and Budget (OMB)—concluded that there is a national interest in having the Coast Guard continue its maritime and national security responsibilities. The Task Force also stated that planning for the

⁴ *Coast Guard Workforce Mix: Phased-In Conversion of Some Support Officer Positions Would Produce Savings* (GAO/RCED-00-60, Mar. 1, 2000).

modernization of the Coast Guard's Deepwater ships and aircraft is a national priority. The Coast Guard has contracted with the Center for Naval Analysis (a nonprofit research and analysis organization) to use the findings of the Task Force to revise its justification for the Deepwater Project. The Coast Guard expects to issue its revised justification later this year.

- Second, the Coast Guard has developed additional data on the condition of its ships and aircraft and has provided this information to its contractors. For example, an October 1998 study on the condition of Coast Guard aircraft concluded that with appropriate maintenance and upgrades, these aircraft would be capable of operating to 2012 and beyond.⁵ Also, a September 1999 study on the condition of Coast Guard cutters concluded that assuming maintenance support remains at current levels, Coast Guard cutters have a service life until 2007 and beyond.⁶ Having these data available before contractors begin designing the overall Deepwater system would help ensure that contractors design systems that fully utilize existing assets and that they develop realistic implementation plans and cost estimates. However, three teams of contractors are well along in developing separate Deepwater proposals, and the Coast Guard estimates that they have completed more than half of their basic designs for the system. The Coast Guard acknowledges the importance of providing contractors with accurate data on the need to replace or modernize deepwater ships and aircraft and has done so as the data have been developed.

Three areas critical to the ultimate success of the Deepwater Project still need to be addressed and monitored closely as the project proceeds:

- First, the affordability of the project is a major concern. The Coast Guard may be asking the Congress for levels of funding for its capital projects that far exceed historical funding levels. For example, last year we estimated that the Coast Guard's

⁵ *Aviation Near-Term Support Strategy*, U.S. Coast Guard, (updated Oct. 28, 1998).

⁶ *USCG WHEC/WMEC Fleet Condition and Remaining Service Life Study*, Nichols Advanced Marine, (Sept. 30, 1999).

total capital budget needs will be about \$700 million annually beginning in fiscal year 2003, including about \$500 million for the Deepwater project. This is almost twice the average annual capital funding it has received in recent years. To help agencies like the Coast Guard that face large capital expenditures, OMB calls on them to prioritize their planned capital projects. To be in a position to fund the Deepwater project, the Coast Guard has begun to do this. For example, the Coast Guard has established an "Investment Board" composed of senior agency managers who evaluate the agency's assets and assign priorities to capital acquisition projects. In addition, the Congress has required the agency to build a 5-year capital investment plan as a means of managing its budget within future funding constraints.

Recognizing that affordability will be a major factor in the project's success, the Coast Guard has asked its contractors and a third-party consultant to explore alternative implementation and spending plans for the project. For example, the evaluation by contractors will include identifying the optimum and minimum funding streams for building the Deepwater system.

- Second, uncertainties on cost, schedule, and the performance of the overall Deepwater program will likely remain when it is launched next year before the planning phase of the project is completed. The Coast Guard plans to request \$350 million for the Deepwater Project in February 2001, but it will not complete its planning process until contractors submit their final proposals in July 2001 and it awards the contract for the Deepwater Project in January 2002. Beyond the issue of asking for funds that may not be fully supported by a completed planning process, the federal government's implementation of many major acquisition projects has not been good and provides some lessons for the Deepwater Project. For example, our prior work on other major acquisition projects such as those undertaken by the Department of Defense (DOD), Federal Aviation Administration, and Department of Energy shows that projects are often undertaken despite uncertainties regarding engineering designs, software development, the compatibility of different components in the system, manufacturing processes, affordability, and assurance that contractors can successfully produce a product on time and at cost. When this

happens, experience shows that cost increases, schedule slips, and production problems can occur. The Coast Guard faces similar uncertainties and must take care to avoid problems that have beset these other programs. Clearly, the Coast Guard needs to modernize its cutter and aircraft fleets in the future but must do it right and minimize the risks associated with the program. How well the Coast Guard identifies and manages its risks will be a key to its success.

- Third, the Coast Guard's current acquisition strategy is unique, and its success may not be known for some time. The agency's strategy calls on three teams of contractors—which have been working on the project for about the last 18 months—to propose designs and schedules to replace or modernize all of the Coast Guard's deepwater ships, aircraft, and associated systems. Each contractor team is composed of a consortium made up of an aircraft manufacturer, a shipyard, and manufacturers of radars, communications, and other types of equipment. The Coast Guard expects to award a contract to only one of the contractor teams in January 2002 to modernize or replace all deepwater ships, aircraft, and systems over the next 20 years. Initially, the Coast Guard expects that competition among the three teams of contractors to design the system will help to control costs and produce the best design. However, because the Deepwater Project will involve the same contractor team delivering different components (for example, ships, aircraft, and communications equipment) at different times over the 20-year period, a key question is how costs will be controlled and performance ensured once the contract is awarded in 2002. Because the Coast Guard will be "locked-in" to a single contractor team, the Coast Guard's strategy must incorporate ways to ensure that it procures technologically up-to-date equipment at a fair and reasonable price.

Coast Guard Has Opportunities to Improve Its Efficiency

The Coast Guard carried out a series of actions to streamline its operations and achieved significant cost-savings from fiscal years 1994 through 1999. While a number of issues were addressed, others were not, and we believe that the Coast Guard has additional

opportunities to improve its operating efficiencies. At the request of this Subcommittee, we have studied cost-cutting options for the Coast Guard. Many of these options, which are still relevant today, have not been adopted. Following are several examples of these options:

- Lengthen periods between assignment rotations for military personnel. In general, the Coast Guard rotates its officers and enlisted personnel every 2 to 4 years. Past studies by groups outside the Coast Guard have pointed out that lengthening periods between reassignments could substantially reduce transfer costs, which now amount to more than \$75 million annually.⁷ Moreover, the Coast Guard's relocation costs for officers is higher than the costs for DOD officers. The Coast Guard thinks its current rotation policies are appropriate and does not plan to study the issue further. Coast Guard officials said that changing current practices would have several undesirable effects, including reduced opportunities to command a variety of units or vessels and lower morale among personnel assigned to undesirable locations for extended periods of time. However, the agency has offered no data or analyses to support these claims.
- Consolidate functions or close facilities. Previous studies by the Coast Guard have identified this as another option to reduce expenditures. For example, several years ago, the Coast Guard identified a cost-cutting option that would consolidate its training facilities, a move that would have resulted in annual savings of about \$9 million, by closing the facility at Petaluma, California. Fearing opposition by the local community, the Coast Guard postponed taking this step. The possible closure of some boat stations and the Coast Guard's Shipyard near Baltimore, Maryland, have also been discussed in the last several years, but no action has been taken.

⁷ According to the Coast Guard, about 50 percent of rotations are non-discretionary, such as relocation of a member who retires, and another 25 percent result from the need to relieve staff from arduous duty.

- Consolidate cutter and aircraft spare parts inventory systems. Coast Guard officials have stated that the consolidation of information systems for cutter and aircraft spare parts could save money. The Coast Guard is currently developing independent systems for its cutters (Fleet Logistics System) and its aircraft (Aviation Logistics Management Information System). These officials indicated that it is too late to achieve any savings by consolidating the systems at this stage in their development. However, they plan to explore the potential for consolidating the systems after both systems are operational.

The Coast Guard has not implemented many of these efficiency-enhancing options because they are controversial, require cultural changes within the Coast Guard, or are not popular with the public. We have suggested several possible strategies and approaches for encouraging the Coast Guard to be more proactive in pursuing efficiency measures. One approach to help the agency identify and implement facilities' consolidations and closures is to institute a facility closure approach similar to the one DOD used to evaluate base closures. Under this approach, an independent commission would be given the authority to recommend the closure of some of the Coast Guard's facilities. To date, such a commission has not been established.

Another area that would not provide significant budgetary savings for the Coast Guard, especially in the short-term, but would save money for the federal government over the longer-term involves the use of civilian rather than military personnel in some administrative and support positions. As we reported earlier this month, we believe that about 800 commissioned officer positions in administrative and support positions have potential for conversion to civilian positions. Doing so could result in long-term potential savings that amount to about \$15 million annually for the federal government because the salary and benefits of a commissioned officer are, on average, approximately 21 percent more expensive than those of a civilian employee in the same position. To its credit, the Coast Guard has agreed that additional conversions, in addition to those it has made in the past, are possible and that it will examine each of the positions we identified for conversion.

In conclusion, the Deepwater Project will be at a critical juncture in the next 12 to 18 months because once the project is launched and a major infusion of funding occurs, it will become more difficult to change the project's course. Completing project planning, adopting a sound acquisition strategy, and providing effective oversight of contractors are vital elements to the project's success. The Coast Guard's plan to request significant funds for the project next February while many uncertainties still remain should be closely examined. At the request of this Subcommittee, we are currently evaluating this issue and other aspects of the project, including how well the Coast Guard is positioning itself for the challenges ahead. We will report to you before budget hearings next year on this important matter. Even though the Deepwater Project may be the most significant single budget challenge that the Coast Guard faces, we believe the agency should vigorously explore any opportunities to improve its operational efficiency, including the potential conversion of certain commissioned officer positions to civilian positions.

Mr. Chairman, this concludes my testimony. I will be happy to respond to any questions you or other Members may have.

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