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Testimony

Before the Subcommittee on Transportation and
Related Agencies
Committee on Appropriations,
House of Representatives

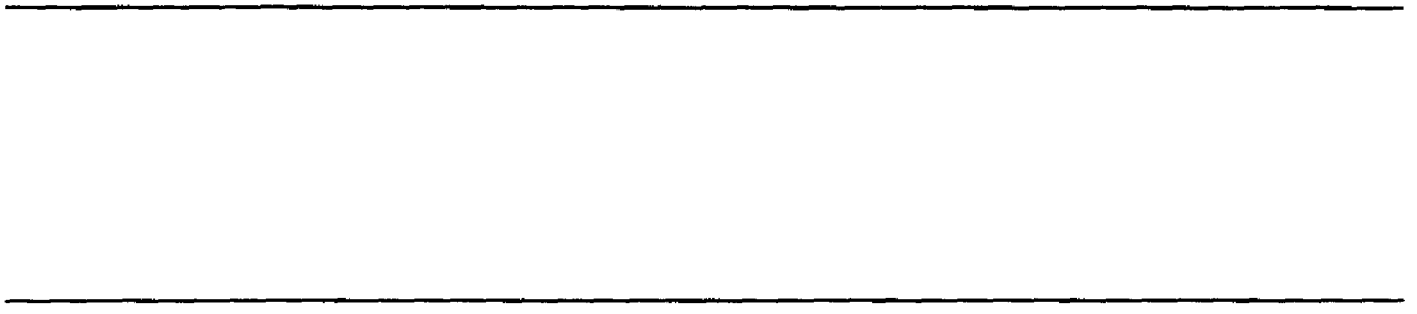
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COAST GUARD

Issues Related to
the Fiscal Year 1995
Budget Request

Statement of Allen Li, Associate Director,
Transportation Issues,
Resources, Community, and Economic
Development Division





Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to testify on the Coast Guard's fiscal year 1995 budget, focusing primarily on the status of the changes in its budgeting for operating expenses (OE). The OE account funds a variety of expenses, including salaries, training, and the operating and maintenance costs of Coast Guard aircraft, vessels, and shore facilities. For fiscal year 1995, the Coast Guard is requesting a total of \$3.8 billion, including \$2.6 billion for the OE account.

For the past 10 years, the Subcommittee and its Senate counterpart have repeatedly expressed their displeasure with the Coast Guard's failure to adequately justify the OE request. Following last year's budget hearings, you asked us to review the formulation of the OE budget and justification and provide our observations. At about the same time, the Subcommittee suggested an OE budget justification format to the Coast Guard that would address Subcommittee concerns. Our testimony today provides the status of the Coast Guard's actions to improve its budget process as well as our observations on these changes. In addition, we will provide observations on the Coast Guard's efforts aimed to establish a better defined research and development program and improvements in its management of acquisitions. We will focus on four main points:

- The Subcommittee's OE concerns have centered on two issues. The first is the Coast Guard's focus on justifying incremental increases to the OE base¹ but not on what is funded in the OE base itself. As a result, detailed justification is provided for a very small amount of the requested funding and no justification is provided for most of the funding. For example, the fiscal year 1995 OE request is \$2.6 billion of which \$39 million (1.5 percent) is the OE increment. The second issue of concern is the Coast Guard's practice of presenting the request by estimated expenditures per broad mission category. Actual expenditures were found to sometimes fluctuate widely from the estimates. For example, fiscal year 1992 expenditures for Marine Environmental Protection were 57 percent above the estimates provided in the fiscal year 1992 budget request.
- The Coast Guard has taken steps to improve its budget format and justification. Responding to the Subcommittee's guidance, it has revised the OE budget justification format. The fiscal year 1995 OE budget justification is presented in terms of the totality of the Coast Guard's specific functions, assets, and their operating costs

¹The OE base is defined as the prior fiscal year's OE appropriation.

rather than estimates of future spending by broad mission categories. This approach will give the Subcommittee the opportunity to review in detail the complete OE request, not just the OE increment. Furthermore, this approach provides more realistic information than estimates of future spending by broad mission categories that are subject to fluctuation because of unexpected natural and man-made events. The Coast Guard's plans to include written justifications for line items in the fiscal year 1996 OE format will also be a critical step in improving the OE justifications.

The Coast Guard has also begun to improve its ability to account for its actual expenses by identifying and quantifying its actual operating costs. For the first time, the Coast Guard has developed standard operating costs by asset type for the \$150 million in recurring operations and maintenance funds annually allocated to its 10 districts. For example, the annual operating cost of a 110-foot patrol boat is now identified as \$78,000.

- While we are encouraged by the direction of these OE account related changes, we believe that the integrity of the accounting system data needs to be improved for their successful implementation. It is essential that the accounting data upon which the budget is developed and executed are accurate, complete, and reliable. Currently, this does not appear to be the case. For example, Thirteenth District financial officials in Seattle estimate that a significant number of their transactions are incorrectly coded into the accounting system.
- The Coast Guard is moving toward improving its management of research, development, test and evaluation (RDT&E) projects, as well as emphasizing the importance of rigorously managing the acquisition process. Several key activities are scheduled to be completed in the coming months, such as the issuance of a long-range RDT&E plan and the development of an acquisition process tied to the budget process. Because such improvements will strengthen the efficiency and effectiveness of the Coast Guard's operations and use of budgetary resources, it is critical that the Coast Guard leadership ensure continued progress in both of these areas.

Before I elaborate on these four points, I would like to provide some background on the Coast Guard's budget.

BACKGROUND

The Coast Guard's total budget has grown from \$2.7 billion for fiscal year 1988 to \$3.7 billion for fiscal year 1994. During this

period, OE accounted for an average of 69 percent of the budget. For fiscal year 1995, the Coast Guard is requesting total budget authority of \$3.8 billion, including \$2.6 billion for the OE account, \$439 million for Acquisition, Construction and Improvements (AC&I), and \$20 million for RDT&E.

Historically, the Coast Guard's OE budget request contained in the President's budget was developed by taking the OE base and adding the OE increment. The OE base represents the prior year's operating costs and the OE increment represents additions and/or reductions to specific program elements. For fiscal year 1995, the OE request is \$2.6 billion, of which \$39 million (1.5 percent) is the OE increment. However, because the Coast Guard provided the Subcommittee with written justifications only for the OE increment changes, the budget justification provides the Subcommittee with no justification for the large majority of the requested funding.

The President's budget request and justification materials also presented the Congress with the Coast Guard's estimates of total expenditures for each mission category (ice breaking, treaty enforcement, search and rescue, etc.). However, actual expenditures by mission categories fluctuated widely, ranging from as much as 57 percent above estimates for the fiscal year 1992 Marine Environmental Protection mission to 78 percent below estimates for the fiscal year 1987 Defense Readiness mission.²

ADOPTION OF A NEW OE BUDGET JUSTIFICATION FORMAT AND SELF-INITIATED BUDGETING IMPROVEMENTS

During our review, the Coast Guard adopted a revised OE budget format which it is using in the fiscal year 1995 budget justification (see app. I for the format). This new format moves toward better meeting the Subcommittee's needs as it presents in detail the total OE budget request, not just the OE increment. The format is divided into five Program, Project, or Activity groups:³ Personnel Compensation, Benefits and Related Costs; Depot-Level Maintenance and Repair; Operations and Support; Recruiting and Training Support; and Coast Guard-Wide Centralized Services and Support. The groups are further subdivided into line items that represent categories of funding by function or asset--for example, military (pay), vessel maintenance, air stations, cutters, recruiting, and unemployment compensation.

We view structuring the OE budget justification format on the basis of line items that represent the functions the Coast Guard

²Actual total obligations for fiscal years 1986-1992 ranged from three percent above estimates to seven percent below estimates.

³A Program, Project, or Activity is an element within a budget account.

performs and the assets it operates as an important first step in improving the OE budgeting process. Overall, the format presents the OE request in a clearer, more descriptive form. This approach gives the Subcommittee the opportunity to (1) review the complete OE request rather than just the OE increment as was the case with previous justifications; (2) review the individual components of the request; and (3) establish a baseline for reviewing the budgetary trends of the request and its components. We view the Coast Guard's plans to include written justifications for these line items in the fiscal year 1996 OE format as a critical step in improving the OE budget justification and meeting Congressional needs. Moreover, we believe that structuring the request around these function and asset line items that are based on quantifiable operating cost data provides much more useful information upon which to make and implement funding decisions than the prior practice. In the past, the Coast Guard provided estimates of expenditures by broad missions, which, due to unexpected natural and man-made events, suffered from wide fluctuations between estimates and actual expenditures.

During the past year, the Coast Guard has been involved in an initiative to identify and quantify its actual operating costs and make management decisions based on this process. Known as the District Budget Model, it represents the first time that the Coast Guard has developed standard operating costs by asset type for the approximately \$150 million⁴ in recurring operations and maintenance funds annually allocated to its 10 districts.

The working group that developed the model identified operating costs for almost 70 functions or assets that the Coast Guard viewed as driving virtually all costs within a district. For example, the group identified annual operating costs of \$78,000 for a 110-foot patrol boat and about \$145,000 for an HH-60 helicopter. Among the functions and assets modeled were all district managed boats and aircraft; shore/grounds maintenance; and personnel support such as travel, office supplies, and housekeeping. As this was the first time that the modeling was performed, some adjustments to the data were made to compensate for this and to account for possible inaccuracies in the accounting data. Following these adjustments, the working group concluded that redistributing of funds in five districts was justified. The redistribution ranged from increasing the First District's funding by \$2.4 million to reducing the Eighth District's funding by \$1.1 million. In October 1993, the Coast Guard Chief of Staff approved the working group's recommendation to adjust these districts' funding during fiscal years 1994 and 1995. The working group also recommended various actions to improve the data base, including

⁴For fiscal year 1993, operations and maintenance comprised about \$600 million of the almost \$2.6 billion OE account.

identifying and assigning object class codes⁵ to each asset category in the budget model in order "to verify the accuracy of each standard."

With the completion of the District Budget Model that allows Coast Guard headquarters to allocate funds to the districts, the next phase of the project is to develop a model that standardizes allocations from the districts to their respective field units. Currently, five districts use nonstandard local models to do this and the remainder use other methods. For example, the Thirteenth District officials advised us that use of its model has helped restore a sense of credibility to the allocation process for field units that previously was often viewed as unfair, inequitable, or a waste of time. Once the field unit model has been developed, consideration will be given to modeling other segments of the Coast Guard.

ACCURACY AND COMPLETENESS OF ACCOUNTING DATA NEED IMPROVEMENT

While we are encouraged by the direction of these budgetary changes, we continue to emphasize the importance of having complete and accurate data upon which to make budgetary and management decisions. As we noted previously, one recommendation of the District Budget Model working group was that specific object class codes as defined by the Coast Guard Finance Center should be identified and assigned to each of the model's asset categories in order to verify the accuracy of their operating costs. We agree with this recommendation and support the Coast Guard's efforts to perform a similar exercise for the individual function or asset categories in the revised OE budget justification format. A second reason for stressing this point is that function or asset-based budgeting is new to and untested in the Coast Guard. The District Budget Model's working group noted this in connection with the difficulties and complexities of developing the model.

⁵Object classification is a uniform classification identifying the obligations of the federal government by the types of goods and services purchased (such as personnel compensation, supplies and materials, and equipment) without regard to the agency involved or the purpose of the programs for which they are used. The Coast Guard's Finance Center Standard Operating Procedures Manual has made further subdivisions within the standard object classes by defining them as a "4 digit code that defines what the funds were spent to procure. Object classes should be assigned carefully to each procurement. They are the basic building blocks of a spending plan, answering the question, 'How did you spend your money?'" For example, object class code 2623 Energy - Aircraft Fuel - HH60J is the code charged for aircraft fuel purchased for HH-60J helicopters.

Once it has been determined what data to collect and which elements of the accounting system capture these operating costs, the final step in this function or asset-based process is to accurately record expenditures for input into and tracking by the accounting system. This is a problem that was encountered by the District Budget Model working group. Its report noted that the accuracy of the Coast Guard's accounting data was suspect, which affects the accuracy of the model's standard costs. The primary concern was that object class codes were being improperly used, thus making it difficult for the districts' budget officers to accurately reflect the expenditures in the model. The report also noted that the Coast Guard had various ongoing projects to identify the problems in the accounting system and develop solutions to them.

We found similar data accuracy problems in our work in the Thirteenth District, which raises concerns about the integrity of the accounting system data. For example:

- The District's financial officials believe there are too many object class codes, which makes it difficult to decide which code to charge. Furthermore, in some cases the code definitions overlap, making it difficult to ensure their consistent application. For example, two different codes cover the maintenance and repair of vehicles.⁶ As a result, officials said they lacked confidence in the accuracy of object class coding beyond the general categories.
- While purchases of items using credit cards accounts for less than two percent of the total OE budget, they can constitute a major part of purchases at the district level. For example, credit card purchases account for about one quarter of the Thirteenth District's \$10 million in base level expenditures. Due to the limited number of cards issued coupled with not restricting their usage to only the card's assigned object class codes, District officials said that many OE expenditures do not reflect the correct codes. They believe that current credit card practices produce many coding errors. They estimate that about 50 percent of credit card transactions, accounting for 20 to 25 percent

⁶The following is an example of what was viewed as overlapping definitions. Object Class Code 2540 Maintenance and Repair - Shore Units covers maintenance and repair of shore structures, and equipment and vehicles attached to shore structures. Object Class Code 2543 Maintenance and Repair - Vehicles and Heavy Equipment covers maintenance and repair of automobiles, operating equipment, and heavy equipment; and, lubricants, assemblies, repair parts, materials, supplies, oil, tire repair, etc.

of the dollar value of credit card purchases, have incorrect codes.

- Correcting the errors identified in the accounting system is time-consuming. As a result, the district's officials said they only correct substantial errors--about half the errors they detect. While this amounts to less than 1 percent of the district's transactions, officials are concerned about having a burdensome system that contributes to data integrity problems.

In last year's testimony,⁷ we stated that the Coast Guard needed a more adequate base of information about programs and activities. Collecting the right data was one factor we cited as being necessary for proper management and decision making. We noted that until the Coast Guard improved its base of information on all programs, it would continue to experience problems, including those resulting from inaccurate or incomplete data. While the Coast Guard is aware of and working to correct this situation, we believe its resolution is even more important, given the budgetary actions currently being taken by the Coast Guard.

One area where the Coast Guard appears to have made progress is assessing its requirements for small boat stations. In response to the deficiencies noted in our 1990 report,⁸ the Coast Guard developed a new process for evaluating the need for station changes.⁹ Based on ongoing work, we believe that if applied correctly this new evaluation process (including the use of the most up-to-date information) should provide the Coast Guard and the Congress with a reasonable basis for determining the appropriate number of stations and the appropriate resources for those stations. Using its new evaluation process, Coast Guard officials have completed a comprehensive analysis of small boat stations and are now preparing a list of proposed station changes.

EFFORTS TO STRENGTHEN
COAST GUARD RDT&E AND
ACQUISITION MANAGEMENT

Key to the Coast Guard's ability to meet its diverse missions effectively and efficiently is the development of management tools

⁷Coast Guard: Improvement Needed in Management of Programs and Activities (GAO/T-RCED-93-28, Apr. 20, 1993).

⁸Coast Guard: Better Process Needed to Justify Closing Search and Rescue Stations (GAO/RCED-90-98, Mar. 6, 1990).

⁹A station "change" is defined to include the establishment, consolidation, closure, downgrade, or upgrade of a station.

and techniques for projects in its RDT&E and AC&I accounts. While progress has been made in the management of both these areas, implementation of planned improvements must be followed through.

RDT&E Project Definition and Long-range Planning

Last year, we reported on weaknesses in the Coast Guard's RDT&E program.¹⁰ We stated that the Coast Guard lacked, among other things, (1) a clear definition of what constitutes an RDT&E project and (2) an RDT&E plan that establishes priorities agency-wide or that links proposed and ongoing RDT&E projects to the Coast Guard's missions.

Without a clear definition of RDT&E, the Congress and the Coast Guard cannot be assured that funds are being used for projects that are truly RDT&E. Also, absent a long-range plan, the Coast Guard cannot ensure that limited RDT&E funds are meeting its most urgent needs. In response to our recommendations, the Coast Guard has initiated the following actions, which it expects to complete during this fiscal year:

- Development of a clearer definition of RDT&E.
- Development of a long-range RDT&E plan that is fully integrated with the Coast Guard long-range planning process.
- Development of measures of effectiveness for the RDT&E projects.

Acquisition Management

At about \$440 million, the Coast Guard's fiscal year 1995 request for the AC&I account represents an increase of over \$130 million over the amount enacted in fiscal year 1994. Last year, we testified that, despite improvements, such as in the training of acquisition project managers, weaknesses in the Coast Guard's acquisition process still needed to be addressed. In particular, we emphasized the need for the Coast Guard to reinforce to its senior staff the importance of adhering to a rigorous acquisition process. However, the Coast Guard's acquisition process remains among the Office of Management and Budget's List of High Risk Areas, which indicates that this area requires continued

¹⁰Coast Guard: Management of the Research, Development, Test and Evaluation Program Needs Strengthening (GAO/RCED-93-157, May 25, 1993).

attention.¹¹ The Coast Guard plans to continue its corrective actions, such as implement a process that will provide sufficient quantitative and qualitative analysis to better support acquisition activities and link the process to the budget.

CONCLUSIONS

Following years of Subcommittee displeasure with the inadequacy of the Coast Guard's OE budget justifications, the Coast Guard has taken actions to improve this and other aspects of its budget process. We support these improvements, both those that are self-initiated and those responding to the Subcommittee's guidance. We agree with the concept that the Coast Guard's OE budget justification and resulting funding decisions (such as the district funds' redistribution) should be structured around the functions the Coast Guard performs, the assets it operates, and their respective operating costs. While we are encouraged by the direction of these changes, we view them as first steps that are subject to further evolution and refinement. For example, we view the Coast Guard's plans to include written justifications for line items in the fiscal year 1996 OE format as a critical step in improving the OE budget justification.

Furthermore, we continue to emphasize the importance of having accurate, complete and reliable data upon which to make budgetary and management decisions. Inherent to the function and asset based budgeting concept that the Coast Guard has adopted is that operating costs are accurately recorded and verified within the accounting system. Overall, we believe this concept is especially well suited to the Coast Guard, given its multimission use of assets and the unreliability of estimating future mission expenditures. As such, we support ongoing Coast Guard actions to improve the integrity of the accounting system data that supports this concept. We also support the actions the Coast Guard is taking to improve its management of RDT&E and AC&I projects.

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This concludes our prepared remarks, Mr. Chairman. We will be pleased to answer any questions that you or other Members of the Subcommittee may have at this time.

¹¹The High Risk Program focuses attention and resources on eliminating major risks confronting Federal agencies and programs. High risk areas are those weaknesses that warrant top-level attention at the agency by the Congress. The Office of Management and Budget compiles the List and publishes it in the President's Budget in order to assure attention to these matters and to provide a tool for public accountability.

DEPARTMENT OF TRANSPORTATION
COAST GUARD
OPERATING EXPENSES APPROPRIATION BUDGET DETAIL
(dollars in thousands)

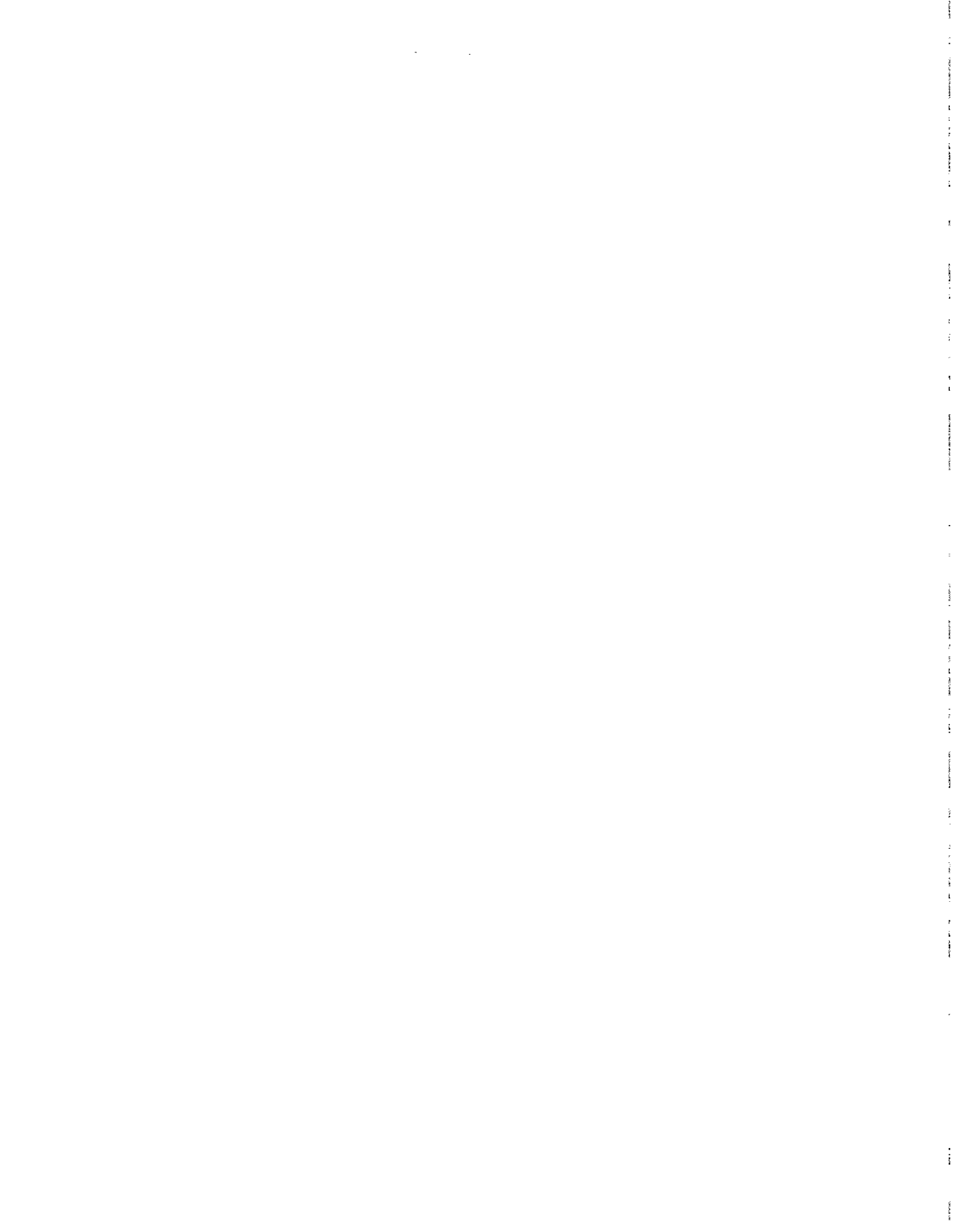
<u>Program, Project and Activity (PPA)</u>	<u>FY 1993 Budgeted Level</u>	<u>FY 1994 Budgeted Level</u>	<u>FY 1995 Increment</u>	<u>FY 1995 Budgeted Level</u>
I. Personnel Compensation, Benefits and Related Costs:				
- Military	1,200,714	1,228,445	9,835	1,238,280
- Civilian	165,418	167,853	774	168,627
- Medical Care and Equipment	109,344	114,493	8,178	122,671
- Permanent Change of Station (PCS) - Related Travel and Transportation	<u>58,268</u>	<u>55,659</u>	<u>2,287</u>	<u>57,946</u>
Subtotal PPA I.	<u>1,533,744</u>	<u>1,566,450</u>	<u>21,074</u>	<u>1,587,524</u>
II. Depot-level Maintenance and Repair:				
- Aeronautical Maintenance	137,994	138,120	2,927	141,047
- Electronics Maintenance	35,284	34,788	420	35,208
- Civil Engineering and Shore Facility Maintenance	92,970	91,577	1,781	93,358
- Vessel Maintenance	<u>94,707</u>	<u>93,153</u>	<u>1,225</u>	<u>94,378</u>
Subtotal PPA II.	<u>360,955</u>	<u>357,638</u>	<u>6,353</u>	<u>363,991</u>
III. Operations and Support:				
- Area Operations and Support:				
- Area Offices	25,885	26,804	501	27,305
- Maintenance and Logistics Commands (MLC)	107,187	109,863	2,901	112,764
- Cutters:				
- Polar Class Icebreakers(WAGB)	2,212	2,276	48	2,324
- High Endurance Cutters(WHEC)	11,685	12,024	253	12,277
- Medium Endurance Cutters(WMEC)	16,706	17,191	13	17,204
- Communications Stations	2,023	2,082	26	2,108
- Command, Control, Communications and Intelligence (C3I) Centers	<u>257</u>	<u>264</u>	<u>-240</u>	<u>24</u>
Total Area Operations and Support	<u>165,955</u>	<u>170,504</u>	<u>3,502</u>	<u>174,006</u>
- District Operations and Support:				
- District Offices	61,059	58,574	2,459	61,033
- Groups and Bases	70,262	69,839	3,023	72,862
- Combined Group and Air Stations	9,781	9,722	646	10,368
- Air Stations	47,237	46,953	1,275	48,228
- Marine Safety Offices (MSO)	7,898	7,850	207	8,057
- Long Range Electronic Navigation Aids Stations	6,460	6,421	1,294	7,715
- Cutters	28,008	27,859	707	28,566
- Vessel Traffic Services (VTS)	<u>226</u>	<u>225</u>	<u>1,617</u>	<u>1,842</u>
Total District Operations and Support	<u>230,931</u>	<u>227,443</u>	<u>11,228</u>	<u>238,671</u>
- Ammunition and Small Arms	<u>8,306</u>	<u>8,291</u>	<u>134</u>	<u>8,425</u>
Subtotal PPA III.	<u>405,192</u>	<u>406,238</u>	<u>14,864</u>	<u>421,102</u>

OPERATING EXPENSES APPROPRIATION BUDGET DETAIL (Cont)
(dollars in thousands)

<u>Program, Project and Activity (PPA)</u>	<u>FY 1993 Budgeted Level</u>	<u>FY 1994 Budgeted Level</u>	<u>FY 1995 Increment</u>	<u>FY 1995 Budgeted Level</u>
IV. Recruiting and Training Support:				
- Recruiting	4,412	3,888	-188	3,700
- Training Centers	32,519	30,239	-250	29,989
- Coast Guard Academy	13,166	12,831	807	13,638
- Professional Training/Education	28,687	25,694	1,402	27,096
Subtotal PPA IV.	<u>78,784</u>	<u>72,652</u>	<u>1,771</u>	<u>74,423</u>
V. Coast Guard-wide centralized services and support:				
- Headquarters units:				
- Supply Centers	9,331	8,832	143	8,975
- Finance Center	5,221	5,290	85	5,375
- Military Pay and Personnel Center	1,223	1,215	20	1,235
- Activities Europe	12,902	11,911	-6,280	5,631
- Coast Guard Yard	1,899	1,652	107	1,759
- Strike Teams	3,020	2,320	366	2,686
- National Pollution Funds Center	2,002	1,358	4	1,362
- Command Display and Control Support Facility (COMDAC)	2,068	2,046	19	2,065
- Air Station Washington	756	906	0	906
- Operations Systems Center (OCS)	5,394	5,358	87	5,445
- Telecommunications and Information Systems Command (TISCOM)	3,103	3,149	51	3,200
- Omega Navigation System Center (OMSEN)	4,063	3,873	101	3,974
- Intelligence Coordination Center (ICC)	279	275	4	279
- Electronics Engineering Center (EECEN)	2,195	2,070	33	2,103
- Institute	895	810	13	823
- Research and Development Center	468	324	5	329
Total Headquarters Units	<u>54,819</u>	<u>51,389</u>	<u>-5,242</u>	<u>46,147</u>
- Headquarters and Service-wide Centralized Bill Paying:				
- Headquarters	96,810	109,320	-1,277	108,043
- Centralized Bill Paying:				
- Postal	7,800	7,630	123	7,753
- Federal Telephone Service 2000 (FTS 2000)	10,000	9,900	160	10,060
- Federal Employment Compensation (FEC)	5,026	5,497	746	6,243
- Unemployment Compensation (UCX)	4,870	5,056	163	5,219
Total Headquarters	<u>124,506</u>	<u>137,403</u>	<u>-85</u>	<u>137,318</u>
Subtotal PPA V.	<u>179,325</u>	<u>188,792</u>	<u>-5,327</u>	<u>183,465</u>
TOTAL PPAs	<u>2,558,000</u>	<u>2,591,770</u>	<u>38,735</u>	<u>2,630,505</u>

Source: U.S. Coast Guard

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