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United States Government Accountability Office
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The Honorable Robert C. Byrd
Chairman
The Honorable George Voinovich
Ranking Member
Subcommittee on Homeland Security
Committee on Appropriations
United States Senate

The Honorable David E. Price
Chairman
The Honorable Harold Rogers
Ranking Member
Subcommittee on Homeland Security
Committee on Appropriations
House of Representatives

Subject: *Coast Guard: Observations on the Genesis and Progress of the Service's Modernization Program*

The U.S. Coast Guard is currently undertaking a major effort to update its command structure, support systems, and business practices. This effort, referred to as the modernization program, is intended to better position the service to fulfill not only traditional missions—such as ensuring the safety and security of commercial shipping, safeguarding U.S. fisheries, interdicting the smuggling of illicit drugs, and conducting search and rescue operations—but also homeland security responsibilities that expanded after September 11, 2001 (9/11). The modernization program is specifically focused on modifying the Coast Guard's command and control structure¹—including the establishment of four new organizational entities—as well as updating mission support systems, such as maintenance, logistics, financial management, human resources, acquisitions, and information technology. The proposed changes will have a major impact on a variety of functions servicewide,

¹ Within the Coast Guard, command and control refers to the exercise of authority and direction by a properly designated commander over assigned forces in the accomplishment of the mission. Command and control functions are performed through an arrangement of personnel, equipment, communications, facilities, and procedures.

including management of Deepwater—the long-term, multibillion-dollar program to upgrade the Coast Guard’s aging fleet of water vessels and aircraft.²

The conceptual framework for the modernization program is reflected in 10 Commandant Intent Action Orders, which were issued by the Commandant of the Coast Guard in 2006. Subsequently, congressional direction accompanying the Coast Guard’s fiscal year 2008 appropriations required the Coast Guard to submit a report describing and assessing each of the 10 action orders.³ Further, the congressional direction required that following submission of the Coast Guard’s report, we were to review the data and analysis supporting the report and, where appropriate, the status of implementation. In August 2008, the Coast Guard submitted its report on the modernization program to the Senate and House Appropriations Committees.⁴ In accordance with the congressional direction and as discussed with your offices, this report assesses the Coast Guard’s modernization program. Specifically this report answers the following primary research questions:

- What is the genesis for the Coast Guard’s modernization program?
- To what extent has the Coast Guard conducted efforts to monitor the progress of its modernization program and evaluate the results?

As an additional component, the Explanatory Statement in the Committee Print accompanying the Consolidated Appropriations Act of 2008 also directed us to evaluate the benefits and drawbacks of including all funding for Coast Guard personnel within the Operating Expenses (OE) appropriation.⁵ Our review of this issue is contained within this report as enclosure II.

To address the primary research questions, we reviewed the August 2008 report submitted by the Coast Guard to the Senate and House Appropriations Committees. To obtain additional perspectives on the genesis of the Coast Guard’s modernization

² Our reports and testimonies over the past 11 years have included details on the Deepwater program related to affordability, management, and operations. See, for example, GAO, *Coast Guard: Change in Course Improves Deepwater Management, but Outcome Still Uncertain*, GAO-08-745 (Washington, D.C.: June 24, 2008); *Coast Guard: Observations on the Fiscal Year 2009 Budget, Recent Performance, and Related Challenges*, GAO-08-494T (Washington, D.C.: Mar. 6, 2008); and *Coast Guard: Challenges Affecting Deepwater Asset Deployment and Management and Efforts to Address Them*, GAO-07-874 (Washington, D.C.: June 18, 2007).

³ H. Comm. on Appropriations, 110th Cong., Committee Print on H.R. 2764/Public Law 110-161 (Legislative Text and Explanatory Statement) at 1059 (2008), accompanying the Consolidated Appropriations Act of 2008 (Pub. L. No. 110-161, 121 Stat. 1844 (2007)), and S. Rep. No. 110-84, at 69-70 (2007).

⁴ U.S. Coast Guard, *Congressional Report to FY 2008 Appropriations Committee – Coast Guard Modernization* (Washington, D.C., Aug. 15, 2008). In enc. I, we present an overview of the Coast Guard’s August 2008 report. In its report, the Coast Guard noted that the 10 broad initiatives known as Commandant Intent Action Orders have been “combined into five coordinated efforts that comprise Coast Guard Modernization.”

⁵ H. Comm. on Appropriations, 110th Cong., Committee Print on H.R. 2764/Public Law 110-161 (Legislative Text and Explanatory Statement) at 1059 (2008), accompanying the Consolidated Appropriations Act of 2008.

efforts and other factors it considered, we reviewed internal studies conducted by the Coast Guard, as well as relevant external studies—particularly studies conducted by either the Department of Homeland Security’s (DHS) Office of Inspector General or GAO.⁶ At Coast Guard headquarters, we interviewed members of the Strategic Transformation Team, whose primary responsibility is to oversee the planning and execution of the service’s overall modernization and transformation efforts. We also evaluated how these efforts aligned with key practices identified in previous GAO work related to organizational transformation and development of performance measures.⁷ Further, we interviewed members of the National Academy of Public Administration’s (NAPA) project team—which, in April 2008, began reviewing the Coast Guard’s modernization program.⁸ We also reviewed an interim progress report (dated December 2008) prepared by NAPA as well as the final report on the modernization program provided to the Coast Guard on April 30, 2009.⁹ To address the issue of personnel account funding, we reviewed pertinent legislative history of the Acquisition, Construction, and Improvements (AC&I) and the OE appropriation accounts, as well as Coast Guard position papers and other documentation regarding possible consolidation of the Coast Guard’s AC&I personnel funding into the OE account. We conducted this performance audit from November 2008 to June 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. More details about the scope and methodology of our work are presented in enclosure III.

Results in Brief

The Coast Guard’s modernization program—while inherently reflecting the judgment and prerogatives of the service’s leadership—derives from multiple sources that collectively encompass a time frame from the mid-1980s to the present. These sources include internal and external studies or reports that identified deficiencies in the Coast Guard’s command and control structure, the acquisition and logistics systems, and other aspects of the service’s operations and capabilities, including the financial management system. Coast Guard officials also cited lessons learned from emergencies, such as the terrorist attacks of 9/11, and major natural disasters, such as Hurricane Katrina. According to officials, these events highlighted the need for greater standardization of policies and procedures, which the new command structure is intended to address. As an overarching cause for action, Coast Guard

⁶ A list of related GAO products is presented at the end of this report.

⁷ GAO, *Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, GAO-03-669 (Washington, D.C.: July 2, 2003), and *The Results Act: An Evaluator’s Guide to Assessing Agency Annual Performance Plans*, GAO/GGD-10.1.20 (Washington, D.C.: April 1998).

⁸ NAPA is an independent, nonprofit organization chartered by Congress to assist federal, state, and local governments in improving their effectiveness, efficiency, and accountability.

⁹ NAPA’s study addressing the Coast Guard’s modernization program includes an assessment of the service’s current approach, an evaluation of its alignment to the Commandant’s stated transformation objectives, identification of risks and weaknesses, and recommendations for program improvement.

officials also stressed a need for positioning the service to be more responsive to 21st century demands and challenges by eliminating existing geographic command boundaries and establishing a more functionally based organizational structure.

The Coast Guard has several efforts under way or planned for monitoring the progress of the modernization program and identifying needed improvements; however, development of applicable performance measures to evaluate results remains in the early stages. Consistent with project management principles and our previous work on organizational transformation, the Coast Guard has established implementation timelines to help guide the overall modernization program, which include key actions and milestones.¹⁰ The Coast Guard has reported that all interim key actions have been completed on schedule, including the implementation of several new organizational components. However, the Coast Guard has requested additional statutory authorities designed to fully establish the new command structure and associated senior leadership positions, currently envisioned to be in place in June 2009. For some of the organizational components established to date, the Coast Guard has also developed business plans that further identify key goals, activities, and specific milestones. In addition, the Coast Guard has initiated efforts to conduct external and internal assessments of various aspects of the modernization program. For example, the Coast Guard engaged NAPA to conduct a third-party, independent review of the Coast Guard's overall modernization efforts. This review—which began in April 2008 and was completed in April 2009—was conducted to identify the strengths, weaknesses, opportunities, and risks involved in the current modernization approach and make recommendations for improvements and risk mitigation. Internally, the Coast Guard is conducting a series of process reviews intended to identify the key internal activities and outputs required for mission execution within the new structure.¹¹ These process reviews—currently scheduled for completion during the summer of 2009—are also intended to generate inputs for a longer-term effort to identify and develop applicable performance metrics for assessing the results of the modernization program. As the new organizational components and command elements are further implemented, the development of relevant performance metrics will become increasingly important to help ensure that the purported benefits from modernization are realized.

Background

The Coast Guard is a multimission military service comprising approximately 49,100 full-time personnel—about 42,000 military and 7,100 civilians. The Coast Guard's responsibilities include a range of both homeland security mission-programs and non-homeland security mission-programs (see table 1 for additional details on these

¹⁰ Project Management Institute, *A Guide to the Project Management Body of Knowledge, Fourth Edition* (2008), and GAO-03-669.

¹¹ These “process reviews” are intended to baseline current processes so that officials may better understand the changes, linkages, and accountabilities associated with shifting to a new structure and processes.

mission-programs and the associated budget request for fiscal year 2010).¹² Following the terrorist attacks of 9/11, the Coast Guard’s homeland security mission-programs—such as conducting harbor patrols and participating in global military operations—took on increased significance and demands.

Table 1: Overview of Coast Guard Missions and Programs and the Fiscal Year 2010 Budget Request

Mission and program^a	Activities and functions of each mission-program	Budget request (in thousands)^b
Homeland security mission-programs		
• 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.	\$1,924,760
• 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.	535,279
• Undocumented migrant interdiction	Deploying cutters and aircraft to reduce the flow of undocumented migrants entering the United States via maritime routes.	524,757
Non-homeland security mission-programs		
• 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.	1,288,285
• Aids to navigation and waterways management	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.	1,201,650
• Search and rescue	Operating multimission stations and a national distress and response communication system; conducting search and rescue operations for mariners in distress.	972,434
• Living marine resources	Enforcing domestic fishing laws and regulations through inspections and fishery patrols.	851,336
• Marine safety	Setting standards and conducting vessel inspections to better ensure the safety of passengers and crew aboard commercial vessels; partnering with states and boating safety organizations to reduce recreational boating deaths.	594,009
• Marine environmental protection	Preventing and responding to marine oil and chemical spills; preventing the illegal dumping of plastics and garbage in U.S. waters; preventing biological invasions by aquatic nuisance species.	203,587
• Other law enforcement	Protecting U.S. fishing grounds by ensuring that foreign fishermen do not illegally harvest U.S. fish stocks.	138,748
• Ice operations	Conducting polar operations to facilitate the movement of critical goods and personnel in support of scientific and national security activity; conducting domestic icebreaking operations to facilitate year-round commerce; conducting international ice operations to track icebergs below the 48 th north latitude.	137,904
Total discretionary funding request		\$8,372,749

Source: U.S. Coast Guard.

^aThe Coast Guard’s homeland security and non-homeland security missions are delineated in section 888 of the Homeland Security Act of 2002 (Pub. L. No. 107-296, 116 Stat. 2135, 2249 (2002)). Starting with the fiscal year 2007 budget, however, the Office of Management and Budget designated the Coast Guard’s illegal drug interdiction and other law enforcement mission-programs—which were originally homeland security missions—as non-homeland security missions for budgetary purposes.

^bThe Coast Guard does not budget by mission-programs but rather by congressionally established appropriations account categories. In order to display budget allocations by mission-program, the Coast Guard uses an activity-based cost model that averages past expenditures to forecast future spending.

¹² A summary of the Coast Guard’s enacted appropriations for fiscal year 2009 is presented in enc. II (see table 3).

Shortly after taking office in May 2006, the Commandant issued 10 action orders (Commandant Intent Action Orders) that—as reported by the Coast Guard—“form the framework for the modernization and strategic transformation the Coast Guard is undergoing to ultimately be best organized for optimal mission execution.” The 10 action orders constitute interrelated initiatives that encompass efforts ranging, for example, from improving the service’s financial accounting system to developing a more effective command and control structure. Subsequently, in August 2008, the Coast Guard reported that the 10 initiatives were combined into five coordinated efforts that make up the Coast Guard’s current modernization program. The purpose of these efforts is to establish a more responsive organizational structure and enhance the Coast Guard’s business processes. Four of the five modernization efforts focus on changes to the Coast Guard’s organizational command structure. Specifically, the Coast Guard has proposed establishing four new organizational entities—the Deputy Commandant for Mission Support (DCMS), the Deputy Commandant for Operations (DCO), Operations Command (OPCOM), and Force Readiness Command (FORCECOM). The first two entities, DCMS and DCO, are to be located in headquarters whereas OPCOM and FORCECOM are field-based commands. To facilitate implementation of the modernization program, the Coast Guard created a Strategic Transformation Team, which consists of one flag officer and 16 full-time staff representing various components of the service.¹³ The team is responsible for overseeing the planning, execution, and measurement of the Coast Guard’s modernization efforts. See enclosure I for additional information regarding the Coast Guard’s original action orders and the four new organizational entities.

The Coast Guard’s Modernization Program Derives from Multiple Sources

Through our discussions with Coast Guard officials and review of the service’s planning and implementation documents, we determined that the Coast Guard’s modernization program is derived from multiple sources that collectively encompass a time frame of more than two decades. In addition to addressing documented deficiencies, many of the modernization program’s various initiatives largely reflect the judgment and prerogatives of the service’s leadership. Generally, as a starting point for discussing the genesis of the modernization program, service officials cited an internal study (the Gilbert study) that led to a major organizational realignment in 1987.¹⁴ Specifically, among other results, this study led to a reduction in the number of Coast Guard districts and created two new regional Maintenance and Logistics Commands—one at Governors Island (New York harbor) and another at Coast Guard Island (Alameda, California).¹⁵ According to the Coast Guard, the current

¹³ A flag officer is an officer in the Navy or Coast Guard holding a rank higher than captain, such as rear admiral, vice admiral, or admiral.

¹⁴ See Rear Admiral Marshall E. Gilbert, Chief, Office of Research and Development, U.S. Coast Guard, “Realignment 1987: The New Structure and How We Got There,” *Commandant’s Bulletin 13-87* (June 26, 1987), 33-40.

¹⁵ As part of the Coast Guard’s modernization program all logistics support functions are to be realigned under one organizational entity, DCMS. See enc. I.

modernization program addresses some of the changes initially proposed by the Gilbert study that were never fully implemented. For example, the proposed transition to a more centralized command structure is intended to reduce work duplication and enhance standardization across the agency.

Coast Guard officials also noted that additional catalysts for improvements have been studies conducted by DHS's Office of Inspector General,¹⁶ GAO,¹⁷ and others. Such external studies have addressed not only the Coast Guard's acquisition organization and processes but also various other aspects of the service's operations and capabilities, including the financial management system. Regarding the latter, for example, external audits have documented longstanding financial management deficiencies. In 2008, the independent auditor reported that for the fifth year, it was unable to provide an opinion on DHS's balance sheet, largely because of the Coast Guard's material weaknesses in internal control.¹⁸

Other contributors to the impetus for modernization cited by Coast Guard officials were lessons learned from the events of 9/11 and from preparing for and responding to major natural disasters, such as Hurricane Katrina, which made landfall in August 2005. As discussed in our 2006 report, the Coast Guard played a key role in the planning, response, and recovery efforts for Hurricane Katrina in three mission areas—search and rescue, marine pollution response, and management of maritime commerce.¹⁹ According to Coast Guard officials, these operations highlighted the need for enhanced standardization across the service and more centralized logistics and asset management. Under the new command structure, the Coast Guard has established five new logistics and service centers that are intended to ensure consistent delivery of support services and full life cycle management for applicable product lines.²⁰

¹⁶ Section 888(f) of the Homeland Security Act of 2002 requires that the DHS Office of Inspector General annually review the Coast Guard's mission performance.

¹⁷ See, for example, GAO, *Coast Guard: Station Readiness Improving, but Resource Challenges and Management Concerns Remain*, GAO-05-161 (Washington, D.C.: Jan. 31, 2005).

¹⁸ A material weakness is a significant deficiency, or a combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. Department of Homeland Security, Office of Inspector General, *Independent Auditor's Report on DHS' FY 2008 Financial Statements*, OIG-09-09 (Washington D.C., November 2008).

¹⁹ GAO, *Coast Guard: Observations on the Preparation, Response, and Recovery Missions Related to Hurricane Katrina*, GAO-06-903 (Washington, D.C.: July 31, 2006).

²⁰ The five logistics and service centers are the Aviation Logistics Center (Elizabeth City, North Carolina); the Surface Forces Logistics Center (Baltimore, Maryland); the Shore Infrastructure Logistics Center (Norfolk, Virginia); the Command, Control, Communication, Computers, and Information Technology Service Center (Alexandria, Virginia); and the Personnel Service Center (Arlington, Virginia). As of March 2009, all five of these logistics and service centers were established.

Further, Coast Guard officials stressed that, as an overarching or holistic cause for action to modernize, the service must be positioned to respond to a wide array of 21st century demands and challenges. The Coast Guard cites, for example, ever-increasing growth in maritime trade and tourism (more and larger vessels, increased waterborne transport of liquefied natural gas, expanded activity in the Arctic region, etc.) and the persistence of terrorism and other transnational threats, such as drug trafficking and mass migration. By eliminating existing geographical command barriers and establishing a more centralized and functionally based organizational structure, the Coast Guard believes it can better meet these challenges.

The Coast Guard Has Ongoing Efforts to Monitor Progress of the Modernization Program, but Work Remains to Develop Performance Metrics

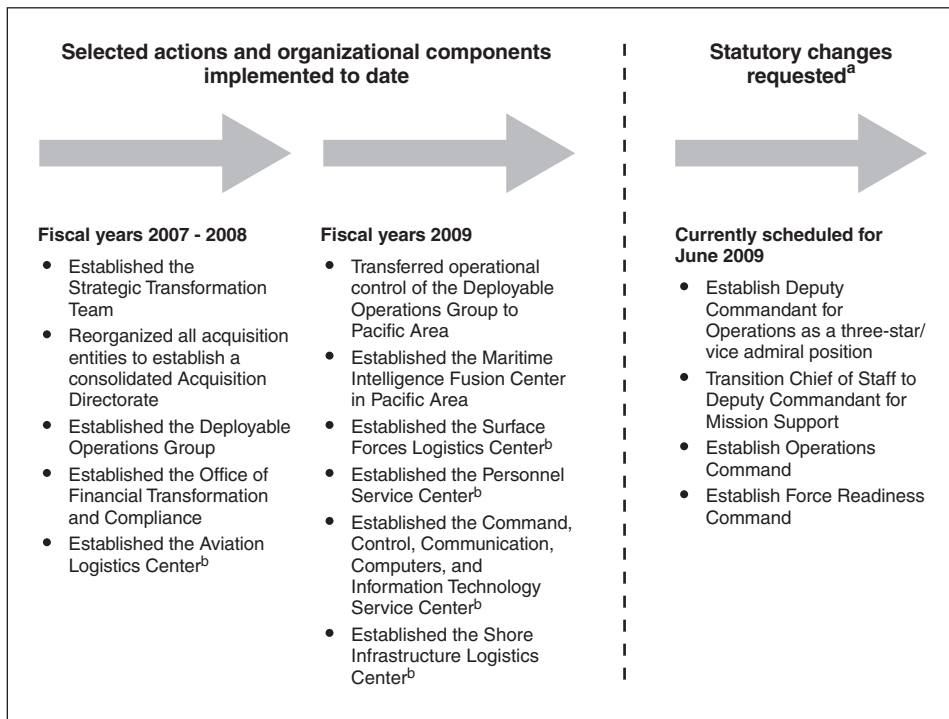
The Coast Guard has several efforts under way or planned that are intended to monitor the implementation progress of the modernization program and identify needed improvements; however, more work remains to develop applicable performance metrics to evaluate the results. As an overarching planning effort, the Coast Guard has established timelines that identify the sequencing and target dates for key actions related to the modernization program consistent with project management principles.²¹ Our prior work has shown that such action-oriented goals along with associated timelines and milestones are critical to successful organizational transformation efforts and are necessary to track an organization's progress toward its goals.²² As of March 2009, the Coast Guard reported that it has met all of the key interim milestones for the phased implementation of the modernization program. Some of the interim actions that have been completed include the establishment of new organizational components such as the Acquisition Directorate, the Deployable Operations Group, and the Office of Financial Transformation and Compliance, as well as several logistics centers dedicated to specific Coast Guard assets (see fig. 1). However, as further noted in figure 1, the Coast Guard has requested additional statutory authorities to reorganize the service's senior management structure and leadership positions. According to the Coast Guard, enactment of its legislative change proposal will enable the service to establish four new organizational entities—DCO, DCMS, OPCOM, and FORCECOM—currently scheduled to be in place in June 2009.²³

²¹ Project Management Institute, *A Guide to the Project Management Body of Knowledge, Fourth Edition* (2008).

²² GAO, *Highlights of a GAO Forum: Mergers and Transformation: Lessons Learned for a Department of Homeland Security and Other Federal Agencies*, GAO-03-293SP (Washington, D.C.: Nov. 14, 2002), and GAO-03-669.

²³ The Coast Guard's legislative change proposal is intended to enable the service to establish four three-star vice admiral positions of significant authority to manage and oversee each of the four organizational entities. In June 2008, DCO was established as an interim two-star rear admiral position.

Figure 1: Selected Key Actions Underlying the Coast Guard’s Modernization Program



Source: GAO summary of Coast Guard information.

^aTitle 14 of the U.S. Code outlines the role and functions of the Coast Guard, including the composition and organization of flag officers. To implement the envisioned command structure realignment, the Coast Guard has submitted a legislative change proposal to, in general, amend 14 U.S.C. § 47 changing the Vice Commandant’s grade from that of a vice admiral to an admiral, and 14 U.S.C. § 50, enabling the Coast Guard to appoint four vice admirals rather than two.

^bThe center is to be aligned under DCMS—which, pending enactment of the legislative change proposal, is scheduled to become operational in June 2009.

For some of the new organizational components established to date, additional implementation plans are also in place. These plans, whether referred to as business plans or strategic plans, represent a range of efforts to further identify key goals, activities, and in some cases, specific milestones. For example, a business plan for FORCECOM documents the command’s primary mission and goals, and outlines potential metrics for evaluating effectiveness.²⁴ Similarly, a strategic plan for the Command, Control, Communication, Computers, and Information Technology component identifies key goals and objectives, as well as milestones and applicable performance indicators for fiscal year 2009.²⁵ While we did not evaluate the specific content of these plans, they generally include a description of the mission and core values for the organizational element, as well as goals and objectives with which to assess progress as these elements continue to mature.²⁶

²⁴ U.S. Coast Guard, *FORCECOM Fiscal Year 2009-2010 Business Plan*, First Edition (Version 1.0) (October 2008).

²⁵ U.S. Coast Guard, *Command, Control, Communication, Computers, and Information Technology (C4&IT), Strategic Plan, FY 2009 – 2013* (undated).

²⁶ The Coast Guard also developed an internal business plan to help guide efforts to establish and operate the anticipated DCMS organization in fiscal year 2009. According to the Coast Guard, senior officials have not identified a need for similar business plans for DCO and OPCOM.

Furthermore, the Coast Guard also has more detailed implementation plans in place that address targeted issue areas encompassed within the modernization program. Specifically, the Coast Guard has developed plans related to acquisition and financial management reforms, which DHS's Office of Inspector General and we have assessed in greater depth.

- **Acquisition reforms.** To address acquisition-related challenges, including those identified by our prior work, the Coast Guard developed the *Blueprint for Acquisition Reform* (Blueprint). Since July 2007, the Blueprint has served as the capstone strategic document for reshaping acquisition and contracting capabilities under the newly established Acquisition Directorate. Currently in its third version, the Blueprint is planned to be updated annually and is to undergo a comprehensive review and revalidation in odd-numbered years.²⁷ Contained within the Blueprint are specific objectives and milestones for the upcoming year, as well as detailed action items addressing the four subcomponents of the reform plan: organizational alignment and leadership, policies and processes, human capital, and information management and stewardship. Our recent work has assessed Coast Guard acquisition efforts included within the Blueprint.²⁸
- **Financial management reforms.** To address financial management deficiencies, the Coast Guard developed the *Financial Strategy for Transformation and Audit Readiness* (Version 2).²⁹ To implement this overall strategy, the Coast Guard developed 17 Mission Action Plans to address individual weaknesses identified within the service's financial management system.³⁰ According to Coast Guard officials, some of the Mission Action Plans correspond to individual line items and others address more general processes and information systems. Collectively, the 17 Mission Action Plans represent a combination of efforts that can be addressed either in the near term (by the end of fiscal year 2010) or will require long-term systemic changes. Officials noted that the *Financial Strategy for Transformation and Audit Readiness* and the underlying Mission Action Plans will continue to be revisited on an annual basis.³¹

²⁷ U.S. Coast Guard, *Blueprint for Acquisition Reform* (Version 3.0) (July 14, 2008).

²⁸ GAO, *Coast Guard: Update on Deepwater Program Management, Cost, and Acquisition Workforce*, GAO-09-620T (Washington, D.C.: Apr. 22, 2009), and GAO-08-745.

²⁹ See, U.S. Coast Guard, *Coast Guard Report to Congress: Financial Management Improvement Plan*, which was submitted on November 28, 2008, to the Chairmen and Ranking Members of the Senate and House Appropriations Committees' Subcommittees on Homeland Security.

³⁰ The Coast Guard's development of Mission Action Plans is part of a larger effort by DHS to address identified weaknesses in internal controls over financial reporting. Beginning in 2006, DHS launched a corrective action plan to remediate these deficiencies, which is documented in the *Internal Controls Over Financial Reporting Playbook* (ICOFR Playbook). Mission Action Plans are a key element of the ICOFR Playbook and identify the specific remediation actions planned for each control deficiency at the DHS component levels.

³¹ See, Department of Homeland Security, Office of Inspector General, *Independent Auditor's Report on U.S. Coast Guard's FY 2008 Mission Action Plans*, OIG-08-73 (Washington, D.C., July 2008), which addressed the Coast Guard's efforts as of February 2008. At the time of our review, the Office of Inspector General was conducting additional audit work to further evaluate the Mission Action Plans.

In a supplemental effort intended to evaluate aspects of the modernization program and identify potential improvements, the Coast Guard engaged NAPA to conduct a third-party, independent review of the Coast Guard's overall realignment and modernization program. According to NAPA, this study—which formally began in April 2008 and was completed in April 2009—consisted of two primary research objectives:³²

- **Review of modernization program.** Under this objective, NAPA assessed the Coast Guard's modernization efforts to determine how they will function to bridge the gap between the current state and the desired future state of the organization, the extent to which the organizational structure aligns with the Commandant's operational vision, and the progress to date toward implementation. NAPA worked with the Coast Guard leadership team and NAPA panel members to identify the strengths, weaknesses, opportunities, and risks involved in the current modernization approach and make recommendations for improvements and suggest mitigation steps for key risks identified.
- **Financial management and resource planning analysis.** To address this objective, NAPA advised and assisted Coast Guard leadership in undertaking an analysis of financial management and resource planning functions based on data and knowledge of best practices. According to NAPA, this work included a review of the functions of the Coast Guard's Chief Financial Officer to evaluate the potential impacts of financial management reforms on the overall modernization program.

NAPA completed its review and provided two final reports to the Coast Guard on April 30, 2009—one report addressing the service's overall modernization efforts and another report addressing financial management.³³ Regarding overall modernization efforts, NAPA recognized that the Coast Guard's planned organizational realignment "makes logical sense" and that the service's leadership "is collectively engaged" to improve mission execution and support-related business processes. NAPA cautioned, however, that the Coast Guard remains in the early stages of its organizational transformation, and that "materially enhanced efforts in strategic communications, enterprise-wide analysis and performance measurement, change management, and financial management will be needed to ensure that ultimate outcomes are achieved and sustained." As a framework for analysis, the NAPA study team identified eight key success indicators, which the study team determined reflected common best

³² According to NAPA officials, the academy's work encompassed a broad scope and included over 150 interviews with a wide variety of Coast Guard officials, including civilians and military personnel, flag officers, and staff located among all four of the envisioned new organizational entities, as well as key external stakeholders.

³³ National Academy of Public Administration, *U.S. Coast Guard Modernization Study* (Washington, D.C., April 2009), and National Academy of Public Administration, *U.S. Coast Guard Modernization—Financial Transformation Study* (Washington, D.C., April 2009). Our review focused primarily on the first report, which addresses the overall modernization program.

practices for organizational transformation.³⁴ As a result of its review, NAPA made four concluding recommendations intended to help mitigate potential implementation risks and facilitate a successful modernization process. Specifically, NAPA recommended that the Coast Guard

- establish a Modernization Implementation Guidance Team before the expiration of the Strategic Transformation Team charter;³⁵
- develop a clear quantifiable business case for modernization, measurement tools, and a process of metrics assessment to track modernization progress and the effects on mission execution;³⁶
- conduct an assessment of the service’s communications processes in an effort to better realign the communications functions and their accountabilities; and
- build and expand innovation capacities for continuous improvement, employee ownership, and best practices.

As NAPA’s second recommendation highlights, one of the key challenges faced by the Coast Guard is the development of adequate measures to assess the progress and outcomes of the modernization program. As the NAPA report indicated, such measures are important to ensure that the impacts of modernization are aligned with intended objectives; also, such measures provide an opportunity to “course-correct” as necessary. NAPA further noted that the development of appropriate measurement tools will help to provide quantifiable support for the modernization business case and facilitate stakeholder buy-in.

According to the Coast Guard, several efforts are currently under way to develop and utilize performance metrics to assess the results of the modernization program. According to officials, the strategic intent of the modernization program is to enhance the overall performance of the service. In this respect, officials noted that the 25 primary performance measures currently used to report on Coast Guard mission

³⁴ GAO-03-669 was one of the principal sources that the NAPA study team used to identify the key success indicators.

³⁵ The Coast Guard’s Strategic Transformation Team—whose primary responsibility is to oversee the planning and execution of the service’s overall modernization and transformation efforts—is scheduled to stand down in June 2009. In its April 2009 report, NAPA recognized that the Coast Guard “recently established a new directorate that brings together a number of existing functions responsible for organizational and strategic analysis, change management, and performance management.” The report noted, however, that NAPA did not evaluate whether the new directorate meets all aspects of the recommendation regarding establishment of a Modernization Implementation Guidance Team. According to the Coast Guard, the Enterprise Strategy, Management and Doctrine Oversight Directorate—which the service established effective May 4, 2009—is to be responsible for ongoing coordination of change initiatives within the modernization effort and beyond, among other functions.

³⁶ In discussing the rationale for this recommendation, among other considerations, NAPA cited two GAO reports: GAO, *Coast Guard: Relationship between Resources Used and Results Achieved Needs to Be Clearer*, GAO-04-432 (Washington, D.C.: Mar. 22, 2004), and *Coast Guard: Strategy Needed for Setting and Monitoring Levels of Effort for All Missions*, GAO-03-155 (Washington, D.C.: Nov. 12, 2002).

performance are to remain the principal indicators to ensure that modernization does not adversely affect the delivery of services to the American public.³⁷ However, officials acknowledged that it will likely be difficult to directly evaluate the effectiveness of the modernization program using these high-level mission performance indicators. For this reason, Coast Guard officials are planning to adapt or utilize an alternate set of existing business metrics to assess the impacts of the modernization program. The Coast Guard reported that over 1,000 metrics are currently available to evaluate various aspects of the service's operations and business processes.³⁸

While the Coast Guard is currently taking steps to further identify and develop applicable performance metrics, this effort remains in the early stages. According to the Coast Guard, identification and development of applicable business metrics will take place in two steps. The first step includes identification of key internal activities and outputs required to enable mission execution within the realigned organizational structure. The Coast Guard reported that this step was under way in February 2009 and is scheduled for completion during the summer of 2009. Once this framework of key activities and outputs is established, the Coast Guard plans to identify the specific business metrics available that relate to these core services and products. However, Coast Guard officials were unable to provide a specific time frame for the estimated completion of this secondary step. According to the Coast Guard, once applicable metrics are identified and adequate data are collected—in approximately 6 months to 1 year—these metrics will enable evaluation of the performance and effectiveness of the modernized Coast Guard processes and facilitate continued improvements.

As outlined in the Government Performance and Results Act of 1993³⁹ and *Standards for Internal Control in the Federal Government*,⁴⁰ performance measures are important to reinforce the connection between long-term strategic goals and the day-to-day activities of management and staff. Moreover, the Coast Guard noted that the proposed organizational construct—based on the functional components of policy and resources, support, readiness, and mission execution—represents a substantial change from the service's existing business practices. For this reason, the Coast Guard's efforts to develop adequate performance metrics to help validate existing organizational designs and processes and make adjustments as needed is an important step. According to officials, they plan to include a range of indicators that represent multiple goals and priorities, such as quantity, timeliness, cost, and

³⁷ For related work on Coast Guard primary performance measures, see GAO, *Coast Guard: Non-Homeland Security Performance Measures Are Generally Sound, but Opportunities for Improvement Exist*, GAO-06-816 (Washington, D.C.: Aug. 16, 2006).

³⁸ Individual business metrics are managed by the Coast Guard's Business Intelligence Unit and fall into eight distinct categories: activities, equipment, infrastructure, information, outcomes, people, supply, and training.

³⁹ Pub. L. No. 103-62, 107 Stat. 285 (1993).

⁴⁰ See GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999). These standards, issued pursuant to the requirements of the Federal Managers' Financial Integrity Act of 1982, provide the overall framework for establishing and maintaining internal control in the federal government.

outcomes, consistent with our prior work.⁴¹ Such action would help ensure that the Coast Guard's overall measurement of performance does not become biased by metrics that assess some priorities but neglect others.

Agency Comments and Our Evaluation

On May 4, 2009, we provided a draft of this report for review and comment to DHS and the Coast Guard. On May 19, 2009, the department's audit liaison office responded by e-mail that the Coast Guard, after reviewing the report on behalf of DHS, provided no formal comments but offered one technical clarification. We incorporated the technical clarification into this report where appropriate.

We are sending copies of this report to interested congressional committees, the Secretary of Homeland Security, and the Commandant of the U.S. Coast Guard. The report also is available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report or wish to discuss these matters further, please contact me at (202) 512-9610 or caldwells@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Other key contributors to this report are listed in enclosure IV.



Stephen L. Caldwell
Director, Homeland Security and Justice Issues

Enclosures – 4

⁴¹ GAO/GGD-10.1.20.

Enclosure I

**Overview of the Coast Guard’s Modernization Report (August 2008)
Submitted to the Senate and House Appropriations Committees**

During the summer of 2006, the Commandant of the U.S. Coast Guard issued 10 Commandant Intent Action Orders intended to address elements of the Coast Guard’s command and control structure, mission support system, and business processes that were identified as detracting from mission execution. In August 2008, the Coast Guard reported to the Senate and House Appropriations Committees that the 10 action orders have been “combined into five coordinated efforts that comprise Coast Guard Modernization.”⁴² Table 2 shows the relationship between the 10 action orders and the five efforts that make up the Coast Guard’s modernization program.

Table 2: Relationship between Commandant Intent Action Orders and the Coast Guard’s Five Efforts That Make Up the Modernization Program

Commandant Intent Action Orders (10 action orders)	Modernization program
Acquisition Directorate and the Integrated Deepwater System Consolidation (action order #1). Consolidate the Acquisition Directorate with the Integrated Deepwater System Directorate to improve the effectiveness and efficiency of the Coast Guard’s total acquisitions system.	Establishment of the Deputy Commandant for Mission Support (DCMS) at Coast Guard headquarters to oversee all support and logistics systems and processes.
Logistics organizational alignment (action order #4). Realign the Coast Guard’s logistics organization to reduce the support burden on field units, control costs, drive enterprise decision making, and improve accountability.	
Human resources strategies to support Coast Guard maritime strategy (action order #8). Create a human resources strategy to better support Coast Guard mission execution.	
Reserve component mission support system (action order # 9). Develop a plan to align the Coast Guard Reserve component mission support system to ensure the optimal organization, administration, recruiting, instruction, development, and training of Reserve component forces.	
Service-oriented architecture implementation (action order #10). Implement a service-oriented architecture to better support the Coast Guard’s technological needs.	
Deployable Operations Group implementation (action order #3). Establish a Deployable Operations Group to integrate Coast Guard special deployable forces into the service’s trident force structure, which also includes shore-based forces (e.g., small boat stations, aids to navigation teams) and maritime patrol forces (e.g., major cutters, fixed-wing aircraft). ^a	Establishment of the Deputy Commandant for Operations (DCO) at Coast Guard headquarters to manage all operational programs and develop policy and regulations.
Transition headquarters to numbered staff offices (CG-1, CG-2, etc.) (action order #2). Complete the reorganization of headquarters staff into numbered offices to better align with the Department of Defense and make the headquarters organization more understandable to internal and external Coast Guard customers. ^b	
Assessment of Coast Guard command and control organization (action order #7). Develop an operational framework for the Coast Guard that	Establishment of the Coast Guard Operations Command

⁴² U.S. Coast Guard, *Congressional Report to FY 2008 Appropriations Committee – Coast Guard Modernization* (Washington, D.C., Aug. 15, 2008).

<p>provides greater focus on the command and control structure needed to effectively execute missions and ensure service readiness.</p>	<p>(OPCOM) as the primary unit responsible for Coast Guard mission execution.</p> <p>Establishment of the Coast Guard Force Readiness Command (FORCECOM) as the primary unit to manage the overall readiness capabilities of the service.</p>
<p>Financial management transformation and audit remediation (action order #5). Transform the Coast Guard financial system to improve accuracy, accountability, and alignment with the Department of Homeland Security (DHS).</p>	<p>Strategic transformation of Coast Guard headquarters and financial management systems and processes.</p>
<p>Maritime strategy and the Evergreen cycle of strategic renewal (action order #6). Develop a comprehensive direction document to provide a strategic framework for planning maritime safety, security, and stewardship responsibilities for the Coast Guard through the next 4 years.</p>	
<p>Headquarters transition to numbered staffs (action order #2): Complete the reorganization of headquarters staff into numbered staffs to better align with the Department of Defense and make the headquarters organization more understandable to internal and external Coast Guard customers.</p>	

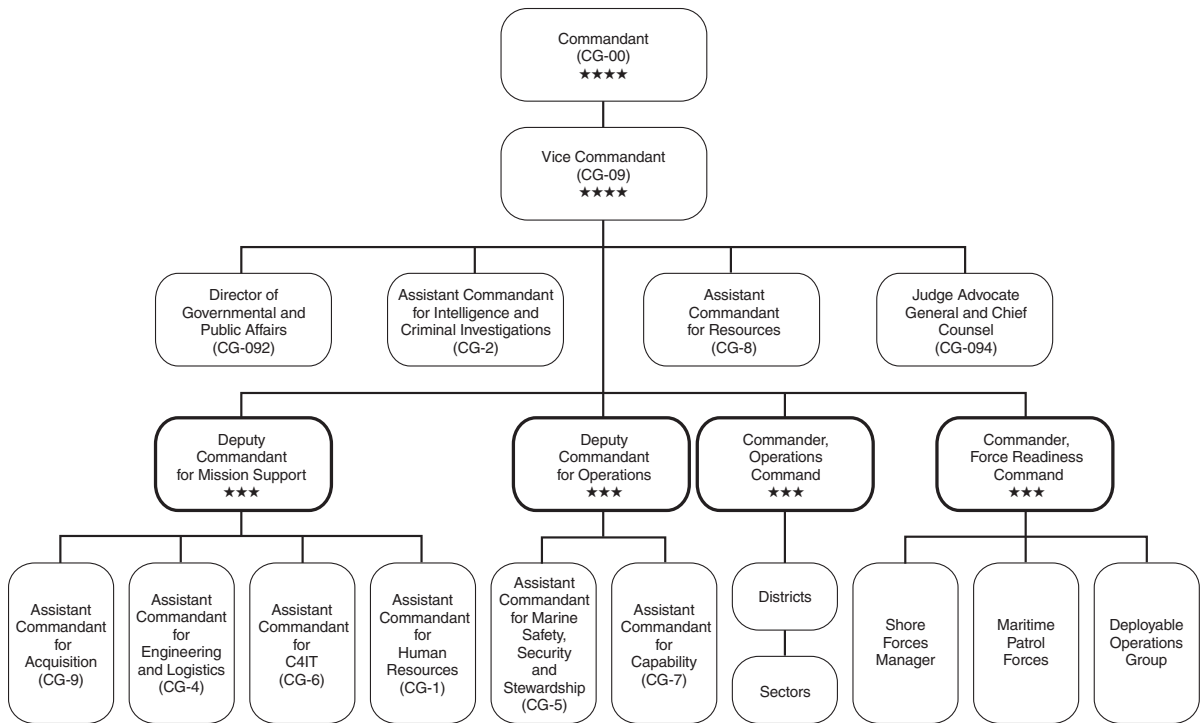
Source: U.S. Coast Guard.

^aThe Deployable Operations Group was initially established under the command of the Assistant Commandant for Operations—an interim position created as a transitional step towards establishment of the DCO. As of November 2008, operational and administrative control of the Deployable Operations Group was officially transferred to Pacific Area Command. However, future plans call for the Deployable Operations Group to be aligned under FORCECOM when that command is established.

^bAction order #2 also applies to one other effort of the Coast Guard’s modernization program—the strategic transformation of Coast Guard headquarters and financial management systems and processes.

As table 2 indicates, the modernization program largely focuses on establishing four new organizational entities—two headquarters entities (DCMS and DCO) and two field-based commands (OPCOM and FORCECOM). Under the modernization program, the Coast Guard Vice Commandant is to assume responsibility for overseeing the new organizational entities (see fig. 2).

Figure 2: U.S. Coast Guard-Envisioned Organizational Structure after Modernization



Source: U.S. Coast Guard.

Note: Effective May 4, 2009, the Coast Guard established a new organizational entity—the Coast Guard Enterprise Strategy, Management and Doctrine Oversight Directorate—which is to report to the Office of the Vice Commandant. Among other functions, this directorate is to be responsible for strategic analysis and ongoing coordination of change initiatives within the modernization effort and beyond.

The overarching mission of DCMS is to enhance the Coast Guard’s business processes and systems related to logistics and mission support and human resources. The four major directorates under DCMS, each led by an assistant commandant, are as follows:

- **Acquisition Directorate.** This directorate is intended to streamline five headquarters offices and the Coast Guard Research and Development Center into a single headquarters organizational entity.
- **Engineering and Logistics Directorate.** This directorate is to focus on greater standardization of maintenance processes and will provide single-point accountability for life cycle management of all assets.
- **Command, Control, Communication, Computers, and Information Technology Directorate.** Among other responsibilities, this directorate is intended to enhance policies and processes related to information sharing, technology standards, and security awareness and compliance.

- Human Resources Directorate. This directorate is intended to develop a human resources system that is flexible and responsive to dynamic personnel requirements.

DCO is to integrate policy development for all operating programs of the service under a single deputy commandant at headquarters. DCO is also intended to develop capability requirements for new assets and will serve to maintain relations with the Department of Defense and other interagency partners.

OPCOM—which is to be responsible for mission execution domestically and internationally—shifts the Coast Guard’s current organization from two area commands to a centralized structure under one commander. OPCOM is to oversee all Coast Guard districts and sectors and the deployment of major assets in executing the 11 statutory missions of the service.

FORCECOM is to be responsible for preparing forces to perform missions and execute them properly. Among other responsibilities, FORCECOM is to promulgate operational doctrine (tactics, techniques, and procedures) and establish a standard measurement system to evaluate the readiness of Coast Guard forces. FORCECOM is also to oversee the Deployable Operations Group, the service’s adaptive force group for responding to all threats and hazards.

Enclosure II

Benefits and Drawbacks of Consolidating the Coast Guard's Acquisition Personnel Funding into the Operating Expenses Account

The Coast Guard currently receives personnel funding primarily through two appropriation accounts: (1) the Operating Expenses (OE) account, which provides compensation such as salaries and benefits for over 90 percent of the service's personnel, and (2) the Acquisition, Construction, and Improvements (AC&I) account, which provides compensation for the service's acquisition-related personnel and assets. (See table 3 for further information on the Coast Guard's budget for fiscal year 2009.) The Explanatory Statement in the Committee Print accompanying the Consolidated Appropriations Act of 2008 directed us to evaluate the benefits and drawbacks of including all funding for Coast Guard personnel within the OE appropriation.⁴³

Table 3: Coast Guard Fiscal Year 2009 Funding Summary

Appropriation accounts	Amount (in thousands)	Percentage of total
Operating Expenses	\$6,194,925	66.2
Environmental Compliance and Restoration	13,000	0.1
Reserve Training	130,501	1.4
Acquisition, Construction, and Improvements ^a	1,494,576 ^b	16.0
Alteration of Bridges	16,000	0.2
Research, Development, Test, and Evaluation	18,000	0.2
Medicare Eligible Retiree Health Care Fund Contribution	257,305	2.7
Retired Pay	1,236,745	13.2
Total appropriations	\$9,361,052	100

Sources: Department of Homeland Security Appropriations Act, 2009 (Pub. L. No. 110-329, 122 Stat. 3574, 3652 (2008)), and GAO analysis of U.S. Coast Guard budget documents.

^aPersonnel funding constituted \$92.3 million of the overall \$1.495 billion.

^bDoes not include \$20 million recission from prior year balances for the canceled Vertical Unmanned Aerial Vehicle program.

In our previous work, we concluded that consideration of consolidating appropriation accounts involves potential trade-offs between, for example, management flexibility and program cost transparency. For instance, a budget structure in which all of the administrative costs for a number of distinct programs are contained within one account may increase the focus for decision making and oversight on the cost of administering programs but make it difficult to see the "full

⁴³ H. Comm. on Appropriations, 110th Cong., Committee Print on H.R. 2764/Public Law 110-161 (Legislative Text and Explanatory Statement) at 1059 (2008), accompanying the Consolidated Appropriations Act of 2008. Further clarifying guidance was provided by cognizant congressional staff that our evaluation should be limited to the inclusion of AC&I personnel funding into the OE account.

cost” of the underlying programs.⁴⁴ While there may be operational advantages and disadvantages associated with consolidation of personnel-related appropriations accounts, a key determinant is what budget structure Congress considers most useful for its appropriations and oversight objectives. In reference to a broader or governmentwide perspective, in February 2005, we reported that “budget restructuring involves significant tradeoffs between the type of information provided and accountability frameworks used and has implications for the balance between managerial flexibility and congressional control.”⁴⁵

According to Coast Guard officials, consolidation of AC&I personnel funding into the OE appropriation account would allow for more flexible management of acquisition personnel. The officials explained that the consolidation would enhance the service’s ability to shift personnel to respond to changes in project priorities and funding. In general, the transfer of funds between appropriation accounts is prohibited without statutory authority.⁴⁶ Coast Guard officials noted that under provisions of federal appropriations legislation before fiscal year 2009, the service’s acquisition personnel funded by the AC&I account generally were not permitted to work on projects funded through the OE account. However, the Coast Guard’s fiscal year 2009 appropriations provided the service with limited two-way transfer authority—that is, authority to transfer a limited amount of acquisition personnel funding from the OE account to the AC&I account and vice versa.⁴⁷ The Coast Guard’s appropriations for fiscal years 2007 and 2008 provided the service with limited one-way transfer authority only—that is, authority to transfer a limited amount of acquisition personnel funding from the OE account to the AC&I account.

Coast Guard officials told us that neither of these authorities—the two-way transfer authority or the one-way transfer authority—has ever been used because of the administrative and other constraints associated with implementation. For example, officials explained that the Coast Guard has not used it partly because the transfer authority is authorized for 1 year only—and thus using the authority would at best create only a temporary acquisition position. Further, officials noted that the Coast Guard may not be able to fill a temporary position during the year of the transfer authority, given that the service has already experienced difficulties in filling acquisition positions. The Coast Guard officials stressed that the segregation of acquisition personnel funding from the OE appropriation has restricted the service’s

⁴⁴ See GAO, *Performance Budgeting: Efforts to Restructure Budgets to Better Align Resources with Performance*, GAO-05-117SP (Washington, D.C.: February 2005).

⁴⁵ Ibid.

⁴⁶ Title 31 U.S.C. § 1532 provides, for example, that an amount available under law may be withdrawn from one appropriation account and credited to another or to a working fund only when authorized by law. See also, GAO, *Coast Guard: Acquisition Program Staff Were Funded Improperly*, GAO/RCED-93-123 (Washington, D.C.: Apr. 27, 1993).

⁴⁷ This type of limited transfer authority is provided, to some extent, to various other agencies in their respective appropriations provisions. For example, fiscal year 2008 appropriation provided versions of limited transfer authority—with an accompanying congressional notification or advance approval requirements—to agencies and offices within the Department of Agriculture, Department of Commerce, Department of Justice, Department of the Treasury, and DHS, among others.

ability to respond to surges in demand for acquisition personnel and address persistent critical staffing shortfalls. To illustrate the rationale for consolidating acquisition personnel funding into the OE account, the Coast Guard provided us an example comparing two scenarios—(1) the transfer process without consolidated OE and AC&I personnel accounts and (2) the transfer process with consolidated OE and AC&I personnel accounts (see table 4). According to the Coast Guard’s estimated timelines, completing a transfer of funds and personnel positions could require 17 weeks under the first scenario, whereas the transfer could be accomplished in 5 weeks under the second scenario.

Table 4: Example Provided by the Coast Guard to Illustrate the Rationale for Consolidating AC&I Personnel Funding Into the OE Account

Process without consolidated OE and AC&I personnel accounts		Process with consolidated OE and AC&I personnel accounts	
Process steps	Timeline estimated by Coast Guard (in weeks)	Process steps	Timeline estimated by Coast Guard (in weeks)
Forecast workload and identify needs	1	Forecast workload and identify needs	1
Review of AC&I personnel positions (billet base) conducted ^a	1	Review of AC&I personnel positions (billet base) conducted	1
Review requirements for alternatives	1	Review requirements for alternatives	1
CG-9 contacts Coast Guard Investment Board with funding and personnel request	1	CG-9 contacts Coast Guard Investment Board with funding and personnel request	1
If approved, Coast Guard contacts DHS Chief Financial Officer for coordination and approval	3	If approved, Coast Guard initiates transfer of funds and personnel positions	1
If approved, DHS Chief Financial Officer contacts the Office of Management and Budget (OMB) for coordination and approval	3		
If OMB approves, the Coast Guard and OMB notify Congress	3		
Coast Guard implements transfer of funds (Coast Guard has 10 days to notify Congress of transfer)	1		
Coast Guard routes congressional notification through DHS Chief Financial Officer	1		
DHS Chief Financial Officer routes congressional notification through OMB	1		
OMB routes congressional notification to Congress	1		
Total time (in weeks)	17		5

Source: U.S. Coast Guard.

^aWithin the military, a billet is the equivalent of a job assignment.

An additional benefit of consolidation cited by Coast Guard officials involves staff development. The officials stated that consolidation of acquisition personnel-related

appropriations into the OE account would facilitate the service's ability to provide professional development opportunities, including cross-training in acquisition-related tasks. The officials stressed the importance of training junior staff to help ensure the availability of a well-qualified cadre of acquisition personnel. While officials did not cite any specific examples of training and development opportunities that were hampered because of the separation of accounts, they noted that a consolidated account would allow for the utilization of training billets located within the OE account.⁴⁸ Coast Guard officials further noted that consolidation of acquisition personnel funding into one account (the OE account for the Coast Guard) would increase the Coast Guard's budget consistency with two other component agencies of DHS that have large acquisition projects under way—U.S. Immigration and Customs Enforcement and U.S. Customs and Border Protection.

On the other hand, a potential drawback of consolidating personnel-related AC&I appropriations into the OE account is less transparency of the total costs of Coast Guard acquisition projects. Officials recognize that reduced transparency of acquisition costs is an issue of concern to congressional appropriators. According to Coast Guard officials, however, any reduction in transparency resulting from consolidation of the acquisition personnel accounts is mitigated by an alternative reporting mechanism. Specifically, the officials noted that the Coast Guard is directed to submit quarterly reports on acquisition projects to congressional appropriators, which include details on personnel costs associated with each project.⁴⁹ The Coast Guard also noted that in accordance with congressional direction, the level of detail in the quarterly reports—beginning with the second quarter of fiscal year 2008—was expanded to include outyear funding estimates by asset as well as metrics for assessing the performance of all major acquisition projects.⁵⁰ Another perspective, as presented in our April 2009 congressional testimony, is that (1) the quarterly acquisition reports are provided only to the appropriations committees and (2) the information is restricted because of acquisition sensitive material—two factors that necessarily affect transparency.⁵¹

⁴⁸ In addition to billets allocated for specific job functions, the Coast Guard also has a limited number of billets designated specifically for training, which can be used to support developmental activities for a variety of different job functions.

⁴⁹ The quarterly acquisition reports to Congress do not include some project overhead costs for major acquisition projects, such as contract support for financial management services, contracting support services, and training and workforce certification. For fiscal year 2009, the Coast Guard requested \$500,000 to cover the costs of the associated acquisition project overhead, which was not included in the total congressional appropriations request for the AC&I personnel account of \$82.215 million.

⁵⁰ The Coast Guard's fiscal year 2003 appropriations act set forth the initial quarterly reporting requirements for all major Coast Guard acquisition projects (Section 360 of Division I of the Fiscal Year 2003 Department of Transportation and Related Agencies Appropriations Act (Pub. L. No. 108-7, 117 Stat. 11 (2003))). Congressional direction in various subsequent Appropriations Committee reports further modified such requirements. More recent amplifying guidance is provided in the Explanatory Statement in the Committee Print accompanying the Consolidated Appropriations Act, 2008 (H. Comm. on Appropriations, 110th Cong., Committee Print on H.R. 2764 / Public Law 110-161 (Legislative Text and Explanatory Statement) at 1061 (2008), accompanying the Consolidated Appropriations Act of 2008), and H. Rep. No. 110-181 at 70-71 (2007).

⁵¹ GAO, *Coast Guard: Update on Deepwater Program Management, Cost, and Acquisition Workforce*, GAO-09-620T (Washington, D.C.: Apr. 22, 2009).

Enclosure III

Objectives, Scope, and Methodology

Objectives

Congressional direction accompanying the Coast Guard's fiscal year 2008 appropriations required the Coast Guard to submit a report describing and assessing the service's reorganization initiatives—specifically, initiatives reflected in 10 Commandant Intent Action Orders.⁵² In August 2008, the Coast Guard submitted its report to the Senate and House Appropriations Committees.⁵³ The congressional direction further required that following submission of the Coast Guard's report, GAO was to (1) review the data and analysis supporting the report and, where appropriate, the status of implementation and (2) submit a report no later than 120 days after the Coast Guard submitted its report. To meet the mandated date, we offered to provide a briefing in December 2008—summarizing the preliminary results to date of our ongoing study—to the offices of the Chairmen and Ranking Members of the Senate and House Appropriations Committees. Accordingly, during that month, we briefed interested congressional staff.

Going forward, in accordance with the congressional direction and as agreed with the offices of the Chairmen and Ranking Members of the Senate and House Appropriations Committees, this report addresses the following questions:

- What is the genesis for the Coast Guard's modernization program?
- To what extent has the Coast Guard conducted efforts to monitor the progress of its modernization program and evaluate results?

As an additional component, the Explanatory Statement in the Committee Print accompanying the Consolidated Appropriations Act of 2008 also directed GAO to evaluate the benefits and drawbacks of including all funding for Coast Guard personnel within the Operating Expenses (OE) appropriation.⁵⁴

⁵² H. Comm. on Appropriations, 110th Cong., Committee Print on H.R. 2764/Public Law 110-161 (Legislative Text and Explanatory Statement) at 1059 (2008), accompanying the Consolidated Appropriations Act of 2008, and S. Rep. No. 110-84, at 69-70 (2007).

⁵³ U.S. Coast Guard, *Congressional Report to FY 2008 Appropriations Committee – Coast Guard Modernization* (Washington, D.C., Aug. 15, 2008). In its report, the Coast Guard noted that the 10 broad initiatives known as Commandant Intent Action Orders have been “combined into five coordinated efforts that comprise Coast Guard Modernization.” For an overview of the Coast Guard's August 2008 report, see enc. II of this report.

⁵⁴ H. Comm. on Appropriations, 110th Cong., Committee Print on H.R. 2764/Public Law 110-161 (Legislative Text and Explanatory Statement) at 1059 (2008), accompanying the Consolidated Appropriations Act of 2008.

Scope and Methodology

To address the modernization program questions, we reviewed (1) the August 2008 report submitted by the Coast Guard to the Senate and House Appropriations Committees; (2) briefing materials, implementation plans, and other documentation prepared by the Coast Guard that provided additional perspectives on the service's modernization and strategic transformation initiatives; and (3) modernization-related information available on the Coast Guard's Web site (<http://uscg.mil/modernization/>). Also, we reviewed internal and external studies and reports that Coast Guard headquarters officials cited as having collectively contributed to a cause for action to modernize. Relevant external studies included those conducted by the DHS Office of Inspector General as well as our previous reports that have addressed Coast Guard issues. At Coast Guard headquarters, we interviewed members of the Strategic Transformation Team, whose primary responsibility is to oversee the planning and execution of the service's overall modernization and transformation efforts. Further, we interviewed members of the National Academy of Public Administration's (NAPA) project team—which, in April 2008, began reviewing the Coast Guard's modernization program.⁵⁵ Also, we reviewed an interim progress report (dated December 2008) and the final reports that NAPA submitted to the Coast Guard on April 30, 2009.⁵⁶

In reference to monitoring the progress of the Coast Guard's modernization program and evaluating results, we determined whether the service has established overall timelines and milestones for key actions, consistent with project management principles and our prior work on organizational transformation efforts.⁵⁷ We focused particularly on realignment actions involving establishment of four major organizational elements—(1) Deputy Commandant for Operations, (2) Deputy Commandant for Mission Support, (3) Operations Command, and (4) Force Readiness Command—realignments that are intended to enhance organizational effectiveness by establishing a command structure based on functions rather than geographic regions. For example, regarding Force Readiness Command (FORCECOM), we reviewed the Coast Guard's business plan, which describes the actions needed to create the new command by the scheduled stand-up date of June 1, 2009.⁵⁸ We noted that the plan includes milestones and readiness measures. However, the scope of our work did not include independently evaluating the adequacy of the milestones and measures presented in this or other planning documents, such as the

⁵⁵ NAPA—an independent, nonprofit organization chartered by Congress to assist federal, state, and local governments in improving their effectiveness, efficiency, and accountability—was engaged by the Coast Guard to conduct a third-party, independent review of the service's modernization program.

⁵⁶ NAPA's study addressing the Coast Guard's modernization program includes an assessment of the service's current approach, an evaluation of the approach's alignment to the Commandant's stated transformation objectives, identification of risks and weaknesses, and recommendations for program improvement.

⁵⁷ Project Management Institute, *A Guide to the Project Management Body of Knowledge, Fourth Edition* (2008), and GAO, *Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, GAO-03-669 (Washington, D.C.: July 2, 2003).

⁵⁸ U.S. Coast Guard, *FORCECOM Fiscal Year 2009-2010 Business Plan*, First Edition (Version 1.0) (October 2008).

Blueprint for Acquisition Reform,⁵⁹ which the Coast Guard cites as the “capstone strategic document” for reshaping the service’s acquisition and contracting capabilities. One reason for this limitation is that we have a separate effort underway to evaluate aspects of the Coast Guard’s acquisition program.

Similarly, given existing work underway by DHS’s Office of Inspector General, we did not evaluate the Coast Guard’s *Financial Strategy for Transformation and Audit Readiness* (Version 2.0),⁶⁰ which is a 2-year plan to be updated annually to specify tasks and milestones necessary to achieve financial statement audit readiness by addressing internal control material weaknesses in the service’s financial management processes. In January 2009, DHS’s Office of Inspector General reported as follows regarding its review of the remediation plan:

“We did not conduct an audit of the plan, but analyzed the plan by comparing it to previous plans and assessing planned actions and milestones for remediating material weaknesses. Overall, the plan should provide a useful tool for management to monitor progress toward remediating known weaknesses and improving the financial management process with the Coast Guard. However, due to the inherent limitations of a forecast, we cannot offer an opinion as to the certainty of its successful completion.”⁶¹

Moreover, we interviewed the senior Coast Guard official responsible for leading the Strategic Transformation Team to obtain an overview of the service’s plans for conducting “process reviews,” which are intended to help facilitate implementation of the new functionally based commands.⁶² Also, we discussed with Coast Guard headquarters officials the extent to which the service has established (or has plans to establish) performance measures for specifically evaluating impacts resulting from the modernization program. To assess the service’s efforts, we used our prior work and related guidance on the development and implementation of successful performance measures.⁶³ To obtain a general overview and contextual perspectives on some of the Coast Guard’s existing performance measures, we also reviewed the DHS Office of Inspector General’s most recent annual report on the service’s mission

⁵⁹ U.S. Coast Guard, *Blueprint for Acquisition Reform* (Version 3.0) (July 14, 2008).

⁶⁰ See, U.S. Coast Guard, *Coast Guard Report to Congress: Financial Management Improvement Plan*, which was submitted on November 28, 2008, to the Chairmen and Ranking Members of the Senate and House Appropriations Committees’ Subcommittees on Homeland Security.

⁶¹ Department of Homeland Security, Office of Inspector General, letter (dated Jan. 7, 2009) to the Chairman, Subcommittee on Homeland Security, Committee on Appropriations, U.S. Senate.

⁶² Within the context of the Coast Guard’s modernization program, a process review is a detailed review that baselines current processes so that officials can better understand the changes, linkages, and accountabilities associated with shifting to a new structure and processes.

⁶³ GAO, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, GAO/GGD-96-118 (Washington, D.C.: June 1996).

performance⁶⁴ and our previous reports on the service's mission performance measures.⁶⁵

To address the issue regarding the Coast Guard's personnel-related appropriations, we reviewed the pertinent legislative history of the AC&I and OE appropriation accounts, as well as pertinent statutory provisions that either prohibit or authorize the transfer of acquisition personnel funding from one account to the other. We also reviewed Coast Guard position papers and other documentation regarding possible consolidation of the Coast Guard's AC&I personnel funding into the OE account. In addition, we interviewed Coast Guard headquarters officials to discuss the benefits and drawbacks of such consolidation. To obtain additional perspectives, we reviewed the quarterly acquisition reports (for fiscal years 2007 and 2008) submitted by the Coast Guard to the Senate and House Appropriations Committees' Subcommittees on Homeland Security. Among other things, the quarterly reports provide personnel expenditure details (by program, project, and activity) regarding the use of AC&I appropriations.

We conducted this performance audit from November 2008 to June 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁶⁴ Department of Homeland Security, Office of Inspector General, *Annual Review of United States Coast Guard's Mission Performance (FY 2007)*, OIG-09-13 (Washington, D.C., December 2008).

⁶⁵ See, for example, GAO, *Coast Guard: Non-Homeland Security Performance Measures Are Generally Sound, but Opportunities for Improvement Exist*, GAO-06-816 (Washington, D.C.: Aug. 16, 2006).

Enclosure IV

GAO Contact and Staff Acknowledgments

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Acknowledgments

In addition to the contact named above, Danny Burton, Assistant Director, and Ryan Lambert, Analyst-in-Charge, managed this assignment. Catherine Bombico contributed to all aspects of the work. Michele Fejfar assisted with methodology and data reliability. Geoff Hamilton provided legal support. Katherine Davis assisted in report development.

Related GAO Products

Coast Guard: Observations on Changes to Management and Oversight of the Deepwater Program. GAO-09-462T. Washington, D.C.: March 24, 2009.

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