

**GAO**

Report to the Subcommittees on  
Homeland Security, Senate and House  
Committees on Appropriations

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May 2004

# COAST GUARD

## Station Spending Requirements Met, but Better Processes Needed to Track Designated Funds



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# Highlights

Highlights of [GAO-04-704](#), a report to the Subcommittees on Homeland Security, Senate and House Committees on Appropriations

## Why GAO Did This Study

The Coast Guard conducts homeland security and search and rescue operations from nearly 200 shoreside stations along the nation's coasts and waterways. After several rescue mishaps that resulted in the deaths of civilians and station personnel, Congress recognized a need to improve performance at stations and appropriated additional funds to increase stations' readiness levels. For fiscal year 2003, the Coast Guard received designated funds of \$15.7 million specifically to increase spending for stations' staffing, personal protection equipment (such as life vests and cold weather protection suits), personnel retention, and training needs. Congress directed GAO to determine if the Coast Guard's fiscal year 2003 outlays for stations increased by this amount over fiscal year 2002 expenditure levels. GAO also assessed the adequacy of the processes used by the Coast Guard to account for the expenditure of designated funds.

## What GAO Recommends

To provide greater assurance that appropriated funds are spent as Congress directs, GAO recommends that the Coast Guard develop processes to accurately and completely account for the obligation and expenditure of designated appropriations. The Coast Guard agreed with the need for such processes and said it would examine ways to implement them.

[www.gao.gov/cgi-bin/getrpt?GAO-04-704](http://www.gao.gov/cgi-bin/getrpt?GAO-04-704).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Margaret Wrightson at (415) 904-2200 or [wrightsonm@gao.gov](mailto:wrightsonm@gao.gov).

## COAST GUARD

### Station Spending Requirements Met, But Better Processes Needed to Track Designated Funds

#### What GAO Found

According to our analyses of available data, and anecdotal and other information, it appears that the Coast Guard spent at least \$15.7 million more to improve readiness at its multimission stations in fiscal year 2003 than it did the previous year. However, this statement cannot be made with certainty, because the Coast Guard's databases do not fully identify expenditures at the station level. GAO worked with the Coast Guard to develop expenditure estimates for the stations, using budget plans and available expenditure data, and this effort produced full or partial estimates for three of the four categories—staffing, personal protection equipment, and personnel retention efforts. For these three categories, fiscal year 2003 expenditure estimates were at least \$20.5 million more than the previous year, or about \$4.8 million more than the \$15.7 million designated appropriation. Although estimates could not be developed for training expenditures, other available information indicates that training levels increased in fiscal year 2003. Taken together, these results suggest that the Coast Guard complied with Congress' direction to increase spending for stations by \$15.7 million.

Federal management guidelines and internal control standards call for greater accountability for designated—earmarked—appropriations than was provided by the processes the Coast Guard had in place to track these funds. The purpose of an earmark is to ensure agencies spend a certain amount of their appropriated funds for a specific purpose. Guidelines and standards indicate that agencies should account for the obligation and expenditure of earmarked appropriations—a step the Coast Guard thoroughly implemented only for personal protection equipment. Coast Guard officials developed a plan showing how they planned to spend the earmark, but such a plan, while useful as an indication of an agency's intentions, is not sufficient to show that the earmark was expended in accordance with congressional direction.

#### Coast Guard Response Boat and a Multimission Station



Source: GAO.



Source: Coast Guard.

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## **Abbreviations**

DHS Department of Homeland Security  
OIG Office of Inspector General, Department of Transportation  
PPE Personal Protection Equipment

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Accountability \* Integrity \* Reliability

United States General Accounting Office  
Washington, DC 20548

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May 28, 2004

The Honorable Thad Cochran  
Chairman  
The Honorable Robert C. Byrd  
Ranking Minority Member  
Subcommittee on Homeland Security  
Committee on Appropriations  
United States Senate

The Honorable Harold Rogers  
Chairman  
The Honorable Martin Olav Sabo  
Ranking Minority Member  
Subcommittee on Homeland Security  
Committee on Appropriations  
House of Representatives

The nearly 200 Coast Guard multimission stations that dot the nation's coastline and interior waterways play an important role in two main Coast Guard missions—finding and rescuing mariners in danger on the water and protecting the nation's coastline as part of the overall homeland security effort. In 2001, a review conducted after a series of search and rescue mishaps found that readiness at these stations was decreasing.<sup>1</sup> In response, Congress began a multiyear funding effort designed to increase staffing, training, and equipment levels at the stations. As part of this effort, Congress provided a \$15.7 million earmark<sup>2</sup> in the Coast Guard's fiscal year 2003 appropriation specifically to support multimission station operations. In doing so, Congress also directed us to review Coast Guard expenditures to determine if fiscal year 2003 outlays (levels of effort) for stations had increased compared with fiscal year 2002 levels by this

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<sup>1</sup>Office of Inspector General, Department of Transportation, *Audit of the Small Boat Station Search and Rescue Program*, MH-2001-094 (Washington, D.C.: September 14, 2001) and June 13, 2001, Testimony by the Honorable Kenneth M. Mead, Inspector General, U.S. Department of Transportation, CC-2001-184.

<sup>2</sup>An earmark refers to funds set aside within an appropriation for a specified purpose. In addition to setting aside funds, the earmark might also provide spending floors by stating that not less than a certain amount must be used for the specified project.

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amount.<sup>3</sup> This report discusses the results of our analysis of Coast Guard spending in four categories of station activity—staffing,<sup>4</sup> personal protection equipment,<sup>5</sup> personnel retention efforts, and training. It also provides our assessment of the adequacy of the processes used by the Coast Guard to account for earmarked expenditures. This report is the first of two reviews looking at multimission station operations. The second, which focuses on station readiness issues, will be issued in the summer of 2004.

Our work is based on an analysis of Coast Guard budget and expenditure data, including special data runs prepared by the Coast Guard, surveys of field units, and verification of supporting information from a selected sample of multimission stations. As discussed below, the resulting data were limited in a number of respects. However, we did determine that, where available, the data were sufficiently reliable for the purpose of providing general estimates of expenditures. Appendix I explains in more detail the scope of our work, the methodology we used, and the ways in which we went about assessing the reliability of the data. We conducted our work from August 2003 to April 2004 and did so in accordance with generally accepted government auditing standards.

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## Results in Brief

Based on our analysis of available quantifiable data—actual and estimated—as well as anecdotal and other qualitative information we were able to obtain, it appears that the Coast Guard spent at least \$15.7 million

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<sup>3</sup>P.L. 108-7, Division 1, Title 1 (Consolidated Appropriation Resolution, 2003). The specific language for the appropriation reads as follows: “Not less than \$15,686,000 shall be used solely to increase staffing at search and rescue stations, surf stations and command centers; increase the training and experience level of individuals serving in said stations through targeted retention efforts; revise personnel policies and expand training programs; and to modernize and improve the quantity and quality of personal safety equipment, including survival suits, for personnel assigned to said stations.” The specific language for our review reads as follows: “The Comptroller General of the United States shall audit and certify to the House and Senate Committees on Appropriations that the funding described in the preceding proviso is being used solely to supplement and not supplant the Coast Guard’s level of effort in this area in fiscal year 2002.”

<sup>4</sup>Staffing costs include estimated salary, travel, medical, training, and administrative expenses.

<sup>5</sup>Coast Guard personnel use personal protection equipment to protect against various dangers, such as inclement weather and cold water exposure. Personal protection equipment includes items such as life vests, helmets, goggles, gloves, cold weather protection suits, thermal underwear, and electronic location devices.

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more to improve readiness at its multimission stations in fiscal year 2003 than it did the previous year. However, this statement cannot be made with certainty, because the Coast Guard's databases do not fully identify expenditure data at the station level. Lacking such data, we worked with the Coast Guard to develop expenditure estimates through the use of budget plans and available estimated and actual expenditure information. This effort produced full or partial estimates for three of the four categories—staffing, personal protection equipment, and personnel retention efforts. A comparison of these estimates for fiscal years 2002 and 2003 indicated that the fiscal year 2003 total was at least \$20.5 million more than the total for the previous year, or about \$4.8 million more than the \$15.7 million earmark. The Coast Guard was not able to develop estimates for the fourth category—training—despite extensive efforts to do so. However, available anecdotal information indicates that the amount of training provided to station personnel in fiscal year 2003 increased. Taken together, these results suggest—but do not clearly demonstrate—that the Coast Guard complied with the mandate.

Federal management guidelines and internal control standards call for greater accountability for earmarked appropriations than was demonstrated by the Coast Guard. These guidelines and standards indicate that agencies should account for the obligation and expenditure of earmarked appropriations both as a sound accounting practice and to demonstrate compliance in the event of an audit. Although the Coast Guard had taken steps to account for personal protection equipment expenditures, it did not have adequate processes in place to account for earmarked funds spent on station staffing and training. Coast Guard officials had also developed a plan to show how they intended to spend the earmark, but such a plan, while useful as an indicator of Coast Guard intentions, is not sufficient to show that the earmark was expended in accordance with congressional direction.

We are recommending that the Secretary of the Department of Homeland Security direct the Commandant of the Coast Guard to develop, in accordance with fiscal year 2004 departmental guidelines, processes to accurately and completely account for the obligation and expenditure of earmarked appropriations. In commenting on a draft of this report, Coast Guard officials generally agreed with this recommendation.

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## Background

Multimission stations, formerly referred to as small boat stations, are involved in all Coast Guard missions, including search and rescue, recreational and commercial fishing vessel safety, marine environmental response, and law enforcement activities such as drug and migrant

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interdiction. Search and rescue has traditionally been the stations' top priority. However, after the terrorist attacks of September 11, 2001, the Coast Guard elevated the maritime homeland security mission to a level commensurate with the search and rescue mission.

Congress's actions to provide the Coast Guard with an additional \$15.7 million for these stations in fiscal year 2003 was part of a longer-standing effort to address readiness concerns. In 2001, Congress directed the Department of Transportation's Office of Inspector General (OIG)<sup>6</sup> to conduct a thorough review of the operational readiness capability of stations, following a series of accidents involving search and rescue efforts initiated at these stations.<sup>7</sup> The OIG reported that readiness levels at stations had been deteriorating for more than 20 years and were continuing to decline. In response, Congress provided an earmarked appropriation in fiscal year 2002 and directed the Inspector General to review the use of the earmarked funds.<sup>8</sup> The OIG found that the Coast Guard generally complied with the intent of the earmark but also concluded that improving operational readiness at stations would require a substantial and sustained investment. The OIG also recommended that to improve congressional oversight of expenditures, the Coast Guard should make improvements to its accounting system to allow for the tracking of certain station expenditures.<sup>9</sup>

Since the additional funding efforts began, in fiscal year 2002, Coast Guard officials told us they have, among other actions, added approximately 1,100 personnel<sup>10</sup> to stations, increased levels of personal protection equipment for station personnel, and started to replace old and nonstandard boats with new standard boats. In December 2002 the Coast

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<sup>6</sup>The Coast Guard was located within the Department of Transportation until it was transferred to the Department of Homeland Security on March 1, 2003.

<sup>7</sup>House of Representatives Conference Report 106-940, Department of Transportation and Related Agencies Appropriations Act, 2001, (P.L. 106-346). At the time, the Coast Guard was a Department of Transportation agency.

<sup>8</sup>P.L. 107-87, Title I, (Department of Transportation and Related Agencies Appropriations Act, 2002).

<sup>9</sup>Office of Inspector General, Department of Transportation, *Audit of the Use of Fiscal Year 2002 Funds to Improve the Operational Readiness of Small Boat Stations and Command Centers*, MH-2003-028 (Washington, D.C.: March 3, 2003).

<sup>10</sup>This figure reflects the number of active duty personnel assigned to stations, rather than the number of authorized positions.

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Guard also developed, in response to a recommendation from the OIG in its 2001 report<sup>11</sup> and at the direction of the Senate Appropriations Committee,<sup>12</sup> a draft strategic plan to guide the recruiting and hiring of personnel. In its 2002 report, the OIG criticized the plan for being too general in nature, specifically regarding how and when the Coast Guard will increase staffing, training, equipment, and experience levels at stations.

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## Expenditures for Stations Cannot Be Fully Determined, but Estimates Appear to Exceed the Required Increase

Because the Coast Guard's automated databases are not set up in such a way that they can fully identify expenditure data at the station level, we were unable to fully determine expenditures for all four categories. However, through a combination of data runs and unit surveys performed at our request, the Coast Guard was able to estimate staffing and personnel retention expenditures, and develop actual expenditure data for personal protection equipment (PPE). Within these three categories, the Coast Guard estimates it spent at least \$291 million in fiscal year 2003. The information available by category was as follows:

- **Staffing:** The Coast Guard incurred estimated costs of \$277.6 million<sup>13</sup> for 5,474 active duty personnel<sup>14</sup> assigned to stations during fiscal year 2003.

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<sup>11</sup>OIG, MH-2001-094, p. iii.

<sup>12</sup>Senate Report 107-38, Senate Committee on Appropriations, in report accompanying the Department of Transportation and Related Agencies Appropriations Act, 2002 (P. L. 107-87).

<sup>13</sup>This estimate was developed using a personnel cost formula, which the Coast Guard uses to budget for future personnel costs. The formula produces an average cost per person per pay grade.

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This figure does not include costs for the 1,657 reserve personnel assigned to stations, or an unknown number of auxiliary personnel.

- **PPE:** Reported expenditures for this category totaled \$7.5 million.<sup>15</sup>
- **Personnel retention:** Expenditure data for all aspects of this category are not available. However, in one specific category—reenlistment bonuses—the Coast Guard expended \$5.9 million for bonuses to boatswain’s mates and machinists assigned to stations.

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<sup>14</sup>This figure does not reflect the Coast Guard’s authorized staffing level for multimission stations, which is significantly lower (4,589 positions). At the end of fiscal year 2003, the Coast Guard had assigned 885 personnel, or 16.2 percent of total personnel at the stations, without placing them in authorized, permanent positions. We did not review the impact of this personnel management practice on Coast Guard’s overall staffing structure. However, because the assignment of these personnel to stations is potentially more temporary than that of other personnel, there is no assurance that the Coast Guard will maintain staffing levels in the future. The Coast Guard, in fact, could not assure us that the fiscal year 2003 staffing level of 5,474 would be maintained at stations. Although the Coast Guard’s goal is to have a one-to-one match between personnel and positions, it has been necessary to assign a greater number of less experienced staff to the stations, above authorized staffing levels, to develop required numbers of senior staff (Coast Guard officials estimate it takes three junior personnel to produce one senior crew member). Officials told us the Coast Guard staffs stations above authorized levels in order to (1) “grow” junior personnel into more senior positions by providing “operational” on-the-job training opportunities, and (2) compensate for staff attrition. Many of the less experienced staff will eventually leave the agency or be reassigned. According to officials, the Coast Guard is adding about 300 additional authorized positions to stations in fiscal year 2004, and if staffing levels remain constant, this action will reduce the number of personnel assigned without an authorized position to approximately 585 personnel. In its 2002 report, the OIG questioned this practice and noted that the temporary status of such personnel makes it unclear whether they will continue to serve as dedicated station resources. The Coast Guard agreed with this conclusion. The Coast Guard could not assure us that the staffing level of 5,474 personnel would be maintained at stations.

<sup>15</sup>From a statistical perspective, this figure is best presented as an estimate due to indications of minor errors in Coast Guard’s recording of PPE expenditure amounts for fiscal year 2003 (see appendix I).

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- **Training:**<sup>16</sup> Coast Guard officials attempted to identify estimated costs of training station personnel at national training centers during fiscal year 2003 but could not provide reliable data for this category. Officials told us the Coast Guard has separate databases that track costs incurred by the national training centers, but do not have a database that can identify training costs expended on personnel after they have been assigned to stations. Further, expenditures incurred by stations in providing on-the-job training (a significant component of total training provided to station personnel) were not available because the Coast Guard, like many agencies, does not track time spent on this type of training.

Using fiscal year 2002 data derived through similar analyses, we determined that estimated station expenditures for fiscal year 2003 exceeded fiscal year 2002 levels by at least \$20.5 million—or \$4.8 million more than the \$15.7 million earmarked appropriation. Table 1 shows the differences in estimated expenditures (levels of effort) by fiscal year for the three categories that had available data.<sup>17</sup> Only partial data were available on personnel retention, and no data were available on training expenditures. Although expenditure data for all personnel retention efforts were not available, the Coast Guard was able to provide annual expenditure data for reenlistment bonuses offered to selected multimission station personnel. Other information we gathered in discussions with Coast Guard personnel indicates that the Coast Guard's levels of effort in station training also increased during fiscal year 2003. In fiscal year 2003, the Coast Guard increased the number of instructors and classrooms at two national training centers, which provide training to station and other personnel, in order to increase the number of total students graduated. Appendix I describes our methodology for developing these estimates, and appendix II contains a more detailed description of the data in each category.

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<sup>16</sup>We focused on training completed by station personnel after they were assigned to stations, which did not include basic training (boot camp).

<sup>17</sup>Because of data limitations, complete 2-year comparative cost estimates are available only for staffing and PPE. Partial cost estimates are available for personnel retention activities in the form of selected reenlistment bonuses, and no estimated data are available on station training costs.

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**Table 1: Comparison of Levels of Effort at Stations, Fiscal Years 2002 and 2003**

Dollars in millions			
Category	Fiscal year 2002 estimated costs	Fiscal year 2003 estimated costs	Difference
Staffing	\$263.2 <sup>a</sup>	\$277.6 <sup>a</sup>	\$14.4
PPE	2.5 <sup>b</sup>	7.5 <sup>c</sup>	5.0
Retention	4.8 <sup>d</sup>	5.9 <sup>d</sup>	1.1
<b>Total</b>	<b>\$270.5</b>	<b>\$291.0</b>	<b>\$20.5</b>

Source: Coast Guard.

<sup>a</sup>Data based on a personnel cost formula.

<sup>b</sup>Data based on budget estimates.

<sup>c</sup>Data based on survey of PPE expenditures by stations, groups, and districts.

<sup>d</sup>Partial data—reflects amount of reenlistment bonus expenditures distributed to station boatswain's mates and machinists.

Because complete comparative data could not be identified for all four categories, we cannot say with certainty that Coast Guard expenditures for multimission stations in fiscal year 2003 were at least \$15.7 million above fiscal year 2002 levels. However, we believe this is a reasonable conclusion based on the following:

- Although the staffing data provided to us are based on budget cost formulas, we determined that the data are sufficiently reliable for the purpose of demonstrating increases in staffing levels between the two years.
- Discussions with station officials indicate that station personnel have sufficient levels of PPE. In its fiscal year 2002 audit, the OIG reported that the Coast Guard did not provide PPE for 69 percent of the personnel added to stations during fiscal year 2002. Our visits to a limited number of stations—8 out of 188 stations—and discussions with station personnel, indicated that all active and reserve personnel assigned to these stations—even newly assigned personnel—had received what they considered to be an appropriate level of PPE (basic and cold weather).<sup>18</sup>

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<sup>18</sup>Station officials told us that many of the auxiliary personnel who volunteer at these stations have also received PPE.

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## Better Accountability of Expenditures Is Needed to Ensure That Earmarks Are Appropriately Spent

- Although available quantitative data were limited for this category, over the past few years the Coast Guard has implemented a variety of financial incentives aimed at improving personnel retention.
- Training officers at the 8 stations we visited indicated that training for station personnel did not decrease in fiscal year 2003 compared with the prior year. In addition, in fiscal year 2003 the Coast Guard increased training resources in two areas—the boatswain’s mate training school increased its training output by over a third, and unit training provided by headquarters to station personnel also increased.

The Coast Guard did not have adequate processes in place to sufficiently account for the expenditure of the entire \$15.7 million earmarked fiscal year 2003 appropriation or to provide assurance that these earmarked funds were used appropriately, as set forth by federal management and internal control guidelines. The purpose of an earmark is to direct an agency to spend a certain amount of its appropriated funds for a specific purpose. Federal guidelines and government internal control standards indicate that agencies should account for the obligation and expenditure of earmarked appropriations both as a sound accounting practice and to demonstrate compliance in the event of an audit. The expectation that agencies will be able to effectively demonstrate compliance in their use of earmarked funds stems from the following:

- Office of Management and Budget Circulars:<sup>19</sup> These circulars hold that agencies’ management controls should reasonably ensure that laws and regulations are followed.
- The Federal Managers’ Financial Integrity Act:<sup>20</sup> This act establishes specific requirements regarding management controls and directs agency heads to establish controls to reasonably ensure that obligations and costs comply with applicable laws.
- *Standards for Internal Control in the Federal Government*:<sup>21</sup> These standards specify that internal controls should provide reasonable

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<sup>19</sup>Office of Management and Budget Circular No. A-11, Section 150.3, and Circular No. A-123.

<sup>20</sup>P.L. 97-255.

<sup>21</sup>U.S. General Accounting Office, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

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assurance that an agency is in compliance with applicable laws and regulations. They also direct that internal controls and transactions should be clearly documented and the documentation should be readily available for examination.

Further, the Department of Homeland Security (DHS), the parent agency for the Coast Guard, recently issued budget execution guidance that encourages component agencies to identify the obligation and expenditure of earmarked funds separately from other appropriated funds.<sup>22</sup> (This guidance was issued in fiscal year 2004 after the Coast Guard had obligated the fiscal year 2003 earmark.) In response to a recommendation made in our recent report on the reprogramming of Federal Air Marshal Service funds,<sup>23</sup> DHS has agreed to make this a requirement.

The Coast Guard told us at the onset of our review that it did not have adequate processes in place to collect data with respect to earmarked expenditures. Although officials had taken steps to account for PPE expenditures (because purchase receipts could be easily tracked),<sup>24</sup> they did not have adequate processes in place to account for earmarked funds spent on staffing and training needs at the station level. Consequently, the Coast Guard could not demonstrate conclusively that it was complying with the earmark. Basically, the Coast Guard's databases were not designed for this purpose and would have to be modified to provide actual expenditure data for stations, according to Coast Guard officials. On the basis of lessons learned from the OIG's audit in fiscal year 2002, which faulted the Coast Guard for not having cost accounting systems in place to allow for the tracking of certain multimission station expenditures, Coast Guard officials developed a plan to show how various allocations would

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<sup>22</sup>Department of Homeland Security, *Budget Execution Guidance for Fiscal Year 2004*, p. 8.

<sup>23</sup>In our March 31, 2004, report we recommended that the Secretary of Homeland Security require component agencies to separately identify obligations and expenditures of earmarked funds, which they must be able to report. In response, DHS stated that it agreed with "the essence of GAO's suggestions regarding the tracking of earmarked funds with special codes and will incorporate this into [the Department's] fiscal year 2005 Budget Execution guidance. In addition, [the Department is] taking this requirement into consideration in the development of new financial management systems." See U.S. General Accounting Office, *Budget Issues: Reprogramming of Federal Air Marshal Service Funds in Fiscal Year 2003*, [GAO-04-577R](#) (Washington, D.C.: March 31, 2004).

<sup>24</sup>The Coast Guard did request station personnel to retain receipts of PPE expenditures for fiscal year 2003. However, because the data were not stored in a centralized location, it required a special data call to stations, at our request, to obtain the information.

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add up to \$15.7 million if expended. The plan, although useful as an indicator of the Coast Guard's intentions, is not sufficient to show that the Coast Guard had expended the earmarked appropriation as directed. Coast Guard officials also told us that, in response to the OIG's 2002 recommendation to allow for the tracking of certain station expenditures, they are assisting DHS in developing a new enterprise-wide financial system called "electronically Managing enterprise resources for government effectiveness and efficiency" (eMerge<sup>2</sup>). As part of the overall system requirements, the Coast Guard expects that eMerge<sup>2</sup> will be able to identify, track, and report costs related to earmarked appropriations. However, as of April 2004 the system was still in design<sup>25</sup> and the Coast Guard was unable to provide us with system specifications prior to the issuance of this report.

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## Conclusions

On the basis of available data and other information, the Coast Guard appears to have met the Congress's requirement to spend at least \$15.7 million more on multimission stations in fiscal year 2003 than in fiscal year 2002. However, the Coast Guard does not have adequate processes in place to track actual expenditures related to earmarks. Rather, agency officials could provide only estimates for much of the station expenditures. Without the ability to accurately and completely account for these expenditures, the Coast Guard cannot assure that it complied with the earmark. Moreover, Congress's ability to hold the Coast Guard accountable for future earmarks is seriously diminished. In light of our recent recommendation to DHS on the need to track earmarks—and its subsequent concurrence—we believe the Coast Guard should take immediate steps to ensure that future accounting systems include the capability to track earmarks.

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## Recommendation for Executive Action

To improve the Coast Guard's ability to respond to congressional oversight and to provide greater assurance that earmarked funds are used appropriately, we recommend that the Secretary of Homeland Security direct the Commandant of the Coast Guard to develop, in accordance with the fiscal year 2004 departmental guidelines, processes to accurately and

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<sup>25</sup>Officials told us DHS expects to complete the design phase—during which the component agencies will finalize their requirements—by the end of June 2004. Implementation of the system is scheduled for October 2004 through 2006.

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completely account for the obligation and expenditure of earmarked appropriations.

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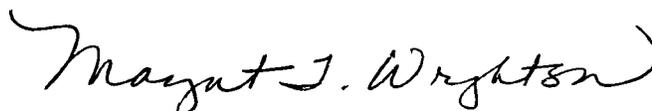
## Agency Comments and Our Evaluation

We requested comments on a draft of this report from the Secretary of Homeland Security or his designee. On May 14, 2004, Coast Guard officials, including the Chief, Office of Budget and Programs, provided us with oral comments, with which the DHS GAO Liaison concurred. Coast Guard officials generally agreed with the facts and our recommendation to better track earmarked expenditures. We did not review the Coast Guard's financial databases to determine if modifications to them would be necessary to better track earmarked expenditures (obligations). Coast Guard officials, however, expressed concern that developing better procedures to track some station expenditures (obligations), such as those for staffing or training, will prove challenging and could be costly due to the need to significantly modify their financial systems. Officials stated that accounts are centrally managed and specific expenditures would not be easily tracked at the station level. The Coast Guard officials said they plan to explore this issue more thoroughly and to examine how organizations with comparable activities have overcome similar obstacles to tracking earmarked funds. The officials also provided a number of technical clarifications, which we incorporated where appropriate.

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We will send copies of this report to interested congressional committees and subcommittees. We will also make copies available to others on request. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staffs have any questions about this report or wish to discuss the matter further, please contact me at (415) 904-2200 or Randall B. Williamson at (206) 287-4860. Additional contacts and key contributors to this report are listed in appendix III.



Margaret T. Wrightson  
Director, Homeland Security  
and Justice Issues

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# Appendix I: Scope and Methodology

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We used a variety of approaches in our work to determine the amount of the general appropriation the Coast Guard expended on multimission stations in fiscal year 2003 across the four areas covered by the earmark—staffing, personal protection equipment (PPE), personnel retention and training—and whether this amount exceeded by \$15.7 million the level of effort expended in fiscal year 2002. Because Congress directed that we review the amount of general appropriations expended on station readiness needs, we did not review expenditures of funds received through supplemental appropriations. We determined at the outset of our work that Coast Guard databases did not contain information that would allow us to fully report on station expenditures for the four earmark categories. To identify available information and possible limitations of the information, we worked extensively with Coast Guard headquarters officials from the Offices of Budget and Programs; Financial Analysis; Boat Forces; Resource Management; Workforce Management; Personnel Command; and Workforce Performance, Training and Development. We also obtained documentation from headquarters, stations, groups, and districts.

After reviewing the reliability of available data and the feasibility of Coast Guard officials' proposals for gathering additional data, we agreed on a combination of expenditure and allocation data, which would be collected through special data runs, analyses, and unit surveys. Coast Guard officials provided data for three of the four categories. Although officials attempted to develop information on training costs, they were not able to produce reliable data. Some of the information we needed was obtained not at headquarters but at specific Coast Guard sites, which we judgmentally selected according to size, location, and type.<sup>1</sup>

The specific data and analyses used to develop estimates on each of the four categories, were as follows:

- **Staffing:** To determine the number and cost of personnel assigned to multimission stations, we requested Coast Guard personnel expenditure data for fiscal years 2002 and 2003, but we were told that expenditure data were not available at the station level. To develop

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<sup>1</sup>We conducted site visits to the following stations: Los Angeles-Long Beach, San Francisco, Golden Gate, and Vallejo in California; Cape Disappointment in Washington; Tillamook Bay in Oregon; New York City in New York; and Sandy Hook in New Jersey. We also visited the following groups: Los Angeles-Long Beach and San Francisco in California; Astoria in Oregon; and Activities New York in New York.

estimated staffing costs, Coast Guard officials merged information from personnel and position databases to identify the number of personnel assigned to stations<sup>2</sup> and then applied a personnel cost formula<sup>3</sup> to arrive at total estimated costs. Developing estimates was complicated because the fiscal year 2002 data were developed from a different database than the fiscal year 2003 data, and because the Coast Guard has more personnel assigned to stations than actual authorized (or funded) positions, a variance that requires periodic adjustment of the databases. However, after discussing these factors at length with Coast Guard officials, we determined that the data developed by the Coast Guard were sufficiently reliable for the purpose of providing estimates of expenditures for fiscal years 2002 and 2003. The methodology and process for developing the data were contributed to by the following Coast Guard offices: Budget and Programs, Resource Management, Workforce Management, and Personnel Command.

- **PPE:** To obtain fiscal year 2003 expenditure data for this category, we asked the Coast Guard to survey all 188 stations and their oversight units. Each station and unit was asked to provide the total amount of fiscal year 2003 funds spent on PPE for personnel assigned to the station during the year. These totals included expenditures made for station personnel at the group and district levels as well. To verify the accuracy of these data, we reviewed original expenditure documentation for a judgmentally selected sample of 29 stations.<sup>4</sup> On the basis of this documentation, we independently quantified PPE

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<sup>2</sup>This was necessary because no single Coast Guard database could identify (1) where personnel were located (for example, at a station or at headquarters), (2) the number of positions funded through general appropriations, and (3) the number of new and upgraded station positions actually filled. The Coast Guard is pursuing efforts to merge its data systems by fiscal year 2005 to allow data regarding location of personnel, position, and associated costs to be obtained with one query.

<sup>3</sup>The personnel cost formula produces estimates that are an aggregate of the average costs incurred by individuals within a pay grade. The formula averages each of the costs (salary, travel, medical, training, and administrative) necessary to support an individual in a position at a specific pay grade. The average cost figure for each pay grade includes a range of actual costs that vary depending on individuals' length of service, time in grade, etc.

<sup>4</sup>At the beginning of fiscal year 2003 Coast Guard headquarters officials directed all stations to retain receipts of PPE purchases in the event of a GAO audit. We requested that each of the 29 stations selected submit supporting documentation for all fiscal year 2003 PPE purchases (we did not ask for supporting documentation for purchases made for these stations by their group or district). Our criteria for selecting the 29 stations were based on number of personnel, location (for example, cold or warm weather station), and operation hours expended per mission.

expenditures for each station. Our count of total PPE purchases at the 29 stations was 9 percent higher than the total provided by the Coast Guard (our count was 4 percent less than the Coast Guard's after removing expenditures for one outlier station). Coast Guard officials attributed the difference to errors made by station personnel when compiling the expenditure data. As a result of these differences, however, we refer to the total expenditure for fiscal year 2003 as an estimate. Because Coast Guard officials considered gathering expenditure data for fiscal year 2002 as too labor intensive for station personnel, given their current workloads, we used the Coast Guard's data on planned PPE expenditures for fiscal year 2002. After reviewing possible limitations in the PPE data provided, we determined that the data provided were sufficiently reliable for the purpose of providing estimates of expenditures. The PPE planning data were provided to us by the Offices of Boat Forces and Budget and Programs.

- **Personnel retention:** We were not able to determine total retention expenditures because the Coast Guard does not specifically track these costs, and retention efforts encompass a diverse array of direct and indirect activities. We were able to identify certain direct activities—selective reenlistment bonus expenditures for multimission stations and various financial incentives available to Coast Guard personnel—and some indirect incentives. After reviewing how data provided by the Personnel Services Center on selective reenlistment bonus expenditures were collected and maintained, we determined that the data were sufficiently reliable for the purposes of this report. The personnel retention expenditure data were provided to us by the Office of Budget and Programs.
- **Training:** The Coast Guard was unable to provide actual or estimated expenditure data for training multimission station personnel in fiscal years 2002 and 2003. Officials from the Office of Budget and Programs and the Office of Workforce Performance, Training, and Development told us at the outset of our review that they would not be able to identify total training costs because the Coast Guard does not track the amount of time station personnel devote to on-the-job training (which accounts for a significant amount of total training). Headquarters officials attempted to obtain data on the estimated annual costs for training station staff at the Coast Guard's national training centers by cross-referencing data from multiple databases and applying a cost formula. However, Coast Guard officials identified a number of serious anomalies in the data and concluded the data were too unreliable to be used.

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To determine whether the Coast Guard had adequate processes in place to account for the expenditure of the \$15.7 million earmarked appropriation, we interviewed and obtained documentation from stations, groups, and districts. We also interviewed and obtained documentation from officials in the following headquarters offices: Boat Forces, Budget and Programs, and Financial Analysis. Further, we studied the Coast Guard's funding plan, which showed how the earmark was intended to be spent. We also reviewed federal management guidelines and government internal control standards to identify earmark accountability requirements that apply to agencies.

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# Appendix II: Estimated Costs and Fiscal Year Differences for Stations by Earmark Category

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The \$15.7 million earmark presented to the Coast Guard in its fiscal year 2003 appropriation called for funds to be spent across four categories of multimission station needs—staffing, PPE, personnel retention, and training. In determining the amount of funds spent by the Coast Guard in 2003 on station needs and whether this amount exceeded the fiscal year 2002 level of effort by \$15.7 million, we also developed cost information for three of the four categories. Coast Guard officials attempted but were unable to develop reliable data on the cost of training station personnel during fiscal years 2002 and 2003. This appendix has two main sections. The first presents additional information about estimated station expenditures in the areas of staffing, PPE, and personnel retention in fiscal year 2003, and the second contains additional information about the changes that occurred between fiscal years 2002 and 2003.

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## Fiscal Year 2003 Station Estimated Expenditures by Category

Using a combination of estimated and actual expenditure data, we determined that estimated fiscal year 2003 costs for staffing, PPE, and personnel retention efforts at stations amounted to at least \$291 million.

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### Staffing

The Coast Guard could not provide us with the actual amount of fiscal year 2003 appropriation funds spent on station staffing because the agency's automated databases do not fully identify personnel expenditures at the station level.<sup>1</sup> However, using a combination of budget and personnel data, officials were able to estimate that in fiscal year 2003 the Coast Guard incurred costs of \$277.6 million<sup>2</sup> to support 5,474 active duty station personnel.<sup>3</sup> This estimate does not include costs for the 1,657

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<sup>1</sup>No one Coast Guard database can provide data on general appropriation amounts spent for personnel assigned to stations.

<sup>2</sup>This figure includes only funds expended from Coast Guard's fiscal year 2003 general appropriation; it does not include expenditures from other funding sources, such as homeland security appropriations. According to Coast Guard officials, fiscal year 2002 general appropriations were not available in fiscal year 2003 because Coast Guard expends virtually all appropriation funds in the first year.

<sup>3</sup>This figure reflects the number of personnel assigned to stations; as of September 30, 2003, 4,589 positions were authorized for stations.

reserve personnel<sup>4</sup> assigned to stations in fiscal year 2003, nor does it include the costs of volunteer auxiliary personnel who assisted in station operations during the year.<sup>5</sup> The Coast Guard did not calculate estimated expenditures for reservists because of the complex and labor-intensive nature of the analysis.

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## Personal Protection Equipment

Coast Guard officials determined that the agency spent approximately \$7.5 million in fiscal year 2003 on PPE for station personnel. As shown in table 2, the cost of a total basic PPE outfit in fiscal year 2003 was \$1,296. The cost of a cold weather PPE outfit, which is used by personnel working at stations where the outdoor temperature falls below 50 degrees Fahrenheit, was \$1,431. (Figure 1 shows a station crew member in cold weather PPE.) A May 2002 Coast Guard Commandant directive emphasized the importance of proper supplies and use of PPE as one of the top priorities of Coast Guard management. In this directive, the Commandant cited an internal research report that attributed 20 percent of the total risk facing boat personnel to exposure to extreme weather conditions. The directive also states that the use of appropriately maintained PPE could improve Coast Guard's operational capability.

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<sup>4</sup>As of September 30, 2003, reserve personnel at multimission stations made up approximately 23 percent of the stations' workforce.

<sup>5</sup>Approximately 36,000 auxiliary personnel Coast Guard-wide participate in activities ranging from search and rescue to boating safety education. Coast Guard officials could not identify the total number of auxiliary personnel who assist at stations because of the dynamic and fluid nature of this volunteer group.

**Appendix II: Estimated Costs and Fiscal Year Differences for Stations by Earmark Category**

**Table 2: Cost of Basic and Cold Weather PPE Used by Station Personnel**

<b>Item</b>	<b>Cost</b>
<b>Basic PPE</b>	
Electronic location device	\$285
Anti-exposure suit	232
Protective footwear	139
Life vest	125
Rain gear	120
Strobe light	70
Survival vest	60
Helmet	53
Sunglasses	45
Deck shoes	44
Parachute bag	35
Goggles	27
Work gloves	22
Survival knife	18
Personal marker light	8
Signal mirror	8
Whistle	5
Subtotal	\$1,296
<b>Cold weather PPE<sup>a</sup></b>	
Dry suit	\$750
Thermal underwear	480
Glove system	89
Thermal socks	35
Insulated footwear	31
Neoprene hood <sup>b</sup>	28
Balaclava <sup>c</sup>	18
Subtotal	\$1,431
<b>Total</b>	<b>\$2,727</b>

Source: Coast Guard.

<sup>a</sup>According to the Coast Guard, personnel at 135 (72 percent) of the 188 multimission stations require cold weather PPE in addition to basic PPE.

<sup>b</sup>Worn by crewmembers when entering water that is 50 degrees Fahrenheit or lower.

<sup>c</sup>Fleece or polypropylene head covering worn by crewmembers when additional thermal protection is required.

Note: Costs are for fiscal year 2003.

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**Figure 1: Station Crew Member Wearing Cold Weather PPE**



Source: Coast Guard.

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## Personnel Retention

The Coast Guard provided data demonstrating how it promotes personnel retention through a variety of direct and indirect incentives. Direct incentives include financial benefits that personally benefit the individual, while indirect incentives include projects, such as facility improvements, that may indirectly contribute to retention by increasing staff morale. Coast Guard officials provided expenditure data for selected direct incentives provided to station personnel in fiscal year 2003 because officials could not quantify the total amount of funds expended on direct incentives. Likewise, the total amount expended on indirect incentives cannot be readily identified because of the numerous and varied nature of the efforts.

Coast Guard's direct financial incentives include selective reenlistment bonuses. During fiscal year 2003, the Coast Guard spent \$5.9 million on 312 selective reenlistment bonuses for station personnel—\$4.2 million of this went to boatswain's mates while the remaining \$1.7 million went to machinery technicians. A variety of other financial benefit improvements were also recently implemented:

- Between fiscal year 2003 and fiscal year 2004 the Coast Guard increased the surfman<sup>6</sup> pay premium by 33 percent.

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<sup>6</sup>A surfman is a coxswain—boat driver—who is qualified to pilot boats in heavy weather and high surf conditions.

- Since fiscal year 2000 the average portion of housing costs paid by personnel has decreased annually, going from 18.3 percent in fiscal year 2000 to 3.5 percent in 2004; in 2005 this expense will be reduced to zero.
- Since fiscal year 2002 enlisted personnel have been entitled to a basic allowance for food. Before fiscal year 2002 they received no funds for food purchased outside of a Coast Guard galley (kitchen).
- Since fiscal year 2002 first-term enlisted personnel have received a “dislocation allowance” that provides funds for rental deposits and other incidentals that may occur when personnel are required to move.
- Since fiscal year 2003 junior personnel have been able to ship greater weights of household goods when transferring stations.
- During fiscal year 2004 the death gratuity issued to assist survivors of deceased Coast Guard active personnel doubled.<sup>7</sup>

Multiple indirect Coast Guard efforts also serve as personnel retention tools by improving staff morale. At our request, Coast Guard officials asked 29 (15 percent) of the 188 multimission stations to provide data on estimated expenditures incurred for projects that indirectly contributed to staff retention. For the 24 stations that responded, infrastructure and lifestyle improvements totaled over \$350,000 in fiscal year 2003. Improvements cited by multimission stations include such items as new furniture, sports equipment, televisions, satellite TV service, and entertainment systems. According to a Coast Guard official, the source of funds for these improvements can be station, group, or district operating budgets or donations by Coast Guard support groups. Table 3 shows examples of some of the projects cited by the 24 survey respondents.

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<sup>7</sup>National Defense Authorization Act of Fiscal Year 2004 (P.L. 108-136).

**Table 3: Examples of Indirect Retention Efforts by Stations in Fiscal Year 2003**

Stations <sup>a</sup>	Improvement	Cost
A	Barbecue grill; sports equipment; and galley, foyer and barracks furniture	\$62,691
B	New barbecue, television and entertainment system, learning center computer, furniture	\$10,003
C	Fitness center memberships, cable television service, carpeting and radio for weight room, common room computer	\$6,422
D	Physical fitness equipment	\$2,656

Source: Coast Guard.

<sup>a</sup>Stations are assigned pseudonyms A – D.

## Increases in Levels of Effort from Fiscal Year 2002 to Fiscal Year 2003 Indicate Earmark Compliance

While we could not determine with certainty the difference in estimated expenditures (levels of effort) expended on stations between fiscal years 2002 and 2003 because of financial system limitations, the information available suggests that the difference amounted to at least \$20.5 million. The following discusses estimated differences in fiscal year 2002 and 2003 staffing, PPE, and personnel retention costs for multimission stations.

### Staffing

As shown in Table 4, the Coast Guard increased staffing at multimission stations by an estimated 466 personnel (9.3 percent) in fiscal year 2003. The estimated cost of this staffing increase was \$14.4 million above the level of effort expended for staffing in fiscal year 2002.

**Table 4: Comparison of Number and Cost of Active Duty Personnel Assigned to Stations, Fiscal Years 2002 and 2003**

Dollars in millions			
	Fiscal year 2002	Fiscal year 2003	Difference
Number of personnel	5,008	5,474	466
Estimated total cost	\$263.2	\$277.6	\$14.4

Source: Coast Guard.

### Personal Protection Equipment

According to the Coast Guard, the agency estimates it spent approximately \$5 million more for PPE than it planned to spend during fiscal year 2002. We used fiscal year 2002 planned allocation data for this expenditure

comparison because Coast Guard officials considered a survey of stations to collect fiscal year 2002 expenditure data—similar to the survey conducted for the fiscal year 2003 expenditure data—too burdensome for station personnel, given their current workload.

Coast Guard officials told us that historically the amount of funds allocated for station PPE at the beginning of a fiscal year is not enough to fund PPE for all station personnel estimated to need it during the year. The Coast Guard's method for allocating PPE funds to stations uses the number of positions authorized to stations as a primary factor in determining the amount of funds allocated to individual stations. Because Coast Guard stations have more personnel assigned to them than authorized positions, in the past personnel not assigned to an authorized position were typically not included in PPE allocation calculations. To address this shortfall, the Coast Guard initially planned to allocate \$3 million of the earmarked funds in fiscal year 2003. During 2003 the Coast Guard had added another \$2.6 million of the earmarked funds, bringing the total to \$5.6 million.

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## Personnel Retention

Reenlistment bonuses issued to boatswain's mates and machinery technicians assigned to stations increased by \$1.1 million from fiscal year 2002 to fiscal year 2003. During fiscal year 2002, the Coast Guard issued \$4.8 million in bonuses to the two classes of station personnel; the amount issued in fiscal year 2003 rose to \$5.9 million. Expenditures for other, more indirect, forms of retention activities, such as station infrastructure improvements, are not tracked annually and therefore are not available for comparative purposes.

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## Training

The Coast Guard was not able to identify training costs for multimission station personnel for fiscal year 2002 or fiscal year 2003 despite extensive efforts. Officials told us the Coast Guard has separate databases in place to track training costs by national training center, but it does not have a database that identifies costs for station personnel. The Coast Guard conducted several queries from available databases but the resulting data

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**Appendix II: Estimated Costs and Fiscal Year  
Differences for Stations by Earmark Category**

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were not accurate.<sup>8</sup> The lack of available training cost data precluded us from making a comparison of annual expenditure data in this area. However, some information indicates that levels of effort expended on training station personnel increased in fiscal year 2003. For example, Coast Guard's boatswain's mate training school increased its training output by over a third in fiscal year 2003.

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<sup>8</sup>Coast Guard officials told us that their Yorktown Training Center (which provides training for boatswain's mates and boat drivers) is developing a pilot model that will identify costs for training students according to unit, asset, and mission. This model may serve as a template for future accounting systems used by training centers at Petaluma (which provides administrative support training) and Cape May (which provides basic training to new personnel).

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# Appendix III: GAO Contacts and Staff Acknowledgments

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## GAO Contacts

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## Staff Acknowledgments

In addition to those named above, Cathleen A. Berrick, Barbara A. Guffy, Dorian R. Dunbar, Ben Atwater, Joel Aldape, Marisela Perez, Stan G. Stenersen, Michele C. Fejfar, Casey L. Keplinger, Denise M. Fantone, and Shirley A. Jones made key contributions to this report.

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