

**THE COAST GUARD'S READINESS,  
MISSION BALANCE, AND FISCAL YEAR  
2005 BUDGET REQUEST**

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**HEARING**

BEFORE THE

SUBCOMMITTEE ON OCEANS, FISHERIES, AND  
COAST GUARD

OF THE

COMMITTEE ON COMMERCE,  
SCIENCE, AND TRANSPORTATION

UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

APRIL 7, 2004

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ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

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**THE COAST GUARD'S READINESS,  
MISSION BALANCE, AND FISCAL YEAR  
2005 BUDGET REQUEST**

WEDNESDAY, APRIL 7, 2004

U.S. SENATE,  
SUBCOMMITTEE ON OCEANS, FISHERIES, AND COAST GUARD,  
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,  
*Washington, DC.*

The Committee met, pursuant to notice, at 2 p.m. in room SR-428(A), Russell Senate Office Building, Hon. Olympia Snowe, presiding.

**OPENING STATEMENT OF HON. OLYMPIA J. SNOWE,  
U.S. SENATOR FROM MAINE**

Senator SNOWE. The hearing will come to order. I will begin this hearing, subject to recess for two votes that will begin somewhere around 2:15. They'll be back to back votes, so it is important to proceed with the hearing and then recess at the appropriate time.

I thank you for accommodating the change in time for this hearing so that we can proceed more expeditiously this afternoon.

I would like to thank both of you, Admiral Collins and Ms. Wrightson, for being here today to testify at this critical hearing on the Coast Guard's readiness, mission balance, and obviously the Fiscal Year 2005 budget request.

I've called for this hearing today to further examine the readiness concerns, due to the overall degradation of the Coast Guard's assets, that were raised last month during the full Commerce Committee hearing reviewing the challenges that the Coast Guard faces in balancing its homeland security and traditional missions, and to ensure that we provide the Coast Guard with the 2005 budget it needs to meet all of its responsibilities and obligations under the law.

As Chair of the Oceans, Fisheries, and Coast Guard Subcommittee, I strongly believe the Coast Guard serves as a cornerstone of our new Department of Homeland Security and is uniquely positioned to perform a wide variety of missions critical to our Nation's domestic safety and security. Last year alone, the Coast Guard responded to more than 31,500 calls for assistance and saved nearly 5,100 lives. These brave men and women risk their lives to defend our borders from drugs, illegal immigrants, acts of terror, and other national security threats.

In 2003, the Coast Guard prevented 136,865 pounds of cocaine and 140,059 pounds of marijuana from crossing our borders. It also

stopped more than 6,000 illegal migrants from reaching our shores, conducted more than 3,400 boardings to protect our vital fisheries stock, and responded to more than 19,000 pollution incidents. Additionally, the Coast Guard deployed approximately 1,200 personnel and 11 cutters in support of Operation Iraqi Freedom.

The Coast Guard also aggressively defended our homeland by conducting more than 36,000 port security patrols, boarding more than 8,000 vessels, escorting more than 7,000 vessels, and maintaining more than 115 security zones. The Coast Guard is currently reviewing approximately 9,500 vessel and 3,500 facility security plans which must be in place by the 1st of July. I understand further the Coast Guard will finish the port security assessments for all of our Nation's 55 strategic ports by the end of the calendar year.

And so I want to applaud the Coast Guard for this record of success. At the same time, I'm greatly concerned, and I know Admiral Collins has spoken to this issue as well, about the toll such a high operational tempo is taking on the Coast Guard's antiquated ships and aircraft, and ultimately on its personnel.

And Admiral Collins, I must say, I was struck by your testimony on maritime security last month before the full committee, in which you laid out some of the issues and impacts stemming from the degradation and sustainment problems of your current equipment in terms of aircraft and cutters. That's obviously something we're going to have to address very carefully.

Nearly one half of the Coast Guard's 110-foot patrol boats have suffered hull breaches and, during the last year, the Coast Guard lost the equivalent of 4 years of high and medium endurance cutter patrol time due to emergency maintenance, which was necessary to keep the cutters operational. And just recently, your service determined that the safety and reliability problems with the HH-65 helicopter are so severe that you must re-engine all of them within the next 2 years, several years ahead of the original Deepwater time table.

This level of degradation is unacceptable and threatens the Coast Guard's ability to accomplish all of its many missions. The time to act on this is now, before we are further in crisis.

Today, we are considering the Administration's Fiscal Year 2005 budget request, which proposes approximately \$7.3 billion in additional funding for the Coast Guard. That represents a 6 percent increase over the previous year and it comes in addition to a 10 percent increase over Fiscal Year 2003. While these increases on the surface may appear to be sufficient, I am concerned that even this is not sufficient to address many of the issues that I—and certainly Admiral Collins—have raised.

So as we delve into this budget request, we will find it does not significantly increase funding for the Coast Guard's Deepwater project, even though the Coast Guard is clearly in desperate need of upgrading its legacy assets. More importantly, the Administration's request would put this program on a 22 year time line, which is 2 years behind the original 20 year plan. This is not acceptable.

The 20 year plan isn't acceptable, let alone a 22 year plan. So I'm going to continue to fight for Deepwater acceleration because it's the best and most cost effective way to remedy the Coast

Guard's readiness problem and provide the Coast Guard with the tools it requires to carry out its responsibilities under the law.

While these additional resources are desperately needed, our new reality requires the Coast Guard to operate more efficiently and smarter if it is also going to successfully carry out all of its traditional missions. Maintaining a proper mission balance is a significant challenge for the Coast Guard. As Ms. Wrightson will testify, we have to balance the available resource inputs with our expectations for mission requirements.

While the Coast Guard is devoting approximately 44 percent fewer operational hours to its counterdrug mission than it did prior to September 11, I understand that by utilizing intelligence, new technology, and smarter tactics and partnering with other agencies, the Coast Guard has succeeded in bettering its drug seizure rates, which are now at some of the highest levels in history.

It's also my understanding that half way through the current Fiscal Year, the Coast Guard is on pace to break its cocaine seizure record as well. This is very commendable, Admiral Collins, and I want to commend each and every man and woman in your force because that is really an exceptional accomplishment on the part of your team, given all that you have to deal with. I just want to learn from you how we can carry forward those lessons for other missions, particularly fisheries law enforcement.

So I look forward, Admiral Collins, to hearing your testimony and discussing your agency's budget, as well as the other issues that I have raised. Our Nation depends on the Coast Guard today more than ever. I intend to ensure you, you will have the necessary resources to carry out your responsibilities, both in your homeland security and your non-homeland security responsibilities.

Ms. Wrightson, I understand that you now lead the GAO's new Homeland Security and Justice Team, and this is your first opportunity to testify before the Subcommittee. I want to welcome you and thank you for all the services that you have provided thus far in carrying out your responsibilities in your first year on the job. And I know there have been several GAO reports that you have completed on many of the issues that we're concerned about in this Subcommittee. So I welcome you as well and look forward to your testimony.

We'll begin with the witnesses and, of course, our first witness is Admiral Collins, Commandant of the U.S. Coast Guard. I want to welcome you, Admiral Collins, and I appreciate your once again appearing before the Committee, and I'm looking forward to your testimony.

And our second witness, of course, is Ms. Margaret Wrightson, who is the Director of the GAO's Homeland Justice and Security Team. I welcome you as well, Ms. Wrightson.

So Admiral Collins, why don't you begin.

[The prepared statement of Senator Snowe follows:]

PREPARED STATEMENT OF HON. OLYMPIA J. SNOWE, U.S. SENATOR FROM MAINE

Admiral Collins and Ms. Wrightson, I'd like to thank both of you for testifying at this critical hearing on the Coast Guard's Readiness, Mission Balance, and Fiscal Year 2005 Budget Request.

I called for this hearing today to further examine the readiness concerns due to the overall degradation of the Coast Guard's assets, that were raised during last

month's Full Committee hearing; review the challenges the Coast Guard faces in balancing its homeland security and traditional missions; and ensure that we provide the Coast Guard with the Fiscal Year 2005 budget it needs to carry out all of its many responsibilities.

As Chair of the Oceans, Fisheries, and Coast Guard subcommittee, I strongly believe the Coast Guard serves as a cornerstone of our new Department Homeland Security and is uniquely positioned to perform a wide variety of missions critical to our Nation's domestic safety and security. Last year alone, the Coast Guard responded to more than 31,500 calls for assistance and saved nearly 5,100 lives. These brave men and women risk their lives to defend our borders from drugs, illegal immigrants, acts of terror, and other national security threats.

In 2003, the Coast Guard prevented 136,865 pounds of cocaine and 140,059 pounds of marijuana from crossing our borders. It also stopped more than 6,000 illegal migrants from reaching our shores, conducted more than 3,400 hoardings to protect our vital fisheries stocks, and responded to more than 19,000 pollution incidents. Additionally, the Coast Guard deployed approximately 1,200 personnel and 11 cutters (including the Maine-based WRANGELL) in support of Operation Iraqi Freedom.

The Coast Guard also aggressively defended our homeland by conducting more than 36,000 port security patrols, boarding more than 8,000 vessels, escorted more than 7,000 vessels, and maintaining more than 115 security zones. Under the MTSA, the Coast Guard is currently reviewing approximately 9,500 vessel and 3,500 facility security plans which must be in place by July 1. I understand further the Coast Guard will finish the Port Security Assessments for all of our Nation's 55 strategic ports by the end of the calendar year.

While I applaud the Coast Guard for this record of success, I am greatly concerned about the toll such a high operational tempo is taking on the Coast Guard's antiquated ships and aircraft and ultimately on its personnel. Admiral Collins, I was struck by your testimony during last month's Full Committee Hearing on Maritime Security in which you laid out the depths of the legacy asset sustainment problems faced by the Coast Guard.

I know nearly one half of the Coast Guard's 110-foot patrol boats have suffered hull breaches and during the last year the Coast Guard lost the equivalent of four years of high and medium endurance cutter patrol time due to emergency maintenance, which was needed to keep the cutters operational. And just recently, your service determined that safety and reliability problems with the HH-65 helicopter are so severe that you must re engine all of them within the next two years, several years ahead of the original Deepwater time line. This level of degradation is unacceptable and threatens the Coast Guard's ability to accomplish all of its many missions.

The time to act on this is now, before we are further in crisis. Today, we are considering the Administration's Fiscal Year 2005 budget request, which proposes approximately \$7.3 billion in funding for the Coast Guard. This is approximately a 6 percent increase over last year and comes on the heels of a 10 percent increase over Fiscal Year 2003. While these increases on the surface may appear to be sufficient, I am concerned that even this is not enough.

What's more, as we delve into this budget request, we find it does not significantly increase funding for the Coast Guard's Deepwater project, even though the Coast Guard is clearly in desperate need of upgrading its legacy assets. More importantly, the Administration's request would put this program on a 22 year time line, which is two years behind the original 20 year plan. This is not acceptable. I will continue to fight for Deepwater acceleration because it is the *best and most cost effective* way to remedy the Coast Guard's readiness problems and provide the Coast Guard with the tools it needs to carry out all of its missions.

While these additional resources are desperately needed, our new reality requires the Coast Guard to operate more efficiently and smarter if it is going to also successfully carry out all its traditional missions. Maintaining a proper mission balance is a significant challenge for the Coast Guard. As Ms. Wrightson will testify, we have to balance the available resource inputs with our expectations for mission performance.

While the Coast Guard is devoting approximately 44 percent fewer operational hours to its counterdrug mission than it did prior to September 11, I understand that by utilizing intelligence, new technology, smarter tactics, and partnering with other agencies the Coast Guard has succeeded in bettering its drug seizure rates at some of the highest levels in history. It is my understanding that half way through the current fiscal year the Coast Guard is on a pace to break its cocaine seizure record. This is very commendable and I look forward to hearing how we can



use these lessons to improve the performance of the Coast Guard's other traditional missions such as fisheries law enforcement.

Admiral Collins, I look forward to discussing your agency's budget request as well as the other issues I have raised. Our nation needs the Coast Guard today more than ever before. I intend to ensure you have the necessary resources to carry out the agencies homeland security and non-homeland security duties.

Ms. Wrightson, I understand that you now lead the GAO's new Homeland Security and Justice Team and this is your first opportunity to testify before this subcommittee. I want to welcome and thank you for all the service you have provided us thus far in your first year on the job. I look forward to hearing your testimony and working with you in the future.

#### **STATEMENT OF ADMIRAL THOMAS H. COLLINS, DEPARTMENT OF HOMELAND SECURITY, UNITED STATES COAST GUARD**

Admiral COLLINS. Thank you very much for having me before the Subcommittee to discuss the important topic of our 2005 budget and the services that we provide to the American people every day. I want to first thank the Subcommittee for the support in passing the Coast Guard Authorization Bill last week, which provides improvements.

Senator SNOWE. Finally.

Admiral COLLINS. Sometimes you've got to be patient and great things happen, and it did in this case, and I think it provides for critical benefits for Coast Guard personnel. Very, very importantly, it raises the number of officers that the Coast Guard may have for the first time since 1993, and is a very, very important issue for us, something we have not been successful with in the House, but really appreciate the support of this committee because those additional officers are absolutely fundamental and critical to us in executing the 2005 budget and particularly implementing the Maritime Transportation Security Act. It's just the type of folks that we need to oversee and implement that particular rule.

I'm also very pleased to testify alongside Margaret Wrightson, of GAO. We value and we welcome GAO's assessment of our service and assessment of our processes. Simply put, they help us make ourselves better. And they're currently involved in, or recently have completed, 16 audits of the Coast Guard. For example, they have been productively involved in our Deepwater Modernization Program from the very inception and their wise counsel has helped us shape this program along the way, and keep improving it. It's sort of a continuous improvement approach to this very complex undertaking, and we appreciate their assistance.

The latest Deepwater contract management audit makes a number of helpful recommendations which we are aggressively working on. We are committed to good stewardship of this critical project, and we will make periodic reports back to GAO on our progress on each and every recommendation.

In all, GAO and this Committee and others have also examined whether we'll be able to sustain our pace of operations and support our full range of missions, all the while making homeland security the priority it should be. Clearly, we have been faced with increasing operational tempo since 9/11, but from an outcome or performance perspective, and as detailed in my written statement, we continue to hold our own across all our mission areas.

In retrospect, we have been able to sustain this level of outcome due to several factors. First is our flexible allocation of limited assets to the greatest risk. Both within and across missions, we are a risk-based organization. We manage, we invest, we operate based on risk.

Second, we are effectively improving our tactics and leveraging intelligence, technology, and partnerships that I have already alluded to.

Third, we have invested in multi-mission platforms and multi-mission people, which gives our organization the flexibility to effectively and efficiently react to shifting mission priorities. I think that is a good story for the American people.

Fourth, we are blessed with dedicated and hard-working professional Coast Guard men and women.

And finally, the last factor, we're growing thanks to the support of Secretary Ridge, President Bush, and this committee. Between 2002 and 2004, our discretionary budget grew from \$4.1 billion to \$5.8 billion, and we've added over 3,000 people during this time-frame.

We are adding both capacity and capability. For example, total annual boat, cutter, and aircraft hours have increased from the pre-9/11 average of 534,000 to the Fiscal Year 2004 level of 891,000, a 68 percent increase in the cutters, boats, and aircraft available to do our missions.

The Coast Guard's 2005 budget continues this growth trend, with a proposed budget authority of \$7.46 billion. Our operating expense budget will have grown over the period 2003 to 2005 by 54 percent at this rate, and this growth supports the full range of our Coast Guard missions. It provides the necessary resources for us to continue to fulfill our responsibilities to the American public.

And there are four basic priorities embedded in this budget. First is to recapitalize our aging and technologically obsolete aircraft, boats, and cutters, through our Deepwater Modernization Program. Our legacy systems are wearing out at a much faster rate than their current rate of replacement. And from my perspective, this is the single greatest threat to continued mission performance.

Second, to ensure consistent operational performance across all missions and by ensuring the right force mix and right set of capabilities are in place, the 2005 budget, for example, includes operational funding for 11 additional coastal patrol boats and for five 179-foot ships transferred from the Navy, changing the gray painting to white, and overall adds 1,300 people to our workforce in 2005.

My third priority is aggressive implementation of the Maritime Transportation Security Act of 2002. Over \$100 million and 791 new personnel support this very critical security initiative and we are on track to enforce compliance very aggressively effective 1 July of this year.

The fourth priority is to expand maritime domain awareness. Critical to enhancing our performance across all missions, we must identify and understand threats. We must disseminate timely information to operational commanders and partners to best respond to terrorist attacks, drug smuggling, illegal migration, distressed boaters, or illegal fishing. A start of this effort is included in the

2005 budget request. And of course, Coast Guard people make our operational excellence possible and the 2005 budget provides the necessary funding, pay compensation, allowances and so forth to our people. And most importantly, the 2005 budget keeps us on track to making sure that our men and women are properly equipped, have the quality equipment to do their jobs.

I look forward to working with you on this budget through this year. Thank you very, very much for your very, very aggressive support for our programs. And I'd be happy to answer any questions you might have.

[The prepared statement of Admiral Collins follows:]

PREPARED STATEMENT OF ADMIRAL THOMAS H. COLLINS, DEPARTMENT OF  
HOMELAND SECURITY, UNITED STATES COAST GUARD

**Introduction**

Good afternoon, Madam Chairwoman and distinguished members of the Subcommittee. It is a pleasure to appear before you today to discuss the Coast Guard's Fiscal Year 2005 budget request, and its critical importance in your Coast Guard being able to deliver essential daily services to the American public.

First, let me begin by saying I am extremely grateful for the Subcommittee's support in passing the Coast Guard Authorization Bill last week. It contains critical provisions to improve homeland security, fishery enforcement, marine safety, and environmental protection missions, and it helps provide critical benefits for Coast Guard personnel through expansion of housing authorities and use of military childcare facilities. It raises the ceiling on total number of officers the Coast Guard may have, the first time this limit has been raised since 1993, and which is desperately needed in order to execute the Fiscal Year 2005 budget request and such critical initiatives as implementing the Maritime Transportation Security Act of 2002.

I am also pleased to testify alongside Margaret Wrightson of GAO. GAO is currently involved or recently completed 16 audits on the Coast Guard. While we don't always agree with the GAO, we do more often than not, and we always value and welcome their input as they are making the Coast Guard better. For example, GAO recently completed an Integrated Deepwater System contract management audit and made fourteen recommendations. I concur with their recommendations and we are diligently addressing every single recommendation. I'm committed to continuous improvement of the Deepwater program, and I'm incorporating GAO's recommendations as well as other best business practices, into its operating procedures. These changes are so important I intend to make periodic reports on our progress—the first is due April 20, 2004.

The Coast Guard's Fiscal Year (FY) 2005 budget proposes budget authority of \$7.46 billion, a nine percent increase over FY 2004, and continues our effort to enhance capability and competencies to perform both safety and security missions. It supports the goals of the President's National Strategy for Homeland Security to prevent terrorist attacks, reduce our vulnerabilities, and minimize damage from attacks that do occur.

Before I discuss our FY 2005 budget, I would like to take a few moments to discuss some of our accomplishments during the past year. You deserve a quick report on how we have used the resources this Subcommittee has provided us in the past and I am proud of the results that Coast Guard men and women continue to deliver for the country. During FY 2003, the Coast Guard:

- Interdicted over 6,000 undocumented migrants attempting to illegally enter the country by sea.
- Prevented more than 136,800 pounds of cocaine, over 14,000 pounds of marijuana and more than 800 pounds of hashish from reaching U.S. shores.
- Aggressively conducted more than 36,000 port security patrols, including 3,600 air patrols, 8,000 security boardings and over 7,000 vessel escorts.
- Deployed the largest contingent of Coast Guard personnel overseas since the Vietnam War to support Operation Iraqi Freedom, including 11 cutters, two shoreside support units, and over 1,200 personnel.
- Saved the lives of nearly 5,100 mariners in distress and responded to more than 31,500 calls for assistance.

- Boarded more than 3,400 fishing vessels to enforce safety, environmental and economic laws.
- Mobilized 64 percent of our reserve force to enhance protection of our ports, waterways and critical infrastructure during heightened states of alert, and to support the Combatant Commanders.
- Kept critical shipping channels clear of ice in the Great Lakes and New England ensuring the availability of critical energy products.
- Maintained more than 50,000 Federal aids to navigation along 25,000 miles of maritime transportation highways.
- Responded to over 19,000 reports of water pollution or hazardous material releases.
- Completed the most difficult re-supply of McMurdo Station (Antarctica) during Operation Deep Freeze in 40 years. USCGC Polar Sea and USCGC Healy smashed through 50 miles of ice more than 13-feet thick to enable U.S. scientists to continue their studies of the Earth's climate.

In addition, we have become a proud member of the Department of Homeland Security that consolidated 22 agencies and nearly 180,000 employees. We are committed to working with our partner agencies as one team engaged in one fight, and I truly believe having one Department responsible for homeland security has made America more secure today. An example of this one team-one fight motto is very evident in the developing events in Haiti. Under the direction of the Secretary of Homeland Security, the Homeland Security Task Force—Southeast was stood-up as part of OPERATION ABLE SENTRY. Led by Coast Guard Rear Admiral Harvey Johnson, the task force is comprised of many agencies chartered to plan, prepare, and conduct migrant interdiction operations in the vicinity of Haiti due to the escalation of violence in that country and the threat of a mass exodus of undocumented migrants. In the first week of interdiction operations, the task force demonstrated impressive agility and synergy:

- Coast Guard cutters, many with Citizenship and Immigration Service (CIS) asylum pre-screening officers and interpreters aboard, interdicted 17 Haitian vessels with 1,076 undocumented migrants,
- Coast Guard and Immigration and Customs Enforcement (ICE) aircraft patrolled the skies throughout the operating area,
- Coast Guard, ICE, and Customs and Border Protection (CBP) boats conducted coordinated patrols off the Florida coast,
- Coast Guard and ICE conducted a coordinated boarding of a boat suspected of being hijacked off the coast of Miami,
- Coast Guard, CBP, ICE, and the Transportation Security Administration command center, public affairs, and intelligence staffs fully engaged,
- Federal Emergency Management Agency (FEMA) deployed three Information and Planning Specialists to the task force in support of contingency planning.

In addition, we have begun aggressively implementing the Maritime Transportation Security Act thanks in large part to a herculean inter-agency effort. Final Rules were published in October 2003 and security plans from approximately 9,500 vessels and 3,500 facilities were due on December 31, 2003. To date, approximately 99 percent have been received. We will continue to aggressively pursue 100 percent compliance, and have instituted a phased implementation of penalties to ensure that all regulated facilities have implemented approved security plans by the 1 July 2004 deadline. In early February, we initiated civil enforcement action against those owners or operators who did not submit their plans, with nearly 160 Notice of Violations (Civil Penalties) of \$10,000 issued for failing to file an assessment report. Many of these vessel and facility owners have subsequently submitted their security plans. As a result, as of today, the Coast Guard has only issued a second civil penalty (of \$25,000 each) to four owners/operators during the second phase of enforcement program. We completed eleven port security assessments, and have established 43 Area Maritime Security Committees to provide enhanced planning, communication and response for our Nation's ports. We have met with nearly sixty countries representing the vast majority of all shippers to the U.S., reinforcing a commitment to the International Ship and Port Facilities Security (ISPS) code. We have commissioned additional Maritime Safety and Security Teams (MSSTs) and plan to have 13 teams by the end of CY 2004. We are installing an Automatic Identification System (AIS) network in nine coastal locations that have Vessel Traffic Services improving our awareness of the maritime domain, and are simultaneously designing a nationwide system.

### **The Need to Sustain Growth in FY 2005**

Despite these accomplishments, there is still much to do. The last few weeks paint a clear and vivid picture of the breadth, scope and national importance of all Coast Guard missions. Rescue personnel from our mid-Atlantic units responded to the distress call from the burning and sinking Singaporean tanker *Bow Mariner*, and six crewmen were saved from 44 degree water. A Coast Guard cutter seized the entire catch from a fishing vessel off the New England coast for having twice the legal limit of lobster on board and more importantly having female egg bearing lobsters that a biologist indicated had been scrubbed of eggs. Our search and rescue and living marine resource response capability was sustained even as 15 cutters, 6 aircraft, and approximately 1,550 personnel deployed south positioning from the coast of Haiti to the approaches to South Florida as part of Homeland Security Task Force-Southeast, and interdicted 1,076 Haitian migrants. Simultaneously, we have four Patrol Boats, two Port Security Units, and 377 personnel deployed in support of operations in Iraq. Just last week the Coast Guard Cutter *MIDGETT* returned home from a patrol in the Eastern Pacific after seizing 27,000 pounds of cocaine in three boardings, setting a record for the most cocaine seized by a cutter in a single patrol. As you can see, demand for Coast Guard resources continue to expand, while our ships and aircraft continue to age. The Coast Guard is the nation's lead Federal agency for maritime homeland security and marine safety. Critical new resources are required to establish a new level of maritime security while continuing to perform the full range of Coast Guard missions.

The budget requests resources that are necessary for the Coast Guard to fulfill its responsibilities to the American public. For Fiscal Year 2005, my priorities are:

- Recapitalize operational assets;
- Enhance performance across all missions by leveraging Coast Guard authorities, capabilities, competencies and partnerships;
- Aggressively implement the comprehensive requirements of MTSA; and
- Expand awareness of activities occurring in the maritime domain

### **Recapitalize Operational Assets**

The Coast Guard's greatest threat to mission performance continues to be that our aircraft, boats and cutters are aging, technologically obsolete, and require replacement and modernization. The majority of these assets will reach the end of their service life by 2008, and have increasing operating and maintenance costs, which results in lost mission performance, mission effectiveness, unnecessary risks, and wear and tear on people. These assets are failing at an alarming rate. Recent asset failures and their subsequent impact on operational readiness exemplify the downward readiness spiral created by increasingly aging capital assets coupled with a more demanding operational tempo. Frankly, the existing system is failing in numerous areas and I am concerned that we are reaching a "declining readiness spiral" phenomenon. Deferred modernization results in reduced patrols and readiness, corresponding increased maintenance needs and higher total ownership costs. Recapitalization funds are then needed to keep old assets operating, which only defers modernization starting this declining cycle over again. The Coast Guard is faced with trading asset modernization funding toward legacy asset maintenance and capability to address immediate safety and reliability concerns. Some examples of why I am so concerned:

- HH-65 Helicopter engine system casualties: in-flight engine partial power losses occurred at a rate of 63 per 100,000 flight hours in FY 2003, and is significantly higher so far in FY 2004. This rate far exceeds the FAA standard of one per 100,000 hours and the U.S. Navy Safety Center guidelines of no more than 10 mishaps per 100,000 flight hours. HH-65 helicopters are critical to Coast Guard operations including ongoing efforts off the coast of Haiti.
- 110-foot Patrol Boats: to date, 20 hull breaches requiring emergency dry docks. One cutter required emergency dry dock for hull breach only 14 weeks after a 10-month hull renewal project that had cost \$2 million. The 110-foot fleet is the high-speed workhorse during migrant interdiction operations such as the ongoing events in the vicinity of Haiti, and has repatriated 927 Haitian migrants thus far.
- 378-foot High Endurance Cutter: 3 out of total class of 12 ships have recently missed operations due to unscheduled maintenance to failing subsystems. A 378-foot cutter is currently serving as the on-scene command ship for Haitian operations.

All three of these asset classes (HH-65, 110, 378) are currently supporting the Coast Guard missions such as migrant and drug interdiction operations, ports waterways and coastal security, fisheries enforcement, and search and rescue, and the Coast Guard continues to be successful in spite of casualties and readiness levels. This success comes through the extraordinary efforts of Coast Guard personnel, and I'm concerned about our ability to continue this performance in the future. Cocaine seizures to date in FY 2004 total 38.9 metric tons, nearly double last year's pace which yielded the second highest seizure total ever (62.1 metric tons). The threat of a mass migration from Haiti, coupled with the flow of illegal drugs and undocumented migrants from other countries towards the U.S., highlights the value that the U.S. Coast Guard provides our Nation.

The Integrated Deepwater System (IDS) is the answer to these concerns and entails far more than the progressive replacement of our aging inventory. IDS is an integrated systems approach to upgrading existing legacy assets through a completely integrated and interoperable system. All of Deepwater's highly capable assets will be linked with modern command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR) architecture. The ability to link and network disparate platforms seamlessly over vast distances is an essential aspect to providing the Coast Guard the capability to detect and interdict potential threats prior to reaching our shores and ports. Deepwater assets are America's first line of defense to counter threats in the maritime domain, and thwart catastrophes to vulnerable infrastructure (oil rigs, deepwater channels, shipping). Funding for the Deepwater program is a critical investment in homeland safety and security and means a more secure United States of America.

The Coast Guard's deepwater assets are not the only capital assets that desperately need replacement. The FY 2005 budget also requests resources for:

- Rescue 21 project, which will be the primary command and control system to perform the functional tasks of detection, classification, and command and control in the inland and coastal zones for Search and Rescue. The existing National Distress System is inadequate to meet the safety requirements of growing marine traffic, and is not capable of meeting the requirements of the International Convention for the Safety of Life at Sea (SOLAS) treaty. Rescue 21 will expand existing capability through greater area coverage, and improved direction finding capability to enhance Coast Guard emergency response;
- Great Lakes Icebreaker, which is scheduled to replace USCGC MACKINAW in 2006 after 57 years of continuous service;
- Response Boat—Medium, which will replace the aging 41-foot Utility Boat, and will meet mission requirements for search and rescue, and emerging homeland security missions.

#### **Enhance Mission Performance**

To enhance mission performance the Coast Guard must optimize its unique authorities, capability, competency, and partnerships; while gaining the capacity in each to complete our full range of missions. Due to the Coast Guard's multi-mission nature, resources provided will assist in the performance of all missions. New assets will be used to conduct fishery patrols and search and rescue cases as well as protect the Nation against terrorist attacks.

FY 2005 budget initiatives that add capacity to enable mission performance include:

- Operational funding for eleven 87-foot Coastal Patrol boats built in 2004;
- Operational funding for five 179-foot Patrol Coastals being transferred to the Coast Guard from the Navy;
- Safety configuration changes to the 47-foot Motor Life Boat, which will allow crews to safely conduct missions in deteriorating weather conditions.

#### **Aggressively Implement the Maritime Transportation Security Act of 2002**

During the past year, the Coast Guard led the international maritime community in adopting a new international security regime requiring vessels and port facilities to develop security plans. This effort paralleled the requirements this committee helped establish through enactment of the Maritime Transportation Security Act (MTSA) of 2002. These regulations require that United States ports, vessels, and facilities each have a plan to protect against terrorist attacks. Aggressive implementation of MTSA is essential if we are to maintain the security of our ports and waterways at acceptable levels. To implement and enforce these regulations, the Coast Guard has a recurring requirement to develop, review, approve, and ensure vessels and facilities are sustaining their own security responsibilities for all aspects of

maritime security. Approximately 97 percent of required vessel and facilities have turned in security plans to date. We are issuing notices of violation to the ten percent that missed the deadline, are starting the process of approving security plans, and have commenced training of Coast Guard personnel to complete on-site verification. Providing the Coast Guard with the resources necessary to undertake this implementation and enforcement effort is a key step toward enhanced port, vessel and facility security.

We cannot have a safe and secure marine transportation system without the ability to properly safeguard merchant mariner documents and licenses. It was recently announced that the Coast Guard identified nine individuals holding merchant mariner credentials with possible associations to terrorism through Operation Drydock, a cooperative investigation with the FBI that has also led to approximately a dozen arrests for providing fraudulent information to the government on merchant mariner credential applications. Support of the FY 2005 budget will enable the Coast Guard to continue implementation of Mariner Licensing and Documentation (MLD) Program security improvements to safeguard the mariner credentialing system from criminals and terrorists. These security enhancements include sustained robust screening and evaluation of applicants, increased contact with the mariner, improved identification validation and record keeping technology and are intended to ensure a system with greater accountability of who is using Coast Guard credentials and enhance marine safety and national security.

#### **Maritime Domain Awareness**

Expanding awareness of activities occurring in the maritime domain is critical to enhancing Coast Guard performance in all mission areas. The U.S. maritime jurisdiction is enormous, covering some 3.5 million square miles of ocean and 95,000 miles of coastline. In addition, the Coast Guard projects a defense-in-depth presence in other areas such as the Caribbean and eastern Pacific to deter, detect, and interdict drug and migrant smugglers. The Coast Guard operates at times and in places no U.S. forces operate. The ongoing events off the coast of Haiti highlight the need for a robust maritime domain awareness capability. The Coast Guard has minimal capability to monitor the activities occurring within this maritime zone without the presence of a cutter or aircraft. We must identify and understand threats, and disseminate timely information to our operational commanders and our homeland security partners in order to respond to emerging threats such as terrorist attacks, drug smuggling, illegal migration, location of distressed boaters, or illegal fishing before they reach our borders. An intelligence and warning system that detects indicators of potential terrorist activity before an attack occurs is necessary to take preemptive and protective action. We are currently installing Automatic Identification System (AIS) in our Vessel Traffic Service (VTS) ports, and are formalizing the operational requirements to award a contract for installation of a nation-wide AIS network. \$4 million is requested in FY 2005 to continue this important project. This budget submission also includes 35 people to integrate all of our projects that provide maritime domain awareness (MDA), including AIS, Deepwater and Rescue 21, and these people will partner with the other Department of Homeland Security agencies, the Navy, and other entities to unite our joint efforts.

#### **Conclusion**

Thank you for your support in the Fiscal Year 2004 Emergency Supplemental. Funding is ensuring Coast Guard forces remaining in Iraq are properly resourced for the rest of Fiscal Year 2004.

None of what the Coast Guard has accomplished or is striving to achieve is possible without our *people*—the bedrock of our service. They routinely put their service above all else and I am convinced of their unwavering dedication to the security of this Nation and the safety of its citizens. They are our highest priority and most valuable resource.

The Coast Guard's Fiscal Year 2005 budget request improves the quality of life for Coast Guard men and women and their families by providing a pay raise, and continuing improvements in Basic Allowance for Housing (BAH) reducing out-of-pocket expenses from 3.5 percent to zero, and gives them the equipment and assets that will allow them to best contribute their time and talents to the safety and security of our Nation.

I have asked every member of the Coast Guard to continue to focus intently and act boldly on the three elements of my direction: improve Readiness; practice good Stewardship; and enhance the growth, development and well being of our People. With this diligence we will fulfill our operational commitment to America and maintain our high standards of excellence.

I look forward to working with you to that end.

Thank you for the opportunity to testify before you today. I will be happy to answer any questions you may have.

Senator SNOWE. Thank you, Admiral Collins. I appreciate your testimony and I will follow up with some question. I'd better suspend because I see the vote is on. So Ms. Wrightson, if you don't mind, I will go and vote, and we'll be right back. The hearing stands in recess.

[Recess.]

Senator SNOWE. The hearing will reconvene. Ms. Wrightson, I'm sorry for the interruption. Please proceed.

**STATEMENT OF MARGARET T. WRIGHTSON, DIRECTOR,  
HOMELAND SECURITY AND JUSTICE ISSUES,  
UNITED STATES GENERAL ACCOUNTING OFFICE**

Ms. WRIGHTSON. No problem at all. I wanted to depart from my statement just for a moment to return a compliment to the Commandant. We really—actually, we enjoyed the break, a chance to sit and chat. I can't remember in my various tours in GAO a time here where I've had a better relationship with the agency that we're auditing. So the Coast Guard calls it a good conversation and GAO, we call it a constructive engagement. So I just want to pass back the compliment. I didn't know we were doing 16 audits. I knew we were busy, but even that surprised me.

Senator SNOWE. Now you know why.

Ms. WRIGHTSON. So the Coast Guard has upped the bean counters here.

Senator SNOWE. I appreciate that, and I'm glad to hear it. I think that sets a great example.

Ms. WRIGHTSON. OK.

Senator SNOWE. I appreciate it.

Mr. WRIGHTSON. Even so, as you would expect GAO doing its job, my role here today is to discuss the management and budget challenges that the Coast Guard faces in this and future years, and my testimony is going to focus on three key concerns. First, on the issue of mission balance, asset usage has risen dramatically since the terrorist attacks of September 11, as you mentioned. All of this increase has been in homeland security. While non-homeland security program hours have been declining, their performance results have remained largely unchanged or even improved.

While this should provide some comfort to those of us who worry about mission balance, there are reasons for continued concern. Currently, the Coast Guard has limited data and no systematic approach to explain why resource expenditures do not appear clearly linked to performance results.

Second, to ensure Deepwater success, the Coast Guard should take immediate steps to improve its management and contractor oversight. Again, I was pleased to hear the Commandant's comments on this. Action on both would help justify any funding increases that may be provided to return the program to its original schedule.

Third, an 8 percent increase in Coast Guard funding, excluding the 2003 supplemental, is a substantial sum, especially in light of past budget increases. However, much of this funding increase is in the operating budget to pay salary and benefit increases for cur-



rent and retired employees. And looking at new initiatives, more than 90 percent of the increase is for the Coast Guard to implement key provisions of the Maritime Transportation Security Act, MTSA, which, as you know, is a new responsibility for the Coast Guard. And under this responsibility, the Coast Guard has the daunting task to review, approve and enforce port security planning requirements and all the improvements related thereto.

Turning to some of the important details on mission balance. By the end of Fiscal Year 2003, the total number of resource hours spent by Coast Guard's boats, ships, and aircrafts was up nearly 40 percent over the pre-9/11 baseline. That is an astounding figure. As the chart to my left shows, ports, waterways, and coastal security—one of the prominent homeland security missions—was the principal beneficiary, with non-homeland security missions, most notably LMR, Living Marine Resources, and SAR, remaining well below their pre-9/11 levels.

In contrast, and somewhat surprisingly, performance results remained unchanged for the most part or even improved. While the Coast Guard has reason to be pleased, there is also reason to be cautious. The service does not know with certainty why program results do not appear to be linked to resources expended. They do have ideas and I'm sure are going to discuss those today.

Although the Coast Guard can point to examples of productivity improvements or external intervening factors, and while our own audit work supported some of that evidence, it still needs to collect and more systematically incorporate information on these relationships into its planning and budgeting processes.

On Deepwater, the most significant challenge is keeping this ambitious, complex and important program on schedule and within planned budget projections. Added to this is the fact that key legacy assets are becoming increasingly unreliable and costly to maintain. If the situation worsens, the Coast Guard could be forced to reduce investments in critical planned acquisitions to fund repairs on the very assets it is seeking to replace. An examination of statistics on down time, unscheduled maintenance, and maintenance costs, some of which are shown in the line chart—could you flip that for me—provides some support for this concern.

We have always regarded Deepwater as a risk because of its acquisition strategy and the requirement for constant and large amounts of funding over many years. Our most recent review concluded that the risks we identified in 2001 remain risks today. To help mitigate them, we have recommended that the Coast Guard strengthen its Integrated Project Teams, IPTs, improve its metrics for and measurement of contractor performance, and beef up its oversight of contractor efforts to ensure competition. I was really pleased to hear today that the Coast Guard is embracing those, and we look forward to seeing those changes.

Stable funding for the program would also help, while the Coast Guard has not yet provided us a satisfactory analysis of the reasons for why the program is currently behind schedule and projected costs have escalated to \$2 billion more than estimated just a few years go. This trend must not be allowed to continue.

With respect to the budget, the President's request represents an 8 percent increase in nominal terms, excluding that supplemental

I mentioned. The largest share is for funds to fund current employee and retirement benefits. Most of the funds, as I said, for new initiatives are under MTSA, including new FTEs which will just be used to replace reservists, for the most part. These staff are responsible to approve vessel and facility security plans and ensure that the plans are being followed. Other funds will help to improve maritime domain awareness and intelligence capabilities.

Last fall, we testified on port security planning efforts and we raised questions to the Coast Guard about vulnerability assessments and whether these assessments were going to prove useful to port stakeholders and captains of the port. I'm pleased that the Coast Guard made improvements in response to our requests, and we will issue a report in June on the progress they're making.

In sum, it's a time of challenge for the Coast Guard. Thus far, they are meeting performance targets for most of their missions, notwithstanding a decrease in resources. But there are no guarantees. The steps we've outlined to the agency will help give it greater certainty as to whether it's spending too much, too little, or about right on various programs. And improvements in Deepwater should also help.

Thank you, Madam Chairman. And I really appreciate the time, and I would be happy to answer any questions you might have.

[The prepared statement of Ms. Wrightson follows:]

#### HIGHLIGHTS

##### **Coast Guard**

*Key Management and Budget Challenges for Fiscal Year 2005 and Beyond*

##### **Why GAO Did This Study**

As the lead Federal agency for maritime homeland security within the Department of Homeland Security, the Coast Guard is facing extraordinary, heightened responsibilities to protect America's ports, waterways, and waterside facilities from terrorist attacks. At the same time, the Coast Guard remains responsible for many other programs important to the Nation's interests, such as conducting search and rescue and protecting important fishing grounds. Its expanded responsibilities come at a time when budget resources are increasingly constrained, making prioritization among competing agencies and programs an even more critical factor in congressional decision-making. This testimony specifically addresses (1) the most recent trends in both resource usage and performance results for the Coast Guard's homeland security and non-homeland security programs; (2) challenges the agency faces as it proceeds with its Deepwater acquisition program to replace or modernize its key legacy cutters and aircraft; and (3) an overview of the President's Fiscal Year 2005 budget request for the Coast Guard, focusing on several areas of particular congressional interest.

##### **What GAO Found**

Resource usage for Coast Guard assets—its cutters, boats, and aircraft—was up almost 40 percent from the pre-September 11th baseline. Homeland security programs, such as the ports, waterways, and coastal security program, have been more likely to see increases in usage, while non-homeland security programs, such as living marine resources, remain below pre-September 11th levels. Although resource usage changed substantially for many of these programs, performance results generally improved or remained largely the same. The stable or improved performance results were attributed mainly to operational efficiencies (e.g., improved technology, improved tactics, stronger partnerships, and improved intelligence). However, the Coast Guard has limited data and no systematic approach to explain or account for the effects of these factors. Without such an approach and supporting data to link its resources and performance results, the agency may be missing further opportunities to increase productivity and efficiency to ensure best use of its funds.

Some of the Coast Guard's legacy Deepwater cutters, patrol boats, and aircraft are increasingly unreliable and costly to maintain, and timely and effective implementa-

tion of the agency's ongoing Deepwater acquisition program to modernize these assets is crucial in order to reverse this trend. However, the Coast Guard faces serious challenges to keep the Deepwater program on schedule and within planned budget estimates. We estimate that to return the program to its original 20-year completion schedule will cost about \$2.2 billion more than the Coast Guard estimated when the program was implemented in 2002. Also, available program funding, which has been less than the Coast Guard planned, may have to be used, in part, to address critical maintenance needs of the legacy assets, diverting funds otherwise intended for future Deepwater replacements and upgrades. Moreover, recent GAO work raised serious concerns about the management and oversight of the program, including the quality of the Coast Guard's assessment of the program contractor's performance and the uncertainty as to whether the Coast Guard would be able to effectively control costs.

The President's Fiscal Year 2005 budget request of about \$7.5 billion for the Coast Guard represents about an 8 percent increase over last year. It includes \$5.2 billion in operating expenses and \$943 million for its capital acquisition budget. Most of the new initiatives outlined in its operating expense budget are targeted for homeland security initiatives, including \$102 million for implementation of the Maritime Transportation Security Act of 2002. Aside from the new initiatives, two other efforts in the budget request may require further attention. The Coast Guard's multi-mission stations are still experiencing a heavy workload for station personnel because of increased homeland security responsibilities. Also, the Coast Guard's Rescue 21 program, which will replace the Coast Guard's current antiquated communication system, faces possible delays because of software system development problems.

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PREPARED STATEMENT OF MARGARET T. WRIGHTSON, DIRECTOR, HOMELAND SECURITY AND JUSTICE ISSUES, UNITED STATES GENERAL ACCOUNTING OFFICE

Madame Chair and Members of the Subcommittee:

I am pleased to be here today to discuss the President's Fiscal Year 2005 budget request for the Coast Guard and key management and operational challenges the agency faces in this and future budgets. As the lead Federal agency for maritime homeland security within the Department of Homeland Security (DHS), the Coast Guard is facing extraordinary, heightened responsibilities to protect America's ports, waterways, and waterside facilities from terrorist attacks and from becoming an avenue for terrorists to bring weapons of mass destruction into the country. The Coast Guard also remains responsible for many other programs important to the Nation's interests, such as helping stem the flow of illegal drugs and illegal migration, protecting important fishing grounds, and responding to marine pollution. These expanded responsibilities come at a time when budget resources are increasingly constrained, making prioritization among competing agencies and programs an even more critical factor in congressional decision-making.

To help meet its increased homeland security responsibilities and restore activity levels for its traditional programs, the Coast Guard received substantial budget increases from Fiscal Years 2001 to 2004. This trend continued with the President's Fiscal Year 2005 budget request for the Coast Guard of about \$7.5 billion, an 8 percent increase over the previous year. Still, despite the large budget increases since September 11, there is much congressional concern about whether the Coast Guard can continue to meet all of its responsibilities, given both the increased emphasis on and additional resources required for homeland security, and the agency's heavy reliance on its fleet of larger ships and mainstay aircraft, many of which are now aged and technologically obsolete. In addition, our past work<sup>1</sup> has shown that notwithstanding substantial increases in the Coast Guard's budget to accommodate its increased responsibilities, the Coast Guard's emphasis on homeland security reduced the level of resources devoted to non-homeland security programs.

My testimony today, which is based on recently completed work, addresses three topics: (1) the most recent trends in both resource usage and performance results for the Coast Guard's homeland security and non-homeland security programs; (2) challenges the agency faces as it proceeds with its Deepwater acquisition program to replace or modernize its key legacy cutters and aircraft; and (3) an overview of the President's Fiscal Year 2005 budget request for the Coast Guard, focusing on

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<sup>1</sup>U.S. General Accounting Office, *Coast Guard: Relationship between Resources Used and Results Achieved Needs to be Clearer*, (GAO-04-432, Washington, D.C.: Mar. 22, 2004); *Coast Guard: Strategy Needed for Setting and Monitoring Levels of Effort for All Missions*, (GAO-03-155, Washington, D.C.: Nov. 12, 2002).

several areas of particular congressional interest. We conducted our work from March 2004 to April 2004 in accordance with generally accepted government auditing standards.

In summary, our work shows the following:

- Resource usage—as measured by the number of hours the Coast Guard’s cutters, boats, and aircraft were used to perform its missions—were up almost 40 percent from the pre-September 11 baseline. Resource hours for homeland security programs benefited most, while hours for non-homeland security programs generally declined. In contrast, performance results for both homeland and non-homeland security programs generally improved or remained largely unchanged. The Coast Guard believes that the lack of a clear relationship between resource use and performance results is attributable to both internally and externally driven factors. According to the Coast Guard, the use of new technologies, better operational tactics, improved intelligence, and stronger partnering efforts have contributed to stable or improving performance results despite declines in resource hours used for some programs. The Coast Guard also pointed to external factors beyond the agency’s control, such as a surge of undocumented migrants attempting to enter the United States by maritime routes, as affecting the results. Although our work lends some support to these explanations, the Coast Guard has limited data and no systematic approach to explain or account for the effects of these factors. Without such an approach and supporting data to link its resources and performance results, the agency may be missing further opportunities to increase productivity and efficiency to ensure the best use of its funds.
- The most significant challenge the Coast Guard faces as it moves forward with its Deepwater program is keeping the program on schedule and within planned budget estimates through a well-managed and adequately funded effort. Adding to the challenge is the fact that key legacy assets are becoming increasingly unreliable and costly to maintain. This could put the Coast Guard at risk of expending funds to repair deteriorating legacy assets that otherwise had been planned for Deepwater modernization initiatives. This action could potentially further delay the program and increase total program costs. For example, the Coast Guard is using Deepwater funds to address recent engine system problems on mainstay helicopters used for search and rescue, and law enforcement. More attention to contract management and oversight, and stable funding will be needed if the Coast Guard is to successfully manage these risks. During the first 2 years of the Deepwater program, after the contract was signed, the Coast Guard did not get the funding originally planned, and now the program is behind schedule. The Coast Guard estimates that a sustained funding level of \$795 million over the remaining years of the program will be necessary to get the program back onto its original 20-year schedule. In nominal dollars, this amount represents about a \$2.2 billion escalation in costs over the earlier \$15 billion estimate. Aside from funding issues and problems with legacy assets, our recent work has also raised concerns about the Coast Guard’s management of the program. Among the issues we identified were problems with the quality of the Coast Guard’s assessment of the contractor’s performance and the uncertainty as to whether the Coast Guard would be able to effectively control costs.
- The President’s fiscal year budget request for the Coast Guard represents an 8 percent increase over last year, and new initiatives continue to focus on the Coast Guard’s homeland security programs. Of the new initiatives outlined in its operating expense budget, for example, about 90 percent of the funding was for homeland security initiatives. The largest, totaling almost \$102 million, is targeted for the cost of implementing the Maritime Transportation Security Act of 2002. This money would add about 500 new personnel (full-time-equivalent) to approve vessel and facility security plans, ensure plans are being followed, and perform various other inspection and intelligence activities. Aside from the new initiatives, two other efforts may require special attention in the budget request. One of these areas, the readiness of its multi-mission stations, has been a congressional concern in recent years. Since 2002, the Congress has earmarked additional funding to provide more personnel, equipment, and training for multi-mission stations. While personnel have increased by about 1,100 between Fiscal Years 2001 and 2003, the workload of these stations is still a major concern. For example, station personnel are currently averaging an 83-hour workweek, which is virtually unchanged from 2001, and well beyond the Coast Guard’s standard of 68 hours per week. Rescue 21, the Coast Guard’s second largest procurement effort, will replace the Coast Guard’s current antiquated communication system that is key to carrying out its search and rescue

functions. This program, which is estimated to cost \$953 million, has encountered delays related to software integration problems. Currently, Coast Guard officials are unsure whether Rescue 21 will be completed on time at the end of Fiscal Year 2006, but they do not anticipate any cost escalation in the program.

### Background

Now a part of DHS, the Coast Guard has experienced substantial budget growth since the terrorist attacks of September 11. The agency's operating budget in Fiscal Year 2004 was \$4.7 billion—an increase of 31 percent in nominal dollars over its Fiscal Year 2001 operating budget. The Coast Guard spends the bulk of this money on 11 programs—5 related to its homeland security mission and 6 related to its non-homeland security mission. (See table 1.)

Table 1.—Homeland Security and Non-Homeland Security Programs by Mission Area (as of March 2004)

Missions and programs	Activities and functions of each program
<i>Homeland security mission</i>	
Ports, waterways, and coastal security	Conducting harbor patrols, vulnerability assessments, intelligence gathering and analysis, and other activities to prevent terrorist attacks and minimize the damage from attacks that occur.
Illegal drug interdiction	Deploying cutters and aircraft in high drug trafficking areas and gathering intelligence to reduce the flow of illegal drugs through maritime transit routes.
Undocumented migrant interdiction	Deploying cutters and aircraft to reduce the flow of undocumented migrants entering the United States by maritime routes.
Defense readiness	Participating with the Department of Defense (DOD) in global military operations, deploying cutters and other boats in and around harbors to protect DOD force mobilization operations.
Other law enforcement (foreign fish enforcement) <sup>a</sup>	Protecting U.S. fishing grounds by ensuring that foreign fishermen do not illegally harvest United States fish stocks.
<i>Non-homeland security mission</i>	
Search and rescue	Operating multi-mission stations, and a national distress and response communication system, conducting search and rescue operations for mariners in distress.
Living marine resources	Enforcing domestic fishing laws and regulations through inspections and fishery patrols.
Aids to navigation	Managing U.S. waterways and providing a safe, efficient, and navigable marine transportation system; maintaining the extensive system of navigation aids; monitoring marine traffic through vessel traffic service centers.
Ice operations	Conducting polar operations to facilitate the movement of critical goods and personnel in support of scientific and national security activity and conducting domestic and international icebreaking operations to facilitate year-round commerce.
Marine environmental protection	Preventing and responding to marine oil and chemical spills; preventing the illegal dumping of plastics and garbage in U.S. waters and preventing biological invasions by aquatic nuisance species.
Marine safety	Setting standards and conducting vessel inspections to better ensure the safety of passengers and crew aboard commercial vessels, cruise ships, ferries, and other passenger vessels and partnering with states and boating safety organizations to reduce recreational boating deaths.

Source: Coast Guard.

<sup>a</sup>Foreign fish enforcement is a key subset of the Coast Guard's other law enforcement program. For this report, we consider only the resource hours and performance results associated with the foreign fish aspect of the other law enforcement program. We subsequently refer to this program as foreign fish enforcement.

To carry out these responsibilities, the Coast Guard had almost 44,500 full-time military and civilian positions at the end of Fiscal Year 2003—about 9 percent more than it had in Fiscal Year 2001.<sup>2</sup> Also, the Coast Guard operates a fleet of more than 200 cutters and patrol boats, about 1,600 smaller boats, and almost 200 aircraft—mainly helicopters. Several efforts are under way to replace, modernize, or

<sup>2</sup>These numbers include about 38,000 military and 6,200 civilian personnel. In addition, the Coast Guard has about 7,900 reservists, as well as about 36,000 volunteer auxiliary personnel who help with activities ranging from search and rescue to boating safety education.

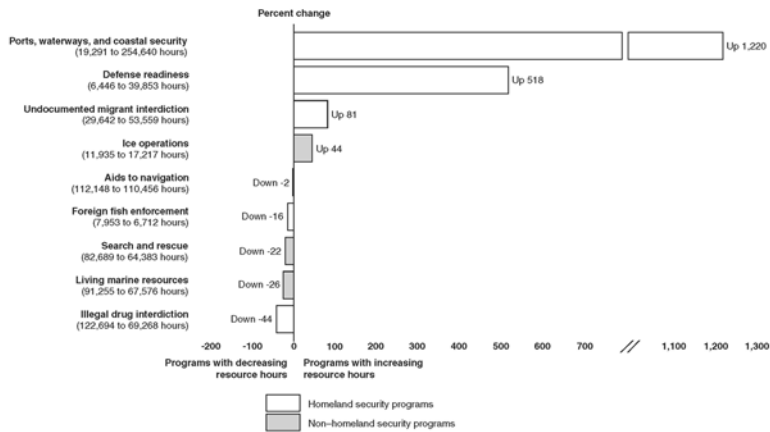
add to these assets. The major one, the Deepwater program, was begun in 1996, to replace or modernize the Coast Guard’s existing ships and aircraft, as well as make use of innovative technology such as satellites and improved detection capabilities to carry out its varied mission responsibilities. Deepwater involves the modernization and replacement of over 90 ships and 200 aircraft used for missions that generally occur beyond 50 miles from shore.

The Deepwater program has been in development for a number of years. Between 1998 and 2001, three industry teams competed to identify and provide Deepwater assets needed to transform the Coast Guard. In June 2002, the Coast Guard awarded a contract to Integrated Coast Guard Systems (ICGS) as the system integrator for the Deepwater program to develop and deliver an improved, integrated system of ships, aircraft, unmanned aerial vehicles, command, control, communications, computer, intelligence, surveillance, and reconnaissance, and supporting logistics. During the first 3 years of the program (Fiscal Years 2002–2004), the Congress appropriated about \$1.5 billion for the program.

*Resource Hours Have Changed Substantially for Many Programs, While Performance Results Have Largely Remained Stable*

Total Coast Guard resource hours devoted to its various programs have increased by 39 percent since the September 11 terrorist attacks.<sup>3</sup> Among the various Coast Guard programs, however, there is a marked difference in the degree to which resource levels rose or declined. Of the various programs, the ports, waterways, and coastal security program saw by far the largest increase—more than 1,200 percent. Before the September 11 attacks, this program was a small component of the Coast Guard, accounting for less than 4 percent of total resource hours. By the end of Fiscal Year 2003, the program accounted for 34 percent. As figure 1 shows, resource hours were up in 4 programs and down in 5. Homeland security programs have been more likely to see increases in hours, while non-homeland security programs have been more likely to see decreases.

Figure 1: Percentage Change in Resource Hours, by Program, Pre-September 11 Baseline to Fiscal Year 2003



Source: GAO analysis of Coast Guard resource hour data.

<sup>3</sup> Resource hours, which are the number of hours that Coast Guard ships, boats, and aircraft are used in each Coast Guard program, provide a basis for assessing levels of effort in 9 of the Coast Guard’s 11 programs. We used resource hours for cutters, boats, and aircraft as an activity measure because the Coast Guard does not have a system that tracks how its personnel spend their time by program. The Coast Guard calculated a resource hour baseline from which the change in resource hours since the September 11 attacks can be estimated. This baseline is an average of the eight Fiscal Year quarters preceding September 11, 2001 multiplied by four to put it in terms of a full Fiscal Year. For the purposes of this report, we refer to this calculation as the pre-September 11 baseline or as pre-September 11 levels. According to Coast Guard officials, there is no special significance to this baseline period, other than it represents the historical mission activity of the Coast Guard at that period in time. Although the Coast Guard tracks resource hours for all 11 of its programs, 2 of the 11 are carried out substantially without the use of cutters, boats, and aircraft. These two are marine safety (such as conducting ship inspections in port) and marine environmental protection (such as responding to oil or chemical spills).

While resource hours changed substantially for many of these programs, their corresponding performance results did not necessarily reflect the direction of these changes. Most Coast Guard programs have key indicators—such as the percentage of distressed mariners’ lives saved—that the Coast Guard uses to report program performance. Seven of the 9 programs we reviewed had information on these indicators over the 3-year period.<sup>4</sup> Of these, only 1—defense readiness—showed a consistent relationship between resources and performance results. (See table 2.) For that program, resources increased and performance results improved. For the others, performance either remained stable despite changes in resources, or they actually improved even though resources decreased.<sup>5</sup>

Table 2.—Comparison of Trends in Resource Hours and Performance Results, by Program

Program <sup>a</sup>	Increase or decrease in resource hours, pre-September 11 baseline to Fiscal Year 2003	General trend in performance results, comparing Fiscal Year 2001 with Fiscal Year 2003 <sup>b</sup>
<i>Programs with an inconsistent relationship between resources and performance results</i>		
Undocumented migrant interdiction	Increase	Stable
Ice operations	Increase	Stable
Search and rescue	Decrease	Stable
Living marine resources	Decrease	Stable
Foreign fish enforcement	Decrease	Improved
Aids to navigation	Stable	Improved
<i>Program with a consistent relationship between resources and performance results</i>		
Defense readiness	Increase	Improved
<i>Programs with incomplete information on trends</i>		
Illegal drug interdiction	Decrease	Data not yet available for 2003

<sup>a</sup>Source: GAO analysis of Coast Guard resource hour and performance data.

<sup>b</sup>Coast Guard has not yet established performance measures for the ports, waterways, and coastal security program. Consequently, it is not included in this table.

<sup>c</sup>For this report, we were most interested in comparing performance results for Fiscal Year 2001 with the most currently available results—from Fiscal Year 2003. As a result, we defined programs as “stable” or “improved” based on the known results for these 2 years. All programs defined as “stable” showed a differential of less than 4 percentage points when comparing Fiscal Year 2001 and Fiscal Year 2003 results.

Another way that the Coast Guard assesses its performance is by determining whether programs have achieved their performance targets each year. These targets—which represent the goals that the programs aim to achieve each year—were met in Fiscal Year 2003 by 5 of the 8 programs we reviewed.<sup>6</sup> (See app. III for a detailed summary of performance targets.)

Coast Guard officials acknowledged the apparent disconnect between resource hours expended and performance results achieved and offered two explanations for it. The first involved operational efficiencies—Coast Guard-driven strategies that essentially allowed the agency to accomplish the same or greater results with fewer resources. These efficiencies were of four main types—improved technology, improved tactics, stronger partnerships, and improved intelligence. Table 3 contains an example of each type.

<sup>4</sup>The Coast Guard had not yet established performance measures for the ports, waterways, and coastal security program, and Fiscal Year 2003 measures for the illegal drug interdiction program were not yet available at the time of our review.

<sup>5</sup>For specific program indicators, as well as for results by Fiscal Year, see app. II.

<sup>6</sup>The ports, waterways, and coastal security program does not yet have established performance targets. In addition, the marine environmental protection program also met its performance target in Fiscal Year 2003 but was not included in our analysis. Since the marine safety program does not yet have performance results for Fiscal Year 2003, discussing its target is not relevant here.

Table 3.—Selected Examples of Operational Efficiencies Cited by Coast Guard Officials

<i>Improved technology</i>	New ships. The recapitalization of the buoy tender fleet offers a number of improvements, including greater transit speed, reducing travel time, and allowing more work to be done in a day; a larger buoy deck allowing the completion of more work during a single deployment and fewer trips back to base; and improved navigation systems, enabling safer navigation with fewer people.
<i>Improved tactics</i>	Use of armed helicopters. The Coast Guard reported that the Helicopter Interdiction Tactical Squadron (HITRON) provides personnel, training, and resources necessary to employ armed helicopters in support of counter drug operations. Prior to November 2002, the Coast Guard used two armed helicopters simultaneously with two cutters when responding to drug interdiction operations. The Coast Guard has since changed its tactics to use one HITRON with one cutter per operation and has seen no degradation in the effectiveness of this drug interdiction tactic.
<i>Stronger partnerships</i>	Interagency flight schedules. In Miami, the Coast Guard and another DHS agency, the Immigration and Customs Enforcement Office, have developed a combined flight schedule to integrate patrol schedules and assets, which has led to less overlap in response efforts, saving time and resources for both agencies.
<i>Improved intelligence</i>	Intelligence-sharing arrangements. In 2001, the Coast Guard joined the U.S. Intelligence Community (IC), a federation of Executive Branch agencies and organizations that work separately and together in intelligence-gathering activities. According to Coast Guard officials, this step greatly enhances the agency's access to information.

Source: Coast Guard.

The Coast Guard's second explanation involved external events or developments that were largely beyond the Coast Guard's control but had an influence on the amount of work the Coast Guard had to confront. In Fiscal Year 2003, these events and developments included such things as "surge" demands related to the Iraq War, a large increase in the number of undocumented migrants attempting to enter the United States by maritime routes, and poor weather conditions that, for example, increased icebreaking needs. According to Coast Guard officials, these externalities had a negative effect on performance results—that is, they made it more difficult for the Coast Guard to meet its goals, even when more resources were added. For example, according to Coast Guard officials, while the percentage of migrants interdicted showed an overall increase from Fiscal Years 2002 to 2003, a large increase in illegal immigrants seeking to enter the United States by sea during Fiscal Year 2003 reduced the performance results percentage from Fiscal Year 2002 levels.

While the factors cited by the Coast Guard likely have an effect on mission performance, the extent of that effect is largely unknown. The Coast Guard does not have a mechanism in place to systematically determine the extent to which these factors affect performance. For instance, the Coast Guard does not have data on search and rescue cases handled by local responders; as a result, it cannot determine the extent to which this assistance has reduced the Coast Guard's own search and rescue workload.

Coast Guard officials agree on the value of taking a more systematic approach to assessing performance, including better understanding of the effects of internal and external factors that affect their performance, and they have begun a number of steps directed at improving various aspects of performance assessment. For example, they are developing a procedure for capturing operating costs on a program-by-program basis, as well as a system for assessing the agency's ability to respond to mission requirements. These steps are still in their early stages, and while they represent a good beginning, it is not yet clear when they will be completed and whether they will tie together to address the weaknesses we have identified. Without a clear understanding of this linkage or a time-frame to ensure that it gets completed, the agency is at risk of misdirecting resources and missing further opportunities to increase productivity and efficiency to ensure the best use of its funds. A clear understanding is also needed to better allow the Congress to make informed budget decisions for the Coast Guard.

In discussions with us, the Coast Guard has not clearly articulated a strategy for how these various efforts will weave together. However, Coast Guard officials told us that more information regarding these efforts will be included in the agency's strategic blueprint, which has yet to be finalized.



*Reliability and Cost Issues Associated with Key Deepwater Assets Heighten Program Funding and Management Challenges*

Under the Deepwater program, the Coast Guard's legacy assets are expected to remain in service until they are replaced or modernized through the Deepwater acquisition program. The maintenance costs to keep many of these assets operational have been more than the amounts the Coast Guard budgeted for these repairs, and the gap between these two is widening.

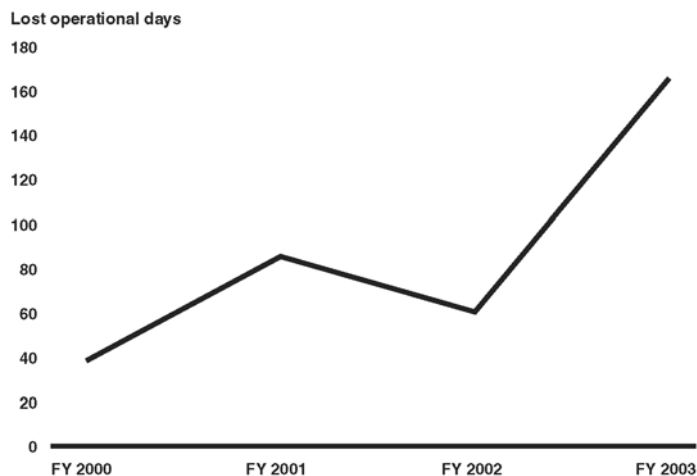
*Coast Guard Reports Increasing Problems and Rising Costs with Assets*

As early as the mid-1990s, the Coast Guard identified problems with its aging fleet and cited the need to upgrade or replace many of its cutters and aircraft. The deteriorating condition of some of its deepwater assets has resulted in increasing operational problems and limitations, escalating maintenance needs and downtime of assets, and increasing maintenance costs over the past few years.

**Increased Operational Problems and Limitations for Some Deepwater Legacy Assets**

One key indicator of the deterioration of the Coast Guard's legacy assets is the increasing lost operational days—that is, days in which Coast Guard cutters could not conduct their normal mission activities. Although the Coast Guard was unable to provide complete historical data for this trend among all of its deepwater assets, it could provide data for some of its major deepwater cutters operating in the Atlantic region.<sup>7</sup> As figure 2 shows, between Fiscal Year 2000 and Fiscal Year 2003, there is an increase in lost operational days—from 60 to 165 lost days—between Fiscal Year 2002 and Fiscal Year 2003 for these key deepwater assets.<sup>8</sup>

**Figure 2: Lost Operational Days for Atlantic Region Cutters by Fiscal Year**



Source: GAO analysis of Coast Guard data on Atlantic Area lost operational days.

The Coast Guard provided the following examples of these problems and restrictions:

- An increasing number of in-flight safety-related incidents for the HH-65 helicopter.<sup>9</sup> These incidents have resulted in the Coast Guard placing increased restrictions on the HH-65's operations, including a reduced flight range and a re-

<sup>7</sup> Only limited data were available for Pacific region deepwater assets. The data that were provided indicated that there were 118 lost cutter days in Fiscal Year 2003 for the same deepwater assets as identified in the Atlantic region data. In Fiscal Year 2004, there have been 137 lost cutter days as of April 2004.

<sup>8</sup> It is important to note, however, that 46 of these days were the result of delays at the Coast Guard yard.

<sup>9</sup> A total of 32 incidents were reported in fiscal 2003; for the first 5 months of Fiscal Year 2004, almost 70 incidents have been reported.

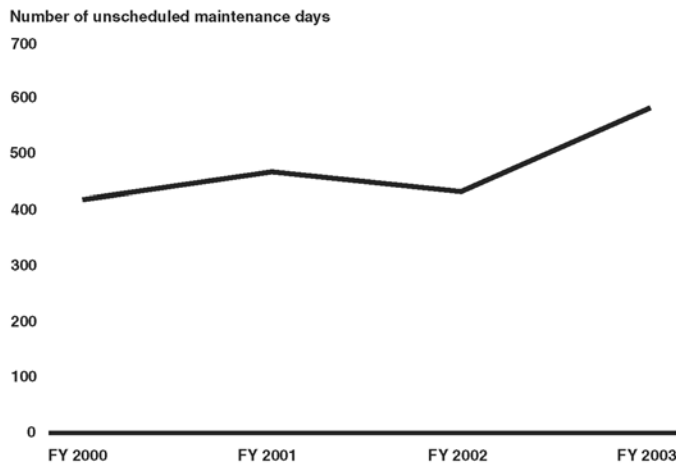
duced passenger/crew level to help reduce safety risks for these assets and the personnel flying them.

- A large number of hull incidents on a class of key Coast Guard patrol boats. To date, 20 of the Coast Guard's 110-foot patrol boats have experienced significant levels of deterioration that have resulted in hull breaches requiring emergency repairs. To repair these hull breaches, each of these vessels were removed from service for an average of 3 months.
- An increasing need to implement special safety response measures aboard the fleet of 378-foot high endurance cutters. These ships—the largest of the Coast Guard's offshore cutters—have had to regularly implement fire team response procedures when on patrol due to numerous fuel or lube oil leaks. These procedures entail having the crew perform critical safety and fire response actions, such as evacuating the engineering space, donning firefighting gear, and investigating the cause of the engineering casualty, while the ship's systems are shut down and the cutter is “dead in the water”—for a period of time.

#### Concerns about Unscheduled Maintenance

In addition to lost operational days, unscheduled maintenance days are also a concern. That is, when a cutter is undergoing unscheduled maintenance, it is also likely to be out of operation as well. However, Coast Guard officials noted that unscheduled maintenance days do not always result in lost operational days because they are sometimes able to schedule additional operational days for another cutter to make up for lost days from the cutter undergoing unscheduled maintenance. As figure 3 shows, the cumulative number of unscheduled maintenance days for the Coast Guard's mainstay cutters and a key patrol boat (the 210-foot, 270-foot, and 378-foot cutters and the 110-foot patrol boat)—have increased since Fiscal Year 2002.<sup>10</sup>

**Figure 3: Unscheduled Maintenance Days for Selected Coast Guard Cutter Assets, Fiscal Years 2000-2003**



Source: GAO analysis of Coast Guard data on unscheduled maintenance days.

The Coast Guard provided us with examples of some of the more significant unscheduled maintenance events that its legacy cutters have experienced in recent years that resulted in lost operational days for the affected cutters. Because these cutters are typically scheduled to operate on average about 175 to 185 days per year, a loss of 20 or more days in a year can be significant. These examples included:

- Twenty-eight lost operational days in Fiscal Year 2003 for the 36-year old high endurance cutter, Chase, due to main engine and boiler casualties; 84 lost operational days so far in Fiscal Year 2004 due to additional mechanical problems.

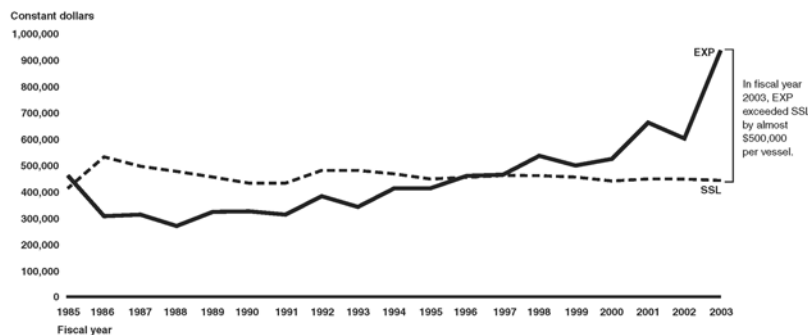
<sup>10</sup>The increase in overall unscheduled maintenance days is being driven by unscheduled maintenance days for the 110-foot patrol boats.

- Twenty-four lost operational days in Fiscal Year 2003 for the 36-year old high endurance cutter, Gallatin, due to a shaft coupling failure.

#### Increasing Maintenance Costs for Cutters and Patrol Boats

Unscheduled maintenance costs have also increased significantly over the past few years. According to our analysis of Coast Guard data on some of its major cutters and patrol boats, these maintenance expenditures have increased 79 percent—from about \$522,000 to almost \$934,000 per vessel—between Fiscal Year 2000 and Fiscal Year 2003. As a result, the Coast Guard is finding that in recent years it has spent much more on maintaining its aging assets, than it had planned. To determine how much to budget for asset maintenance, the Coast Guard determines what is known as the “standard support level” (SSL) for each of its vessels when they are commissioned. This budgetary estimate is equal to the amount of funding provided each year for vessel casualty support and maintenance needs, according to a Coast Guard official. The estimate is increased each year based on certain cost of living adjustments, and the support level can vary according to the estimated operating days for the class of the vessel. According to the Coast Guard, when maintenance expenditures exceed the SSL for a class of vessels, a budget deficit is created that must be filled with funds from other vessels, or from outside sources. In Fiscal Year 2003, the gap between the Coast Guard’s planned and actual maintenance expenditures for key legacy assets was about almost \$500,000 per vessel. (See fig. 4.)

Figure 4: Actual Maintenance Expenditures (EXP) over Budgeted Standard Support Level (SSL)



Source: Coast Guard.

Note: This figure includes expenditures for four classes of cutters: the 378-foot high endurance cutters, the 270-foot medium endurance cutters; the 210-foot medium endurance cutters, and the 110-foot patrol boats.

Escalating maintenance costs and their effects are evident in the following examples:

- In Fiscal Year 2002, the Coast Guard removed from service two of its 210-foot medium endurance cutters because, according to Coast Guard officials, they had become too costly to maintain. According to a knowledgeable Coast Guard official, these two cutters were both over 35 years old, and the Coast Guard estimated that it would have cost about \$1 million per year, per vessel to keep them in service, if they had not been decommissioned.
- Returning from a 2-month patrol on a 20-year old 270-foot medium endurance cutter, the ship’s commander reported that even after completing \$1 million in repairs and maintenance in the past year, the vessel still had a tremendous backlog of critical maintenance that continued to grow exponentially. In addition, the commander reported that during this particular patrol, the cutter had experienced numerous debilitating vessel maintenance problems—or casualties—resulting in 5 lost cutter days. He also noted that the cutter would require 30 or more days of repair upon its return. The commander further reported that he believed the vessel casualties encountered on this patrol foreshadowed the long-term impact that continued deferral of major maintenance actions would have on overall operational readiness.

The Coast Guard was unable to attribute specific mission performance deterioration to these types of incidents; however, reduced operating availability time and increasing maintenance downtime for these assets would likely adversely affect mission performance results in the future. Given these maintenance costs and reli-

ability problems, it is unclear what the actual service life might be for some of these assets, particularly the cutters and the HU-25 fixed wing aircraft, according to Coast Guard officials. And certainly, decisions to overhaul or upgrade assets would affect their longevity as well. However, Coast Guard officials said that it is unclear at this time as to when these Deepwater assets will become so costly to maintain that the Coast Guard would have no other logical choice but to retire them. This type of analysis would be valuable to the Coast Guard and the Congress in determining the priority order for future asset replacements and upgrades.

*Coast Guard Is Facing Serious Challenges to Keep the Program on Schedule and within Budget Projections*

The Coast Guard's Deepwater program—which uses a unique contracting approach requiring steady funding over 20 years—is facing serious challenges to keep the program on schedule and within budget estimates. Now, almost 2 years after the contract for the Deepwater program was awarded, cost estimates to complete the program have increased by about \$2.2 billion in nominal terms, and key components necessary to manage the program effectively have not been rigorously implemented. In addition, new homeland security requirements, which have not yet been defined or approved, and necessary major modifications to key legacy assets make keeping the program on track that much harder.

Under current funding plans, the Coast Guard continues to face potential cost increases in its \$17 billion Deepwater program. The Coast Guard chose a unique contracting approach that requires steady funding for the program over its 20-year life. Under this approach, the Coast Guard has started on a course potentially expensive to alter and one that carries some risks. In a 2001 report,<sup>11</sup> we expressed concern that the Coast Guard risked schedule slippages and cost escalation if project funding fell short of planned funding levels.<sup>12</sup> Now, very early in the program our concerns are being realized. Program funding in the first 2 years was less than the agency planned by about \$125 million. This resulted in delays in the scheduled delivery of key deepwater assets, such as the maritime patrol aircraft. The Congress appropriated more than the requested funding in Fiscal Year 2004, and if the agency receives the \$678 million funding level requested in the fiscal 2005 budget proposal, the Deepwater program will have cumulatively received \$46 million more than planned levels for the first 4 years. However, according to the Coast Guard, the program's acquisition schedule has been lengthened and higher funding levels, (\$795 million per year over the remaining years of the program), will be needed to restore this schedule to its original 20-year completion pace.

Currently, Coast Guard officials believe that a continuing stream of funding at \$795 million (adjusted for inflation) would put the project back onto its original 20-year time schedule. However, on this funding schedule, total costs for the Deepwater program, assuming no additional changes, would reach \$17 billion—in nominal terms—about \$2.2 billion more than the Coast Guard's earlier estimate.<sup>13</sup> Because of time constraints for completing work for this statement, we could not assess the reasons for the cost escalation. Coast Guard officials attributed the increased costs, so early in the program, to the following factors.

- Under-funding in the first 2 years put the program behind schedule and resulted in lost efficiency and flexibility that they believe would have been realized by acquiring multiple assets in a more coordinated way. They believe that this coordinated approach would have offered efficiencies. For example, they said that acquiring multiple assets simultaneously or in their planned sequence would allow for more efficient logistical support with respect to training, and infrastructure planning for such things as facility and pier space for personnel and assets. However, they believe that these efficiencies were lost when these assets could not be purchased simultaneously.
- The maintenance costs associated with sustaining legacy assets have increased more than anticipated as these assets deteriorated faster than expected. As a result, available future funding may have to be used, in part, to address critical maintenance needs of the legacy Deepwater assets, diverting funds otherwise intended for future Deepwater replacements and upgrades. In addition, Coast Guard officials indicated that maintenance schedules for some vessels were per-

<sup>11</sup>U.S. General Accounting Office, *Coast Guard: Progress Being Made on Deepwater Project, but Risks Remain* (GAO-01-564, May 2, 2001).

<sup>12</sup>This \$2.2 billion estimate assumes completion of the Deepwater contract in a total of 20 years.

<sup>13</sup>The earlier estimate called for completing the Deepwater program in 22 years with a continuing stream of funding at \$530 million (adjusted for inflation).

haps not kept according to plan in anticipation of these assets being replaced or overhauled through the Deepwater program.

- Delays have resulted in increased costs due to normal price inflation. Because the contract for acquiring Deepwater assets has a price adjustment factor that allows asset prices to be adjusted for inflation, costs for these assets have increased over time.
- Due to revised homeland security requirements, some redesign of the national security cutter has occurred. These modifications, made to ensure the vessel would accommodate DHS needs included such things as lengthening the vessel to accommodate DHS aircraft, installing an onboard intelligence center, and making modifications to allow sustainability in an environment tainted by chemical, biological and radiological agents. According to Coast Guard officials, these modifications resulted in additional costs for the Deepwater program.

In recent discussions with Coast Guard officials about the Deepwater program, they were not able to explain in more detail the reasons for the escalation in the program costs and did not provide additional information to us before we completed our work. However, officials indicated that they would provide additional information in the future.

*Increased Management and Oversight Attention Needed to Successfully Complete the Deepwater Program*

While expeditiously completing the Deepwater program is important to the ability of the Coast Guard to effectively fulfill its responsibilities in the future, the agency must also be diligent in managing the contract, and ensuring necessary competition among contractors to prevent additional cost increases in the program. As we have recently reported we have concerns regarding the management and oversight of the project to date.<sup>14</sup> Almost 2 years after the contract was awarded for implementation of the Deepwater program, the key components needed to manage the program and oversee the system integrator's performance<sup>15</sup> have not been effectively implemented in the following areas:

- The effectiveness of the Integrated Project Teams—established as the main tool for managing the program and overseeing the contractor—has been weakened due to changing membership, understaffing, insufficient training, lack of authority for decision making, and inadequate communication among members.
- Although delivery of some of the first assets is imminent, the Coast Guard has not effectively communicated to its operational personnel decisions on how new and old assets will be integrated and how maintenance responsibilities will be divided between government and contractor personnel.
- The Coast Guard has not developed quantifiable metrics or adhered to effective procedures for holding the system integrator accountable for its ongoing performance, resulting in a process for assessing performance that lacked rigor.
- The Coast Guard has not yet begun to measure the system integrator's performance on the three overarching goals of the Deepwater program—operational effectiveness, minimizing total ownership cost, and customer satisfaction. This information will be essential to the Coast Guard's decision about whether to extend the system integrator's contract after the first 5 years.
- We have concerns about the Coast Guard's efforts to measure the extent of competition among the suppliers of Deepwater assets, or hold the system integrator accountable for doing so to achieve this competition. The Coast Guard's "hands-off" approach in this area raises questions about whether the government will be able to control costs in the Deepwater program. Concerns about the Coast Guard's ability to rely on competition as a means to control future costs contributed to our description of the Deepwater program in 2001 as "risky." Three years later, these concerns remain.

*Unplanned Legacy Asset Modifications and Updated Deepwater Requirements Pose Potential Additional Challenges*

In addition to funding and contract management concerns, there are other, as yet relatively unknown, but potentially significant factors that could affect the Coast

<sup>14</sup>U.S. General Accounting Office, *Contract Management: Coast Guard's Deepwater Program Needs Increased Attention to Management and Contractor Oversight* (GAO-04-380, Mar. 9, 2004).

<sup>15</sup>The prime contractor, known as the "system integrator," is responsible for overall program planning and management, asset integration, and overseeing the delivery of specific Deepwater assets.

Guard's Deepwater program. Recent discoveries about the condition of some legacy assets, and corresponding actions taken, combined with anticipated updates in the Coast Guard's mission requirements, may give the Coast Guard additional reasons to re-think its prioritization for obtaining or upgrading certain Deepwater assets.

In recent years, the Coast Guard has had to make major unplanned upgrades on some of its Deepwater assets. Most recently, the Coast Guard decided to replace its HH-65 helicopter engines because of serious safety and reliability issues with that aircraft. Modernization of this helicopter is planned as part of the Deepwater program beginning in 2007, but for safety and reliability reasons, the existing engine on this helicopter needed to be replaced much sooner.<sup>16</sup> The HH-65 is the Coast Guard's mainstay helicopter, serving such missions as search and rescue, drug and migrant interdiction, and homeland security. Problems with the current engine and related components have been occurring for a number of years, affecting the amount of power available for hovering, lifting, and other operations.

To address these problems, the Coast Guard plans to take action along two tracks. First, until the replacement engines are installed, they plan to upgrade the existing engines. Second, they plan to install new engines in the entire HH-65 fleet within 24 months. However, there are potential consequences for the Deepwater acquisition process associated with this early replacement decision. Funds to pay for the replacement engine are to be diverted from other Deepwater projects—a factor that could exacerbate further schedule delays. Also, the alignment between deepwater requirements—which have not yet been finalized—and those for the replacement engine cannot be determined. If the requirements are not in alignment, the Coast Guard faces significant cost and schedule risks because another engine replacement could be required to meet new mission requirements. Irrespective of these concerns, the Coast Guard's decision to re-engine these helicopters, in and of itself, provides reason for the agency to reassess its planned schedule for upgrading this asset under the Deepwater program.

Coast Guard officials also anticipate that updated agency requirements—engendered by homeland security needs that were not known and, therefore, not factored into the original mission requirements developed prior to the September 11 attacks—also need to be considered. According to Coast Guard officials, they are currently in the process of re-examining the agency's Deepwater mission requirements to ensure that they align with DHS' strategic goals, and that the agency is able to meet increased mission demands and higher performance targets in a post September 11 environment. The Coast Guard's review of its Deepwater mission needs statement is expected to be completed by April or May 2004 and submitted to DHS for approval at that time.

This continually evolving information flow challenges the Coast Guard even further to ensure that funds are wisely spent. As a result, as interim asset decisions, discoveries, and evolving mission priorities are identified, it becomes even more imperative that the Coast Guard continually updates its acquisition schedule and decision making to ensure that choices are made based on timely and accurate information.

#### *Overview of Fiscal Year 2005 Budget and Funding for Several Areas of Particular Congressional Interest*

The President's Fiscal Year budget request for the Coast Guard of nearly \$7.5 billion represents an increase of about \$534 million, or about 8 percent in nominal dollars over the enacted budget for Fiscal Year 2004.<sup>17</sup>

It includes almost \$5.2 billion in operating expenses and \$943 million for its capital acquisition budget. The majority of the increase covers pay increases for current and retired employees or continues certain programs already underway, such as follow-on funding for construction projects at Coast Guard shore-side facilities, the Great Lakes Icebreaker construction, and information technology projects. About \$115 million of the increase would fund new initiatives, about 90 percent of which relate to homeland security. The most significant new initiative at \$102 million would be used to implement the Maritime Transportation Security Act (MTSA) of 2002.<sup>18</sup>

<sup>16</sup>U.S. General Accounting Office, *Coast Guard: Replacement of HH-65 Helicopter Engine* (GAO-04-595, Mar. 24, 2004).

<sup>17</sup>This calculation does not include supplemental appropriations but does include the Fiscal Year 2004 rescissions.

<sup>18</sup>The Maritime Transportation Security Act is comprehensive legislation that implements security standards that would apply to all foreign vessels seeking to enter the United States.

This funding would be used to add about 500 new personnel (full-time-equivalent) who will perform various security-related and other functions.<sup>19</sup> An additional \$2.2 million is being requested to fund a new initiative for increasing maritime domain awareness—another homeland security function.<sup>20</sup>

One area of particular interest to the Congress over the last several years is the readiness of its multi-mission stations. In September 2001, the Department of Transportation, Office of Inspector General, reported that readiness at multi-mission stations was deteriorating.<sup>21</sup> For example, staff shortages at most stations required crews to work an average of 84 hours per week, well above the standard (68 hours maximum) established to limit fatigue and stress among personnel. Subsequently, the Congress appropriated funding totaling about \$50 million for Fiscal Years 2002–2004 specifically to pay for increased staff, training, and equipment at stations and command centers. However, the degree that readiness has improved, if any, is unclear. For example, according to the Coast Guard, the average workweek at the multi-mission stations is still about 83 hours per week, even though about 1,100 personnel were added between Fiscal Years 2001 and 2003. According to a Coast Guard official, one main reason for this high work week, is that these stations have taken on a major homeland security role since September 11, resulting in a heavier workload for station personnel carrying out functions, such as vessel escorts and port security patrols.

Of the \$943 million requested for capital projects, \$839 million, or 89 percent, would be dedicated to two projects—the Deepwater program (\$678 million) and Rescue 21 (\$161 million). Rescue 21, the Coast Guard's second largest acquisition program, provides for the modernization of the command, control, and communication infrastructure of the National Distress and Response System. The current system suffers from aging equipment, limited spare parts, and limited interoperability with other agencies. Of particular concern to the Coast Guard and the maritime community are the current system's coverage gaps, which can result in missed maritime distress calls. The Congress mandated the completion of the new system by the end of Fiscal Year 2006. The Fiscal Year 2005 request for \$161 million is aimed to keep the project progressing; however, technical problems with software development have delayed implementation of the first elements of the system that were scheduled for last summer, and it is unclear to agency officials whether these issues will prevent the agency from completing implementation of the program on time. In recent discussions with Coast Guard officials, they said that they do not yet know whether Rescue 21 will be completed on time at the end of Fiscal Year 2006, but they currently do not anticipate any cost escalation in the program, which is presently estimated to cost \$953 million.

Madame Chair and Members of the Subcommittee, this completes my prepared statement. I would be happy to respond to any questions that you or other Members of the Subcommittee may have at this time.

#### APPENDIX I: SCOPE AND METHODOLOGY

To determine the most recent trends in both resource usage and performance results for the Coast Guard's homeland security and non-homeland security programs and the implication of these trends for Coast Guard management and accountability, we summarized findings from a recent GAO report.<sup>1</sup>

To determine the challenges the agency faces as it proceeds with its program to modernize its Deepwater cutters and aircraft, we summarized briefings prepared in 2004 by the Coast Guard for the Congress and for internal use on the Deepwater program and the HH-65 helicopters. We also interviewed Coast Guard staff at

<sup>19</sup> Prior to Fiscal Year 2005, 480 Coast Guard reservists were handling MTSA implementation. The Coast Guard reported that authority to call up reservists will expire in Fiscal Year 2005; therefore it has requested almost 500 active duty personnel (full-time-equivalent) to take over these activities. Rather than approving implementation plans as was done by the reservists in Fiscal Year 2004, the new personnel in Fiscal Year 2005 will, for example, approve vessel and facility security plans, ensure operators are in compliance with their plans, and perform inspection activities on foreign vessels.

<sup>20</sup> According to the Coast Guard, Maritime Domain Awareness is an initiative that will provide visibility into events, conditions, and trends in the maritime domain to give national leaders, operational commanders, and maritime stakeholders the information and knowledge they need for both operational and policy decisions. Coast Guard information explains that this will help offset the physical impossibility of patrolling the entire U.S. maritime domain simultaneously or inspecting, certifying, and validating all travelers and cargoes.

<sup>21</sup> *Audit of the Small Boat Station Search and Rescue Program*. MH-2001-94 (Washington, D.C., Sept. 14, 2001).

<sup>1</sup> U.S. General Accounting Office, *Coast Guard: Relationship between Resources Used and Results Achieved Needs to Be Clearer* (GAO-04-432, Mar. 22, 2004).

headquarters to determine the potential impacts of deteriorating Deepwater assets. In addition, we used current maintenance expenditure data provided by the Coast Guard to perform an historical analysis of maintenance costs. To assess the reliability of these data, we interviewed knowledgeable Coast Guard officials and reviewed existing documentation about the data and the systems that produced them. We determined that the data were sufficiently reliable for the purposes of this report.

To give an overview of the President's Fiscal Year 2005 budget request for the Coast Guard, focusing on several areas of particular congressional interest, we obtained information on the average workweek of personnel at the Coast Guard's multi-mission stations and interviewed Coast Guard headquarters staff to determine how the Fiscal Year 2005 budget will address MTSA implementation, Rescue 21, and multi-mission stations. We also reviewed the Coast Guard's C-stage budget and other financial documentation provided by the Coast Guard.

This testimony is based on published reports and briefings as well as additional audit work that were conducted in accordance with generally accepted government auditing standards.

#### APPENDIX II: COAST GUARD PERFORMANCE RESULTS, FISCAL YEARS 2001–2003

Table 4 shows a detailed list of performance results for the 8 programs for which we obtained data. In a recent report, we compared performance results for our baseline year—Fiscal Year 2001—with the most currently available results—Fiscal Year 2003.<sup>1</sup> As a result, we defined programs as “stable” or “improved” based on the known results for these 2 years. All programs defined as stable showed a differential of less than 4 percentage points when comparing Fiscal Year 2001 and Fiscal Year 2003 results.

Program	Performance measure	Performance results by fiscal year		
		2001	2002	2003
<i>Stable results</i>				
Undocumented migrant interdiction	Percentage of interdicted illegal migrants entering the United States through maritime means.	82.5%	88.3%	85.3%
Ice operations	Number of waterway closure days	7	7	7
Living marine resources	Percentage of fishermen found in compliance with regulations.	98.6%	97.3%	97.1%
Search and rescue	Percentage of mariners' lives saved.	84.2%	84.4%	87.7%
<i>Improving results</i>				
Foreign fish enforcement	Number of detected Exclusive Economic Zone (EEZ) <sup>a</sup> incursions by foreign fishing vessels.	219	250	153
Aids to navigation	Number of collisions, allisions, <sup>b</sup> and groundings.	1,677	1,936	1,523
Defense readiness	Percentage of time units meet combat readiness status at C-2 level. <sup>c</sup>	67%	70%	78%
<i>Pending results</i>				
Illegal drug interdiction	Percentage of cocaine seized out of total estimated cocaine entering the United States through maritime means. <sup>d</sup>	11.7%	10.6%	N/A <sup>e</sup>

Source: GAO analysis of Coast Guard performance data.

<sup>a</sup>The EEZ is defined by the 1976 Magnuson-Stevens Fishery Conservation and Management Act as an area within 200 miles of U.S. shores in which U.S. citizens have primary harvesting rights to fish stocks.

<sup>b</sup>The Coast Guard defines an “allision” as a vessel collision with a fixed object.

<sup>c</sup>According to Coast Guard information, the C-2 level is defined as the level at which each unit possesses the resources and is trained to undertake most of the wartime missions for which it is organized or designed.

<sup>d</sup>The illegal drug interdiction performance measure only includes cocaine as cocaine has an analyzed flow rate, and it constitutes the preponderance of illegal drugs entering the United States through maritime means (*i.e.*, cocaine shipments are measured in tons while heroin, marijuana, and other illegal drugs are measured in pounds).

<sup>e</sup>The illegal drug interdiction performance result for Fiscal Year 2003 will not be calculated until the Interagency Assessment of Cocaine Movement (IACM) publishes its flow rate in spring of 2004.

<sup>1</sup>For complete information, see U.S. General Accounting Office, *Coast Guard: Relationship between Resources Used and Results Achieved Needs to Be Clearer* (GAO-04-432, Mar. 22, 2004).



## APPENDIX III: PERFORMANCE TARGETS FOR FISCAL YEAR 2003

In a recent report, we showed that another way that the Coast Guard assesses its performance is by determining whether programs have achieved their performance targets each year.<sup>1</sup> These targets—which represent the goals that the programs aim to achieve each year—were met in Fiscal Year 2003 by 5 of the 8 programs we reviewed.<sup>2</sup> (See table 5.) Two of the programs that did not meet their performance targets were defense readiness and undocumented migrant interdiction. Coast Guard officials reported that the defense readiness program did not meet its target, in part, because of equipment problems associated with operating aging ships and unit training deficiencies, such as cutters not having sufficient training time to perform gunnery exercises.<sup>3</sup> As for the undocumented migrant interdiction program, Coast Guard officials reported that they consider their results to be a minimal decline, given the substantial increase in the number of migrants they successfully interdicted during the year.<sup>4</sup> For example, of the key migrant populations tracked by the Coast Guard, about 5,300 illegal migrants were interdicted in Fiscal Year 2003 compared with about 2,400 in Fiscal Year 2002, an increase of 120 percent.<sup>5</sup> We could not determine whether the remaining program, illegal drug interdiction, met its performance target because the performance results for Fiscal Year 2003 were not yet available at the time we conducted our work.

Table 5.—Performance Targets by Program for Fiscal Year 2003

Program	Fiscal Year 2003 performance targets	Fiscal year 2003 result	Target met in Fiscal Year 2003?
Undocumented migrant interdiction	Interdict or deter at least 87 percent of illegal migrants entering the United States through maritime means.	85.3%	No
Illegal drug interdiction	Seize 20.7 percent or more of cocaine entering the United States through maritime means.	To be determined <sup>a</sup>	To be determined <sup>a</sup>
Ice operations	Limit waterway closures to 8 days during severe winters.	7 days	Yes
Living marine resources	Raise percent of fishermen found in compliance with regulations to 97 percent or above.	97.1%	Yes
Search and rescue	Save at least 85 percent of all mariners in distress.	87.7%	Yes
Foreign fish enforcement	Reduce number of detected EEZ incursions by foreign fishing vessels to 202 or less.	153 incursions	Yes
Aids to navigation	Reduce 5-year average of collisions, allisions, and groundings (CAGs) to 2,010 or less.	1,523 CAGs	Yes
Defense readiness	Maintain an overall combat readiness status at C-2 level or better for 100 percent of assets.	78%	No

Source: GAO analysis of Coast Guard performance data.

<sup>a</sup>The illegal drug interdiction performance result for Fiscal Year 2003 will not be available until spring of 2004.

<sup>1</sup> For complete information, see U.S. General Accounting Office, *Coast Guard: Relationship between Resources Used and Results Achieved Needs to Be Clearer* (GAO-04-432, Mar. 22, 2004).

<sup>2</sup> The marine environmental protection program also met its performance target in Fiscal Year 2003 but was not included in our analysis. Also, since the marine safety program does not yet have performance results for Fiscal Year 2003, discussing its target is not relevant here.

<sup>3</sup> According to Coast Guard information, the C-2 level is defined as the level at which each unit possesses the resources and is trained to undertake most of the wartime missions for which it is organized or designed.

<sup>4</sup> The undocumented migrant interdiction performance measure indicates the percentage of migrants interdicted or deterred from entering the United States via maritime routes. Specifically, it is the number of interdicted migrants divided by the estimated flow of undocumented migrants (which includes the number of law enforcement interdictions, known successful migrant arrivals, and the estimated number of migrants deterred from leaving their countries of origin). This estimate is prepared annually by the Coast Guard's Intelligence Coordination Center.

<sup>5</sup> According to the Coast Guard, the 2002 and 2003 illegal migrant numbers stated here include only those counted in the undocumented migrant performance measure, which uses the following four migrant populations: Haiti, Cuba, the Dominican Republic, and the People's Republic of China. The total number of all migrants interdicted in Fiscal Years 2002 and 2003 were 4,104 and 6,054, respectively.

Senator SNOWE. Thank you, Ms. Wrightson, for that report, and I appreciate those charts that underscore some of the challenges. And actually, considering the change of resource hours by program, it is remarkable, under the circumstances, how the Coast Guard performed. Admiral Collins, let's begin with that.

Exactly what contributed to your ability to meet all the requirements under the law, and in many ways with fewer resources? For all your non-homeland security missions and responsibilities, you were able to meet a level of performance even though your hours were down.

Admiral COLLINS. Clearly, our focus since 9/11 has been building up our readiness and capability for homeland security. A good deal of the budget increment that we have seen in the last several years is to provide those kind of resources. But the fact of the matter is, they all equal increased presence on our ports, waterways, and coastal approaches. We have a limited accounting scheme that accounts for activity levels that will put our resources into one little bin because that's the sortie it starts out on. But in fact, that same vessel or aircraft that started out on that sortie could very easily do a SAR mission or en route do an environmental scan of the waterway.

So you have embedded in our assets multi-mission assets, multi-mission people that can apply to a wide range of our missions at any given time, and I think that is a tremendous strength for us. It gives us the adaptability, it gives us the flexibility to respond to a wide range of issues even though the program patrol, the program sortie that it is on, is for one single mission.

Senator SNOWE. Are you saying that you may do several missions on the way to doing a final mission?

Admiral COLLINS. Yes. And accounting for those hours, they don't necessarily get neatly put—reflect that multi-mission character or that effort. So we've got a limitation of our accounting scheme, number one, I think. And also, I think GAO is right on target about us getting more sophisticated in terms of accounting for resources across the board, people resources, how we account for people.

For instance, the current activity spread shows boats, aircraft, and cutters, but it doesn't account for the law enforcement detachments or the HITRON helicopter or whatever, that may go on a Navy platform. For example, the law enforcement detachments that go on Navy platforms, and Navy platforms and the counter-drug missions make up almost 50 percent of the total ship days devoted to that mission.

So there's a lot of lack of sophistication, I think, in the way we account for this and attribute resource allocation to performance. And that's something we're working hard on. We found out this is really hard stuff to get a regime in place that allows you to evaluate and account this, and we're working hard to try to do that.

To get back to how we're able to cover the bases in performance, I think it is because the character of our organization in terms of multi-mission. It's because we have very effectively partnered and because we have used good intel and technology and tactics to leverage our performance. A couple of examples, and I've used these before, but in the counter-drug mission, we almost broke our record

last year in cocaine seizures. You've already alluded to the fact that we're on the glide slope this year to break or exceed any previous years' cocaine seizures and removals, and number of arrests at sea, and we're actually doing it with less resources.

We had to allocate, for instance, on the Haiti crisis here recently, we had to pull back our ships from the counter-drug mission to provide increased presence in the Windward Pass. It was exactly the right thing to do. It was a risk-based approach to our mission, but it was less resources in counter-drugs. And yet, we're surpassing every cocaine seizure. We already have seized 117,000 pounds of cocaine this year. We're only half way through the year. And it's because of great use of intel, great interagency partnering, and including building international coalitions on this effort. And we're trying to do that in every mission.

Fisheries is the same thing. We've been very effective in the Maritime Boundary Line. I wish Senator Stevens was here to hear this. I know he's very interested in the Boundary Line in the Bering Sea. But we've been very, very effective over the last year in the Bering Sea, and we've maintained our presence there despite orange conditions and the like. We've partnered effectively with the Russians to do it jointly, and we've changed some of our tactics.

So just a couple of examples. Yes, we're still under pressure to maintain our levels of performance across the board. We're trying to do it smartly. We're trying to do it risk-based. And we're trying to grow at the same time. But I said in my testimony, the biggest challenge, apart from all these considerations, is that material condition of our fleet. To me, if you want to identify the biggest issue for us and ability to continue our mission performance, that's it.

Senator SNOWE. A couple of things on that point, and I understand exactly what you're saying on trying to match your resource hours with your assets and performance results. Is there a way of developing a mechanism—and I know GAO has recommended developing a time frame—for proceeding with issues to account more completely for resources expended and ensuring through its planning process the agency develops a strategy of identifying intervening factors that affect performance results, and systematically assessing the relationship between these factors, resources used, and results achieved?

Is there a way of setting up this process so that you can better identify those factors that contribute to your success?

Admiral COLLINS. We're working very hard to do that. I think there are a couple of—and we're not, quite frankly, we're not there yet. The problem is to have very good validated activity standards, because I think it really starts there, standards that you can validate and connect to performance. They're leading indicators. What we have now in our performance are laggard indicators. It's tough to manage on laggard indicators.

So you've got to have, I think, activity standards that are leading indicators of performance, and to have a system to validate the connectivity or the cause-and-effect relationship between the activity and the performance. We're not there yet, and it's going to require a lot more use of our brain cells to get a predictable system in place. But I think that's the answer.

A predictor, for example, of our search and rescue performance is clearly not how many sorties we do. It is not how many boat hours we sailed. The predictor of good search and rescue performance is your readiness standard, to have you maintain your readiness standard in terms of responding in such and such a timeframe, being on scene in such and such a timeframe, and ensuring the resources are in place—well-trained people, well equipped resources that maintain a readiness standard. That is really the predictor of good SAR performance, as an example.

But we have to go through—this is hard work. We have to go through every mission, identify those activity standards, and roll in the people dimension, which is a great recommendation from GAO to account for the people allocation as well, and fold this in. And we've got some work ahead of us to get there.

Senator SNOWE. I appreciate that forthrightness. Ms. Wrightson.

Ms. WRIGHTSON. There is—I think what we would say is, GAO generally doesn't tell agencies which particular performance measures they should have because it's really a matter of facts and circumstances. But what we do know is that the Commandant is absolutely right. There are some problems both on the input and the output side of their measures.

On the input side, as he mentioned and we have, missing the human assets is a critical problem and one of the reasons is because the Coast Guard is using those assets more and more for new missions such as inspections and so forth. All of that is lost, as well as traditional missions where it has used people, like in MEP.

The other thing that we would say there is that not only do they need to improve both input and output, but also the account—when you have data that are going in a direction that is counter-intuitive, as these are, it's really incumbent upon the agency to do what we call environmental scanning, where they keep track of operational improvements, changes in tactics, partnerships and technologies, and they're able to catalog those in a systematic way and use information about those to determine whether they should expand, reduce, or change efforts that they're making to do better with less.

So that is something that we can help the Coast Guard with and we expect to do that going forward.

Admiral COLLINS. One thing, I just had a very interesting brief yesterday from our operations staff on—it happened to be on my favorite topic, Deepwater, and some of the planning associated with that, and it was on modeling. It was an operations research brief and some of the modeling skills—simulation and modeling skills—they're developing to look at performance of Deepwater as a system. And it's terribly exciting, and I think we're making a lot of progress there, and I really can't wait to give GAO—

Ms. WRIGHTSON. I think I've seen it. Is it DMOS?

Admiral COLLINS. Yes.

Ms. WRIGHTSON. I've seen it.

Admiral COLLINS. And I think it's going down the right path. The cake is in the oven. It's not fully cooked, but I think it's going in the right direction. It has great potential. One thing I think as a service we have under-invested in is operational research capability

and tools, and that's one of the things that I would like to pay attention to over the next year and buildup our operational research capability so we can develop some of these techniques and capabilities that allow us to make better decisions about resources.

Having said that, I think the results are pretty darned good. If you look at the lives that we've saved, if you look at the cocaine we've seized, if you look at the environmental protection we have rendered, I think that's a good return on our investment from every perspective I can think of. But the fact of the matter is, we can't be satisfied with that. And how do we invest the next increment, how do we ensure when we have a decaying asset that we adjust the game plan appropriately. So we're committed to making the investment to get smarter and have the tools in place to make good decisions.

Senator SNOWE. Senator Lautenberg.

**STATEMENT OF HON. FRANK R. LAUTENBERG,  
U.S. SENATOR FROM NEW JERSEY**

Senator LAUTENBERG. Thank you very much, Madam Chairman. I'm always happy to see a Coast Guard representative and we're delighted that Ms. Wrightson is here, and hope that she will agree more with me than with he.

I don't mean to get poetic, but I kind of see it that way. And I wonder, Madam Chairman, do we have time for me to make about a 5-minute opening statement?

Senator SNOWE. Please proceed.

Senator LAUTENBERG. Thanks very much. And once again, I'm pleased to have you convening this hearing. We—Maine and New Jersey—go perfectly together when we're talking about the Coast Guard. Each of us is very dependent on the Coast Guard for all kinds of services and our reliance on the Coast Guard reflects our interest in our maritime industry, the safety of those out at sea, and the protection of our environment. It makes sure that pollution doesn't start in the first place, and reach our shores in the second.

So I appreciate the fact that, although I'm not a member of this Subcommittee, Senator Snowe invited me here today. I think she invited me without me begging, too.

Senator SNOWE. We're bipartisan.

Senator LAUTENBERG. The Coast Guard plays such a critical role in protecting our Nation's economic security interests, and it's so critically important that these folks have the resources that they need to do their job.

Last year, my staff received a call from a constituent who is also a member of the Coast Guard. He said that he was being forced to share personal equipment like special suits, items intended to be worn by one individual. He said that things were tough, but they were making do. Nonetheless, I found this disturbing.

What are the priorities of this Administration? Maritime safety, illegal drug interdiction, environmental protection, other crucial Coast Guard missions. Are they worthy of being funded adequately? And we have our witness from General Accounting Office who I think perhaps has already testified to the Coast Guard's ability to perform its tasks from search and rescue, and all of the other things it does. We forget at times the navigational markers. And

having been a sailor, I know what it's like not to be able to see the next one, which was often the case with me, and being able to holler "help" in a more dignified way than that and get it.

So all of these things, I think, are being compromised by budget cuts. Now, while our good friend and outstanding Commandant, Admiral Collins, is here to tell us that certain performance measures don't show that these areas are taking a hit, I'm not convinced. We all know "OMB-speak" when we hear it, and it is unfortunate that the Commandant is being requested, let me say, to make due with a budget that we all believe is inadequate.

On another note, and Admiral Collins mentioned it, I'm concerned about the Deepwater program. A \$17 billion long-term contract award is a risky prospect when we consider what the record has been on overseeing contracts. In every agency where the Administration has promoted significant increases in contracting out, we have seen some problems—Defense, NASA, the FAA. And yet, there is a continuous push to government contracting, like it's the answer to all of the budget problems. For me, it's shocking that there's even an interest in privatizing the FAA's air traffic control functions.

Along these lines, GAO has identified some very serious problems with Deepwater, and I'm interested to hear Ms. Wrightson's comments on this.

I'm also concerned about the status of the Oil Spill Liability Trust Fund and our ability to respond to coastal disasters like the Exxon Valdez. I had a chance to be up there to view the site within a couple of days after it happened. That spill prompted Congress to enact the Oil Pollution Act of 1990, and it established a comprehensive statutory mechanism for preventing and cleaning up oil spills. I was an original co-sponsor of the Senate version of the OPA, and I was a conferee on the bill.

The Oil Spill Liability Trust Fund was actually established prior to the enactment of OPA. The Trust Fund has been used to pay for cleaning up a number of oil spills since its inception, including the spill off the coast of my home state, New Jersey, this past February. The revenue source for this fund was a 5-cent per barrel tax on domestic and imported oil. Unfortunately, the authority to collect this tax expired nearly 10 years ago, in December 1994.

Although the Oil Spill Liability Trust Fund is in better shape, let's say, than the SuperFund Trust Fund, I'm concerned that with no new tax revenues, it will go broke. At the beginning of Fiscal Year 2003, the fund contained over a billion dollars. By the end of Fiscal Year 2005, the Fund balance is going to drop by over \$200 million. And I'm considering introducing a bill to reinstate the tax that funds the Oil Spill Liability Trust Fund so that it doesn't end up like the SuperFund Trust Fund, which is out of money.

And again, I'm interested, Madam Chairman, in what the witnesses have to say in more detail about those things that we're so concerned about. So with that, I will turn it back to you.

Senator SNOWE. Well, I thank you, Senator Lautenberg, and I thank you for being here today. I appreciate your comments on some of the issues that are important to the Coast Guard and to our mutual constituencies. Would you care to ask any questions or—

Senator LAUTENBERG. I would like to ask Admiral Collins this question. And that is, would you like to have more money?

Admiral COLLINS. Senator, our 2005 budget is just right. It will support our operations in 2005. I think as we go forward and particularly on the capital end of our budget, we're going to have to think through the out years to ensure that we have— we can address this, what I refer to as a downward spiral, maintenance spiral of our assets and the readiness posture of our assets, which is my primary concern.

Senator LAUTENBERG. Admiral, I would say you were a good soldier, but I know that you're technically not a soldier. But the character is the same. You're a loyal, steadfast and able Commandant of the Coast Guard, a branch of service that, frankly, I really think is always a little bit under-funded, under-served, because even if the funding stays static, including an inflation adjustment, the new assignments never stop coming. And I think in some ways, the Coast Guard is the most dynamic of our branches of service because of this increasing number of duties to perform.

Years ago, no one thought about pollution control or about inspecting ship manifests or setting safety standards for passenger boats, things that seem so routine. Our navigation system is so good that it has guided the entire maritime industry, that is so important to our economy and our society, including a serious recreational boating element as well as commercial enterprise.

And so when I look at all those tasks and I hear you say that the funding is just right, I would ask you, Admiral Collins, did you have too many people and too much equipment in performing these tasks before. Was that the case?

Admiral COLLINS. No, sir.

Senator LAUTENBERG. I just wanted to be sure.

Admiral COLLINS. There are obviously some challenges and we're trying to juggle parts of our budget to ensure we cover all the bases, recognizing that the budget world is not an unconstrained world, and we're trying to live within the constraints we are dealt with.

Senator LAUTENBERG. I know you don't want more but if you did want more, how much more would you have wanted?

[Laughter.]

Admiral COLLINS. Let me put it this way. I can refer to a report that is already on the table submitted to the Senate and the House that addresses our capital options to deal with our capital modernization issues, and that was submitted last year. That addressed, again, some different approach and time line to our modernization efforts and suggested some advantages that might accrue and the ability for the capacity of the industry to adapt to that change.

So if you're asking me, Senator, if I'm an advocate, a believer in that report, I would probably have to say yes.

Senator LAUTENBERG. All right. We're beginning to tie the things together here, Admiral, because I remember seeing a report that had us in a relative state of disrepair in terms of our service versus other similar services around the world. And it shouldn't be that way, especially since 9/11 and the responsibilities the Coast Guard has since taken on. I look out my window at my home in New Jer-

sey and I face the Hudson River, and I see the Coast Guard craft out there all hours of the day and night. 9/11 added to the burden the Coast Guard has, and it doesn't come free.

So just for a moment, I'd like to ask you a question about the Oil Spill Liability Trust Fund which I mentioned earlier in my remarks. What's projected as the balance at the end of the Fund five and 10 years from now, the end of Fiscal Years 2009 and 2014, respectively? Do you know when the Fund is projected to run out of money?

Admiral COLLINS. I think in 2009, we're going to start, by that time, start realizing some problems with sufficient funding in the pot. I think you described the situation—you hit the nail right on the head, Senator. I couldn't agree with you more about the current state of play with that fund. The sources of the funding, of course, no longer exists. We're using that fund more aggressively. Spills are costing more money to clean up. And I think we've got good at controlling the number of spills. We reduced—we have pretty good performance dimensions on the number of spills, gallons of oil spilled per gallon ship.

But having said that, one has to question whether in the 2009 and post-2009 period, whether the Fund will be sufficient to do the things that the Congress and the American people need it to do.

Senator LAUTENBERG. I was an original co-sponsor of the Oil Pollution Act of 1990, and I am also a strong advocate of the polluter paying for its deeds. You know, we had the 5-cent a barrel tax that funded the Trust Fund, but the tax, again, expired nearly a decade ago. I take it from the comments you just made that you wouldn't mind seeing this tax reinstated. Is that a fair observation?

Admiral COLLINS. I would like—what I would like to see is a source of funding for the fund, whatever the proper funding mechanism would be, and I would leave that to the experts to figure that out.

Senator LAUTENBERG. I won't press you any further. I understand how delicately you're phrasing your remarks, but we get to the same conclusion. I'll do the interpreting, Admiral Collins.

Ms. WRIGHTSON. Could I just add a point there? That generally speaking, when GAO has done work on trust funds, our position has generally been that when there are negative externalities that are created such as in this case, that those externalities are paid for by society at large. That is, a self-financing mechanism makes the most sense.

So that would be my last word on that subject as well.

Senator LAUTENBERG. Thank you. Thanks very much, Chairman Snowe.

Senator SNOWE. Thank you very much, Senator Lautenberg. We appreciate it. Thank you for being here. Senator Lott.

**STATEMENT OF HON. TRENT LOTT,  
U.S. SENATOR FROM MISSISSIPPI**

Senator LOTT. Thank you very much, Madam Chairman, and thank you for having this hearing in your jurisdiction as Chairman of this Subcommittee. And Admiral Collins, thank you for being here. And Ms. Wrightson, I appreciate your report, too. I'm sorry I didn't get to hear your opening statements. But as I've said many



times before, Admiral Collins, we appreciate the work that you do and that the Coast Guard does. Since I live right on the Gulf of Mexico, I pay attention to the Coast Guard and all the benefits that they give, the good work that the men and women in the Coast Guard provide along the Gulf Coast and up the river, too, the Mississippi.

How are we dealing with the Deepwater program? I know it's always a question of funding and there's no question you need more funding, and I'm going to be an advocate for an increase of funding for the Deepwater program above what was asked for in the budget. But just, unless it's already been done, give us sort of an overview. How are we doing with that project?

Admiral COLLINS. I think it is, from a management perspective, it's a complex project to manage this system of systems approach. We're working very, very hard at it. We're having wise counsel from GAO to help us with process improvements along the way and we're tending to those very aggressively. So from a management perspective, we've worked hard. We have additional work to do and we're attending that. We have a plan of action and milestone for every recommendation, for example, that GAO has rendered on the project.

In terms of the funding stream, there are two issues impacting Deepwater—well, several. One is funding stream, past funding stream and future funding stream that dictate how you put that project together, that is, those systems of systems together. That's one issue.

The second issue is, externalities that influence the requirement. That requirement was a pre-9/11 requirement that evolved and defined the contract and the solution that was proposed for that contract. These things that have happened obviously since 9/11 that changed—9/11 and beyond—that have changed our world of work, and we need to make requirement adjustments because of those. That's factor number two.

Factor number three is the current state of the legacy system, Senator, which are much worse than we projected back in 1998. And that is, the decay curve, if you will, of those legacy assets. And they impart for me personally, and I know throughout our service there's a sense of urgency about getting on with this modernization because of those three factors, and the last one in particular.

Senator LOTT. Well, let me be specific for those who may not follow what you're saying that closely. But I understand your finding that your fast response cutter, that's your 110-foot patrol boats, as they're being converted to 123-foot boats, you're finding that they're in worse shape than you thought they were. The same thing is true with the offshore patrol cutter, which is I guess the 210 1960s vintage vessel. You're finding that it also is having more problems, or has more problems than you realized.

And so now there is a need to deal with those additional costs aside from, of course, the need to do some catch-up on the overall funding for Deepwater. Is that correct?

Admiral COLLINS. Yes, sir. You're referring to the current—some of the systems failures we experienced on some of our platforms. The 110-foot vessel, we've had 20 hull breaches. That's water coming in, emergency drydocking.

Senator LOTT. That's a little problem.

Admiral COLLINS. That gets your attention. It gets the adrenaline flowing. We've had that problem. When we sent the Matagorda, which is the first ship to stretch a 110 into a 123, we had forecast about 10 to 15 percent of the hull plating would have to be changed as a part of that renovation. We ended up over 35 percent because of the current state of that, and that's symptomatic of the overall fleet.

We've had—last year, we lost 671 days of cutter time—that's medium endurance cutter and high endurance cutter—to unscheduled maintenance. And that's another reflection of the current state of the fleet. So you're losing operational capacity because of the current state of the fleet and it's costing you more. You saw the curve here. We will have to continue to invest in our legacy assets.

So those are alarming data points, Senator, in terms of the imperative of this modernization program.

Senator LOTT. Well, I guess you've done pretty well comparatively speaking to other parts of the budget, with a 6 percent increase in 2005 over 2004, with these additional problems, and with what we're going to have to do to make up for Deepwater. We're going to have to come up with some more funding for you to be able to do the job, from Maine through New Jersey to the Gulf of Mexico and the West Coast. And so we'll try to be helpful in that area.

Let me be parochial on one issue, if I might. When you pull into my home town to the Port of Pascagoula—of course, we have regular dredging maintenance by the Corps of Engineers. But when you pull in, if you look to the right you'll see my house. If you look dead ahead, you look at one of the country's largest and most important ship yards. I'm sure that Senator Snowe would have some idea about what it looks like.

Senator SNOWE. That's with the exception of Bath.

[Laughter.]

Senator LOTT. You look to the left and you see the Naval Station at Pascagoula where a Coast Guard cutter is also moored. And if you look behind you as you come in the channel, you're looking at a Chevron oil refinery, chemical plant. The point is, in a very small space, there's a lot of critical stuff—refineries, chemical plant, naval station, shipyard, weapon caches, the works. And I'm worried that we're not getting the attention paid to the central part of the Gulf of Mexico in terms of security for our ports that they need.

Now, it's understandable you'd go with the bigger, more identifiable ports first, and we have done a little bit better this year with some of the security allowances. But I want to encourage you to look—well, let me just be specific—at that particular port, because I think it is a lot more vulnerable than other ports along the Gulf, in the central Gulf. Most of them don't have a naval station, a shipyard, and an oil refinery within spitting distance of each other. So I would hope you would take a look at that.

One other thing is, there's a company identified as MariTEL that obtained spectrum through the FCC auction to develop a commercial coastal telecommunication service with the requirement to provide the Coast Guard with limited access to portions of that spectrum. The Coast Guard now wants to expand its spectrum requirements for the automated identification system in a way that would

imperil MariTEL's commercial plans. Obviously, you have to be sensitive to that, and I would just like—I know you may need the additional spectrum. They have made an investment. I would like to ask you to at least work with MariTEL and try to work this out in a way that you can get the spectrum you need, but without putting legitimate private enterprise out of business.

Would you like to respond to either of those two issues?

Admiral COLLINS. The spectrum issue is a complicated issue. It kind of makes your head hurt a little bit. It's a technical issue, but it boils down to having access to a particular spectrum that is the international standard for automatic identification system. The vessels coming into our country have used international across the board and will have to use it in our country for both safety and security purposes. It's a very, very important system, and we need that access to that frequency.

We have not been able to develop a consensus between MariTEL and us. The issue is in front of the FCC to take a look and come to some conclusions on the best use of that spectrum. And I think we've agreed to disagree, Senator.

Senator LOTT. Well, that sounds like the Congress, "we agree to disagree" across party lines, across philosophical lines, regional lines, all that kind of stuff. And my attitude is always, "OK. Now we agree on what we disagree on. Now let's find a solution." It's not good enough to just say, "We've come to the conclusion we'll disagree on the spectrum." When you've got a private sector investment, a legitimate investment, you've got to find an alternative. And so I hope the Coast Guard will work with the FCC and the private sector to see if there's not some other option there.

There is a solution. Somebody just has to be innovative in coming up with it. And I'm not advocating anything as to what the solution may be, but there must be some solution so that you can have the spectrum you need and so that they have some protection of their rights and their investment. And I hope you will work on it.

Admiral COLLINS. I'll be happy to continue the discussion and explore all options. My door is totally open to the leadership.

Senator LOTT. Maybe we can bring in GAO and they can come up with a solution here.

Admiral COLLINS. I would love to be able to talk to the leadership of the corporation. Come in, let's chat, and let's talk.

Senator LOTT. I assume you're doing that, aren't you?

Admiral COLLINS. We are at the lawyer-to-lawyer basis.

Senator LOTT. That's the problem then. There it is. Now we know.

[Laughter.]

Admiral COLLINS. We would like to——

Senator LOTT. Let's get some Coast Guard officers involved in this, not a bunch of lawyers from the FCC, the Coast Guard, and the company.

Ms. WRIGHTSON. I hate to add you've already brought accountants into it, but you already have. We're doing ongoing work on AIS for Senators McCain and Hollings, and we expect to report out on that in the next few months.

Admiral COLLINS. It's a difficult issue, Senator. We'll continue the dialogue and look for every option possible to have a reasonable solution to this thing.

Senator LOTT. OK. I believe the Coast Guard can do it. If they can't, the Seabees will. Thank you very much, Madam Chairman.

Senator SNOWE. Thank you, Senator Lott. I would like to return to the issue that Senator Lott just raised concerning the status of the Deepwater program, because this is a fundamental issue. I would say we're almost at the point of crisis with respect to the declining readiness of your aircraft and your cutters. And as you indicated in your testimony, it's declining faster than your ability to repair your current assets and sustain them.

So the issue is, and I recall you mentioning this in your testimony before the full Commerce Committee recently, that you have aircraft and cutters that are old enough to qualify for Social Security, and that the funding that you had hoped and anticipated to use to buy new cutters and aircraft is now being used to sustain the current fleet. This is a serious situation we're in.

Are you contemplating or have you recommended a new time line for Deepwater? I ask that question because, as you know, I have certainly been a strong proponent of advancing that time line for the Deepwater program. I know the same has been true for Senator Lott. And currently, Senator Lott and Senator Breaux and I have been circulating a letter to our colleagues to submit to the Homeland Security Subcommittee on Appropriations, requesting that they advance that time line to at least a 15-year time line. To do this, we're requesting \$1.1 billion for Deepwater in fiscal year 2005. If we can't meet the 10-year standard, we should at least meet the 15-year standard.

But at some point, we've got to change direction. It's going to take some time, but I think we've got to do something clearly different from what we are doing right now. The status quo is unacceptable.

Admiral COLLINS. I think there are a couple of—Madam Chairman, there are a couple of adjustments that need to be made. One is to adjust the sequencing of the current profile. And the piece parts remain the same in terms of the overall system, it's when you introduce which part because of the current condition of the legacy system. That's one adjustment that's going to have to be done, for example.

Right now, the fast response cutter is slated to come on board on 2018, to replace the 110/123-foot patrol boats. Given the current state of the existing legacy assets, that's too far down the pike and so the schedule has to be moved to the left.

We've already made the adjustment for the helicopters because of the entire power train—the gear box, the fuel control system, and all that combination—is not producing the reliability and safety that our men and women deserve. I didn't have any choice. That's a decision that had to be made. That's moving to the left. And obviously we get the first engines in in the June timeframe.

So those are adjustments within the envelope, if you will, that have to be made given the current state of the legacy system and we're moving expeditiously on that.

The other adjustment is, and it's a subject of continued discussion as an out-year budget within the Administration, on exactly what the sequence, the next flow will be, and based upon what requirement. And we're actively recasting that next five-year plan for Deepwater, and hopefully we'll have that redefined by the summer timeframe.

Senator SNOWE. So in what Fiscal Year would you have to begin accelerating this program? I assume it would have to be started in this next fiscal year.

Admiral COLLINS. Well, again, within the budget envelope that I currently have dealt, the hand that I have dealt to me——

Senator Snowe: Can you do that?

Admiral COLLINS. Well, I have to make trade-offs. For example——

Senator SNOWE. What would be the trade-offs?

Admiral COLLINS. For the engines, the final dollar amount is not yet defined, but between 200 and 250 million dollars. To move that to the left, I have to take from other parts of Deepwater. So the money that is going to be taken will be the aviation legacy sustainment line item of Deepwater. That was slated to buy enhanced capability, FLIR, which is a very important capability for helicopters, extremely important capability. That was slated to do that and other avionics upgrades.

I can't buy that modernization because I'm tending to this legacy system. But it's the right choice within the dollar envelope, or the budget envelope, I had. It's the right choice to make because it's a safety and reliability issue of great import to our men and women. So that's the right decision and we'll do that, but that's the trade-off I had to make there.

For the fast response cutter, we will have to slow down the 110 to 123 portion of the patrol boat segment of Deepwater and then try to accelerate the design work for the fast response cutter to the left, the schedule to the left, so we can get that in the queue, get that going faster so they'll start spitting out much before 2018.

Again, that's a trade-off I have to make within that one. But it means less 123s. So those—if I stay within the current budget envelope—those are the trade-offs that you have to make.

Senator SNOWE. So you're making the assumption that there will not be any increases in the budget? You're saying that you can do that without requiring any increases?

Admiral COLLINS. I will have to push all the modernization to the right and I won't realize that capability, and I will be probably faced with more maintenance. So it is not a very attractive thing to me, quite frankly.

Senator SNOWE. Could it end up being more costly? That's the other concern, because then you don't have any room for error.

Admiral COLLINS. We don't realize the performance enhancements of the new system. We're buying a system of systems with Deepwater. It means realtime data connectivity between our aircraft, between our platforms. It gives us much greater surveillance. It allows us to put metal on target, if you will. It allows us to put the right ship at the right place at the right time, to get the outcome. It enhances performance. It is just—it is kind of frustrating

because it's just over the horizon, that capability that we need so desperately.

But it's not only for the homeland security mission but for fisheries enforcement, effectiveness on the MBL, effectiveness off the coast of Maine and George's Bank. It's effectiveness across our missions to use our resources very, very productively. So that's what's so exciting about Deepwater. So the faster we can get on with it, the better we'll be in terms of productivity. And what we're trying to do is manage it. We're dealt a certain budget hand and we're trying to manage it as effectively as we can going forward and addressing the first things first within the constraints that we have.

Senator SNOWE. Well, do you think it's going to compromise, even under that scenario, your ability to carry out your missions, particularly on homeland security, and on the other missions as well?

Ms. Wrightson, I would like your comments on that, too, from your analysis.

Admiral COLLINS. Well, the fact is, already we've lost 4 ship years last year, which is 600 and—roughly 671 ship days equals about—unscheduled maintenance—equals about 4 years worth of ships in the HEC and MEC that we lost. So that's an opportunity cost. Those are four ships that could be seizing the next ton of cocaine or enforcing the next fisheries or interdiction of the next batch of migrants. So it's that capability foregone. There's a value to that.

Senator SNOWE. Ms. Wrightson, would you care to comment?

Ms. WRIGHTSON. Yes. A couple of points. It's a really complex question that involves tradeoffs between legacy assets sustainment and what we know about what that's going to look like in the future, performance and capability, which I don't think there's anyone in this room who wouldn't agree that trading a Deepwater asset for a legacy asset wouldn't be a good idea in terms of enhancing the Coast Guard's efficiency and effectiveness in all of its missions 50 miles out.

And then the other issue is, how much do we know in terms of data analysis that has been done that could be used to justify any increases, and will the Coast Guard be able to manage the new funds as well or better than it's currently managing the program now. So those are all the things that are in play when GAO thinks about this.

As to the issues with legacy assets, we just—for this testimony, we did a preliminary look at some of the data the Coast Guard has. There is no question that those data raise obvious concerns about the direction and acceleration of the assets' deterioration. We did an in-depth analysis of the HH-65 and it was pretty clear to us that the issues involved were serious, real, and that the decision that the Coast Guard made was overall a sound decision. If that should worsen or translate into other assets, as it is already with the 110s and so forth, then it's a really serious question for the Coast Guard.

The second part of it is, if you were to accelerate the funding, you would want to know not only that you would get performance and improved capability in an untenable situation, but that the Coast Guard would be able to use those funds in a manner that would

maximize the promise of that program, which was to have total ownership costs be minimized, value to the government maximized, and client service—meaning the people who were going to use the assets—satisfaction achieved.

I don't think it's quite clear yet from GAO's perspective that the management that we want to see is in place either with respect to cost containment, with all due respect, also with respect to how they're handling the IPTs, which are those product teams that are so important, holding the contractor accountable. I mean, this is a unique and risky approach. Putting more money into it until we see that those things are in place heightens the risk.

And finally, on one closing note, it's really not up to us to determine whether or not there would be cost savings, but if we were requested, we could take a look at that because the Coast Guard is already \$2 billion acceleration over what we saw before, given all the changing parameters in the program. It would probably be worth taking a look at those legacy assets and the cost speculation to know what's really true in this case because it would basically put more information on the table from which Congress could make a judgment.

Senator SNOWE. How long would that take?

Ms. WRIGHTSON. You know, it's really hard to speculate because we don't know what the Coast Guard's data systems look like. But I would think that in 6 months or so, we could do an analysis on legacy assets with good cooperation from the Coast Guard. The cost estimate work is mostly economic work, and I'm guessing that if we did it, we would probably come back and tell you that the parameter estimates that we would give you would be so broad given the assumptions that it probably could be in the billions on either side in terms of cost savings. But 6 months to 8 months would probably get you preliminary work that you could use.

Senator SNOWE. Based on the analysis that you did on the Integrated Product Teams and the integrator that the Coast Guard would have put in place, how long—and I know Admiral Collins has addressed some of these issues that you recommended today—would it take to make adjustments to make sure it becomes cost-competitive, reducing the cost overruns, and it's working in the right direction in terms of efficiencies? How much time do you think that that would require in order to do that? Obviously, accelerating and sequencing the acquisitions is a way of doing it. I mean, it's leaving you no choice, given the circumstances of the budget.

But the issue is, that would require shifting funds. It could cost more money in the final analysis. And should all these other adjustments be made before you do that, and how long would that take? Do you see a need to measure the cost effectiveness of the competitive model that is in place now which has the systems integrator and the teams that you referred to that are absolutely essential to ensuring that we don't have cost overruns?

Ms. WRIGHTSON. Well, I really think that's the Commandant's question to answer. But I definitely believe if it's worth doing, it's worth doing right.

Admiral COLLINS. Again, I think we have our first session with GAO at the end of this month to say, "This is our plan of attack.

This is how we're doing it and acting on your recommendations." And we're going to obviously—we're committed in following through and doing that on a periodic basis. So we're moving out in earnest. I think our measurement scheme, holding the contractor accountable to costs.

But I might comment, that \$2 billion, a good bit of that is driven by externalities. The fact of the matter is, a good portion of that is the legacy maintenance costs. Another portion of it was for requirements changes in the National Security Cutter. We did that, not the contractor. The fact of the matter was, in the post 9/11 era, we had to make some adjustments to the National Security Cutter requirement. For example, we needed to have a chemical, biological, radiological protection system. In today's world, to build a cutter that's going to last for 25, 30, 40 years, and not have that capability in the current threat environment, is just not prudent. So that—we had to make adjustment to the requirement. That drives up costs a little bit.

So I think the \$2 billion was not mismanagement or lack of performance on the part of the contractor, it was these externalities and other considerations that drove those costs. And they were all very, very legitimate. And we have multiple systems spread over a long period of time, and there's going to have to be modifications to the requirement over that time. There are changes in budget, the budget flow of this project that changes things. There are technology changes. Over a 20-year program, it changes things. There are mission demands that changes things. There are political changes in our government that changes levels of support.

There are all these parameters, and we have to have a system that can adjust to these things. I think we have it in this contract. The contract vehicle, the acquisition strategy, and the contract vehicle allows for these adjustments. You've got to have it if you're going to run a 22-year program, 20-year program or 15-year program, whatever the case, how it eventually comes out. You're going to have to have some kind of contractual flexibility to deal with these externalities.

The fact that we had 9/11, we had 9/11, and our new threat environment, new security environment we have dictates some adjustments to the project. Another example, I mentioned the National Security Cutter, but we now have a greater strategic lift requirement from Deepwater that we did not have. We have these Maritime Safety Security Teams that are deployable teams that go to the risks. They have to be airlifted. Well, that changes a little bit of the requirement mix.

Our helicopters need to have airborne use of force and vertical insertion capability in today's security environment. That did not exist in 1998 when the initial requirement—so these are requirements adjustments that have been well thought out, I think extraordinarily well justified, that have got to be codified in a mission need statement to our department. And they're doing that with a great sense of urgency. We'll codify these requirements change, get a new mission statement, get it approved by our department, run it by OMB, and get it in detail to the contractor to make the requirement change. But that's all part of the issues we have to attend to.



Senator SNOWE. Ms. Wrightson, would you care to make a final comment on this?

Ms. WRIGHTSON. Final comment. I would endorse their doing that. Getting a new mission statement and new requirements for the program in the post-9/11 environment would go a long way, along with the other things, to putting the program on the kind of management track it needs to be on.

Senator SNOWE. Well, then we agree on that. And moving forward, I think there is no disagreement, but we need a process by which we can do that new mission statement to make sure needs will be met. And obviously on the other issues, on the time line for Deepwater and the budgetary constraints, it's going to be a major issue for this Congress. I don't think we can ignore it. We're living on borrowed time.

It's purely illusionary on the part of Congress to think that we can ask the Coast Guard to do so much in so many ways, particularly in the sphere of homeland security, and expect it to do so with this degradation of current assets. It's just not going to be able to fulfill the mandates under law. You're doing an incredible job as it is and we certainly can help you, but I think we have to recognize some realities here and help you in that process.

One final issue, on port security. Senator Lott was raising the whole issue of the potential susceptibility and vulnerability of our ports. And I know the port security process and assessment plans are underway. I was concerned about the Administration's request, as I mentioned in my opening statement, for these port security grants—they're down 63 percent from the previous year.

Admiral COLLINS. There's \$46 million that are sort of defined as port security funds. And then there's also the ability for states and localities to go forward and above and beyond that amount to the larger pot of money, which is \$3.4 billion or \$5 billion in an overarching pot within the Department of Homeland Security. And they have—although they're not dedicated to port security—they do have access to that.

Senator SNOWE. They have access to this other pot of money? Is that what you're saying, that this other pot of money is available?

Admiral COLLINS. There's a total grant program within the department. It totals approximately \$3.4 billion, and \$46 million of that is earmarked for port security, but states and localities can apply for the larger pot of money under other categories. So they can make an application, although it is not dedicated to port security.

Senator SNOWE. Are the communities aware of that?

Admiral COLLINS. I believe so. And of course, the other thing is, the program is being organized. The grant program will be centralized in ODP.

Senator SNOWE. Does that make sense? That's another question I have.

Admiral COLLINS. If it's managed right, it does.

Senator SNOWE. I thought the TSA was going to be overarching in all modes of transportation.

Admiral COLLINS. It allows us to have a common grant system and allows it to be managed from one focal point. And it allows us, the way it's unfolding, still to sort of be the expert witness on mari-

time issues. So the local captain of the port, who has the best visibility into what's needed in Portland or Boston or wherever, can have input into review of the grant applications. And that is still part of the process. So although we don't run the grants program itself, we do have meaningful input as sort of the expert witness. We're a stakeholder.

Senator SNOWE. How many port security assessments have been completed at this point?

Admiral COLLINS. We have 16 completed. We have about—

Senator SNOWE. Out of the top 50 ports?

Admiral COLLINS. About 55. We have about four or five that have started, another four or five started just this month, and we're on track. We did a little hiatus—we treaded water a little bit while we reevaluated the methodology. We had some very wise counsel from GAO and others that said, "Wait a minute. You need to take a pause here. You need to rethink this methodology. There are a lot of security assessments that have already been done out there. There could be some duplication. Why don't you have a system where you can pull or draw from those already there and look at wider issues and not duplicate."

And we've also used a better data base, a geographic information display type system that we want to develop. So there's a great tool for the port committee, because that's really the customer. The port committees could have a great interactive, vibrant, dynamic tool to draw from, to make good decisions when they do apply for that grant. Or what's the next grant you apply for? Where's the next gap you address?

So we've spent some time, based upon wise counsel, spent some time improving that, and I think we're rocking and rolling now, Madame Chairman, to get on with it. We have every expectation of meeting the time line.

Senator SNOWE. You mean by the first of July?

Admiral COLLINS. No, by the end of this calendar year we'll have all these done.

Senator SNOWE. The question is, when is all of this mitigation going take place once they've identified security vulnerabilities and so on? I know that the Coast Guard has identified \$5.4 billion worth of needed security measures. Is it more than that?

Admiral COLLINS. It's actually higher than that. The estimate in the rule was \$1.5 billion the first year and \$7.3 billion over 10 years.

Senator SNOWE. It's much higher. So now the question is about the pace of this change—that's a concern. What is going to be the pace for this change? Let's just look at the top 55 ports. When would you expect those assessments to occur? Over what period of time? There are some major vulnerabilities out there. I know you're aware of that, and obviously you're meeting your obligations.

What do we need to do to fulfill those obligations at a certain pace? We can't allow this to sort of just drift over time. And that is my major concern. I think that vulnerability with respect to our ports is a serious issue that we must address in meeting and fulfilling our homeland security mandates, and I think the assessments have got to move faster than they are. And it's not due to

your lack of oversight. It is a question of what we're doing to create a sense of urgency about it.

I would appreciate any input you have with respect to this issue. What can we be doing to ensure that we're driving this issue?

Admiral COLLINS. As we review the security facility plan that comes in, or the vessel plan that comes in, they, in their plan, have to address certain dimensions of the security issue—the access control, parameter security and the like. And they can say, “This is the state of play. Here's where we are and here's the actions we're taking. And oh, by the way, here's our investments we're taking to mitigate this over time and here's the time line.” And that's all part of the review process of each one of these plans.

And we can't expect every problem to disappear on 1 July. We can expect, though, to have—we can expect to have a plan that is well developed, that addresses the gaps and has a plan to remediate them.

Senator SNOWE. OK. So let's just take, for example, the issue that Senator Lott raised. In some of the more vulnerable ports, the bigger ports in America, how quickly will these vulnerabilities be mitigated? How quickly will they be addressed?

Admiral COLLINS. I think I have to—one size doesn't fit all. One answer won't fit all. And the saying that we have, “When you've seen one port, you've seen one port.” Every port has very different characteristics, and they're going to have to have a port plan, port-by-port plan. That's the reason for the area committees. That's the reason for a collaborative approach with all the major stakeholders sitting around the table.

Senator SNOWE. Well, what about, as he suggested, chemical facilities at ports, for example. What kind of protection is afforded those in that type of situation right now?

Admiral COLLINS. When we go to an orange alert, for example, it's all threat-based. When we go to an orange alert, we will have certain types of intel and we'll mobilize assets into certain key critical areas. So the last orange alert—I think we would have to give you a classified brief on this. But there were a number of different issues that were on our scope that we worry about every day, and we mobilized assets into those areas because they stood out in terms of their risk, in terms of their vulnerability, and the consequences of something happening to them. They were very critical assets.

And we mobilized—incidentally, local, state, and federal-mobilized assets in and around those particular areas to provide the security. It's dependent on the threat condition you're in.

Senator SNOWE. But it's threat-based. Does it necessarily need to be threat-based to have a major vulnerability and a problem? In other words, we may not get a sufficient or advance notice or indication.

Admiral COLLINS. We have various levels of security, maritime security level 1, 2 and 3. There are various levels of security. You have to practice at each one of those and when we go to a certain condition, those are set and they require a certain additional level of security action by the facility, by the vessel, by the captain of the port.

Senator SNOWE. But they aren't always accurate about it.

Ms. WRIGHTSON. Madame Chairman, it's also true that there have to be capital investments, and the vast majority of those capital investments are going to have to be funded by the stakeholders themselves. On the visits—we're doing work now for the House Transportation on the implementation of the port security provisions. And to date, it is really interesting. Visiting Valero as I did in Corpus Christi, or others, you get a sense that they are making investments because they have a hefty need to do so.

On the other hand, a stakeholder would turn to us and say, "I don't want to be the most safe business out of business." So there's a certain balance that they're going to have to achieve. And I think based on the work we've done so far, while we've seen implementation to date looks good, nobody really knows the answer to your question, when will the security improvements be put in place. No one really knows.

Admiral COLLINS. I think the real important part of MTSA is that there's a level—the standard attempts to develop a level playing field so you won't have the discontinuity from one businessman to the other businessman. If we enforce it right, there's a basic standard from port to port, facility to facility, yet flexible. It's not descriptive. It's not telling them the answer. It's setting the standard down and there's equivalent—there are alternative security measures and equivalent security measures. We've tried to make this as a common sense practical approach as we possibly can.

And I think that level playing field, whether you're talking to the international participant in this international system or the domestic, that is what they want. They want a level playing field.

Senator SNOWE. OK. Well, I appreciate that. And finally, Admiral Collins, I just want to thank you for the quick response by the Coast Guard to filling in the gap at Brunswick Naval Air Station when the Navy removed those Naval helicopters, and for how you responded by placing three 25-foot fast boats there. And under the memorandum of understanding, the Coast Guard has with the Canadian government, they will have a formal exercise in search and rescue. I really appreciate you filling the gap and restaging HH-60 helicopters at Brunswick from the airport. I really appreciate that and the commitment you have made.

I just was wondering, could you tell me, were you informed by the Navy that these helicopters would be removed, the ones that helped us in search and rescue?

Admiral COLLINS. I don't know the time line, Madame Chairman, when that news broke. I can get that information back to you. But we're comfortable that the past adjustments we've made for the coast of Maine, the current ones that are in play, and the future enhancements that we've got going, including Rescue-21 and others, faster boats, I think we're very comfortable with the coverage we have there.

The Naval Air Station, in the last number of years, only had a handful of cases. You can count them on one hand, and none of which were emergent type cases. So I think we're very comfortable between the assets we have, the capability of the Cape Cod Air Station, the agreement we have with Canada and the new capability. As a kid that summered on the coast of Maine, I've got a soft spot in my heart.

Senator SNOWE. We appreciate that soft spot.

Admiral COLLINS. We're going to make sure that we attend to that.

Senator SNOWE. I appreciate that, Admiral Collins. I know it was a very quick response. Obviously we were concerned, especially with the gap that does exist and would continue to exist with the loss of those helicopters. Your response was quick and prompt. And you feel comfortable that this would be filling in that gap on search and rescue for those 44 nautical miles? You do feel comfortable with that coverage?

Admiral COLLINS. I think we will meet or exceed our search and rescue standards for that area.

Senator SNOWE. OK. Well, I thank you very much. I appreciate it. Ms. Wrightson, thank you as well, and I appreciate your cooperation, assistance, and guidance with your recommendations. And I thank you, Admiral Collins, for your leadership at the Coast Guard and for doing a superb job under some very difficult circumstances. And we, the Subcommittee and the full Committee, want to work with you to make sure that you can meet your obligations and mandates under the law. We'd like to make it easier for you, so we're going to try to do that in the meantime. Thank you. This hearing is adjourned.

[Hearing adjourned at 4:10 p.m.]



## A P P E N D I X

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. ERNEST F. HOLLINGS TO  
ADMIRAL THOMAS H. COLLINS

### **Cost of Vessel Tracking**

*Question 1.* Admiral Collins, the MTSA requires all vessels arriving in U.S. waters to be equipped with transponders to allow the Coast Guard to track their movements by the end of this year (currently oil tankers and cruise ships are carrying them). Last year your budget only requested \$1 million dollars for the installation of towers and equipment to monitor shipping. I was able to get you an additional \$23 million, but the FY05 budget request is for only \$4 million. Is \$4 million enough to cover all of the costs for this program? What is the total amount needed for the program?

*Answer.* The funding requested and provided to date for the installation of Automatic Identification System (AIS) equipment is adequate for the current stage of AIS installation efforts. The Coast Guard is using the funding provided in FY04 to accelerate deployment of interim AIS capability while concurrently moving forward on a major acquisition to achieve nationwide capability beginning in late FY05. The funds requested to date are not the total required for the complete program. The Coast Guard has estimated 15-year lifecycle costs (which include purchase of equipment, installation, maintenance and operation) range between \$155 million to \$675 million. To date, the Coast Guard has spent approximately \$25 million on AIS projects. The large ranges are reflective of the uncertainties in system requirements and uncertainty over whether the nationwide AIS system will be able to reuse existing or planned Coast Guard infrastructure. The low end of the cost ranges assumes available infrastructure will be used with incremental increases in support costs and no use of satellite systems. The high end assumes some new towers and sites will be required with associated new support costs and the use of some satellite systems (moving AIS from a national/short range to a more international/long range operating picture). In addition, the highest life cycle cost is based on a commercially built and owned system that provides AIS information to the Coast Guard as a service.

### **Comprehensive System to Track Vessels in U.S. Territorial Seas**

*Question 2.* Admiral Collins, you recently gave a speech in which you said that the U.S. needs a "maritime NORAD" to comprehensively track vessels either engaged in innocent passage through the U.S. territorial sea or simply navigating through the EEZ. This type of traffic is not captured since it does not enter a U.S. port. Yet our territorial sea goes all the way to our coastline. What are you doing to create this capability? What is the amount of the request for this program?

*Answer.* The Coast Guard has several on-going initiatives to provide vessel tracking.

The "Nationwide AIS" project will provide the capability to track vessels that are required to carry this equipment, and those that are carrying it voluntarily. We are currently developing this project, and expect that, by including receivers on offshore platforms and buoys, we will be able to cover almost the entire EEZ. To obtain some longer-range capability in the short run, we have contracted with a commercial vendor to test and evaluate the feasibility of receiving offshore AIS signals by satellite. The first satellite launch is scheduled for late 2005. The Nationwide AIS project has been funded for Fiscal Year 2004 and is delivering preliminary capability in a number of areas even as the overall system and national architecture are being developed.

Our Sector Command Center initiative will provide port and coastal sensors that will track *all* vessels in major ports and out to about 24 nm, and allow the tactical level command centers to receive, process and respond to this information. We have developed standards and equipment suites with the Department of Homeland Security Science and Technology Directorate at our test bed in Miami, and have begun providing preliminary capabilities to several port areas. Developmental work for this

project to date has been done using agency operating funds and long-term funding needs are being examined.

Our long-range tracking and identification initiatives seek to provide long range tracking of all vessels 65 feet in length or greater in the zone from 24 to 2,000 miles off shore, to evaluate with intelligence, and other data bases. We are working with a number of entities to explore/test various technologies and develop requirements. These include the Department of Homeland Security Science and Technology Wide Area Surveillance Panel; the Coast Guard Research and Development Center; the Naval Research Lab; the national intelligence community; and the Johns Hopkins Applied Physics Lab. We are also working with the International Maritime Organization to develop international requirements for long-range vessel identification and tracking. This project is in development and funding requirements and alternatives are being examined.

We are also working closely with several entities (U.S. Navy, NORTHCOM, Assistant Secretary of Defense for Homeland Defense) to look at alternatives for an interagency organization to collect, analyze and disseminate this kind of vessel tracking information to appropriate agencies with a role in maritime security.

#### **Law Enforcement in U.S. Waters**

*Question 3.* There are quite a number of laws, including fisheries and marine safety laws, that apply to ships that enter our waters without coming to our ports. How exactly is the Coast Guard enforcing these laws against such ships, if it does not even know what ships are entering these waters, nor when and where they are doing so?

*Answer.* All vessels that are in U.S. waters, legally or otherwise, are subject to boarding by the U.S. Coast Guard or other law enforcement agencies to determine their compliance with U.S. law. With 3.36 million square miles of Exclusive Economic Zone (EEZ) and 95,000 miles of shoreline to patrol, the Coast Guard cannot be everywhere at once. To provide effective enforcement the Coast Guard uses a combination of enforcement presence, partnerships with other agencies, timely and actionable intelligence, surveillance and tracking technologies.

Coast Guard presence in maritime regions is provided by Coast Guard boats, cutters, helicopters and airplanes. To bolster the enforcement presence, Coast Guard units routinely participate in joint operations with state and local enforcement partners. Coast Guard and other government agencies' intelligence and surveillance activities are critical force multipliers, enabling the Coast Guard to position assets to best protect the Nation's maritime borders through deterrence, detection and interception.

Coast Guard law enforcement and homeland security is also greatly aided by law abiding, patriotic mariners—many of whom hold Coast Guard licenses, operate Coast Guard inspected vessels, or have benefited from Coast Guard services such as search and rescue or aids to navigation.

Methods of tracking vessels entering U.S. waters include shore-based radars, such as Vessel Traffic Service or Sector Command Centers-Joint installations and electronic signals from automated tracking devices such as the Vessel Monitoring System (VMS) and the Automatic Identification System (AIS).

The Integrated Deepwater System (IDS) will deliver new, modern surface and air assets tied together by a state-of-the-art Common Operating Picture and interoperable C4ISR technology. These new assets will put the right people together with the right capabilities to enforce laws and regulations in U.S. waters.

#### **Cost of Maritime Security Capability**

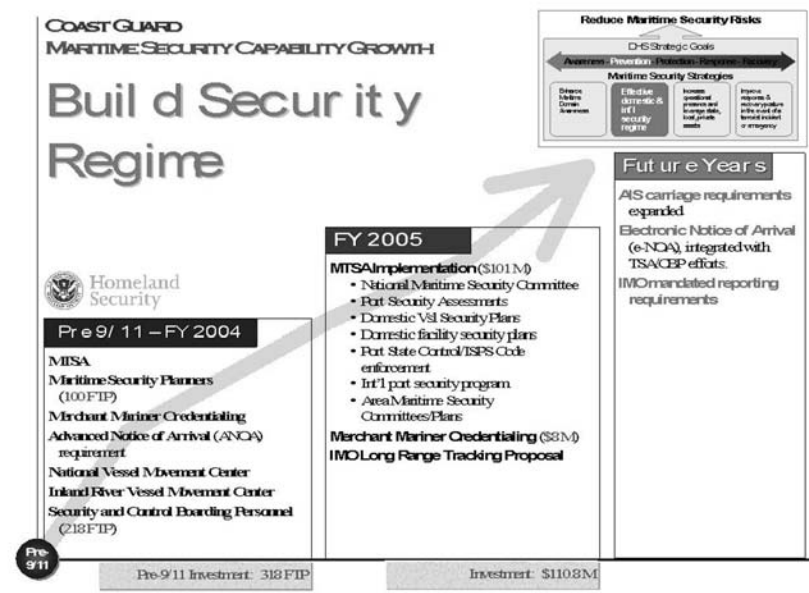
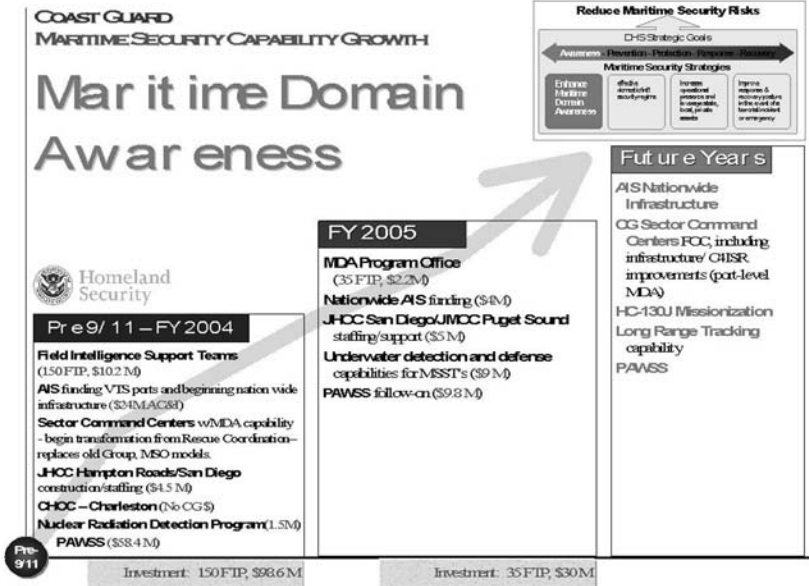
*Question 4.* At the security hearing we held in this Committee on March 24, 2004, I asked you to give me figures for how much the 4 areas of the Coast Guard's security program would cost. Do you have those numbers yet?

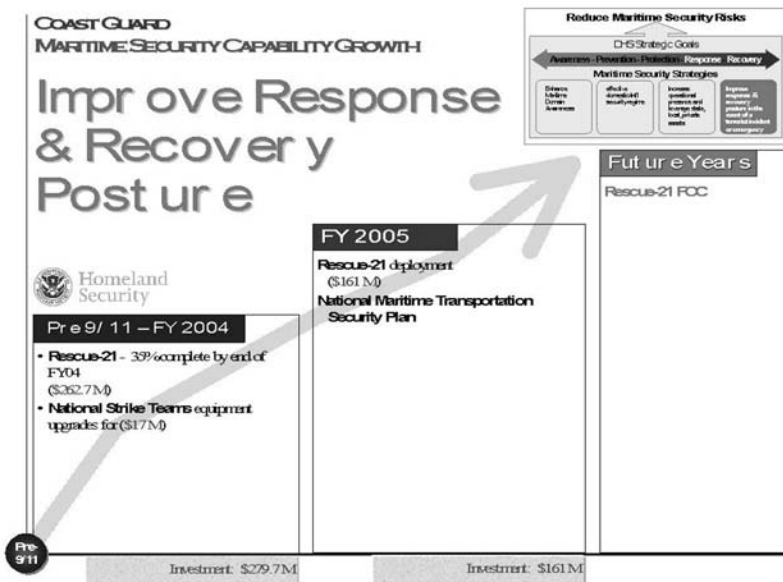
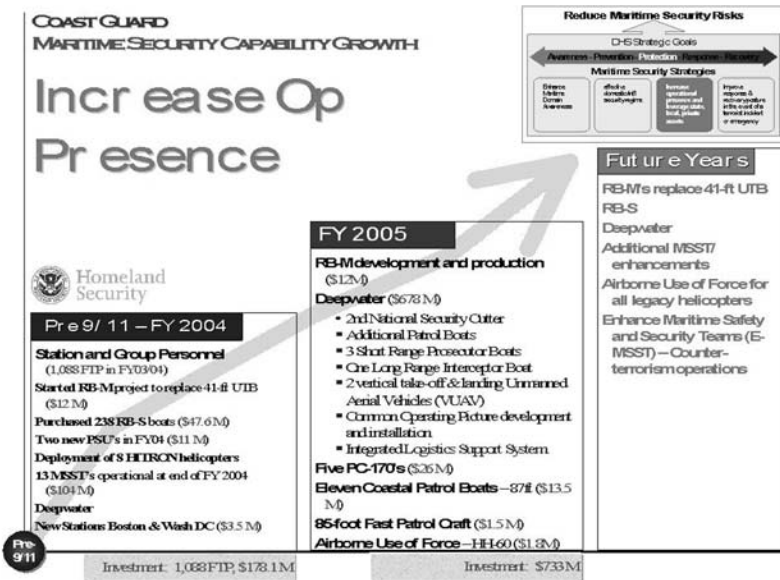
*Answer.* As discussed during the hearing, the Coast Guard is continuing to work on building the necessary authorities, capabilities, competencies and partnerships in order to enhance national maritime security. However, we believe strongly that this is not a finite journey with a defined price tag. To view this effort with defined finish line underestimates the challenges and threats we face now and will face in the future. Rather, the more prudent approach is one that applies resources against a set of strategic imperatives that will help enhance maritime security, no matter the changing nature of the threat.

With the support of the administration and Congress, the Coast Guard has been able to invest resources and make substantial improvements to maritime security since 9/11. Obviously, there remains much to do. It requires an unwavering vigilance and adaptability. As the threat changes, capabilities are developed and technologies become available, the resource need will also need to adapt. Nonetheless,



continuing investments in our collective maritime security will continue to be required if we are to maintain the momentum of the last several years and achieve the imperatives of our national strategies. The below graphics summarize some of the key investments made to date as well as some of those planned for the future. The dynamic nature of the threat and of the maritime domain as a whole cannot be overstated. It is critical that we continue to evaluate risks and vulnerabilities and pursue those capabilities that will most effectively counter our vulnerabilities.





### Congressional Report Status

*Question 5.* Admiral Collins, in conference on the MTSA, the Senate conferees took the position that port security costs had to be paid for, and in the absence of a commitment of funding by the Administration, and proposed a fee on users of the system. Ultimately, the Senate relented in the face of opposition by the House, however, we required the Administration to file a report within 6 months to explain what they proposed to pay in the way of port security costs, both for ports and for a variety of Federal port security programs. That report is 9 months overdue—when can we expect that report?

Answer. The report, Resources to Address Key Issues in Port Security, was signed by the Secretary of the Department of Homeland Security on 27 August 2004 and delivered to Congress on 30 August 2004.

### Performance of Non-Homeland Security Missions

*Question 6.* You have testified in the past that the Coast Guard would rebuild its non-security missions within 3 years to pre-9/11 levels. Our Homeland Security Act made it clear that maintaining the strength of those missions is extremely important, and could not be changed without Congressional action. Yet isn't it the case that the hours of resources that the CG dedicated for many non-security missions, such as search and rescue operations and foreign fish enforcement, are still below pre-9/11 levels. Doesn't this conflict with the Homeland Security Act?

Answer. Consistent with section 888 of the Homeland Security Act: *Preserving Coast Guard Mission Performance*, the Coast Guard is dedicated to maintaining the strength of its non-security missions. Rather than focusing strictly on activity resource levels (hours spent on each mission), the Coast Guard has, since September 11, 2001, continued to concern itself with achieving all performance targets and mitigating risk in the maritime domain.

Both *presence* and *response*-based standards ensure that non-homeland security missions do not fall below acceptable levels during periods of increased terrorist threats. In Fiscal Year 2003, for example, the Coast Guard met its performance target for the search and rescue (SAR) mission program. General Accounting Office report GAO-04-432 (March 2004) examined Coast Guard performance results for Fiscal Years 2001-2003, and found that all of the assessed programs "had stable or improved performance results." The two non-security programs that were not assessed, Marine Environmental Protection and Marine Safety, have reported three years of increasing performance since Fiscal Year 2001. In short, the Coast Guard met or exceeded performance targets for all non-security missions in FY 2003.

### Performance Measures and Partnerships

*Question 7.* Is it not true that some of Coast Guard's performance measures are being met because you are getting help from other agencies, including local and state governments that also are strapped for resources?

Answer. The Coast Guard increases its mission capacity and thus performance by addressing improvement across four discrete elements: Authorities, Capability, Competencies, and Partnerships (ACCP). Under this construct, partnering with various federal, state, local, and private entities is—and always has been—a key contributing factor to Coast Guard performance. The Coast Guard uses *authorities*—such as the Maritime Transportation Safety Act (MTSA)—to regulate operations and activities of the marine industry to increase the safety and security of the United States. The Integrated Deepwater System program is an example of how the Coast Guard is improving the *capability* to accomplish its missions. Training and education of the workforce raises *competency* levels so that Coast Guard personnel can deliver more performance, more efficiently. And finally, the Coast Guard uses *partnerships* to act as a force multiplier to accomplish our important missions. By optimizing the four elements of mission capacity the Coast Guard enhances mission performance.

In FY 2003, the Coast Guard met or exceeded its performance targets in seven of its eleven mission-programs. Many of these success stories involve partnerships with other agencies at all levels of government. For instance, state agencies contribute to saving lives at risk on rivers and lakes that are also patrolled by the Coast Guard, while Coast Guard law enforcement presence assists in enforcing state fisheries law and achieving state resource protection objectives.

These partnerships also benefit other agencies. The Coast Guard's activities at sea help interdict illegal drug traffic entering the United States, which benefits the Drug Enforcement Administration's performance. The National Science Foundation benefits from Coast Guard ice breaking services in accessing the world's polar regions. And the Environmental Protection Agency benefits from the Coast Guard's activities as part of its environmental protection mission.

### Foreign Fishing Vessel Enforcement Measure

*Question 8.* It also is not clear to me how meaningful some of the Coast Guard's performance measures are. For example, couldn't the performance measure for foreign fishing enforcement in the Pacific—the number of times foreign fishing vessels are identified as illegally entering the EEZ—be met due to a decreased detection rate (due to lack of resources) rather than to improved enforcement?

*Answer.* Program performance is the most important element of the Coast Guard Performance Management System. Program managers establish measures to accurately portray organizational performance. The measures are data-driven, fully documented, and focus on outcomes. Using the performance measures, and with an emphasis toward improving effectiveness, the Commandant of the Coast Guard establishes long-term performance outcome targets that are linked to the strategic intent of the organization, including maintaining the balance between homeland security and non-homeland security missions. The Coast Guard has been lauded in the past for its performance measurement efforts, but recognizes and acknowledges that limitations in these measures exist. The Coast Guard has been working with the Government Accountability Office (GAO) through a recent audit (04-432), examining the relationship between resources and results, and the Office of Management and Budget (OMB) through the Performance Assessment Rating Tool (PART) reviews, and other independent evaluation efforts to continually review and improve program measures' clarity and objectivity.

With regards to the foreign fishing vessel incursions performance measure, although it is possible that lower detection rates could cause the Coast Guard to meet its performance measure, it does not reflect the reality of the situation in the Pacific. Encroachments by foreign fishing vessels over the U.S.-Russian Maritime Boundary Line (MBL) have been reduced drastically over the last several years due to policy and strategy changes and increased partnering with Russian enforcement counterparts. In Fiscal Year 2003, the Coast Guard detected the lowest number of EEZ incursions over the U.S.-Russian MBL in more than five years, more likely as a result of recording the highest number of cutter hours for the last three years and the highest number of aircraft hours for the last seven years dedicated to this mission. Due to the vast distances surrounding our noncontiguous EEZs of the central and western Pacific (*e.g.*, American Samoa, Wake Island), the primary means of surveillance of those areas are by national technical means, which are not affected by Coast Guard resource efforts.

### Domestic Fisheries Regulation Measure

*Question 9.* In another example, the performance measure for compliance with domestic fisheries regulations is how many fishermen—of those reviewed—were found to be in compliance. Does that really tell us anything? What if the Coast Guard interviewed one fisherman and he was in compliance—wouldn't that give the Coast Guard a 100 percent performance for this measure?

*Answer.* The Office of Management and Budget (OMB) assessed the domestic fisheries enforcement performance measure and observed compliance rate, through the Performance Assessment Rating Tool (PART) review process. OMB rated this to be a sound measure that appropriately focused on outcomes and reflected the purpose of the Coast Guard's fisheries law enforcement program.

The observed compliance rate measure is determined by calculating the total number of Coast Guard domestic fishing vessel boardings minus the boardings that had significant violations, divided by the total number of Coast Guard fishing vessel boardings. Only boardings that have a significant violation (a living marine resource violation that results in significant damage or impact to the fisheries resource, significant monetary advantage to the violator, or has high regional or national interest) are counted.

Historically, domestic compliance rates, which are based on more than 3,000 boardings (post 9/11 statistic) annually, have been between 95–98 percent. Movement within this range is expected and mostly beyond Coast Guard control as economic and social factors other than enforcement presence motivates individuals to violate the law. As a result, a floor has been established at 97 percent observed compliance to evaluate if Coast Guard levels of enforcement are sufficient to ensure wide-scale compliance with regulations.

Historical data illustrates Coast Guard enforcement presence does affect observed compliance rates, and that there is a delay between enforcement presence/absence and fisheries compliance rates. Although observed compliance rate will not perfectly indicate the actual industry-wide compliance rate, it serves as a reasonable indicator of the actual compliance when enforcement resource effort is sufficient to make performance-tracking possible.

### Rescue 21 Schedule

*Question 10.* Is it true that the Rescue 21 recapitalization—which is critically important for saving mariners' lives and also for security—is going to be behind schedule?

Answer. The planned Initial Operating Capability (IOC) scheduled for September 2003 is approximately one year behind schedule due to software development issues. The delay to Full Operating Capability (FOC) has been determined to be approximately one year, with expected completion in Fiscal Year 2007. Some restoration of the original completion schedule, once IOC is achieved, may be possible by simultaneous roll-out of Rescue 21 regions.

The Coast Guard and General Dynamics Decision Systems (GDDS) have formed a joint deployment team to streamline the regional deployment process and identify tasks that can be performed concurrently or more efficiently to complete the maximum number of regions by the end of 2006. The deployment team is using the experience of the first 6 regions to redefine processes and align activities to accelerate deployment. Future deployment dates of Rescue 21 will depend upon GDDS's ability to accelerate their work, deploy innovations, and do parallel deployments as the system is built out.

### Target Hours At Multi-Mission Stations

*Question 11.* GAO's testimony indicates that the Coast Guard is still having problems meeting Congressional targets for maximum hours at multi-mission stations, where the search and rescue work is coordinated. What is going on here?

Answer. Although the Coast Guard has not fully attained the 68-hour workweek goal at Stations, we have improved training, management and oversight, operational readiness, and the average workweek over the past three years.

Recently, the Administration approved the Coast Guard's multi-year, multi-phased Boat Forces Strategic Plan. This plan provides the foundation for improving Station operations and reducing the average workweek through four major components: 1) Leadership and Management; 2) Personnel and Staffing; 3) Training and Expertise; and 4) Equipment, Support and Technology. Within each component are several measures that the Coast Guard is monitoring to improve various aspects of Station operations, including incremental improvements to the average workweek.

Additionally, in the past two years, the Congress funded over 900 new and/or upgraded billets at Stations and the training and support facilities that serve them. As required by Congress, these billets were created to support station-level staffing, training, and operational readiness. We have witnessed progress in the average workweek from these increased billets, and we expect favorable results towards meeting the goal as the Station community matures and gains experience.

Additional billets alone will not ensure that Stations reach the 68-hour workweek goal. It is an evolving process that includes building experience and increased oversight within the Station community. For instance, further reductions in the average workweek are anticipated when the new billets are filled, and most importantly, they are fully trained and qualified. Similarly, the improved leadership and management provided by upgraded command cadre positions will also improve the overall results.

### Competition

*Question 12.* What do you plan to do to address the lack of competition for subcontracts? According to GAO, the first-tier subcontractors of the Deepwater program—Lockheed Martin and Northrop Grumman—have sole responsibility for determining whether to “make or buy” Deepwater assets. Since over 40 percent of the funds obligated to Lockheed Martin and Northrop Grumman have either remained with those companies or been awarded to their subsidiaries, it seems their philosophy is, “If we make it, we don't have to buy it”.

Answer. The Coast Guard considers all of the subcontracts to Lockheed Martin and Northrop Grumman Ship Systems in the first 5 years of the contract, which is the first award term, to have been made under competition.

The Government Accountability Office (GAO) concurred with this assessment in their March 2004 report, *Contract Management: Coast Guard's Deepwater Program Needs Increased Attention to Management and Contractor Oversight*, stating:

“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.” (21)

All of the IDS nominated items in the first five years of the contract were fully competed as part of the competition between the three industry consortiums led by

Litton/Avondale Industries, Science Applications International Corporation, and Lockheed Martin Naval Electronics and Surveillance Systems. The Coast Guard, the DOT, and the Office of Federal Procurement Policy, through review and approval of the Request for Proposal, acknowledges that the first award term appropriately included competition. Part of the competitive proposal process required the industry consortiums to nominate which subcontractors would provide supplies and services for the entire life of the program. Therefore, the basic competition requirement has been met.

To ensure the continued observance of competitive subcontracting the Coast Guard has instituted several policies for the Deepwater Program. For subcontracts over \$10M, notification to the Coast Guard Agency Acquisition Executive is required, to include an evaluation of the alternatives considered, if ICGS subcontracts out to Lockheed Martin and/or Northrop Grumman. The Coast Guard and ICGS, based on GAO's recommendations, are also working to include competition as a factor for determining if the contract should be approved for another term and the amount of years of that term. The measures for competition under consideration for adoption include:

- Percentage of awards competed;
- Minimizing the number of teaming agreements;
- Number of advertisements publicizing supplier registration;
- Number of vendor outreach programs; and
- Percentage of first tier subcontracts that incorporate the intent of the Federal Acquisition Regulation clause 52-244.5 "Competition in Subcontracting."

#### **Cost Control**

*Question 13.* How do you expect to keep costs down if there is not more predictable, and more frequent, competition?

Answer. The Coast Guard facilitates cost control through competition with system integrator accountability for competition among second tier suppliers. To achieve this result the Coast has instituted several subcontractor competition policies for the Deepwater acquisition.

- For subcontracts over \$10M, notification to the Coast Guard is required, to include an evaluation of the alternatives considered, if ICGS subcontracts out to Lockheed Martin and/or Northrop Grumman.
- The Open Business Model, initially a Lockheed Martin philosophy, is now official ICGS policy and is applicable to all Deepwater transactions. To ensure compliance, ICGS has appointed a Competition Advocate and Ombudsman, who is drafting implementation procedures for regular reporting to ICGS and will examine Make/Buy and competition practices.
- A review of ICGS' application of their Open Business Model vis a vis accountability for ensuring competition will be included in the Award Term Evaluation and measured diligently as discussed earlier.
- The program is considering processes to ensure competitive forces are being used to manage costs such as: annual independent third party review of transactions and the Agency Acquisition Executive will review any subcontract over \$10M awarded to Lockheed Martin or Northrop Grumman.

The Deepwater Program is working to include competition as a factor for determining if the contract should be approved for another term and how long that term should be. The measures for competition under consideration for adoption include:

- Percentage of awards competed;
- Minimizing the number of teaming agreements;
- Number of advertisements publicizing supplier registration;
- Number of vendor outreach programs; and
- Percentage of first tier subcontracts that incorporate the intent of the Federal Acquisition Regulation clause 52-244.5 "Competition in Subcontracting."

#### **Program Oversight**

*Question 14.* GAO also found that Coast Guard's weak oversight of the Deepwater program is part of the reason little competition is being held. What are you going to do to fix these oversight and management problems?

Answer. In their March 2004 report, *Contract Management: Coast Guard's Deepwater Program Needs Increased Attention to Management and Contractor Oversight*, GAO-04-380, GAO characterized the Deepwater program's management of competition concerns as follows:

“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.” (21)

However, GAO also concluded that additional attention must be provided beyond the first five years. To do this, the Coast Guard is diligently incorporating GAO’s recommendations, as well as other best-business practices, into IDS operating procedures. The Coast Guard responded to initial GAO suggestions by incorporating changes into the program management structure to address the areas identified for improvement.

The Coast Guard and ICGS, based on GAO’s recommendations, are working to include competition as a factor for determining if the contract should be approved for another term and the amount of years of that term. The measures for competition being considered for adoption include:

- Percentage of awards competed;
- Minimizing the number of teaming agreements;
- Number of advertisements publicizing supplier registration;
- Number of vendor outreach programs; and
- Percentage of first tier subcontracts that incorporate the intent of the Federal Acquisition Regulation clause 52–244.5 “Competition in Subcontracting.”

The Coast Guard is actively addressing those management practices not in place, and is improving and maturing processes for those that are already in existence. The Coast Guard has continued to work with GAO to keep them informed of the program’s on-going improvement efforts. The Coast Guard fully anticipates that adequate competition will be present in the second award term.

#### **Basis of Award Fee**

*Question 15.* Why did the Coast Guard give Lockheed and Northrop a rating of 87 percent or “very good,” resulting in an award fee of \$4.0 million of the maximum \$4.6 million annual award fee in the first year of the contract, even though GAO found there were documented problems in schedule, performance, cost control and contract administration?

*Answer.* The Coast Guard is confident that the Award Fee level was fair and represented an accurate assessment of contractor performance. Evaluation Factors for the Award Fee determination include overall program management, cost control efforts, quality, performance improvements and/or total ownership cost reductions. The contractor award fee score is much lower than typical. The average Industry Award Fee Score for the Lockheed Martin Defense Sector is 97 percent. Additionally, the award fee determination recommended ICGS improvement in the following areas: Program Management; Cost Control; Quality, Completeness, Accuracy of Work; and Flexibility and Ability to Adapt to Changes.

While the Coast Guard believes that the award fee was appropriate given the level of performance, the Coast Guard and ICGS, based on GAO’s recommendations, are working to refine the program’s performance metrics. The Coast Guard has continued to work with GAO to keep them informed of the program’s on-going improvement efforts.

#### **Switching to A New Contractor**

*Question 16.* Do you agree with your experts in the Coast Guard’s Deepwater program who spoke with GAO that it is “unrealistic to think that the Coast Guard would switch to a new contractor” when the first five years of this contract are up? If that is true, then what incentive does the contractor have to keep costs down?

*Answer.* It is premature to discuss if the Coast Guard would make a change to either a different system integrator or to a revised acquisition strategy. The reason to make such a change would be as a result of the system integrator’s overall performance. If the System Integrator’s performance warranted a change, prudence indicates that an exit plan or transition plan be developed.

The incentive of the current contractor to maintain competition and keep costs down is twofold. First, to maximize the annual award fees requires that competition be maintained. Second, it is in the current contractor’s best interest to be awarded another term award of up to five years. Competition will be required to earn the next award term. If competition is not maintained and costs kept at competitive levels, annual award fees and award terms will not be provided to the current System Integrator. In addition, once the Coast Guard has issued a Delivery Task Order, we use the Earned Value Management System to ensure we receive the performance indicated for the cost. In summary, if there is a reason to change contractors or ac-

quisition strategy, the Coast Guard will act decisively to do so. It is anticipated that the contractor will maintain competition leading to reasonable costs or the contractor will be changed.

#### **HH-65 Re-Engining Update**

*Question 17.* With respect to the recent decision to accelerate the engine replacement for the HH-65 helicopter, please provide (1) a schedule for replacing the engines on the fleet; (2) the projected costs; (3) what process was used/is planned for selecting the replacement engine?

Answer. The re-engining contract, formally referred to as the definitized Delivery Task Order (DTO), was signed on 17 September 2004.

The project will re-engine approximately 24 aircraft per year at the Coast Guard Aircraft Repair and Supply Center (AR&SC) in Elizabeth City, NC.

The first engine has been installed, flight tested, and delivered. Several more conversion kits and engines have been received and are being inspected in a joint ICGS/Eurocopter/Turbomeca/Coast Guard effort.

The current projected cost of the HH-65 re-engining is approximately \$290M.

The selection of Turbomeca by Integrated Coast Guard System (ICGS) was based on the best value for the Coast Guard in terms of cost, schedule and performance, and with full consideration of the critical and urgent nature of this project. ICGS conducted a market survey of industry via a Request For Information (RFI). As a result of this action, ICGS selected Turbomeca as the supplier for the HH-65 engine and engine control systems replacement project. The engine model is the Turbomeca Arriel 2C2. It will undergo minor modifications as it is installed on the HH-65, and be redesignated the Turbomeca Arriel 2C2-CG.

#### **9/11 Changes to Deepwater Program**

*Question 18.* Admiral Collins, you testified recently at the Homeland Security appropriations hearing that the Coast Guard is reevaluating whether the mix of assets included in the original Deepwater program will need to be changed to address security issues. I seem to recall that after 9/11, you and your predecessor, Admiral Loy, testified that the Deepwater program as originally conceived *would* address security concerns. What has changed? Will such changes likely lead to cost increases? What are the projected increases?

Answer. While the Integrated Deepwater Systems acquisition strategy and solution remain sound, Homeland Security mission requirements have continued to evolve and mature to greater definition. The Coast Guard and the Department of Homeland Security, have always indicated that there would be changes as threats continued to evolve. We must make incremental changes to address these threats. In addition to these mission changes, legacy asset capability obsolescence and deterioration in legacy asset materiel condition since 1998 have created a performance gap in both capability and capacity, which has been studied and addressed in the proposed revised Deepwater Mission Need Statement (MNS).

The draft MNS is under review by DHS procurement councils (Joint Requirements Council, Investment Review Board). Costs associated with the MNS recommendations will be addressed in future Administration budget proposals.

#### **Cost Escalation**

*Question 19.* Admiral Collins, the GAO's testimony indicates that the Coast Guard was not able to explain the reasons for escalation in the program costs. Do you have any new information on this?

Answer. The changes in program cost were due to:

1. Not receiving program funding as planned in the implementation plan;
2. Accelerating the delivery of the Offshore Patrol Cutter (OPC) due to the deteriorating condition of the Medium Endurance Cutters;
3. Accelerating the delivery of the Fast Response Cutter (FRC);
4. Increased current and projected funding to address the "downward spiral" in legacy asset sustainment; and
5. Changes in asset requirements to better align with the homeland security mission and DHS responsibilities to make America secure from terrorism.

To address the deterioration of the Medium Endurance Cutters, the conceptual development of the OPC has been advanced approximately 5 years at a cost of \$20M in FY 2004. Advancing the OPC is critical to Coast Guard alignment with DHS strategic goals and objectives, but was not in the original implementation plan for this time.

Several factors have contributed to advancing the FRC: increased demands on the existing patrol boat fleet, accelerated deterioration of the 110-foot class cutters due



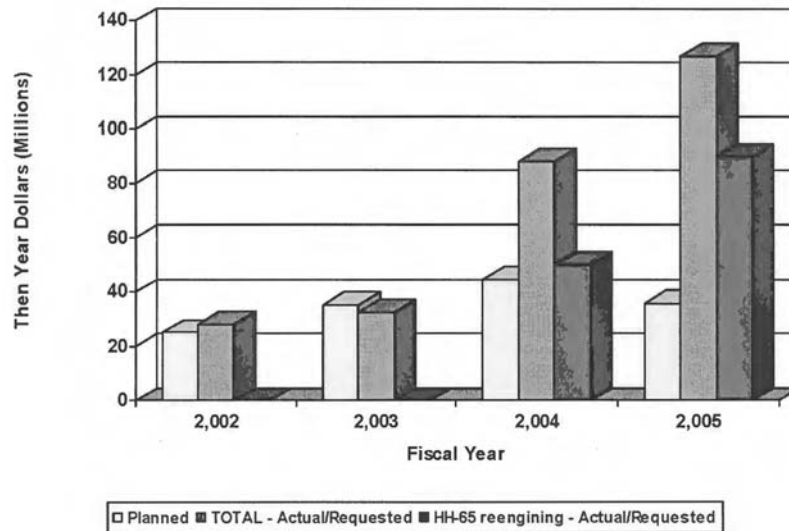
to a higher operating tempo, and requirements associated with a heightened homeland security posture. The FRC will provide more capability to the Coast Guard than the 123-foot WPB conversion program and acceleration will provide that increased capability sooner.

Due to rapid deterioration of legacy assets, funds have been diverted from the current asset replacement schedule to support legacy asset maintenance and sustainment needs. This, coupled with increased Homeland Security OPTEMPO, has hastened a "downward spiral" in reliability and capability. From FY 2002 through FY 2004, \$65 million over planned funding levels was requested and subsequently appropriated to address the effects of the "downward spiral."

The graph below highlights the planned vs. actual legacy asset funding.

Another element that has increased program costs is due to changes in requirements to align with DHS responsibilities to make America secure from terrorism. These changes include providing secure communication capability on legacy cutters, adding an Integrated Navigation System to the 123 WPB, including Collision Avoidance on the Vertical Takeoff and Landing Unmanned Aerial Vehicle, and additional capabilities on the National Security Cutter (NSC).

### Legacy Asset Sustainment Funding



The graphic provides, by Fiscal Year, the planned funding for legacy asset sustainment included in the original proposed IDS implementation plan compared to the actual funding used for legacy asset sustainment. Fiscal year 2005 funding shows the level of the President's request.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. FRANK R. LAUTENBERG TO ADMIRAL THOMAS H. COLLINS

#### Award Fee and Performance Measures

*Question 1.* In regard to the Deepwater contract—on what basis did the Coast Guard reward the prime contractor its 'award fee' of \$4 million out of a possible \$4.6 million? If the Coast Guard wishes to be measured in terms of performance, are there any objective, quantifiable measures to assess the performance of its contractors on which to base bonuses?

Answer. The Deepwater contract employs a Cost Plus Award Fee incentive for System Integration and Management Requirements. Award fees are evaluated based on a combination of subjective and objective assessment of performance. Evaluation Factors for the Award Fee determination include overall program management, cost control efforts, quality, performance improvements and/or TOC reductions.

The first annual award fee determination overall rating for ICGS was 87 percent (Very Good) for CLIN 0001 and 79 percent (Good) for CLIN 0061AA. Although, objective measures are being introduced into the award fee process. We are confident that the Award Fee level was fair and represented an accurate assessment of contractor performance in accordance with the Evaluation Factors for the Award Fee.

Since the contract award to the IDS acquisition program's systems integrator, Integrated Coast Guard Systems (ICGS), the Coast Guard has placed particular emphasis on the ability to measure performance. The program is currently tracking over 150 performance measures at the program, domain, and team level. This effort continues to evolve as the program identifies measures and data sources and as the system components mature from design to production, fielding, and disposal.

To implement the performance management requirements for the acquisition, design, and fielding of the IDS, the Coast Guard chartered a Performance Measurement Integrated Product Team (IPT) and established systems to evaluate the contractor, including the determination of the Award Fee and other incentive programs. Progress has been steady. The framework for all measurement will be the Deepwater Balanced Scorecard, which is updated monthly. The Balanced Scorecard (BSC) Strategy Map explains how the objectives of the program's BSC identify input, process, and output measures that provide leading indicators of Operational Effectiveness, TOC, and Customer Satisfaction. BSC metrics measure the status of the program and allow for early course corrections if required.

#### **Balance in the Oil Spill Liability Trust Fund**

*Question 2.* I understand that the Oil Spill Liability Trust Fund had a balance of over one billion dollars at the beginning of Fiscal Year 2003, but that this amount is projected to decline to only \$780 million by the end of Fiscal Year 2005. What is the current balance of the Oil Spill Liability Trust Fund? What is the projected balance of the Fund five and ten years from now (at the end of Fiscal Years 2009 and 2014, respectively)? When is the Fund projected to run out of money?

*Answer.* The balance of the Oil Spill Liability Trust Fund as of June 2004 was \$841M. The projected balance of the Fund at the end of FY 2009 is \$125M. At current spending rates, the Fund balance is projected to reach zero during FY 2010.

#### **\$1B Cap on Applicability of 5 Cent/Barrel Tax**

*Question 3.* 26 U.S.C. section 4611(f)(2) provides that the expired 5 cents per barrel petroleum tax will not apply during any calendar quarter if the balance in the Fund at the end of the previous quarter is estimated to exceed one billion dollars. Is a one billion dollar Fund adequate for current and future oil spill prevention and remediation needs? Should the one billion dollar cap on applicability of the tax be increased (for example, to two billion or five billion dollars) to prevent the Fund from being depleted again in the future?

*Answer.* The current \$1 Billion Cap on the OSLTF appears to be adequate provided there is sufficient income to the Fund for it to be self-sustaining.

#### **Oil Spill Tax Provisions in 26 U.S.C. Section 4611**

*Question 4.* What technical modifications, if any, does the Coast Guard recommend to the oil spill tax provisions in 26 U.S.C. section 4611 if this tax is reinstated?

*Answer.* The Coast Guard has no recommendations for modifications other than to note that any decision to reinstate the tax will probably require modification to 26 U.S.C. section 4611(f)(1) to provide a revised period of time during which the OSLTF financing rate is to apply.

#### **Impact Of Raising Liability Limits**

*Question 5.* What impact do the liability limits in section 1004(a) of the Oil Pollution Act of 1990 (33 U.S.C. section 2704(a)) have on the Oil Spill Liability Trust Fund? Does the Coast Guard recommend that these liability limits be increased to reflect changes in the cost of living since 1990 and/or to prevent depletion of the Fund? Does the Coast Guard recommend that these liability limits be increased to reflect changes in the cost of living since 1990 and/or to prevent depletion of the Fund?

*Answer.* The Fund is available to pay a Responsible Party (RP) claim for oil removal costs and damages paid or incurred in excess of the RP's applicable OPA liability limit. To date, the NPFC has paid RP claims for a total of \$36.3M arising from seven incidents. Other RP claims from these seven incidents, for a total of \$52.4M, pend adjudication and the amounts to be paid have not been determined. The seven incidents can be further broken down by vessel type. One tank vessel incident resulted in payments totaling \$18.5M with an additional \$11M in claims pending. Four tank barge incidents resulted in payments of \$17.7M with an addi-

tional \$2M in claims pending. Two non-tank vessel incidents have resulted in pending claims of \$39.3M. Additionally, there have been nine other OPA incidents in which we have confirmed RP's have exceeded their limits, but have not submitted Limits of Liability claims. Of these nine incidents, none involved tank vessels, five involved tank barges, and four involved non-tank vessels. Had the RP's pursued reimbursement for exceeding limits of liability in these incidents, \$206M and \$90.5M in claims could have been submitted for tank barges and non-tank vessels respectively.

The Coast Guard has not studied the economic impacts of increasing liability limits, and must respectfully demur in making a recommendation. In looking at the OSLTF balance, increased liability limits might mitigate, but are not likely to prevent, Fund depletion. For example, the Fund uses include substantial annual appropriations that are not removal costs or damages for which an RP would be liable. Another income source would be needed to balance pressures on the Fund from appropriations. In the 1990s the Fund benefited from income sources, including the tax on oil, higher interest rates on Fund investments and transfers from legacy funds such as the Trans-Alaska Pipeline Liability Fund, that are no longer available.

#### Recovery of Oil Spill Cleanup Costs

*Question 6.* What percentage of oil spill clean-up costs and damages paid by the Fund are recovered from responsible parties? Please provide this information for the last five years for which information is available.

Answer. The OSLTF is used to clean up spills and pay damages whether or not a responsible party is known or able to pay. The OSLTF is also used to pay claims to responsible parties who have exceeded their limit of liability, which are costs that will not be recovered. Cost recovery for a given year normally reflects spending during previous years. The data for the past five Fiscal Years follows: (in millions of dollars)

Fiscal Year	Removal Costs/Damages Paid	Amount Recovered	Percent
1999	\$34.4	\$7.3	21%
2000	45.4	6.6	15%
2001*	89.7	59.9	67%
2002	74.5	12.8	17%
2003	73.9	6.7	9%
Total	\$317.9	\$93.4	29%

\*The 2001 amount recovered includes \$53.6 million of funds received for the Berman oil spill in Puerto Rico in 1994. This is an unusual but illustrative example of the time delays that can ensue between spending for cleanup and successful cost recovery.

When a responsible party is identified and has a Certificate of Financial Responsibility (COFR), cost recovery is significantly improved. The following table provides the dollar amount billed by Fiscal Year (FY) for COFR'd vessels, amount recovered from the date of billing through FY 2003, in millions of dollars, and the percentage recovered from the responsible party.

Fiscal Year	Amount Billed	Amount Recovered FY1999-FY2003	Percent
1999	\$0.9	\$0.5	58%
2000	2.3	2.2	97%
2001	1.2	0.9	75%
2002	0.5	0.3	65%
2003	1.9	0.4	22%
Total	\$6.9	\$4.4	64%

When a responsible party is identified but does not have a Certificate of Financial Responsibility, cost recovery is less successful. The following table provides the dollar amount billed by Fiscal Year (FY) for non-COFR'd vessels and facilities, the

amount recovered from the date of billing through FY 2003, in millions of dollars, and the percentage recovered from the responsible party.

Fiscal Year	Amount Billed	Amount Recovered FY1999–FY2003	Percent
1999	\$7.5	\$2.4	32%
2000	8.7	1.7	19%
2001	9.0	2.9	32%
2002	8.0	2.5	31%
2003	5.1	1.6	32%
Total	\$38.4	\$11.1	29%

#### Interest Rate on Funds in Oil Spill Liability Trust Fund

*Question 7.* What interest rate is currently earned by funds in the Oil Spill Liability Trust Fund? How does this compare to interest rates earned by these funds in the past?

Answer. Below is a table of the average interest rates earned by the OSLTF over the past ten years. The Fiscal Year 2004 interest rate is as of July 2004.

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
6.5%	5.9%	5.6%	5.7%	4.6%	6.0%	5.8%	2.9%	1.6%	1.1%

#### Have the Costs of Oil Spill Clean-Ups Increased Over Time?

*Question 8.* Have the costs of oil spill clean-ups increased over time? If so, by how much?

Answer. The National Pollution Funds Center does not have the data to answer this question. The OSLTF is accessed for only a small percentage of the total number of spills in the U.S., and for the spills for which the OSLTF is accessed, expenditures from the OSLTF are only a small subset of the total costs of responding to those oil spills. The NPFCC's data does not reflect the amounts responsible parties pay for oil spills or the amount of oil spilled for all spills in the U.S. Without this data, we are not in a position to adequately respond to the question.

#### RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. ERNEST F. HOLLINGS TO MARGARET T. WRIGHTSON

*Question 1.* It not clear to me how meaningful some of the Coast Guard's performance measures are. For example, couldn't the performance measure for foreign fishing enforcement in the Pacific—the number of times foreign fishing vessels are identified as illegally entering the EEZ—be met due to a decreased detection rate (due to lack of resources) rather than to improved enforcement?

Answer. We agree that there are limitations to some of the Coast Guard's performance measures. It is also true that fluctuations in some of the results could be associated with decreases or increases in resources hours dedicated to the mission/program area. Recognizing this valid concern, we discussed these performance measure limitations with the Coast Guard and noted several examples of the various limitations, along with the Coast Guard's efforts to improve them, in our March 2004 report (GA0-04-432). One such example is how performance measures can be affected by how certain factors are weighted within the measure. For example, the foreign fish enforcement performance measure—which counts the number of times that foreign fishing vessels are identified as illegally entering the United States Exclusive Economic Zone (EEZ)—does not distinguish the severity of each entry. As a result, a single fisherman in a small boat catching a few fish is weighted equally with a large foreign trawler that is harvesting fish by the tons. Another limitation that can affect the strength of performance measures is the accuracy of estimated information. For example, the undocumented migrant interdiction performance measure contains estimated information, such as the number of illegal migrants entering the U.S. As a result, the Coast Guard reported that the estimated number of potential migrants—a key part of this performance measure—might contain significant error. More specific information about performance measure limitations is discussed on pages 16–18. Also, the foreign fish measure can be affected by fluctuations in demand and thus the results may not directly reflect agency efforts. For

example, the foreign fish enforcement performance measure can be affected by the migratory patterns of fish. As a result, EEZ encroachment could increase or decrease depending on where the fish are located as fishermen may or may not cross EEZ boundaries to catch them. In addition, Appendix III of the report provides further explanation of each performance measure, and potential factors that could have influenced the performance results. Information regarding foreign fish enforcement, in particular, can be found on pages 49–50 of the March 2004 report.

*Question 2.* In another example, the performance measure for compliance with domestic fisheries regulations is how many fishermen—of those reviewed—were found to be in compliance. Does that really tell us anything? What if the Coast Guard interview 1 fisherman and he was in compliance—wouldn't that give the Coast Guard a 100 percent performance for this measure?

Answer. Yes, similar to the foreign fish enforcement measure, the living marine resources performance measure (measuring domestic fish enforcement compliance) is also potentially affected by the level of activity or resource hours dedicated to that program. In this case, the total number of resource hours dedicated to the living marine resource program was 38 percent lower than the pre-9/11 baseline in FY 2002 and 26 percent lower in FY 2003, and the number of vessel boardings also declined. However, the compliance percentage remained stable. We noted this limitation—the performance measure's reliance on the Coast Guard's presence or direct observation of events in our report as well. The Coast Guard acknowledged that some of its performance measures are subject to these weaknesses and directed its field personnel to be mindful of these issues in its planning guidance.

It is because of the performance measures that the Coast Guard's performance is best measured with multiple measures—such as resource hours, performance measures, and activity levels.

*Question 3.* Is it true that the Rescue 21 recapitalization—which is critically important for saving mariners' lives and also for security—is going to be behind schedule?

Answer. When we discussed the status of Rescue 21 with Coast Guard officials in April 2004, they informed us that they did not know as yet whether Rescue 21 would be completed on time at the end of Fiscal Year 2006, or not. They indicated that their Fiscal Year 2005 budget request was aimed at keeping the project progressing; however, technical problems with software development had delayed implementation of the first elements of the system that were scheduled for Summer 2003. In September 2003, we reported that the Coast Guard had postponed schedule for key tests and achieving initial operating capability. Originally scheduled for September 2003, the Coast Guard is now scheduled to achieve initial operating capability by December 2004. This postponement was due in part to the development of the system taking longer than planned. The Coast Guard did indicate at that time that it did not anticipate any cost escalation in the program, which was estimated at \$953 million.

*Question 4.* GAO's testimony indicates that the Coast Guard is still having problems meeting Congressional targets for maximum hours at multi-mission stations, where the search and rescue work is coordinated. What is going on here?

Answer. In Fiscal Year 2003 the Coast Guard reported that as a result of increases in staffing at multimission stations over the past few years, including the addition of 224 full-time positions in Fiscal Year 2002, the average workweek at stations declined by 3.18 percent between 1998 and 2002. In our May 2004 report, *Coast Guard: Station Spending Requirement Met, but Better Processes Needed to Track Designated Funds* (GAO-04-704), we reported that the Coast Guard had increased its staffing at multi-mission stations by 466 personnel in Fiscal Year 2003. The Coast Guard expects to add an additional 500 personnel to stations and command centers in Fiscal Year 2004 in a further effort to bring down station work week hours. As directed by the House and Senate Appropriations Committees (P.L. 108-7), GAO is currently reviewing the impact these staffing increases have had on station work week hours and plans to issue a report on this and other issues related to multimission stations in November 2004. A copy of the report will be provided to you and we will be available to answer any questions you may have at that time.

*Question 5.* The Coast Guard has estimated that the budget request for Deepwater—\$678 million—would put the Deepwater project on a 22 year track. Is that your view?

Answer. There is no way to know whether the \$678 million request could keep the Deepwater on 22-year track. In fact, the likelihood is that the Coast Guard will not be able to acquire the currently planned assets at the currently planned cost estimates, even with the requested \$678 million. There are several reasons for my

view: First, as we found in our June 2004 report (Coast Guard: Deepwater Acquisition Program Schedule Update Needed, GA0-04-695), the Coast Guard does not know the degree to which Deepwater is on track with its original 2002 22-year acquisition schedule because the Coast Guard has not kept the schedule updated. Second, Deepwater is only in its third year of acquisition and has already received unstable funding. As the Coast Guard has contended since the program's inception, Deepwater's 22-year program requirements are dependent on a stable and constant stream of funding. In addition, as noted in my testimony, we have found that the Coast Guard has underestimated total program costs. Finally, Deepwater is as major and complicated an acquisition as many of those in DOD and DOD acquisitions are often over schedule and over budget projections. Deepwater is the Coast Guard's largest acquisition in its history and we have reported that Coast Guard management has thus far lacked capabilities to adequately handle such an acquisition.

*Question 6.* Your written testimony suggests that the Deepwater project will cost a total of \$2.2 billion more than the Coast Guard estimated originally. What is this attributable to?

*Answer.* The Coast Guard chose a unique contracting approach for Deepwater that requires steady funding over 20 years. In a 2001 report (GA0-01-564), we expressed concern that the Coast Guard risked schedule slippages and cost escalation if the project's funding fell short of planned funding levels. Now, very early in this program our concerns are being realized. When we discussed the increased estimated costs with Coast Guard's officials in April 2004, they attributed the increased costs to several factors. First, they indicated that under-funding for Deepwater in the first two years put the program behind schedule and resulted in lost efficiency and flexibility that they believe would have been realized by acquiring multiple assets in a more coordinated way. Second, they believed that maintenance costs associated with sustaining legacy assets have increased faster than anticipated as these assets deteriorated faster than expected. As a result, they stated that available future funding may have to be used, in part, to address critical maintenance needs for legacy assets, diverting funds otherwise intended for future Deepwater replacements and upgrades. Third, delays have resulted in increased costs due to normal price inflation. Because the contract has a price adjustment factor that allows asset prices to be adjusted for inflation, costs for these assets have increased over time. And lastly, due to revised homeland security requirements, some redesign of the homeland security cutter has occurred to ensure that the vessel would accommodate DHS needs. According to Coast Guard officials, these modifications resulted in additional costs for the Deepwater program.

*Question 7.* The Coast Guard has suggested that they could accelerate the Deepwater program to 10 years. Yet the GAO has recently issued a report citing management problems with the program. Do you think it would be feasible, or advisable, to accelerate the program to this shorter time frame? How quickly could GAO produce an analysis of the Coast Guard's report on acceleration?

*Answer.* Until the Coast Guard demonstrates that it can effectively manage the Deepwater program, it would not be prudent, in our view, to accelerate the schedule. As we stated in our March 2004 report [GA0-04-380], the Coast Guard had not put in place adequate mechanisms for overseeing the contractor or for assessing the contractor's performance. Schedule, performance, cost control, and contract administration problems have already surfaced in the Deepwater program. Perhaps most significantly, the Coast Guard does not yet have the process, procedures, or metrics in place to determine whether the contractor is meeting the goals of the Deepwater program: increased operational effectiveness, reduced total ownership costs, and customer satisfaction.

We have not done an assessment of the Coast Guard's acceleration plan, and it would mostly likely take us between four and six months to complete an analysis. The report contains a number of assumptions that merit a thorough evaluation, including those related to contractor performance, cost projections, economic forecasts, industrial base capability, personnel, and training requirements.

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RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. FRANK R. LAUTENBERG TO  
MARGARET T. WRIGHTSON

*Question 1.* Admiral Collins testified a couple of weeks ago that resource hours are not the best indicator of the Coast Guard's ability to carry out its missions adequately, but rather performance results. Do you agree?

*Answer.* We believe that the best way to measure the Coast Guard's mission performance is through a combination of measures that would include resource hours,

performance results, and activity measures. Previous reliance on resource hours to measure the Coast Guard's performance was driven by a lack of sufficient and quality data by which to measure the Coast Guard's performance through other means—such as performance measures or activity data. (Activity data is still rather limited, and resource hour data is still unavailable for certain marine safety and environmental protection program areas.) In general, resource hour data is the most consistent data available by which to measure levels of effort, but we recognize that effort does not always equate to performance success. The Coast Guard has made progress in developing performance measures, however, there are still limitations to these measures. For example, as noted above, some of these measures have limitations in what they can measure with respect to performance. Moreover, performance measures for the Coast Guard's Ports, Waterways, and Coastal Security program area have yet to be developed.

*Question 2.* In an ideal world where data is freely available and easily tabulated, what would be the best indication of the Coast Guard's effectiveness in carrying out its missions? Why are relative comparisons so important here?

Answer. In an ideal world, the best indicator of the Coast Guard's mission effectiveness would be performance measures that assessed "outcomes" or the "results" associated with the Coast Guard's efforts that are "leading indicators." That is, results in what they can measure with respect to performance. Moreover, performance measures for the Coast Guard's Ports, Waterways, and Coastal Security program area have yet to be developed. However, to achieve this goal—the agency needs quality and consistent data to develop strong performance measures, and a clear understanding of the relationship between resources expended and results achieved. As a result, and given the limitations in the Coast Guard's current data, as well as the lead time needed to develop data trends, we have suggested that the Coast Guard develop a more systematic understanding of the linkages between their resource usage and the performance results they achieve. Moreover, given some of the inconsistent relationships that we identified in resource usage and performance achieved by the Coast Guard, we made two recommendations to the Coast Guard in our March 2004 report (GA0-04-432). First, we recommended that the Coast Guard develop a time-frame for expeditiously proceeding with its plans for implementing a system that will accurately account for resources expended for all of its program areas, and second, we recommended that the agency ensure that its strategic planning process identifies the intervening factors that may affect program performance and systematically assesses the relationship between the intervening factors, resources used and results achieved.

*Question 3.* If the Coast Guard wishes to be measured in terms of performance, are there any objective, quantifiable measures to assess the performance of its contractors on which to base bonuses, like the "award fee" in the Deepwater contract?

Answer. Performance-based contracts such as Deepwater should include measurable performance standards and incentives to motivate contractor performance. In evaluating the contractor's performance, the Coast Guard needs to have in place quantifiable metrics against which to make decisions about award fees or other performance incentives. Our recent report found that the Coast Guard was still in the process of developing quantifiable award fee metrics. Further, the Coast Guard had not determined how to hold the contractor accountable for achieving the overarching goals of Deepwater: increased operational effectiveness, lower total ownership costs, and customer satisfaction.

Objective, quantifiable measures for monitoring the contractor's performance in areas such as program management and quality must be defined. Our report noted that the Coast Guard had not established a solid baseline against which to measure progress in lowering total ownership costs. In addition, the Coast Guard lacked a method of determining whether the contractor was making progress toward increased operational effectiveness. Without measurements for these key goals of the Deepwater program, the Coast Guard lacks a meaningful way to hold the contractor accountable for results.

*Question 4.* 26 U.S.C. section 4611(f)(2) provides that the expired 5 cents per barrel petroleum tax will not apply during any calendar quarter if the balance in the Fund at the end of the previous quarter is estimated to exceed one billion dollars. Is a one billion dollar Fund adequate for current and future oil spill prevention and remediation needs? Should the one billion dollar cap on applicability of the tax be increased (for example, to two billion or five billion dollars) to prevent the Fund from being depleted again in the future?

Answer. While GAO recently completed work reviewing (certain aspects of) the Oil Spill Liability Trust Fund (GA0-04-114R and GA0-04-340R), these reports do not directly address your question. To determine whether a \$1 billion balance for the fund is adequate for current and further oil spill prevention and remediation needs, it would be prudent to assess a number of factors related to the fund. For example,

assessing the current and anticipated fund balance would be key to determining appropriate action related to the fund. Part of this effort would include determining past charges against the fund, and developing an estimate of the anticipated number of future spills that the fund would be subject to paying for, and estimating the costs associated with this effort. Without such assessments, along with analyses of any other factors that could affect the fund, such as the interest rate earned by the fund, and any potential changes to the law that could affect liability limits, it would be difficult to accurately state the optimum balance for this fund.

*Question 5.* What technical modifications, if any, does the GAO recommend to the oil spill tax provisions if this tax is reinstated?

*Answer.* Unfortunately, we have not done work on this provision and therefore have no basis for comment. However, generally GAO believes that tax provisions should be judged based on economic efficiency, effectiveness and equity criteria as well as on their impact on tax system complexity and the resources devoted to assuring compliance.





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