

U.S. COAST GUARD

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1 P R O C E E D I N G S

2 It is now my pleasure to introduce the
3 distinguished Inspector General from the U.S.
4 Department of Homeland Security, Rick Skinner, who
5 is one of the cochairs of the 2007 PDC Technical
6 Committee, to introduce our next speaker. Rick.

7 (Applause.)

8 MR. SKINNER: Good morning, everyone. It's
9 my pleasure today to kick off this third and final
10 day of a very, very interesting conference by
11 introducing to you the commandant of the United
12 States Coast Guard ADM Thad Allen. You can view
13 ADM Allen's bio on the conference web page, and for
14 the sake of brevity, I'm just going to highlight a
15 few of his achievements this morning.

16 ADM Allen became the twenty-third
17 commandant of the Coast Guard in May 2006. He
18 graduated from the Coast Guard Academy in 1971. He
19 holds an MBA degree from George Washington
20 University and he was awarded that school's alumni
21 achievement award in 2006.

22 He also holds a master's degree in

1 science, a master's degree in science from MIT's
2 Sloan School of Management, and he was elected a
3 National Academy of Public Administration fellow in
4 2003.

5 Prior to becoming the commandant, ADM
6 Allen became a national figure, gaining fame, as we
7 all know, from the response to Hurricane Katrina in
8 2005. He was the individual that we all watched on
9 TV bringing order to chaos after that storm.

10 I think we'll all agree that the Coast
11 Guard was one of the few successes we had after
12 Hurricane Katrina, rescuing -- (applause) --
13 they're responsible for rescuing over 22,000 people
14 from their flooded homes after that storm.

15 Notwithstanding his many achievements,
16 what I really found most interesting about ADM
17 Allen's bio was the fact that he's a -- he was a
18 Coastie brat. His father Bill joined the Coast
19 Guard at the age of 16 and served in World War II
20 and went on to retire as a Coast Guard Chief.

21 ADM Allen, I understand that you knew all
22 the verses of the Coast Guard service song, Semper

1 Paratus, Always Ready, by the time he was able to
2 read, by the time he learned to read. He's been
3 part of the Coast Guard family for well over 50
4 years, so it's no small wonder the President
5 appointed ADM Allen to lead the Coast Guard into
6 the twenty-first century.

7 He was part of the Coast Guard when IT was
8 a simply pronoun, and he was there in the Coast
9 Guard after 9/11, leading the Coast Guard's
10 Atlantic Area Fleet. And of course, as we all
11 know, he was there for us after Hurricane Katrina.

12 And he more than anybody understands to sustain
13 the high level of confidence and trust that so many
14 Americans have in the Coast Guard and to create
15 exceptional value in a changing world, in the theme
16 of this conference, the Coast Guard too must
17 change. He, in his state of the Coast Guard
18 address this past February said very profoundly
19 that the practices of the last century are not
20 adequate for this century.

21 Please join me in giving a warm welcome to
22 the commandant of the United States Coast Guard,

1 ADM Thad Allen.

2 (Applause.)

3 ADM ALLEN: Thank you, Rick. I appreciate
4 that. Everybody hear me okay?

5 Good morning. We weren't sure if you were
6 morning people or not, weren't sure of the turnout
7 this morning. We thought that if I gave my speech
8 at the Wild Horse last night we probably would have
9 had more people there. You know who you are.

10 Well, I'm glad to be here with my four
11 evil twins. (Laughter.) I do have confess that
12 I'm a little uncomfortable speaking to you this
13 morning. If you let me review the bidding, you'll
14 understand why.

15 First of all, I'm not an accountant, and I
16 didn't stay at a Holiday Inn Express last night.
17 Second, I'm the leader of an organization, and
18 while we are generally loved, admired and
19 respected, especially for our operations
20 surrounding Hurricane Katrina, we are still a ways
21 away from having a clean audit, so this is like
22 speaking to a support group. (Laughter.)

1 Hi, I'm Thad. I'm the Commandant of the
2 Coast Guard.

3 Third, and probably most daunting I was
4 invited here by our own Inspector General.
5 (Laughter.)

6 You know, he's the guy that puts out the
7 report that we shouldn't expend any funds, initiate
8 any procurements or breathe until we establish
9 internal controls, improve our financial reporting
10 and most importantly follow his recommendations.

11 Rick, you've raised the bar pretty high
12 but be assured, even though I'm an AG linebacker
13 with a restricted vertical leap we will give it our
14 best shot. And quite frankly I think you could say
15 the Coast Guard is a poster child of what you're
16 trying to accomplish here together at these
17 meetings now and in the future.

18 And that's really the move from an agency-
19 centric view of the world, ourselves and our
20 performance to a new way to understand what it
21 means to spend taxpayers' money and be accurate,
22 accountable and moreover effective in executing our

1 mini-missions for the country, in the words of the
2 title of my talk, to be clean, green and lean.

3 I'd like to talk a little bit about the
4 Coast Guard and our journey towards becoming clean,
5 green and lean, but first I'd like to show you this
6 video to kind of frame United States Coast Guard
7 and what it does for America. So if we could, roll
8 the videotape please.

9 (Music played.)

10 (Applause.)

11 ADM ALLEN: Well, if you weren't awake
12 before, you should be now. I don't know if it's a
13 sacrilege to have rap music across the street from
14 the Ryman Auditorium. Hopefully no one is turning
15 over in their graves this morning.

16 Folks, this is an organization you want
17 your children to join. We do great things out
18 there for the American public. We save lives. We
19 interdict drugs. We stop migrants from coming into
20 the country by sea. We respond to oil spills. We
21 break ice so fuel deliveries can be made and we
22 protect the homeland. And I believe we are

1 generally loved, admired and respected, but quite
2 frankly we are an accountant's worst nightmare.

3 First of all, we are multi-mission and
4 that means multi-costing. We are property
5 intensive. We have had to demonstrate that we
6 owned lighthouses by showing deeds that were signed
7 by George Washington. We have acquired assets over
8 time that span well over 200 years. We do not, as
9 of yet, have a unified general ledger. And all of
10 this comes about because, quite frankly, we relied
11 on our operational genius for years, what we do for
12 the American public and our core values of honor,
13 respect and devotion to duty, and we come to find
14 out that those aren't accepted as internal
15 controls.

16 (Laughter.)

17 ADM ALLEN: We have small units. They are
18 dispersed. We have cutters that cruise
19 independently to the corners of the Earth, and for
20 over 200 years we have sailed independently
21 carrying out our missions, unlike the Navy. They
22 usually assemble the task force wherever they go.

1 In fact, after we acquired Alaska from
2 Russia in the middle of the nineteenth century the
3 early governors of Alaska were revenue cutter
4 skippers, the predecessor of the Coast Guard, and
5 we delivered food, clothing, mail, and were
6 actually the people that ran the state of Alaska
7 for many, many years.

8 To do that you have to have funds
9 execution procurement authority at the lowest
10 levels possible. We recently deployed a 270-foot
11 cutter to the Gulf of Guinea on the West Coast of
12 Africa, and for them to be able to successfully
13 deploy and carry out their mission over there they
14 had to carry an (inaudible) fund of \$250,000.

15 So if you look at the elements that are
16 required to establish good financial accounting and
17 reporting, the mere construct of our organization
18 and the mere operational model by which we operate
19 under actually becomes a hindrance in trying to
20 make this happen. And you tell a chief (inaudible)
21 on the Outer Banks of Cape Hatteras that you're
22 going to take his money away and do his procurement

1 for him, you're in for a fight. You want to be
2 dealing with the NRA on a gun issue first.

3 But the fact of the matter is we live in a
4 new world. We are not patrolling the shorelines of
5 the Outer Banks on horseback. We are not looking
6 for German saboteurs with German shepherds during
7 the war. We are not manning lighthouses anymore.
8 They've been automated, and we are about ready to
9 get out of the electronic age navigation business
10 with (inaudible) here shortly.

11 But the fact of the matter is we still
12 need to have decentralized commanders that have
13 resources who are empowered to do their jobs out
14 there without having to call home. And when you
15 saw our helicopters over the rooftops of New
16 Orleans during Hurricane Katrina and our small
17 boats evacuating people and our shoreside people
18 actually pulling people out of nursing homes there,
19 it was because they knew what to do, they had the
20 resources, they didn't have to ask. They were
21 empowered through on-scene initiatives to do the
22 right thing.

1 And what we need to do in the Coast Guard
2 moving forward is establish those types of
3 financial controls that let us know that we have
4 accurate information, that we can reconcile our
5 balances with Treasury, that people can have
6 confidence in what we are doing without losing that
7 culture of response on-scene initiative and
8 empowering our folks to do the right thing.

9 That means we have to create financial
10 services and a financial structure in the Coast
11 Guard that's capable of supporting those people out
12 there the way they have supported themselves with
13 the decentralized funds, execution and procurement
14 model and do it to the point that they have enough
15 confidence in it that they can do their job for the
16 American public and we can achieve our means of
17 having a clean audit. And to do that -- you're
18 talking a scruffy old bowson mate or one of our
19 pilots or one of our engineers that's working on a
20 small boat. You can only do that if they
21 understand that the value added proposition of
22 transforming your financial system is related to

1 what they do every day and will improve their live.

2 That is the reason since the start of our
3 financial transformation in the Coast Guard and our
4 dealings with auditors and everything else, I've
5 tried to make the case not only to our own
6 financial people -- they know this all too well,
7 but to the people at the deck plates (phonetic) out
8 in the Coast Guard, that this is mission execution,
9 that this enables mission execution.

10 So when I became Commandant last May I
11 basically told our service that mission execution
12 is the reason we exist. We've never been more
13 admired or respected or relevant or visible, but in
14 order to sustain that and continue the type of
15 operations that the U.S. public expects of us we
16 have to focus on mission execution, and mission
17 execution means supporting the mission as well.

18 And I've told every single person in the
19 Coast Guard you only do two things if you're in the
20 Coast Guard, you either execute the mission or you
21 support the mission. And if you walk into the
22 office, onto the boat or wherever you work in the

1 Coast Guard on any particular day and we can't
2 explain to you or you can't explain to yourself
3 what you do for mission execution or mission
4 support we have one of two problems. Either we
5 haven't explained your job description to you or we
6 don't need your job.

7 You have to have that kind of a riveting,
8 laserlike focus on it to make everybody understand
9 that you're either executing a mission or
10 supporting a mission. Financial systems,
11 procurement, logistics, maintenance are mission
12 enablers. And for that reason we are in the
13 process of radically reorganizing the Coast Guard
14 right now.

15 I'm going to establish two new Deputy
16 Commandant positions in the next year. One will be
17 a Deputy Commandant for operations, mission
18 execution. The other one will be a Deputy
19 Commandant for mission support. It's not going to
20 be a COO. It's not going to be a chief management
21 officer. It's going to be deputy commandant for
22 mission support.

1 If you had a chance to look at the NAPA
2 (phonetic) report on the CFO panels that were held
3 over the last couple years, they actually recommend
4 that all of the administrative and support
5 functions in organizations be put under one
6 accountable officer, senior officer in the
7 department. That's what we intend to do.

8 And in doing that on the mission support
9 side we're going to create an organization that can
10 exploit in an ERP-type fashion not only financial
11 information but information about our operations,
12 logistics and maintenance to come up with true
13 activity-based costing and way to understand the
14 linkage between resources in and our mission
15 performance.

16 A lot of those pieces are already in place
17 in the Coast Guard and had been for a number of
18 years. Unlike some organizations in town, many
19 years ago we started tracking our asset utilization
20 down to the hour, so for every Coast Guard cutter,
21 every Coast Guard aircraft, every Coast Guard small
22 bot, on a yearly basis we can track by hour what

1 mission they were involved in, search and rescue,
2 environmental response, migrant interdiction, and
3 so forth.

4 We have an algorithm that allows us to
5 allocate costs to those hours and we can actually
6 come up with what we call a mission cost model that
7 gives us very, very good information about the cost
8 of the operation. The problem going in however is
9 if the information is not accurate and you don't
10 have the clean audit -- supports the integrity of
11 that data, there's always going to be some question
12 of whether or not you're actually performing as you
13 think you are.

14 So the challenge moving forward is to not
15 only deal with financial systems but to create an
16 organizational structure that focuses on mission
17 execution and then ties together everything that
18 enables mission execution. And the baseline data
19 by which to understand that is financial data.

20 You can't do that and competently operate
21 the Coast Guard unless you've linked that to
22 logistics and maintenance. And for that reason we

1 are collectively doing all of this at once and it's
2 a huge lift for our people, but they're up to the
3 challenge.

4 What I told everybody when I became
5 Commandant last May was I am a transition
6 Commandant. My one goal of three positions at the
7 Coast Guard, as Rick Skinner said, for the next
8 century, by fundamentally transforming the
9 organization and the structures in it and to fuse
10 the data systems and put them together.

11 That requires making people understand why
12 you need to do it, making a case for action or a
13 cause for action, and communicating clearly with
14 the deck plates. And in the last year I've talked
15 to over 17,000 people in the Coast Guard at all-
16 hands sessions trying to explain this to them.

17 It's also a challenge for senior leaders.

18 You're probably finding this out too. If you're
19 going to be successful in moving these systems to
20 where they need to be in government you have to
21 significantly improve the financial and IT literacy
22 of senior leaders.

1 These are not things that can be left to
2 specialists anymore. There has to be a working
3 knowledge of how the interaction of information
4 systems and the certification and accreditation and
5 the FSMA aspects of this go together with what the
6 CFO is required to do to build these systems
7 together.

8 For that reason I have given specific
9 guidance and empowered the chief financial officer
10 of the Coast Guard and the chief information
11 officer of the Coast Guard to control the
12 development of systems and make sure that we're
13 building in the right safeguards and the right
14 controls at the outset and for any old systems that
15 are being upgrade and so forth they have to be
16 certified by both the CFO and the CIO. You can't
17 separate IT and the CFO function and look at any
18 system.

19 It doesn't have to be a financial system
20 because ultimately if you're going to deal with
21 managerial accounting information and put these
22 things together the folks that are ultimately

1 responsible for performance and adherence to the
2 laws have to be involved in it, including the
3 development of software and centralizing that where
4 you need to and sometimes taking it out of the
5 hands of program managers, which again, is another
6 dogfight. But I think it has to be done, and we
7 have to move that way.

8 Now that said, we could use some help. We
9 could take a look at the current financial
10 statements that are required and the current
11 structure financial reporting and we could, as is
12 inferred by the NAPA report, and I think Sam Mock
13 (phonetic) was on a board yesterday or the day
14 before trying to encourage the government to have a
15 violent attack of sanity.

16 If you walk out to the man on the street
17 or the woman on the street or even you folks,
18 everybody, and you say, "just tell me what you
19 think a balance sheet is, an income statement is,
20 and a cash flow statement is," they'll come close
21 because the label is intuitive; it kind of tells
22 you what the function is. But if we were to go

1 outside and stand on the sidewalk and ask passers
2 by, say, "all right, can you please tell me what
3 the following are; statement of financial position,
4 statement of net costs, statement of changes in net
5 position, statement of budgetary resources, and
6 statement of financing," you get a deer in the
7 headlights look.

8 Now we all know what that means. The
9 question is how much do they contribute in their
10 current format to informing senior managers,
11 assuming we got them IT and CFO savvy at that point
12 on how they make decisions regarding the allocation
13 of resources and mission execution, and I would
14 tell you we have a ways to go.

15 I was privileged, as a fellow of the
16 National Academy of Public Administration to take
17 part in those CFO panels, which formed the basis of
18 the National Academy report, and the were
19 insightful. And I think there is near unanimity
20 that we need to take a look at the utility of the
21 current financial reporting and the statements that
22 are required and see whether or not they're serving

1 us well because if we're going to continue to make
2 a value proposition to people who are out at the
3 pointy end of the sphere executing the mission
4 everyday, that they have to change so we can get
5 clean opinions, then the system that requires those
6 opinions has to change and make that information
7 more usable to managers so they can take that
8 information and manage their programs better for
9 the taxpayers of this country.

10 So I would urge you as you move forward to
11 think about that. I think we all need to
12 collectively think about that. I think there's
13 room to go back and revisit the CFO act. It's
14 approaching 20 years now since it was enacted.

15 At the beginning of the NAPA report it
16 lays out significant problems that were identified
17 by the GAO in 1985, and some of them are the same
18 problems, including mixed systems, problems with
19 plant, property and equipment and so forth. So I
20 would urge us as we move forward to together press
21 for better reporting, more accuracy, more
22 transparency, better integration of IT systems, but

1 at the same time we need to understand what
2 empowers people out there to be successful at
3 mission execution and how can financial information
4 improve their decision making.

5 It is possible to do that. We need to do
6 that going forward. There's no reason, as the
7 introductory comments indicated earlier, if that
8 information is out there in a near-real-time
9 fashion why that shouldn't be visible to managers
10 so they can exploit it to further the mission
11 execution and program goals.

12 So what I'd really like to do right now is
13 stop talking and take some questions. I can talk
14 for hours, as my folks know, but hopefully we've
15 prompted some curiosity on your part, and I'd like
16 to hear what's on your minds, so if you got the
17 microphones let's start talking, folks. Thank you.

18 (Applause.)

19 QUESTION: Admiral, what kind of
20 information would be useful to you in a financial
21 statement?

22 ADM ALLEN: That's an interesting question.

1 Let me start by giving a comparison, if I could.

2 One of the most traumatic moments I ever
3 had in my life was my accounting final at the Sloan
4 School.

5 (Laughter.)

6 ADM ALLEN: We were given 10 years of
7 financial data, balance sheet, income sheet and
8 cash flow, and there were no other markings on the
9 sheet. And the challenge for the final exam was to
10 go through, analyze the statements, look at the
11 standard ratios that people look at concerning
12 inventory turnover, overhead costs and those types
13 of things and at the end make two determinations.
14 Number one, what kind of business was this, and
15 what was the help of the business.

16 And what it required you to do was take
17 standard metrics that are recognized across
18 industry like inventory turnover and those types of
19 things and make an assessment about how they were
20 performing. And it was one of the most daunting
21 tests I've ever taken in my life.

22 In the end I said I think it's a mid-size

1 retail chain that's in trouble, and I posited that
2 it might be Woolworth's. It ended up being W.T.
3 Grant, and I got an A, just miraculously.

4 But I've talked with David Walker. If you
5 were going to take financial statements of the
6 federal government and make them useful we have to
7 start identifying metrics and ratios that you can
8 derive from them and see whether or not those are
9 useful to see you have the right building blocks to
10 begin with.

11 We have a huge problem with the debt in
12 this country right now, and David Walker has talked
13 a great deal about it, a fellow at the academy with
14 me. We need to come up with some type of a measure
15 that can be applied across all agencies so you can
16 get some kind of a standardized benchmark like
17 return on infrastructure, you know, how are the
18 assets being employed over time in relation to the
19 cost allocated to those assets, in terms of the
20 output you're getting from the assets.

21 In other words, if we're interdicting a
22 certain amount of drugs, seizing a certain amount

1 of illegally caught fish or interdicting migrants
2 at some point there ought to be some kind of a
3 metric that allows you to indicate for this
4 increment of resources I'm achieving this
5 incremental change in performance. And I don't
6 think we have a standard way of approaching that,
7 and I think you almost got to start with the end in
8 mind and see whether or not the financial systems
9 support that. I know nobody uses a statement of
10 net cost in managing their departments today.

11 Was that responsive?

12 You're all stunned. Well, while we're
13 waiting for the next question, let me just pass on
14 one other thing. A couple years ago when I was
15 trying to convince the senior leadership in the
16 Coast Guard that they need to become more IT
17 literate and CFO literate I was trying to find a
18 way to do that.

19 For those of you who are trying to do that
20 with your bosses, if you haven't already seen it
21 there was a great book put out a couple of years ago
22 by IBM Business Consulting Services called Public

1 Dollars Transformation. And in my view it's one of
2 the better primers that I've seen for getting
3 senior management involved and understanding what's
4 going on in finance.

5 Sometimes you have to read it two or three
6 times, but that's okay. In my view it's probably
7 the best overarching book right now that explains
8 it to non-CFO types.

9 Yes.

10 QUESTION: There's probably a misnomer that
11 the Coast Guard is only around the coastal states.

12 Can you discuss a little bit about what the Coast
13 Guard does on the inland states and some of the
14 work they're doing there?

15 ADM ALLEN: Sure, be glad to do that.
16 You're right. We're not just the Coast Guard. In
17 fact, the definition of where we can operate and
18 legally exert our jurisdiction is any navigable
19 waterway of the United States.

20 The maritime border of the United States
21 if you do a straight line is about 12,000 miles.
22 If you could the Great Lakes, the inland rivers and

1 so forth it's 95,000 miles. And one of the
2 challenges we have in a post-9/11 environment is
3 how do you develop a security plan for that when
4 the maritime environment is so much different than,
5 say, the aviation environment where you have air
6 traffic control, you have persistent surveillance
7 with radar and things like that.

8 And areas like here in Nashville, the
9 Cumberland River, we actually have boats working on
10 the Cumberland River to take care of the
11 navigations, the day boards that people navigate by
12 and make sure that the water is being marked by
13 buoys in the proper way so that vessels aren't
14 running aground.

15 We also have concerns about cargo that are
16 moving on the rivers. You'd be surprised at how
17 much ammonium nitrate moves in barges in this
18 country. And we have things called certain
19 dangerous cargos that we are monitoring. And after
20 9/11 we actually set up a tracking system in St.
21 Louis to track all the barges carrying dangerous
22 cargo on the inland rivers.

1 I think some folks don't understand too
2 that most of the grain that moves from the
3 heartland of the United States ultimately moves on
4 barges down river out of ports like New Orleans to
5 the rest of the world. So there's an extensive
6 amount of work that goes on inside the country,
7 notwithstanding also the huge border we have with
8 Canada and the shared responsibilities we have with
9 the Royal Canadian Mounted Police to maintain the
10 security on the Great Lakes.

11 We do a lot. Thank you for the question.

12

13 QUESTION: Admiral, can you please talk a
14 little bit more about how and why you see providing
15 greater transparency and insuring accountability is
16 in fact part of supporting and executing your
17 mission?

18 ADM ALLEN: Sure. Well, you hit the magic
19 word. The magic word is transparency. I have a
20 few axioms I live by and most of the people in the
21 coast guard know them and can recite them by
22 memory, but one of them is transparency of

1 information breeds self-correcting behavior.

2 This is not just financial information.

3 If you want to get something done in an
4 organization one of the best ways to be effective
5 and execute it and have everybody understand what
6 you want to do is to just tell them, make the
7 information transparent, make it visible to them
8 because if most folks understand what you're trying
9 to do they will wind up and go that direction.
10 You'll have to give less orders. They'll be
11 empowered.

12 And I call it self-synchronization inside
13 of an organization but you can't have that unless
14 you have total transparency. You will start
15 changing behavior if the information is
16 transparent.

17 And one of the things I did right after I
18 became Commandant a year ago this last May was I
19 started talking directly to the Coast Guard people
20 when I think I need to do that. I've developed
21 something called an all-hands message. We used to
22 have these messages we'd send to every command on

1 the Coast Guard but then you had to rely on the
2 fact that the commanding officer would get
3 everybody together and read it at a muster or
4 something like that to pass the information.

5 I simultaneously -- and I'll send a
6 message to every major command, every command in
7 the Coast Guard, and simultaneously it hits every
8 single person that's on the global address book in
9 our email.

10 So when I need to I actually talk directly
11 to the people of the Coast Guard. I've done it on
12 four or five occasions in the last year to update
13 them on where we're going with this transformation.

14 I've talked about the audit. I've talked about
15 some of the very public reporting that's gone on in
16 some of our procurement issues and some
17 misreporting in some of the media about what it is
18 we're trying to do with our procurement operations.

19 But I think that if I'm going to demand
20 that our people get in line and do this stuff down
21 at the deck plates they're going to understand my
22 cause for action. I've got to be able to

1 communicate that to them. They've got to
2 understand it, and they've got to know that I'm
3 willing to be as transparent as I want them to be
4 in their financial reporting.

5 Thanks. Great question. Great question.

6 QUESTION: Sir, what can each of us do to
7 raise literacy in financial management and
8 information technology of our legislatures,
9 legislators and their staffs?

10 ADM ALLEN: That was really a loaded
11 question.

12 (Laughter.)

13 ADM ALLEN: Let me start with the heavy
14 duty answer first, and I'll move backwards. A lot
15 of things that are going on in government right
16 now, the CFO act, the Government Performance
17 Results Act, FSMA, you name it, ultimately are
18 going to be less than successful unless we get the
19 people that provide oversight, handle our budgets
20 and provide us direction from Capitol Hill to be
21 aligned and use those as business practices too.

22 And in some cases that even questions the

1 structure of the committee, so there's a limit to
2 how far we're going to go and be as successful at
3 that.

4 Now going down to just the organizational
5 level, knowledge of IT systems and financial
6 systems is a prerequisite for any senior management
7 position whether you're in private sector,
8 government, or even working on the Hill right now
9 because those are the basic elements that put
10 together organizational capability and make it
11 understandable and then link it to outputs.

12 And the enduring problem, as I have
13 already stated, in dealing with the Coast Guard and
14 everybody else, is to make everybody understand
15 that this is vital to mission execution, that the
16 real goal is organizational performance, the real
17 goal is achieving effect, outcomes that you're
18 desiring. And you're not going to be nearly as
19 effective at doing that unless you have these
20 building blocks in place, the information that's
21 transparent and available to people that needed to
22 do their job.

1 That is a value proposition that senior
2 leaders have to take down to the deck plates in
3 whatever organization you're talking about, and
4 that's the reason I feel it's incumbent on me as a
5 senior leader to be able to articulate it myself as
6 the Commandant and not let this sit on the
7 shoulders of our financial managers to make a case
8 for their value to the organization. They
9 shouldn't have to. Everybody should understand
10 that.

11 QUESTION: Good morning, Admiral.

12 Given the Coast Guard's constantly
13 changing missions, in the '80s, drug interdiction;
14 in the '90s, environmental response; and now yet
15 again in 2000 homeland security, how do you make
16 sure that management structure and financial
17 controls you implement will support the Coast
18 Guard's need to be agile and flexible in ever
19 changing missions?

20 ADM ALLEN: Well, I think once you get to
21 the accuracy of the data, which is at the bottom so
22 you know the financial information that you're

1 bringing over and combining with the other
2 information is sound and you have clean,
3 unqualified, unimpeachable data that you're working
4 from, then it's easy to have a discussion about
5 that.

6 Our mission cost model allows us to
7 accurately determine the cost of our operation.
8 The question then is how do you apply the resources
9 to those operations. And right now the way the
10 Coast Guard works, we distribute all resources to
11 our field commanders. We hold nothing at
12 headquarters. I don't direct operations from
13 headquarters nor does somebody have to ask my
14 permission to move a ship from New England to the
15 Gulf Coast.

16 In fact, that is the reason why all the
17 helicopters showed up in New Orleans. Nobody
18 called the Commandant, they just moved them because
19 they knew they had to. In one case we moved --

20 ***GAP***

21 -- whatever you give us, we will allocate
22 very efficiently and effectively. We're one of the

1 best buys in the federal government and for the
2 taxpayer, but if you want more capacity in any one
3 of those areas you have to raise the capacity for
4 all of the Coast Guard because we can't just focus
5 on one mission area and raise it.

6 And one of the problems -- and this is
7 problem on the Hill. I get questioned all the time
8 in hearings about why aren't we putting the same
9 amount of effort into our legacy missions. And
10 when they say legacy they really mean pre-9/11.
11 Marine safety, environmental response, fisheries
12 enforcement and so forth. And my answer to that is
13 we are always going to rely on our field commanders
14 to assess risk and apply those resources to the
15 highest need in their area of responsibility.

16 But having said that, we are always going
17 to be in a stern chase with resources in the Coast
18 Guard. There is always something more we could do
19 for this country because we are multi-mission and
20 you don't have the five cutters doing the five
21 missions. So it's a matter of applying risk-based
22 decision making to the resources that are available

1 and attacking the greatest need in your AOR and
2 then trusting our field commanders to do that.

3 QUESTION: Admiral, your hard assets, your
4 ships, your planes, your boats, are vital to your
5 mission. How would you prefer financially to
6 report on the ongoing condition, on the ongoing
7 condition of these hard assets?

8 ADM ALLEN: Let me tell you a story. We
9 have a fairly new icebreaker we bought about seven
10 or eight years ago called the Coast Guard Cutter
11 Healy. It's a one of a kind ice-strength and
12 research vessel. We use it in the Arctic. It's
13 home ported in Seattle.

14 We were never going to build two. It was
15 only going to be one. So when we built that ship
16 we bought an extra main motor that drives the
17 propeller. You would think that would be a prudent
18 thing to do.

19 We took it to our logistics center in
20 Curtis Bay, Maryland, put it on a cement pad and
21 actually built a building around it because when we
22 needed it we would take it out, we'd never have to

1 put it back, but when we needed it we had to have
2 it. There was no recourse to doing that.

3 And when we need that engine it will be
4 priceless because it will be the only one, but we
5 are depreciating that engine every year based on
6 the service of the ship, so by the time that engine
7 becomes priceless it will be worth zero on the
8 books. Does that answer your question?

9 (Laughter.)

10 ADM ALLEN: Right here.

11 QUESTION: Admiral, we thank you for your
12 service to the nation.

13 ADM ALLEN: You're welcome. Thank you.

14 (Applause.)

15 QUESTION: The question is what was your
16 greatest challenge with Katrina.

17 ADM ALLEN: My greatest challenge with
18 Katrina, it was an ethics issue and one I offered
19 to resign over, probably one you would never even
20 think of.

21 I was being interviewed by the NBC
22 affiliate from San Antonio. We had about 200,000

1 evacuees in San Antonio, and right in the middle of
2 the interview -- and I couldn't see the reporter.
3 It's one of those things where you have an ear
4 piece in and you're staring at a television camera,
5 and I was in a room by myself, and the reporter or
6 the anchor said, "somebody else wants to ask you a
7 question."

8 I said, "okay." It was a state attorney
9 from San Antonio, and she wanted to know why FEMA
10 hadn't released the names of sexual predators that
11 were on file and being tracked in Louisiana that
12 might have showed up in another state in emergency
13 shelter.

14 I thought that was a legitimate question.

15 I had no clue what the answer was, and I was
16 actually stunned by the question. I went back and
17 found out that when you apply for FEMA benefits
18 that unless you waive your privacy rights that data
19 can only be used by FEMA in responding to you as a
20 claimant on benefits that FEMA is allowed to
21 administer under the Stafford Act.

22 I said, "this can't be true," and come to

1 find out it was. And then I had to fight this huge
2 battle up through the legal echelons clear up to
3 the Department of Homeland Security regarding how
4 that information, under what conditions it could be
5 released and how we needed to work with the states.

6 It took me about 24 to 36 hours to get it
7 resolved but not before I went through a lot of
8 lower level reviews, and at one point say you
9 either get on the right side of this issue or give
10 me another attorney or I'm leaving. That was it.

11 QUESTION: I'm sorry. Admiral, right here.

12 ADM ALLEN: Wave your hands. I want to
13 look at you when you're talking to me.

14 QUESTION: You've only been Commandant for
15 a very short time, but for years the Coast Guard
16 was basically an independent unit and could pretty
17 well run its own ship, as it were. Now you're part
18 of a huge bureaucracy that is having a great deal
19 of difficulty being consistent, standardizing and
20 finding its own culture.

21 What effect has this had on the Coast
22 Guard as far as reporting, independence and being

1 able to still do your job and protect the coasts
2 and the inland?

3 ADM ALLEN: Well, first of all,
4 operationally there has been little impact. And
5 one of the good things about being in the
6 Department of Homeland Security, and I get asked
7 this a lot, is that there is such relevance to the
8 department right now, and such a premium based in
9 the Congress on taking timely action on our
10 appropriations request.

11 For the first time since I remember we're
12 going on our fourth year in a row where we got our
13 budget on time. Coming out of DOT, maybe one out
14 of every four years we get it on 1 October. How
15 many of you have been under a CR?

16 (Applause.)

17 ADM ALLEN: And what happens, you get your
18 money out to your folks in January or February and
19 you turn around and you just hammer them on
20 obligation rates. How smart is that, you know, but
21 you're pressed on both ends by the system.

22 So one, we're getting our money on time.

1 Now there may be an issue this year but so far
2 we're getting our money on time, and I think that's
3 good.

4 I think if it's not as big a bureaucracy
5 as you think it is, if you took a look at what's
6 above the components in the Department of Homeland
7 Security, it is rather flat and rather thin. The
8 real issue is how do you build an infrastructure or
9 shared services and crosscutting business processes
10 that goes across the entire organizational
11 structure.

12 Now I'm not trying to compare and contrast
13 because they're totally different things but after
14 the National Security Act was passed in 1947 DFAS
15 wasn't instantly created. In fact, I don't think
16 DFAS was created until the early 1970s or somewhere
17 around there. I don't know what the exact date is.

18 We in the department are trying to build
19 those structures in up front and it is hard. It
20 may take five or ten years. My guess is by the
21 time we're done we will have done it faster than
22 Defense, and that's not a value judgment.

1 I think we will get a clean audit faster
2 than Defense only because there was a commit made
3 up front that we had to go to functional
4 integration, shared service, combining data
5 centers, reducing the number of systems that are
6 out there, being informed by everything that's gone
7 on before us and being a product of the post-CFO
8 Act world and post-FSMA and everything else.

9 So I think there's every incentive in the
10 world for us at a departmental level to do exactly
11 the thing that I've been talking about in the Coast
12 Guard, and as hard as it is to get it right -- but
13 one of the problems that we had coming right out of
14 the box was there was an assumption that if you put
15 22 agencies together there would be a huge
16 duplication of overhead and therefore you could
17 take savings.

18 Well, when you're doing an organizational
19 change like this, which was quite frankly a
20 combination of startup acquisition, merger and
21 hostile takeover all at once with 22 entities,
22 you're going to pay for the first couple of years.

1 And quite frankly I think we under
2 invested in the department, especially in the IT,
3 in the crosscutting services category. I think
4 we're slowly getting our arms around it, but I
5 think we'll be successful and I think we have to go
6 there.

7 QUESTION: Yes, Admiral. From a big
8 picture standpoint what trends are you seeing in
9 illegal immigration and in drugs and how is the
10 Coast Guard allocating resources to deal with
11 those?

12 ADM ALLEN: Well, let's take immigration
13 first. There's a lot of focus on the southwest
14 border, and of course the immigration legislation
15 is pending right now, but for many years the Coast
16 Guard has dealt with immigration issues.

17 The last time we had a significant
18 immigration issue was in 1994 and 1995 when we had
19 two surges from Haiti and one from Cuba on the
20 order of 30,000 or 40,000 each. And before that we
21 had a couple of hundred thousand, as you know, from
22 Mariel Boatlift in 1980.

1 Our goal regarding migrant interdiction --
2 and again, we actually have performance parameters
3 on interdiction success rates as part of our
4 performance metrics and actually your subject part
5 reviews. Immigration -- illegal immigration
6 interdiction is no exception to that fact.

7 The fact of the matter is for the past --
8 since around 1996 we've had a very constant level
9 of attempted migrations into the country with some
10 minor surges from the Dominican Republic across
11 Mona Pass into Puerto Rico, an occasional blip
12 regarding Haiti when Aristide left the country, so
13 we're doing pretty well there.

14 And I think our continuing presence in the
15 straits of Florida has a pretty good deterrent
16 effect. The biggest problem we face from Cuba
17 right now is actually migrant smuggling, which is a
18 big business down there for profit, actually gets a
19 lot of people hurt, and we're trying very, very
20 hard to limit the amount of illegal smuggling
21 that's going on.

22 These are not just people trying to get in

1 the country because they want to come. These are
2 people that are actually being handled as commodity
3 or goods by people who are trying to make \$8,000 or
4 \$10,000 a head getting these folks into the
5 country; a very, very dangerous operation.

6 As we are more effective on the southwest
7 border though we are mindful that the maritime
8 bookends could be impacted by that, and we are
9 increasing our presence there.

10 Regarding drugs, drugs is a good news
11 story. We will probably break a record this year
12 for cocaine interdiction in the Coast Guard, it
13 will probably exceed 150 tons. Most of the cocaine
14 leaving South America, headed for the southwest
15 border of this country arrives in Central America
16 or Mexico by maritime means, and our goal is to
17 interdict it before it gets there, so we are
18 deployed deep in the Caribbean and in the eastern
19 Pacific to interdict those drugs before they even
20 get near Central America or Mexico.

21 And earlier this year a couple of months
22 ago we had the largest maritime seizure in history

1 at 20 tons off of a vessel that was just inside
2 Panamanian waters. We got permission of the
3 Panamanian government to go inside and seize the
4 vessel. So very, very good news in my view on drug
5 interdiction and on migrant interdiction. We're
6 having a deterrent effect; we're holding our own
7 and there have been no surges.

8 QUESTION: Admiral, could you speak about
9 the Coast Guard Academy, what you're doing as far
10 as training your cadets to -- in financial
11 management and IT, I mean what you're doing to
12 bring them up to speed on that?

13 ADM ALLEN: Sure. We expanded a number of
14 majors at the Coast Guard Academy since I was
15 there, and we actually have the management majors
16 and the folks working in operations research
17 working on common, everyday problems.

18 What we encourage our programs to do in
19 the Coast Guard is to go to the Academy, explain a
20 particular problem or an issue they're dealing with
21 and actually give it to the cadets and let them
22 work it. And this is not just IT and CFO-related,

1 this is also Naval engineering, Naval architecture
2 and so forth.

3 By getting these folks involved in these
4 problem sets earlier on they know the relevance of
5 the IT and the CFO functions to the organization at
6 large, and actually in the long run it gets some of
7 them more into getting into that kind of a line of
8 work as a profession inside the Coast Guard, as a
9 specialty when they move forward. So that's what
10 we encourage. We also bring cadets down when they
11 get into their last summer, next to last summer,
12 we'll bring them down under intern programs -- at
13 the Coast Guard headquarters and have them work
14 with our folks. But we need to kind of grow these
15 folks up.

16 One of the things that we're suffering
17 from now in the Coast Guard is a few years ago we
18 civilianized a lot of our key financial accounting
19 and procurement functions where we used to have
20 senior Coast Guard officers doing that, and we need
21 the stability and the continuity that civilian
22 workforce provides, but you got to have enough

1 blue-suitors in there so you can have Admirals at
2 some point that are IT and CFO savvy that can do
3 the kind of things we need to do with the senior
4 management level, so we have to go back and look at
5 that equation too.

6 QUESTION: Commandant, you have a lot of
7 passion, desire to try to work on this country's
8 fiscal crisis, and I know you mentioned Comp
9 General Walker does too. How do you suggest we go
10 about trying to ensure that all the country's
11 leaders share and have that same desire and
12 passion, commitment to solve the fiscal crisis that
13 you and Comp General Walker believe in?

14 ADM ALLEN: Well, that is the problem. As
15 you know the comptroller general has made a
16 significant number of trips around the country
17 holding community meetings and town hall meetings
18 to talk about this problem. He's actually teamed
19 with the National Academy of Public Administration
20 to try and make sure this issue is framed, and the
21 comptroller general has testified before Congress.

22 But you know, ultimately this is going to

1 boil down to an issue of political will for those
2 who write authorizing legislation, appropriations
3 legislation, and I will tell you one other thing.
4 I've had a conversation with David Walker about
5 this on several occasions.

6 We in the acquisition area in the Coast
7 Guard and through the federal government right now
8 are getting a lot of heat put on us on life-cycle
9 costing. What does it really mean when you buy
10 something? How are you going to acquire it,
11 maintain it over the life and then dispose of it
12 and account for all of the liabilities associated
13 with that moving forward?

14 In fact, that's some of the issues we're
15 dealing with in our audits right now. I don't
16 believe this country realizes it, but one of the
17 things I believe is I think we're reaching the end
18 of the life cycle of the New Deal. What I mean by
19 that is all the structures -- when I say the New
20 Deal I mean clear from Roosevelt probably up to the
21 early 1960s or '70s, the national highway system.

22 When we build these tremendous amounts of

1 infrastructure, dams -- Tennessee Valley Authority;
2 we're here in Nashville. I'm not sure there's ever
3 been any thoughtful, productive work put into
4 deciding what's going to happen at the end of the
5 life cycle, how do we recapitalize and how do we
6 sustain them or how do you remove infrastructure?
7 And until we're able to do that I think we're going
8 to be severely constrained even if we have a
9 political commitment to control the deficit and the
10 debt moving forward.

11 But it's going to -- and this gets back to
12 when I was talking earlier about ratios. What are
13 the metrics, what are the indicators, what is the
14 return on infrastructure? Is there a case for
15 divestment at some point so you're not using up
16 scarce capital to recapitalize something just
17 because it exists or rather based on the
18 productivity it's providing to the country and what
19 you really need? Hopefully it's political will.

20 QUESTION: Admiral, you've mentioned
21 several times how NAPA, the National Academy on
22 Public Administration has helped to improve

1 government management. NAPA is made up of about
2 600 or so very senior people in public
3 administration. I'm wondering if you have any
4 suggestions how AGA, which is made up of 15,000
5 people working deep in the bowels of financial
6 management across the country could help to improve
7 performance and management of government across the
8 country.

9 ADM ALLEN: Well, I think there are a lot
10 of groups and associations that have a vested
11 interest in performance management and I would
12 suggest to you that -- and I know the academy would
13 be interested in strategic partnering, and I will
14 certainly go back to Jenna Dorn, the current
15 president of NAPA, and raise the issue of whether
16 or not they have met with you all or want to have a
17 more institutionalized or ongoing relationship to
18 talk about some of these problems because you
19 certainly are a number of voices. You have an
20 impact. You exert leadership daily in the
21 workplace around here, and sometimes what you
22 really need is one message and many messengers, so

1 I think the academy would be happy to engage in a
2 dialogue if they haven't already, and I'd be glad
3 to take that message back. I sit on the executive
4 board, and I will surely raise it.

5 Well, thank you very much, folks. It was
6 a pleasure to be here this morning.

7 (Applause.)

8 MALE SPEAKER: On behalf of the AGA, its
9 members and everyone here I'd like to thank you,
10 sir, for taking the time out of your very busy
11 schedule. As we all know you do have a very, very
12 busy schedule.

13 And I'd also like to thank you for the
14 support you've given AGA. We truly do appreciate
15 that. Please accept this on -- a token.

16 ADM ALLEN: Thank you very much.

17 MALE SPEAKER: And again, thank you so
18 much, sir. We appreciate it.

19 ADM ALLEN: Thanks again. Thank you,
20 folks.

21 (Applause.)

22 MALE SPEAKER: That's great. I don't have

1 my reading glasses. Well, this will end the
2 morning session. We will have our breakout
3 sessions, and after our breakout sessions we will
4 have a coffee break that will be sponsored by, I
5 believe -- I don't have my reading glasses here,
6 it's -- Hyperion will be sponsoring our coffee
7 break. Thank you everyone.

8 (The morning session was concluded.)

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