

**DEPARTMENT OF HOMELAND SECURITY**  
**Office of Inspector General**

Letter Report:

Independent Review of The  
U.S. Immigration and Customs  
Enforcement Reporting of FY 2005  
Drug Control Funds



**Office of Audits**

**OIG-06-25**


**March 2006**



Homeland  
Security

March 20, 2006

MEMORANDUM FOR: Julie L. Myers  
Assistant Secretary  
U.S. Immigration and Customs Enforcement

FROM:   
Richard L. Skinner  
Inspector General

SUBJECT: *Independent Review of the U.S. Immigration and Customs  
Enforcement Reporting of FY 2005 Drug Control Funds*

The Office of National Drug Control Policy (ONDCP) requires U.S. Immigration and Customs Enforcement (ICE) to submit an annual Detailed Accounting Submission (Submission), as authorized by 21 U.S.C. § 1704(d) and ONDCP Circular, *Drug Control Accounting* (Circular), April 18, 2003, to ONDCP. The Submission is included in this report as Appendix A, and the Circular is included as Appendix B. The Submission is the responsibility of ICE's management.

We have reviewed the reasonableness and accuracy of the drug methodology used to calculate obligations of prior year budgetary resources by function and by budget decision unit according to the criteria specified in Section 6(b) of the Circular; and whether the drug methodology disclosed in the Submission was the actual methodology used to generate the table required by Section 6(a) of the Circular. Drug methodology means the process by which ICE calculates its drug-related financial statistics according to ONDCP requirements.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the reasonableness and accuracy of the drug methodology used to calculate obligations of prior year budgetary resources by function and by budget decision unit according to the criteria specified in Section 6(b) of the Circular; and whether the drug methodology disclosed in the Submission was the actual methodology used to generate the table required by Section 6(a) of the Circular. Accordingly, we do not express such an opinion.

Our review disclosed that the *Independent Auditors' Report*<sup>1</sup> for the Department of Homeland Security's (DHS) balance sheet as of September 30, 2005, identified several material weaknesses to which ICE directly contributed. Those material weaknesses were identified in the areas of financial management oversight; financial reporting; undelivered orders, accounts payable, and disbursements; budgetary accounting; fund balance with Treasury; and intragovernmental and intradepartmental balances. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Reportable conditions are matters coming to the auditors' attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in the auditors' judgment, could adversely affect DHS' ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. The material weaknesses cited in this paragraph deviate from the criteria that financial systems supporting the drug methodology should yield data that fairly present, in all material respects, aggregate obligations from which drug-related obligation estimates are derived.

We did not review, as required by the Circular, whether data presented are associated with obligations against a financial plan that, if revised during the fiscal year, properly reflects those changes, including ONDCP's approval of reprogrammings or transfers affecting drug-related resources in excess of \$5 million. Further, we did not review whether the data presented are associated with obligations against a financial plan that fully complied with all Fund Control Notices issued by the ONDCP Director under 21 U.S.C. § 1703(f) and Section 8 of the ONDCP Circular, *Budget Execution*. We did not review these matters because of incomplete criteria against which to evaluate the subject matter, in terms of measurability and applicability for multi-mission bureaus, of which ICE is one. We recommend that ICE, in conjunction with DHS, obtain formal guidance from ONDCP and legal counsel, as appropriate, on appropriate and suitable criteria to evaluate these matters for multi-mission bureaus.

Based on our review, except for the effects, if any, of the material weaknesses discussed in paragraph four of this report, nothing came to our attention that caused us to believe that the drug methodology used to calculate obligations of prior year budgetary resources by function and by budget decision unit is not reasonable and accurate, in all material respects, in conformity with criteria specified in the Circular, and that the drug methodology disclosed in the Submission was not the actual methodology used to generate the table required by the Circular, in all material respects.

We provided a copy of this report in draft to ICE. ICE concurred with the findings.

This report is intended solely for the information and use of ICE, DHS, ONDCP, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

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<sup>1</sup> See DHS Office of Inspector General Report Number OIG-06-09, November 2005. KPMG LLP, an independent public accounting firm, performed the audit of DHS' balance sheet as of September 30, 2005.

Should you have any questions concerning this review, please call me, or your staff may contact David M. Zavada, Assistant Inspector General for Audits, at (202) 254-4100.

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## Appendix A

*Office of the Chief Financial Officer*

U.S. Department of Homeland Security  
425 I Street, NW  
Washington, DC 20536



**U.S. Immigration  
and Customs  
Enforcement**

March 7, 2006

Sunday Okurume  
Office of Inspector General  
U.S. Department of Homeland Security  
Washington, D.C. 20528

Dear Mr. Okurume:

As required by 21 U.S.C. § 1704(d), and the Office of National Drug Control Policy Circular on Drug Control Accounting, enclosed is the final annual accounting of U.S. Immigration and Customs Enforcement (ICE) drug control funds for FY 2005.

If you have any questions regarding these matters, please feel free to contact me, or have a member of your staff contact Mike Natchuras, Acting Director for Budget and Program Performance, on 202-514-3206.

Sincerely,

A handwritten signature in black ink, appearing to read "Debra J. Bond".

Debra J. Bond  
Chief Financial Officer

Enclosure

**Department of Homeland Security  
U.S. Immigration and Customs Enforcement  
Detailed Accounting of Drug Control Funds During FY 2005**

**A. Table of Prior Year Drug Control Obligations**

	(in Millions) <b>FY 2005 Final</b>
<b>Drug Resources by Function</b>	
Office of Investigations	358,689
Office of Intelligence	2,847
Total	<b>361,536</b>
<b>Drug Resources by Decision Unit</b>	
Salaries and Expenses	361,536
Total	<b>361,536</b>
<b>Information</b>	
Total Agency Budget	4,118,000
Drug Control Percentage	9%

**Disclosure No. 1: Drug Methodology**

Immigration and Customs Enforcement (ICE) is a multi-mission bureau, and obligations are reported pursuant to an approved drug methodology. Separate calculations are made for the Office of Investigations, and the Office of Intelligence.

1) Office of Investigations

The methodology for the Office of Investigations is based on investigative case hours recorded in ICE's automated Case Management System. ICE officers record the type of work they perform in this system. Following the close of the fiscal year, a report is run showing investigative case hours that are coded as general narcotics cases and money laundering narcotics cases. A second report is run showing all investigative case hours logged. A percentage is derived by dividing the number of investigative case hours linked to drug control activities by the total number of investigative case hours. This percentage may fluctuate from year to year. For FY 2005, the percentage was 31.6%. To calculate a dollar amount, this percentage was applied to actual obligations incurred by the Office of Investigations against budget authority gained in FY 2005, excluding reimbursable authority.

Office of Investigations resources are entirely reported within the "Investigations" Drug Control Function and the "Salaries and Expenses" Budget Decision Unit.

2) Office of Intelligence

ICE employs the same methodology for calculating all drug control activities within the Office of Intelligence's budget. For FY 2005, 8.2% of the total case hours for Intelligence were found to be in support of drug control activities through an examination of data recorded in the Case Management System. This percentage was applied to actual obligations against budget authority gained in FY 2005 incurred by the Office of Intelligence for all activities.

Office of Intelligence resources are entirely reported within the "Intelligence" Drug Control Function and the "Salaries and Expenses" Budget Decision Unit.

Disclosure No. 2: Methodology Modifications

The methodology for Investigations and Intelligence has not changed.

Disclosure No. 3: Material Weakness or Other Findings

In 2005, Immigration and Customs Enforcement (ICE) provided no assurances regarding its financial controls and reporting pursuant to the Department of Homeland Security (DHS) Financial Accountability Act, P.L. 108-330. Specifically, the agency cited material weaknesses in the following areas: accounting and reporting processes; reconciliation and correction of differences in Fund Balance With Treasury; validation and verification processes for undelivered orders, accounts payable, and disbursements; timely recording of obligations and budgetary reporting; and reconciliation and elimination of intragovernmental balances.

In 2005, ICE also reported, pursuant to 31 U.S. C. 3512(d)(2)(B), that its financial system did not conform to federal accounting standards or to requirements for information system security.

ICE is committed to resolving fully all financial challenges that remain from the agency's creation. It is ICE's intention to reach the goal of attaining greater coordination and integration of the budget, finance, procurement, and supporting offices and to achieve greater oversight, accountability, and transparency within the next three years. To that end, a financial action plan was constructed based on material weaknesses identified during the FY 2004 and FY 2005 DHS Financial Audit.



Disclosure No. 4: Reprogrammings or Transfers

	(in Millions) FY 2005		
	FY 2005 Base	Reprogramming/ Supplemental	FY 2005 Total
<b>Drug Resources by Drug Control Function</b>			
Intelligence	2,847	-	2,847
Investigations	321,007	37,682	358,689
<b>Total</b>	<b>\$ 323,854</b>	<b>\$ 37,682</b>	<b>\$ 361,536</b>
<b>Drug Resources by Budget Decision Unit</b>			
Salaries and Expenses	323,854	37,682	361,536
<b>Total</b>	<b>\$ 323,854</b>	<b>\$ 37,682</b>	<b>\$ 361,536</b>

Disclosure No. 5: Other Disclosures

None.

**B. Assertions**

Assertion No. 1: Obligations by Budget Decision Unit

Not applicable.

Assertion No. 2: Drug Methodology

The methodology used to calculate obligations of prior year budgetary resources by function and by budget decision unit is reasonable and accurate in regard to the workload data employed and the estimation methods used. As noted in Disclosure No. 3, the financial statement auditors identified weaknesses related to ICE's accounting processes; therefore, we do not make an assertion with respect to financial systems in which obligations are recorded.

Assertion No. 3 Application of Drug Methodology

The methodology disclosed in this statement was the actual methodology used to generate the Table.

Assertion No. 4: Reprogrammings or Transfers

The data presented are associated with obligations against a financial plan that properly reflects changes from the rescission and from transfers.

Assertion No. 5: Fund Control Notices

The data presented are associated with obligations against a financial plan that fully complied with the Fund Control Notice issued by the Director of the Office of National Drug Control Policy on September 19, 2003.

## Appendix B

### ONDCP Circular: Drug Control Accounting

April 18, 2003

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#### TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

**SUBJECT:** Annual Accounting and Authentication of Drug Control Funds

1. **Purpose.** This circular provides the polices and procedures to be used by National Drug Control Program agencies in conducting a detailed accounting and authentication of all funds expended on National Drug Control Program activities.
2. **Rescission.** This circular rescinds and replaces the ONDCP Circular, *Annual Accounting of Drug Control Funds*, dated May 30, 2002.
3. **Authority.**
  - a. 21 U.S.C. § 1704(d) provides: "The Director [ONDCP] shall –
    - (A) require the National Drug Control Program agencies to submit to the Director not later than February 1 of each year a detailed accounting of all funds expended by the agencies for National Drug Control Program activities during the previous fiscal year, and require such accounting to be authenticated by the Inspector General of each agency prior to submission to the Director; and
    - (B) submit to Congress not later than April 1 of each year the information submitted to the Director under subparagraph (A)."
  - b. 21 U.S.C. § 1703(d)(7) authorizes the Director of ONDCP to "... monitor implementation of the National Drug Control Program, including – (A) conducting program performance audits and evaluations; and (B) requesting assistance from the Inspector General of the relevant agency in such audits and evaluations ..."
4. **Definitions.** As used in this circular, key terms related to the National Drug Control Program and budget are defined in Section 4 of the ONDCP Circular, *Budget Formulation*, dated April 18, 2003. These terms include: *National Drug Control Program*, *National Drug Control Program Agency*, *Bureau*, *Drug Methodology*, *Drug Control Functions*, and *Budget Decision Units*. Further,

Drug Control Accounting

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Reprogrammings and Fund Control Notices referenced in Section 6 of this circular are defined in Section 6 and Section 8 of the ONDCP Circular, *Budget Execution*, dated April 18, 2003.

5. **Coverage.** The provisions of this circular apply to all National Drug Control Program agencies.

6. **Detailed Accounting Submission.** The Chief Financial Officer (CFO) of each agency, or other accountable senior level senior executive, shall prepare a Detailed Accounting Submission to the Director, ONDCP. For agencies with no bureaus, this submission shall be a single report, as defined by this section. For agencies with bureaus, the Detailed Accounting Submission shall consist of reports, as defined by this section, from the agency's bureaus. The CFO of each bureau, or accountable senior level executive, shall prepare reports. Each report must include (a) a table highlighting prior year drug control obligations data, and (b) a narrative section making assertions regarding the prior year obligations data. Report elements are further detailed below:

a. **Table of Prior Year Drug Control Obligations** – For the most recently completed fiscal year, each report shall include a table of obligations of drug control budgetary resources appropriated and available during the year being reported.<sup>1</sup> Such table shall present obligations by Drug Control Function and Budget Decision Unit, as these categories are displayed for the agency or bureau in the *National Drug Control Strategy Budget Summary*. Further, this table shall be accompanied by the following disclosures:

(1) **Drug Methodology** – The drug methodology shall be specified in a separate exhibit. For obligations calculated pursuant to a drug methodology, this presentation shall include sufficient detail to explain fully the derivation of all obligations data presented in the table.

(a) **Obligations by Drug Control Function** – All bureaus employ a drug methodology to report obligations by Drug Control Function.

(b) **Obligations by Budget Decision Unit** – For certain multi-mission bureaus –Bureau of Customs and Border Protection, Coast Guard, Bureau of Immigration and Customs Enforcement, and the Veterans Health Administration (VHA) – obligations reported by Budget Decision Unit shall be calculated pursuant to an approved drug methodology. For all other bureaus, drug control obligations reported by Budget Decision Unit shall represent 100 percent of the actual obligations of the bureau for those Budget Decision

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<sup>1</sup>Consistent with reporting requirements of the ONDCP Circular, *Budget Formulation*, dated April 18, 2003, resources received from the following accounts are excluded from obligation estimates: (1) ONDCP – High Intensity Drug Trafficking Areas (HIDTA) and (2) the Organized Crime Drug Enforcement Task Forces Program. Obligations against these resources shall be excluded from the table required by this section but shall be reported on a consolidated basis by these bureaus. Generally, to prevent double-counting agencies should not report obligations against budget resources received as a reimbursement. An agency that is the source of the budget authority for such reimbursements shall be the reporting entity under this circular.

Units, as they are defined for the National Drug Control Budget. (See Attachment B of the ONDCP Circular, *Budget Formulation*, dated April 18, 2003.)

- (2) **Methodology Modifications** – Consistent with ONDCP’s prior approval, if the drug methodology has been modified from the previous year, then the changes, their purpose, and the quantitative differences in the amount(s) reported using the new method versus the amount(s) that would have been reported under the old method shall be disclosed.<sup>2</sup>
  - (3) **Material Weaknesses or Other Findings** – Any material weakness or other findings by independent sources, or other known weaknesses, including those identified in the Agency’s Annual Statement of Assurance, which may affect the presentation of prior year drug-related obligations data, shall be highlighted. This may be accomplished by either providing a brief written summary, or by referencing and attaching relevant portions of existing assurance reports. For each material weakness or other finding, corrective actions currently underway or contemplated shall be identified.
  - (4) **Reprogrammings or Transfers** – All prior year reprogrammings or transfers that affected drug-related budgetary resources shall be identified; for each such reprogramming or transfer, the effect on drug-related obligations reported in the table required by this section also shall be identified.
  - (5) **Other Disclosures** – Agencies may make such other disclosures as they feel are necessary to clarify any issues regarding the data reported under this circular.
- b. **Assertions** – At a minimum, each report shall include a narrative section where the following assertions are made regarding the obligation data presented in the table required by Section 6a:
- (1) **Obligations by Budget Decision Unit** – With the exception of the multi-mission bureaus noted in Section 6a(1)(b), reports under this section shall include an assertion that obligations reported by budget decision unit are the actual obligations from the bureau’s accounting system of record for these budget decision units.
  - (2) **Drug Methodology** – An assertion shall be made regarding the reasonableness and accuracy of the drug methodology used to calculate obligations of prior year budgetary resources by function for all bureaus and by budget decision unit for the Bureau of Customs and Immigration Enforcement, Coast Guard, the Bureau of Immigration and Customs Enforcement, and VHA. The criteria associated with this assertion are as follows:

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<sup>2</sup>For changes that did not receive prior approval, the agency or bureau shall submit such changes to ONDCP for approval under separate cover.

- (a) **Data** – If workload or other statistical information supports the drug methodology, then the source of these data and the current connection to drug control obligations should be well documented. If these data are periodically collected, then the data used in the drug methodology must be clearly identified and will be the most recently available.
  - (b) **Other Estimation Methods** – If professional judgment or other estimation methods are used as part of the drug methodology, then the association between these assumptions and the drug control obligations being estimated must be thoroughly explained and documented. These assumptions should be subjected to periodic review, in order to confirm their continued validity.
  - (c) **Financial Systems** – Financial systems supporting the drug methodology should yield data that fairly present, in all material respects, aggregate obligations from which drug-related obligation estimates are derived.
- (3) **Application of Drug Methodology** – Each report shall include an assertion that the drug methodology disclosed in this section was the actual methodology used to generate the table required by Section 6a. Calculations must be sufficiently well documented to independently reproduce these data. Calculations should also provide a means to ensure consistency of data between reporting years.
- (4) **Reprogrammings or Transfers** – Further, each report shall include an assertion that the data presented are associated with obligations against a financial plan that, if revised during the fiscal year, properly reflects those changes, including ONDCP's approval of reprogrammings or transfers affecting drug-related resources in excess of \$5 million.
- (5) **Fund Control Notices** – Each report shall also include an assertion that the data presented are associated with obligations against a financial plan that fully complied with all Fund Control Notices issued by the Director under 21 U.S.C. § 1703(f) and Section 8 of the ONDCP Circular, *Budget Execution*.

7. **Inspector General Authentication.** Each report defined in Section 6 shall be provided to the agency's Inspector General (IG) for the purpose of expressing a conclusion about the reliability of each assertion made in the report. ONDCP anticipates that this engagement will be an attestation review, consistent with the *Statements for Standards of Attestation Engagements*, promulgated by the American Institute of Certified Public Accountants.

8. **Unreasonable Burden.** Unless a detailed report, as specified in Section 6, is specifically requested by ONDCP, an agency or bureau included in the National Drug Control Budget with prior year drug-related obligations of less than \$50 million may submit through its CFO, or its accountable senior level executive, an alternative report to ONDCP, consisting of only the table highlighted in

Section 6a., omitting all other disclosures. Such report will be accompanied by statements from the CFO, or accountable senior level executive, and the agency Inspector General attesting that full compliance with this Circular would constitute an unreasonable reporting burden. In those instances, obligations reported under this section will be considered as constituting the statutorily required detailed accounting, unless ONDCP notifies the agency that greater detail is required.

**9. Point of Contact and Due Dates.** Each agency CFO, or accountable senior level executive, shall transmit a Detailed Accounting Submission, consisting of the report(s) defined in Section 6, along with the IG's authentication(s) defined in Section 7, to the attention of the Associate Director for Planning and Budget, Office of National Drug Control Policy, Washington, DC 20503. Detailed Accounting Submissions, with the accompanying IG authentication(s), are due to ONDCP by February 1 of each year. Agency management must submit reports to their Office of Inspector General (OIG) in sufficient time to allow for review and IG authentication under Section 7 of this circular. ONDCP recommends a 31 December due date for agencies to provide their respective OIG with the required reports and information.

John P. Walters  
Director

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