



Department of Homeland Security Office of Inspector General

Review of the U.S. Coast Guard's Expenditure Plans for the American Recovery and Reinvestment Act of 2009

(Redacted)



American Recovery and Reinvestment Act of 2009



Homeland
Security

October 23, 2009

Preface

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the *Homeland Security Act of 2002* (Public Law 107-296) by amendment to the *Inspector General Act of 1978*. This is one of a series of audit, inspection, and special reports prepared as part of our oversight responsibilities for programs, grants, and projects awarded by the department under the *American Recovery and Reinvestment Act of 2009* to promote economy, efficiency, and effectiveness within the department.

This report includes observations on the department's efforts to manage funds appropriated by the *American Recovery and Reinvestment Act of 2009*, and includes issues that should be considered by the department and its components to improve the management of those funds. We trust this report will result in more effective, efficient, and economical operations. We express our appreciation to all those who contributed to the preparation of this report.

A handwritten signature in cursive script that reads "Richard L. Skinner".

Richard L. Skinner
Inspector General

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Abbreviations

FY	fiscal year
DHS	Department of Homeland Security

OIG

*Department of Homeland Security
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Executive Summary

The *American Recovery and Reinvestment Act of 2009* (Recovery Act) allocated \$240 million to the Coast Guard, including \$142 million for the alteration or removal of obstructive bridges under the *Truman-Hobbs Act of 1946*, and \$98 million for acquisition, construction, and improvements to the Coast Guard's shore facilities and vessels. As required by the Recovery Act, the Coast Guard issued two plans for expending the stimulus funds in both of these areas.

We reviewed the expenditure plans to determine whether they were practical, thorough, comprehensive, and designed to meet the goals of the Recovery Act. Further, we evaluated the plans according to prudent management principles, such as risk mitigation and management control strategies.

The Coast Guard generally developed practical, thorough, and comprehensive plans to spend Recovery Act funds to alter obstructive bridges and to acquire, construct, or improve its shore facilities and vessels. Although the plans were generally designed to meet the Recovery Act's goals, the Coast Guard's plans for shore facility and vessel projects and alteration or removal of obstructive bridges did not meet the Recovery Act's "quick-start" goal of using 50% of the stimulus funds for activities that could be initiated by June 17, 2009.

We are not making any recommendations in this report.

Background

The *American Recovery and Reinvestment Act of 2009*, Public Law 111-5 (Recovery Act), was enacted on February 17, 2009, injecting \$787 billion of federal funds into the economy to preserve and stimulate economic growth in the United States. The Recovery Act made supplemental appropriations to federal departments and agencies for infrastructure investment, energy efficiency and science, assistance to the unemployed and disabled veterans, and state and local stabilization.

Under the provisions of the Recovery Act, the Department of Homeland Security (DHS) received approximately \$2.8 billion for equipment, construction, infrastructure improvement, and emergency management grants. The Coast Guard received \$142 million of this amount to alter or remove obstructive bridges in accordance with the *Truman-Hobbs Act of 1946*¹ and an additional \$98 million for acquisition, construction, and improvements to Coast Guard shore facilities and vessels.

The Coast Guard issued expenditure plans for Recovery Act funds on April 3, 2009, as required by the Recovery Act. The Coast Guard issued an update to the acquisition, construction, and improvements plan on July 30, 2009. We reviewed these expenditure plans to determine whether they were practical, thorough, comprehensive, and designed to meet the goals of the Recovery Act. Further, we evaluated the plans according to prudent management principles, such as risk mitigation and management control strategies. We did not evaluate the original process the Coast Guard used to establish its criteria or any underlying assumptions.

Alteration of Bridges

The Coast Guard determines which bridges are eligible for alteration or removal under the *Truman-Hobbs Act*. The Coast Guard then conducts an eligibility investigation if a bridge has a history of allisions² or a history of complaints that the bridge has become an unreasonable obstruction to navigation. According to Coast Guard regulations, the Coast Guard may issue an “Order to

¹ The *Truman-Hobbs Act*, 33 C.F.R. 511, et seq., allows federal funds to be used to alter or remove bridges that are unreasonable obstructions to navigation.

² The term “allision” refers to the striking of a moving vessel against a stationary vessel that is at anchor or aground, or a fixed object such as a bridge, pier, or wharf.

Alter” under the *Truman-Hobbs Act* if the benefit-to-cost ratio for altering the obstructive bridge equals or exceeds one.³

The federal government and the bridge owner share the design, engineering, and construction costs to alter a bridge. The bridge owner typically pays between 5% and 10% of the cost, in proportion to the benefits that the owner is expected to receive after the alteration. The bridge owner selects the contractor in consultation with the Coast Guard.

Although Congress allocates funding for the alteration of obstructive bridges each year during the budgeting process, it usually does not approve enough funding in any given year to complete an entire alteration project. Because of this, the Coast Guard “banks” the appropriation for each obstructive bridge until there are enough funds to complete the entire alteration project.

The Coast Guard will combine \$142 million in Recovery Act funds with previous appropriations of \$120.4 million to complete four bridge alteration projects in Iowa, Illinois, Alabama, and Texas for a total of \$262.4 million as detailed below:

Bridge Name	State	Recovery Act Appropriation (Millions)	Previous Appropriations (Millions)	Order to Alter Issued
Burlington Bridge	Iowa			1991
Elgin, Joliet & Eastern Bridge	Illinois			1995
Mobile Bridge	Alabama			1999
Galveston Causeway Bridge	Texas			2001
Sub-Total		\$142.0	\$120.4	
Total	\$262.4			

Acquisition, Construction, and Improvements to Facilities and Vessels

The Recovery Act appropriated \$98 million for “acquisition, construction, and improvements to the Coast Guard’s shore facilities and aids to navigation facilities; priority procurements due to material and labor cost increases; and costs to repair,

³ 33 C.F.R. 116.30 (c). The benefit-to-cost ratio is calculated by dividing the annualized navigation benefit of the proposed bridge alteration by the annualized government share of the cost of the alteration. 33 C.F.R. 116.30 (b).

renovate, assess, or improve vessels.” The Coast Guard plans to use \$88 million of this amount for construction, renovation, and repair of shore facilities that support its operations in multiple locations, as listed below:

Project Name	State
Station Coos Bay Covered Mooring	Oregon
Coast Guard Cutter Sycamore Cordova Housing Phase IV	Alaska
Station Neah Bay Covered Moorings	Washington
Support Center Elizabeth City Replacement of Thrun Hall (Phase I)	North Carolina
Station Indian River Bulkhead Repairs	Delaware
Training Center Yorktown Water Distribution System	Virginia
Group/Air Station North Bend Engineering and Aviation Survival Technician Building	Oregon

The Coast Guard will use the remaining \$10 million to complete six vessel improvement projects on its 12 High Endurance Cutters, as listed below:

Project Name	Number of Cutters
Boiler Fireside Upgrades and Reliability Improvement	8 of 12
Automatic Bus Tie Switch Upgrade	8 of 12
Lube Oil Purifier Replacement	4 of 12
Refrigeration System Upgrade	4 of 12
Fire and Smoke Alarm System	6 of 12
Auxiliary Salt Water Pump Replacement	10 of 12

Results of Review

The Coast Guard generally developed practical, thorough, and comprehensive plans to spend Recovery Act funds to alter obstructive bridges and acquire, construct, or improve its shore facilities and vessels. Although the plans were generally designed to meet Recovery Act goals, the Coast Guard’s plans for shore facility and vessel projects and alteration or removal of obstructive bridges did not meet the Recovery Act’s “quick-start” goal of using 50% of the stimulus funds for activities that could be initiated by June 17, 2009.

Plans Generally Practical, Thorough, and Comprehensive

The Coast Guard generally developed practical, thorough, and comprehensive plans to spend Recovery Act funds to alter obstructive bridges and acquire, construct, or improve its shore facilities and vessels. For example, the Coast Guard used merit-based selection criteria from its existing guidance to choose four bridge projects, seven shore facility projects, and six vessel projects to receive stimulus funding. The expenditure plans included applicable clauses of the Recovery Act, such as section 1605, which requires, with certain exceptions, that only iron, steel, and manufactured goods produced in the United States be used for the construction or alteration of a public work.

Bridge Alteration Projects

The Coast Guard, as required by the Recovery Act, selected four bridge alteration projects that were “ready to proceed to construction.” The Coast Guard also followed the guidance in its *Bridge Manual* related to the alteration of unreasonably obstructive bridges under the *Truman-Hobbs Act*.⁴

Of 12 bridges identified as unreasonably obstructive, six bridges had received previous *Truman-Hobbs Act* appropriations and were “ready to proceed to construction.” According to the Coast Guard, it selected projects from the list of six bridges based on creating a greater economic impact by maximizing the number of projects that could be completed with available funds.

Shore Facilities Projects

The Coast Guard used its *Shore Facilities Project Development Manual* and *Field Planning for Shore Infrastructure* guidance⁵ to develop its seven Recovery Act shore facilities projects. According to the Coast Guard, it had already completed the field planning process for the seven projects. The projects were also “shovel ready” or close to ready and were expected to meet the Recovery Act’s timely obligation and expenditure requirements.

⁴ Commandant Instruction M16590.5C, *Bridge Manual*, Chapter 7 - Alteration of Unreasonably Obstructive Bridges under the Truman-Hobbs Act, March 2004.

⁵ Commandant Instruction M11000.17, *Field Planning for Shore Infrastructure*, November 2007; Commandant Instruction M11010.14, *Shore Facilities Project Development Manual*, February 1995.

As of April 2009, the Coast Guard's Shore Facilities Requirements List contained 76 unfunded prioritized projects. According to the Coast Guard, the seven projects selected were high priorities on this list, met the requirements of the Recovery Act guidance, and could be completed with the funding provided.

Vessel Projects

The Coast Guard followed the guidelines in its *Naval Engineering Manual*⁶ to select the six engineering change projects for its High Endurance Cutters. The criteria also includes factors such as safety, operational and mission readiness, maintenance cost avoidance, logistics cost avoidance, and risk. The Coast Guard also chose these projects because they could be completed during annual dockside maintenance rather than dry-dock maintenance, which occurs only once every 4 years.

Recovery Act Goals

The Coast Guard generally designed expenditure plans to meet Recovery Act goals. However, the Coast Guard's plan for the shore facility and vessel projects as well as the plan for alteration of obstructive bridges did not meet the Recovery Act's "quick-start" goal.

Quick-Start Activities Provision

The goal of the quick-start activities general provision (section 1602 of the Recovery Act) was to use at least 50% of the funds for activities that could be initiated within 120 days of the date that the Recovery Act was signed, or by June 17, 2009.

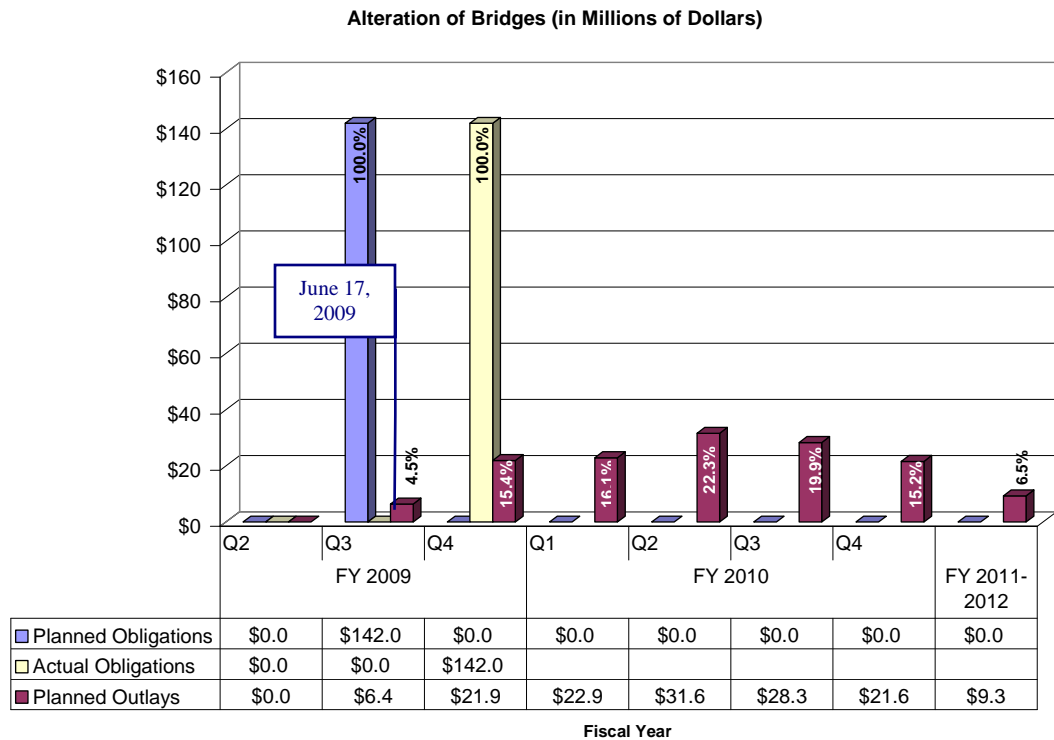
Bridge Alteration Projects

According to the Coast Guard, it planned to commit 100% of its Recovery Act funds for bridge alteration within 120 days of enactment but actually committed 0% of these funds during this period. Delays in obligating these funds occurred when the proposed bid period was lengthened in order to accommodate increased contractor interest in bidding for these projects. Bridge owners awarded or plan to award contracts according to the following schedule:

⁶ Commandant Instruction M9000.6E, *Naval Engineering Manual*, October 2004.

Bridge Name	Planned or Actual Contract Award Date
Burlington Bridge	July 31, 2009
Mobile Bridge	August 20, 2009
Elgin, Joliet & Eastern Bridge	September 2009
Galveston Causeway Bridge	September 2009

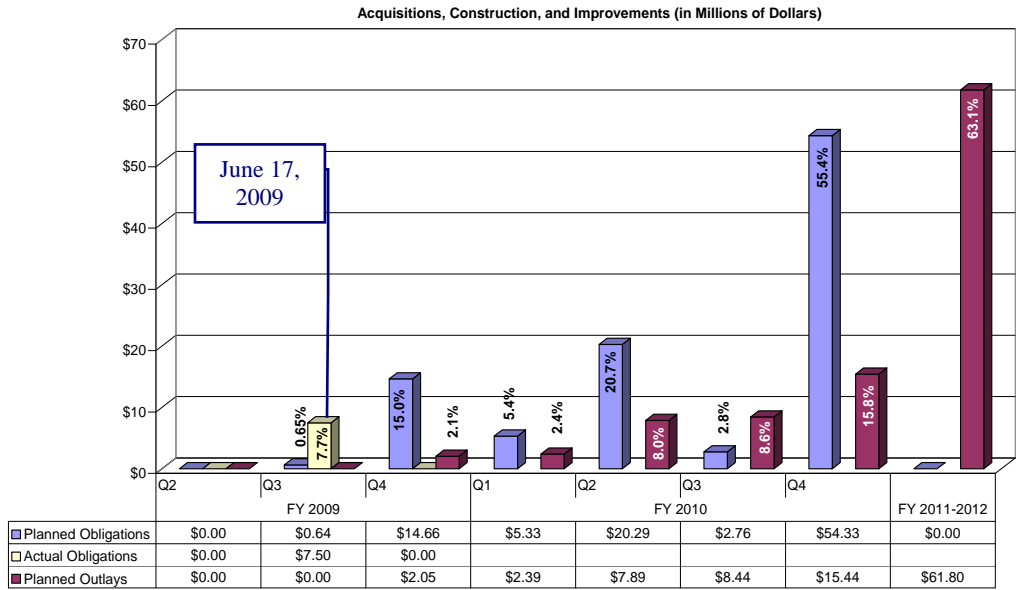
Bridge owners also plan to complete these four bridge projects by the fourth quarter of FY 2011 or earlier. The following graph shows the Coast Guard’s schedule of planned and actual obligations (commitments to pay) and planned outlays (actual payments) for the bridge alteration projects through FY 2010. Appendix C contains a more detailed schedule.



Shore Facility and Vessel Projects

The expenditure plan for shore facility and vessel projects did not meet the “preference for quick-start activities” goal. According to the Coast Guard, it obligated 7.7% of the shore facility and vessel acquisition, construction, and improvement funds by June 17, 2009. The Coast Guard said it could not

obligate the funds sooner because it needed more time to develop and award procurement contracts that satisfy the competitive sourcing requirements of the Federal Acquisition Regulation. However, the Coast Guard plans to obligate all funds by September 30, 2010, as required by the Recovery Act. The following graph shows the Coast Guard's schedule of planned and actual obligations and planned outlays for shore facility and vessel improvements projects through FY 2010. Appendix C contains a more detailed schedule.



Special Contracting Provision

The special contracting provision (section 1554 of the Recovery Act) recommended that, to the maximum extent possible, recipients award fixed-price contracts through the use of competitive procedures.

Bridge Alteration Projects

The Coast Guard's expenditure plan for the bridge alteration projects addressed this goal. According to the Coast Guard, the bridge owners will advertise and award (in consultation with the Coast Guard) fixed-price bridge alteration contracts through a competitive bidding process.

The Coast Guard also plans to use competitive procedures to award fixed-price contracts for most of the proposed shore facility and vessel projects. However, two contracts for vessel improvements will be awarded based upon other than full and open competition due to requirements for the procurement and installation of brand name specific equipment.

We do not make any recommendations in this report.

Management Comments and OIG Analysis

The Coast Guard appreciates the OIG's analysis of the U.S. Coast Guard's Expenditure Plans for the *American Recovery and Reinvestment Act of 2009* and concurs with the report. The Coast Guard also provided technical comments which were incorporated into the report.

We included the comments from the Deputy Assistant Commandant for Resources and Deputy chief Financial Officer for the U.S. Coast Guard in Appendix B.

Appendix A

Purpose, Scope, and Methodology

The objective of our review was to determine whether the Coast Guard developed practical, thorough, and comprehensive plans to spend the funds provided in the Recovery Act for the alteration of bridges and for acquisition, construction, and improvements to shore facilities and vessels. Our review included a determination of whether the Coast Guard followed its own criteria for prioritizing projects. We did not evaluate the original process the Coast Guard used to establish its criteria or any underlying assumptions. We:

- Reviewed laws, regulations, and guidance related to the Recovery Act;
- Obtained information on the processes and controls in place for budgetary resources management and financial and contract management;
- Examined prior audit reports that provided suggested improvements in the program-specific areas and Department of Homeland Security acquisition management and acquisition workforce planning;
- Reviewed the Coast Guard's Recovery Act expenditure plan, dated April 3, 2009, for alteration of bridges eligible under the *Truman-Hobbs Act of 1946*;
- Reviewed the Coast Guard's Recovery Act expenditure plans, dated April 3, 2009 and July 30, 2009, for acquisition, construction, and improvements to shore facilities and vessels;
- Reviewed documentation in support of the Recovery Act project expenditure plans, such as program-specific draft Recovery Act plans, and methodologies used to select projects targeted for Recovery Act expenditures; and
- Interviewed the Coast Guard Senior Accountable Official, as well as officials from the Coast Guard Bridge, Naval Engineering, and Shore Facilities Programs. We conducted these interviews at the Coast Guard's headquarters offices in Washington, DC.

We performed our review between March 2009 and August 2009 under the authority of the *Inspector General Act of 1978*.

We would like to thank the Coast Guard for the cooperation and courtesies extended to our staff during this review.

Appendix B Management Comments to the Draft Report

U.S. Department of
Homeland Security

United States
Coast Guard



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SEP 28 2009

MEMORANDUM

From: M. J. RAJK
COMDT (CG-8D)

Reply to: CG-823
Attn of: Mark Kulwicki
(202) 372-3533

To: Anne L. Richards
Assistant Inspector General for Audits
Department of Homeland Security

Subj: USCG COMMENTS ON OIG DRAFT REPORT ON ARRA EXPENDITURE PLANS

Ref: (a) DHS OIG Draft Report of September 10, 2009

1. This memorandum transmits the Coast Guard's response to the Office of Inspector General (OIG) report findings and recommendations contained in reference (a).
2. The Coast Guard appreciates the OIG's analysis of our U.S. Coast Guard's Expenditure Plans for the American Recovery and Reinvestment Act of 2009 and concurs with report.
3. Listed below are our comments by page number and topics:
 - a. **Page 3: Bridge Program Table** – As shown please redact dollar amounts associated with the specific bridge projects. The planned amounts for projects not yet awarded are procurement sensitive. Please retain the subtotal and total amounts.
 - b. **Page 3: Acquisition, Construction, and Improvements to Facilities and Vessels** – Recommend changing "designated" to "appropriated" in the first line.
 - c. **Page 6: Bridge Alteration Projects** – The Coast Guard does not award contracts for the alteration of bridges. Contracts are awarded by the bridge owners. The last sentence should read: "Bridge owners awarded or plan to award contracts according to the following schedule:"
 - d. **Page 7: Bridge Table** – Elgin, Joliet and Eastern Bridge planned award date is September 2009 instead of August 20, 2009. Mobile Bridge actual award date was August 20, 2009 instead of September 2009. The first sentence below this table should read: "Bridge owners also plan to complete these four bridge projects by the fourth quarter of FY2011 or earlier."
 - e. **Page 7: Bridge Table – Alteration of Bridges (in Millions of Dollars)** – change Actual Obligations from \$51.0 M to \$142.M as of September 21, 2009.
 - f. **Page 9: Shore Facility and Vessel Projects** – The "Special Contracting Provision" section about "Shore Facilities and Vessel Project" states the "Two contracts for the vessel improvements will be sole-source contracts. The Coast Guard plans to award one contract to an 8 (a) vendor." This is incorrect, neither of the sole-source awardees for the vessel projects will be 8 (a) vendors.

Appendix B

Management Comments to the Draft Report

Subj: USCG COMMENTS ON OIG DRAFT REPORT ON ARRA EXPENDITURE PLANS

g. Page 12: Appendix C – As shown redact in both tables all project specific quarterly distribution amounts associated with the two below appropriations which are procurement sensitive. However, you may leave the total quarterly amounts.

h. Page 13: Appendix C – As shown redact in both tables all project specific quarterly distribution amounts associated with the two below appropriations which are procurement sensitive. However, you may leave the total quarterly amounts.

i. Page 14: Appendix C – As shown redact all project specific quarterly distribution amounts associated with the WHEC Project. However, you may leave the total quarterly amounts.

4. If you have any questions, Mr. Mark Kulwicki at (202) 372-3533. Alternatively, Commander Todd Offutt, Chief of External Coordination can be reached at (202) 372-3535.

#

Appendix C
Schedule of Obligations and Outlays for Recovery Act Funds

Alteration of Bridges

Schedule of Obligations and Outlays:

Bridge Name	Planned Obligation of Funds	Estimated Outlays of ARRA funds (Millions)					
		FY09 Q3	FY09 Q4	FY10 Q1	FY10 Q2	FY10 Q3	FY10 Q4
Mobile Bridge							
Elgin, Joliet & Eastern Bridge							
Burlington Bridge							
Galveston Causeway Bridge							
Total	\$142.0	\$6.1	\$21.9	\$32.5	\$31.6	\$28.3	\$21.6

Acquisition, Construction, and Improvements to Facilities and Vessels

Shore Facilities

Schedule of Shore Facility Obligations:

Shore Facilities Project	Total Appropriation (Millions)	Estimated Obligations of ARRA funds (Millions)					
		FY09 Q3	FY09 Q4	FY10 Q1	FY10 Q2	FY10 Q3	FY10 Q4
Station Coos Bay Covered Mooring	■				■		
Coast Guard Cutter Sycamore Cordova Housing Phase IV	■		■				
Station Neah Bay Covered Moorings	■		■			■	
Support Center Elizabeth City Replacement of Thrun Hall (Phase I)	■				■		■
Station Indian River Bulkhead Repairs	■				■	■	
Training Center Yorktown Water Distribution System	■				■		■
Group/Air Station North Bend Engineering & Aviation Survival Technician Building	■				■		■
Total	\$88.00		\$12.45		\$19.00	\$2.55	\$54.00

Appendix C
Schedule of Obligation and Outlays for Recovery Act Funds

Schedule of Shore Facility Outlays:

Shore Facilities Project	Total Outlay (Millions)	Estimated Outlays of ARRA funds (Millions)						
		FY09 Q3	FY09 Q4	FY10 Q1	FY10 Q2	FY10 Q3	FY10 Q4	FY11
Station Coos Bay Covered Mooring								
Coast Guard Cutter Sycamore Cordova Housing Phase IV								
Station Neah Bay Covered Moorings								
Support Center Elizabeth City Replacement of Thrun Hall (Phase I)								
Station Indian River Bulkhead Repairs								
Training Center Yorktown Water Distribution System								
Group/Air Station North Bend Engineering & Aviation Survival Technician Building								
Total	\$88.00		\$1.41	\$1.55	\$4.70	\$6.45	\$13.42	\$60.47

Vessel Projects

Schedule of Vessel Project Obligations:

WHEC Project	Total Appropriation (Millions)	Estimated Obligations of ARRA funds (Millions)					
		FY09 Q3	FY09 Q4	FY10 Q1	FY10 Q2	FY10 Q3	FY10 Q4
Engineering Technical Support	■						
Boiler Fireside Upgrades and Reliability Improvement	■						
Automatic Bus Tie Switch Upgrade	■						
Lube Oil Purifier Replacement	■						
Refrigeration System Upgrade	■						
Fire and Smoke Alarm System	■						
Auxiliary Salt Water Pump Replacement	■	■		■			
Total*	\$10.00	\$0.64	\$2.21	\$5.33	\$1.29	\$0.21	\$0.33

*Minor Rounding Differences May Exist

Appendix C
Schedule of Obligation and Outlays for Recovery Act Funds

Schedule of Vessel Project Outlays:

WHEC Project	Total Outlay (Millions)	Estimated Outlays of ARRA funds (Millions)						
		FY09 Q3	FY09 Q4	FY10 Q1	FY10 Q2	FY10 Q3	FY10 Q4	FY11
Engineering Technical Support								
Boiler Fireside Upgrades and Reliability Improvement								
Automatic Bus Tie Switch Upgrade								
Lube Oil Purifier Replacement								
Refrigeration System Upgrade								
Fire and Smoke Alarm System								
Auxiliary Salt Water Pump Replacement								
Total*	\$10.00		\$0.64	\$0.84	\$3.19	\$1.99	\$2.02	\$1.34

*Minor Rounding Differences May Exist

Appendix D
Major Contributors to This Report

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