



Department of Homeland Security Office of Inspector General

Independent Review of the U.S. Coast Guard's Reporting of FY 2009 Drug Control Performance Summary Report



Office of Inspector General

U.S. Department of Homeland Security
Washington, DC 20528



**Homeland
Security**

January 27, 2010

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 to promote economy, efficiency, and effectiveness within the department.

This report presents the results of the review of the Performance Summary Report of the U.S. Coast Guard for the fiscal year ended September 30, 2009, for the Office of National Drug Control Policy. We contracted with the independent public accounting firm KPMG LLP to perform the review. The U.S. Coast Guard prepared the Performance Summary Report and management assertions to comply with requirements of the Office of National Drug Control Policy Circular, *Drug Control Accounting*, dated May 1, 2007. KPMG LLP is responsible for the attached independent accountants' report dated January 18, 2010, and the conclusions expressed in it. We do not express an opinion on the Performance Summary Report and management's assertions.

We trust this report will result in more effective, efficient, and economical operations. We express our appreciation to all of 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



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Accountants' Report

Inspector General
U.S. Department of Homeland Security

We have reviewed the accompanying Performance Summary Report of the U.S. Department of Homeland Security's (DHS) United States Coast Guard (USCG) for the year ended September 30, 2009. We have also reviewed the accompanying management's assertions for the year ended September 30, 2009. USCG's management is responsible for the Performance Summary Report and the assertions.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the Performance Summary Report and management's assertions. Accordingly, we do not express such an opinion.

Management of USCG prepared the Performance Summary Report and management's assertions to comply with the requirements of the Office of National Drug Control Policy (ONDCP) Circular, *Drug Control Accounting*, dated May 1, 2007.

Based on our review, nothing came to our attention that caused us to believe that (1) the Performance Summary Report for the year ended September 30, 2009 is not presented, in all material respects, in conformity with ONDCP's Circular, *Drug Control Accounting* (May 1, 2007), or that (2) management's assertions referred to above are not fairly stated, in all material respects, based on the criteria set forth in ONDCP's Circular, *Drug Control Accounting* (May 1, 2007).

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

KPMG LLP

January 18, 2010

U.S. Department of
Homeland Security

United States
Coast Guard



Commandant
United States Coast Guard

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7110
January 13, 2010

Department of Homeland Security
Director of Financial Management
Office of the Inspector General
Attn: Mr. John D. Shiffer, CPA
1120 Vermont Avenue, 10th Floor, NW
Washington, D.C. 20005

Dear Mr. Shiffer,

In accordance with the Office of National Drug Control Policy Circular: *Annual Accounting of Drug Control Funds* dated May 1, 2007, enclosed is the Coast Guard's updated FY 2009 Performance Summary Report, enclosure (1). My staff addressed your KPMG auditor's request received on January 11, 2010 for additional information. Enclosures (2) through (4) provide supporting documentation for data referenced in enclosures (1) and address your auditor's inquiry. Enclosure (5) is the updated letter of assurance required by KPMG to be dated January 18, 2010.

If you require further assistance on this information, please contact LCDR Patrick Hilbert, 202-372-2585.

Sincerely,

A handwritten signature in black ink that reads "C. S. Swirbliss".

C. S. SWIRBLISS

Captain, U.S. Coast Guard
Chief, Office of Performance Management &
Assessment

Enclosure (1) FY 2009 Performance Summary Report
(2) KPMG auditor's comments with Coast Guard response
(3) FY 2009 Non-Commercial Maritime U.S. Bound Cocaine Flow
(4) Future Year Homeland Security Plan Coast Guard Drug Interdiction Snapshot
(5) Coast Guard "Letter of Assurance" to KPMG

Copy: DHS Budget Office
CG-82

Enclosure (1) to letter dated January 13, 2010

Drug Budget
United States Coast Guard
Performance Summary Report 2009

01/12/2010

Created by CG-512

I. PERFORMANCE INFORMATION

Decision Unit 1: Primary Outcome Measure

NOTE: *Although the Coast Guard appropriation is apportioned along budget decision unit lines (i.e. Acquisitions, Construction, & Improvements (AC&I); Operating Expenses (OE); Research, Development, Test and Evaluation (RDT&E); and Reserve Training (RT)), the Coast Guard does not manage performance along decision unit lines. This is impractical due to the multi-mission performance of our assets, which transcends budget decision units.*

The Coast Guard’s drug interdiction performance is best summarized by the lead outcome measure of the program. This measure is the central focus of its Performance Summary Report. The Coast Guard Drug Interdiction Program has a suite of metrics that support the lead outcome measure. The lead outcome measure and its supporting metrics suite were validated during a 2007 Office of Management and Budget (OMB) Program Assessment Rating Tool (PART) Evaluation. In FY 2009, the Coast Guard transitioned the methodology by which it calculates its primary outcome measure as recommended by the 2007 Independent Program Evaluation completed by the Center for Naval Analyses (CNA). The Coast Guard transitioned from the Interagency Assessment of Cocaine Movement (IACM) to the Consolidated Counterdrug Database (CCDB) as the authoritative source for estimating illicit drug flow through the transit zone. In part, the Coast Guard changed methodology to permit more timely performance evaluation. The CCDB is updated quarterly by interagency consensus compared to the IACM, which is published annually and not until nine months after the end of the fiscal year being evaluated. The change is consistent with ONDCP guidance and permits the Coast Guard to evaluate its performance on a quarterly basis. Historically, CCDB cocaine movement estimates are significantly higher than the IACM because it includes all confidence maritime flow (IACM does not count low confidence data), which translates to a lower perceived performance result for cocaine removal rate.

Measure: Cocaine Removal Rate (Removal rate for cocaine from non-commercial vessels in maritime transit zone (CCDB)).

Table 1: Cocaine Removal Rate

FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2009 Target	FY 2010 Target
15.2%	16.9%	16.6%	13.2%	15.0%	15.7%	18.5%

(1) Describe the measure. In doing so, provide an explanation of how the measure (a) reflects the purpose of the program, (b) contributes to the *National Drug Control Strategy*, and (c) is used by management of the program. This description should include sufficient detail to permit non-experts to understand what is being measured and why it is relevant to the agency’s drug control activities.¹

¹ Requirements 1 through 4 in this section are drawn from the ONDCP Drug Accounting Circular.

The goal of the Coast Guard's Drug Interdiction program is to reduce the supply of illegal drugs by denying smugglers the use of air and maritime routes by projecting an effective law enforcement presence in and over the six million square mile transit zone of the Caribbean Sea, the Gulf of Mexico and the Eastern Pacific Ocean. The Coast Guard's primary outcome measure, the Cocaine Removal Rate, indicates how effective the program is at disrupting the flow of cocaine traveling via non-commercial maritime means toward the United States. The more cocaine bound for the United States that the Coast Guard removes, the less supply of cocaine available within the United States. The cocaine removal rate is calculated by dividing the total amount of cocaine removed by the Coast Guard by the total non-commercial maritime movement of cocaine towards the United States, both of which are captured and validated in the CCDB.

The 2007 *National Drug Control Strategy* set an interagency, transit zone removal rate goal for cocaine of 40% by 2014. With over 80% of the cocaine moving through the transit zone via non-commercial maritime means, the higher the Coast Guard's cocaine removal rate, the less cocaine that needs to be removed by our domestic and international partner agencies to achieve that 40% goal. The Drug Interdiction program managers monitor the cocaine removal rate, watching for both changes in Coast Guard removals as well as increases or decreases in flow. Any changes are then diagnosed to determine the cause and to develop strategies to continue to increase the removal rate. Factors that can impact the removal rate include, but are not limited to, changing modes, tactics and routes by the drug trafficking organizations; increased or decreased patrol effort by the Coast Guard or its drug interdiction partner agencies/nations; the availability, quality and timeliness of tactical intelligence; new or upgraded diplomatic and legal tools; and the implementation of new capabilities (National Security Cutter and Maritime Patrol Aircraft (HC-144), for example).

(2) Provide narrative that examines the FY 2009 actual performance results with the FY2009 target, as well as prior year actual results. If the performance target was not achieved for FY 2009, the agency should explain why this is the case. If the agency has concluded it is not possible to achieve the established target with available resources, the agency should include recommendations on revising or eliminating the target.

In FY 2009, the Coast Guard removed 352,860 pounds (160.1 Metric Tons) of cocaine; the 3rd highest year for cocaine removals in Coast Guard history. Relative to the total estimated movement of non-commercial cocaine destined to the United States in FY 2009 captured in the CCDB, the Coast Guard removed 15.0% of this estimated flow. This removal rate was slightly below its target of 15.7%. In FY 2009, the Coast Guard temporarily took two of its twelve 378' high endurance cutters (WHEC) out of service due to critical, unscheduled maintenance issues resulting in 356 lost major cutter days from these two cutters alone. The reduction in available high endurance cutters impacted Coast Guard's surface interdiction and detection & monitoring support to Joint Interagency Task Force-South (JIATF-S). The Coast Guard only provided 2036 JIATF-S major cutter days in FY 2009, 519 cutter days short of its intended 2555 FY 2009 JIATF-S major cutter days support (approximately 20% gap). WHECs are historically the Coast Guard's most effective surface asset for cocaine removals due to their greater endurance and more robust command and control suite compared to other Coast Guard surface platforms. Cutter endurance is a key contributor to countering the maritime cocaine threat in the remote, vast

Eastern Pacific transit zone vector. The reduction in WHEC available cutter days reduced the opportunity for additional cocaine removals and may have contributed to the Coast Guard missing its FY 2009 Cocaine Removal Rate target.

(3) The agency should describe the performance target for FY 2010 and how the agency plans to meet this target. If the target in FY 2009 was not achieved, this explanation should detail how the agency plans to overcome prior year challenges to meet targets in FY 2009.

The Coast Guard's target for FY 2010 is to remove 18.5% percent of the cocaine moving via non-commercial maritime means towards the United States. In FY 2010, the Coast Guard anticipates having all of its 378' cutters back in service, a full operational year of United States Coast Guard Cutter BERTHOLF (the first National Security Cutter), and expanded Airborne Use of Force (AUF) capacity for both Coast Guard and U.S. Naval surface platforms to help counter the expanding go-fast threat in the littorals of Central America. Based on its baseline of performance, the expanded capabilities mentioned, and anticipated intelligence gains in FY 2010 to focus detection and monitoring efforts, the Coast Guard expects that it can achieve its FY 2010 target.

(4) The agency should describe the procedures used to ensure performance data for this measure are accurate, complete, and unbiased in presentation and substance. The agency should also describe the methodology used to establish targets and actual results, as well as the data source(s) used to collect information.

As stated previously, the Cocaine Removal Rate is calculated by dividing the total amount of cocaine removed by the Coast Guard by the non-commercial maritime movement of cocaine towards the United States. The data used to calculate the Coast Guard's Cocaine Removal Rate is drawn from the interagency-validated CCDB. The amount of cocaine removed by the Coast Guard is the sum of all cocaine that is physically seized by Coast Guard personnel and all cocaine lost to the drug trafficking organizations due to the Coast Guard's efforts. This latter amount is often an intelligence-based estimate of the quantity of cocaine onboard a given vessel that is burned, jettisoned, or scuttled in an attempt to destroy evidence when Coast Guard presence is detected. The estimated non-commercial maritime flow of cocaine towards the United States and actual cocaine removals are drawn from the CCDB. Data entered into the CCDB are approved through a quarterly, interagency vetting process. Although the cocaine removals are originally reported in pounds, the Coast Guard converts the removal to metric tons to compute the Cocaine Removal Rate. All data contained in the CCDB are deemed to be as accurate, complete and unbiased in presentation and substance as possible.

At least annually, the Coast Guard's Office of Law Enforcement and Office of Performance Management Assessment review all the assumptions that factor into the setting of its out-year targets, and makes adjustments as necessary. Revisions to the targets are reported to the Department of Homeland Security's Future Year Homeland Security Program database.

The Coast Guard Office of Law Enforcement last updated its out-year performance targets in August 2009. The key factors that drive the target setting process are the estimated out-year cocaine flow, the projected availability of Coast Guard resources (mainly major cutters, long range maritime patrol aircraft, Law Enforcement Detachment (LEDET) and

AUF), and any anticipated changes in Coast Guard capabilities, authorities, or partnerships that may impact cocaine removals.

II. MANAGEMENT'S ASSERTIONS

The Report should include a letter in which an accountable agency official makes the following assertions regarding the information presented above:

(1) Performance reporting system is appropriate and applied – The agency has a system to capture performance information accurately and that system was properly applied to generate the performance data.

The Coast Guard performance reporting system is appropriate and applied. It was reviewed in a 2007 Independent Program Evaluation by the Center for Naval Analyses and a 2007 OMB PART Evaluation. Both reviews verified the appropriateness and application of the performance reporting system, and the Coast Guard has made all significant changes recommended to ensure continued validity.

(2) Explanations for not meeting performance targets are reasonable – The explanation(s) offered for failing to meet a performance target and for any recommendations concerning plans and schedules for meeting future targets or for revising or eliminating performance targets are reasonable.

The Coast Guard was within the DHS allowable deviation from its target. The Coast Guard's FY 2010 target was updated in August 2009 and satisfies OMB Circular A-11's guidance for establishing targets. The FY 2010 target was lowered due to the WHEC cutter fleet availability and the lower projected baseline performance for FY 2009 based FY 2009 3rd quarter CCDB data that indicated lower than projected Coast Guard Cocaine removals.

(3) Methodology to establish performance targets is reasonable and applied – The methodology described above to establish performance targets for the current year is reasonable given past performance and available resources.

The Coast Guard methodology to establish performance targets is reasonable and applied. The Coast Guard uses a quantitative and qualitative process that reviews intelligence, logistics, strategic and operational policy, capability, emerging trends, past performance, and capacity variables impacting mission performance to establish performance targets. Targets generated by the program manager are reviewed independently by performance and budget oversight offices at Coast Guard Headquarters, as well as the DHS Office of Program Analysis and Evaluation, prior to entry into budget documents and the DHS Future Year Homeland Security Program database.

(4) Adequate performance measures exist for all significant drug control activities

The 2007 OMB PART of the Coast Guard Drug Interdiction Program and 2007

Independent Program Evaluation by the Center for Naval Analyses validated the adequacy of Coast Guard performance measures.

- The agency has established one acceptable performance measure that covers all four budget decision units for which a significant amount of obligations (\$1,000,000 or 50 percent of the agency drug budget, whichever is less) were incurred in the previous fiscal year.

Management should take the following criteria into account when making assertions:

- (a) **Data** – If workload, participant, or other quantitative information supports these assertions, the sources of these data should be well documented. If these data are periodically collected, the data used in the report must be clearly identified and will be the most recently available.
- (b) **Other Estimation Methods** – If professional judgment or other estimation methods are used to make these assertions, the objectivity and strength of these estimation methods must be thoroughly explained and documented. These estimation methods should be subjected to periodic review to confirm their continued validity.
- (c) **Reporting Systems** – Reporting systems supporting the assertions should be current, reliable, and an integral part of the agency’s budget and management processes.

III. INSPECTOR GENERAL AUTHENTICATION

Agency performance information and management’s assertions should 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.

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