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# FY 2005 Accounting of Drug Control Funds

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# FY 2005 Accounting of Drug Control Funds

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## Executive Summary

### Background

The accompanying report presents for the Congress the Fiscal Year (FY) 2005 Accounting of Drug Control Funds. As part of the 1998 law that reauthorized the Office of National Drug Control Policy (ONDCP), a provision was added (Public Law 105-277, October 21, 1998 [Div.C, Title VII], Section 705(d)), which mandates that the Director of 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 for 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).”

In order to comply with this statutory provision, ONDCP issued a Circular, *Annual Accounting of Drug Control Funds* (Tab J), to all National Drug Control Program agencies defining the requirements for annual accounting submissions. The Circular specifies, “Each report...shall be provided to the agency’s Inspector General for the purpose of expressing a conclusion about the reliability of each assertion made in the report.” In assessing reliability, ONDCP anticipates each Office of Inspector General (OIG) will conduct an attestation review consistent with the *Statements for Standards of Attestation Engagements*, promulgated by the American Institute of Certified Public Accountants. An attestation review is more limited in scope than a standard financial audit, the purpose of which is to express an opinion on management’s assertions. The objective of an attestation review is to evaluate an entity’s financial reporting and to provide negative assurance. Negative assurance, based on the criteria established by the ONDCP Circular, indicates that nothing came to the attention of the OIG that would cause them to believe an agency’s submission was presented other than fairly in all material respects.

## FY 2005 Accounting of Drug Control Funds

### Department Compliance and Attestation Reviews

With the exception of DHS, all National Drug Control Program agencies were able to comply with the provisions of the ONDCP Circular dated April 18, 2003. This fact is evident, along with whether an agency passed or failed the required attestation review, in the table below. For the purposes of this report, “pass” indicates an agency’s OIG was able to complete their review and provide negative assurance. Conversely, “fail” implies that an agency’s assertions regarding its FY 2005 drug control obligations were not reviewable.

**Table: Compliance and Attestation Review Summary**

Department/Bureau	Compliance with ONDCP Circular (Yes/No)	OIG/ Independent Auditor Attestation Review (Pass/Fail)
<b>Defense</b>	Yes	Pass
<b>Education</b>		
Office of Safe and Drug-Free Schools	Yes	Pass
<b>Health and Human Services</b>		
National Institute on Drug Abuse	Yes	Pass
Substance Abuse and Mental Health Services Administration	Yes	Pass
<b>Homeland Security</b>		
Customs and Border Protection	No <sup>/1</sup>	Pass
Immigration and Customs Enforcement	No <sup>/1</sup>	Pass
U.S. Coast Guard	No <sup>/1</sup>	Pass
<b>Justice</b>		
Bureau of Prisons	Yes	Pass
Drug Enforcement Administration	Yes	Pass
Organized Crime and Drug Enforcement Task Forces	Yes	Pass
Office of Justice Programs	Yes	Pass
<b>State</b>		
Bureau of International Narcotics and Law Enforcement Affairs	Yes	Pass
<b>Transportation</b>		
National Highway Traffic Safety Administration <sup>/2</sup>	Yes	N.A.
<b>Veterans Affairs</b>		
Veterans Health Administration	Yes	Pass
<b>Small Business Administration<sup>/2</sup></b>	Yes	N.A.

**Notes:**

<sup>/1</sup>The DHS OIG did not review two key areas for reasons with which ONDCP disagrees. ONDCP has been in contact with the OIG on this issue, and the OIG has agreed to perform additional procedures in regard to management’s assertions.

<sup>/2</sup> In compliance with the ONDCP Circular, the Agency submitted an alternative report because the requirements created an unreasonable burden. The alternative report was not subject to an attestation review.

# FY 2005 Accounting of Drug Control Funds

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## Summary of Agency Reports

### Department of Defense

The Department of Defense's (DoD) accounting of FY 2005 drug control obligations (Tab A) satisfies all requirements established by ONDCP's Circular, including the rendering of a negative assurance by the DoD OIG, which indicates that nothing came to the attention of the OIG that would cause them to believe DoD's submission was presented other than fairly in all material respects. Given this, DoD was assessed a rating of pass.

- The OIG indicates a previous report, entitled *Report on Controls Over Funds Used by DoD for the National Drug Control Program*, identified a material management control weakness related to the accounting of counterdrug funds. In response, the Deputy Assistant Secretary of Defense for Counternarcotics (DASD CN) issued a memorandum requiring detailed transaction support for all drug control obligations. The OIG did not assess DoD's compliance with this new requirement due to a lack of time between the implementation of corrective action and completion of the attestation review.
- While the OIG could not attest to the amounts in the report, they did attest that the methodology described was the actual methodology used to generate those amounts. The OIG did not attest to the amounts in the report because the DASD CN compiled amounts manually instead of obtaining information directly from accounting systems.
- The amount of DoD funds appropriated to the Counterdrug Central Transfer Account (CTA) is reported within the National Drug Control Budget Summary. CTA represents all DoD counterdrug resources with the exception of OPTEMPO and Active Duty MILPERS. These latter accounts are not required under the revised National Drug Control Budget.

### Department of Education

The Department of Education's (Education) accounting of FY 2005 drug control obligations (Tab B) satisfies all requirements established by ONDCP's Circular, including the rendering of a negative assurance by the Department's OIG. Given this, Education was assessed a rating of pass.

- Beginning with the President's FY 2006 Budget, funds for School Emergency Preparedness Initiatives are no longer included in the drug budget due to a lack of drug nexus. As a result, the accounting of FY 2005 obligations excludes \$33.2 million that would have been reported under the previous methodology.
- Budgetary resources in the submission include funds that did not support drug control activities (some of the funds support violence prevention and school safety activities that have no drug nexus).

## FY 2005 Accounting of Drug Control Funds

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- A total of \$5.8 million of Safe and Drug-Free Schools and Communities (SDFSC) program funds include alcohol and other drug prevention projects for students enrolled in institutions of higher education. For college students 21 years of age or older, alcohol is a legal drug, consequently, services provided to students of legal age would fall outside the scope of the National Drug Control Strategy.

### Department of Health and Human Services

The Department of Health and Human Services' (HHS) accounting submission includes separate reports for the National Institute on Drug Abuse (NIDA) and the Substance Abuse and Mental Health Services Administration (SAMHSA) (Tab C).

**NIDA:** NIDA's accounting of FY 2005 drug control obligations satisfies all requirements established by ONDCP's Circular, including the rendering of a negative assurance by the HHS OIG. Given this, NIDA was assessed a rating of pass.

**SAMHSA:** SAMHSA's accounting of FY 2005 drug control obligations satisfies all requirements established by ONDCP's Circular, including the rendering of a negative assurance by the HHS OIG. Given this, SAMHSA was assessed a rating of pass.

### Department of Homeland Security

The Department of Homeland Security's (DHS) accounting submission includes separate reports for the United States Coast Guard (USCG), Immigration and Customs Enforcement (ICE), and Customs and Border Protection (CBP) (Tab D). The OIG did not review two key areas of all three DHS submissions: (1) whether data presented are associated with obligations against a financial plan that properly reflects changes during the fiscal year, including ONDCP's approval of reprogrammings or transfers affecting drug-related resources in excess of \$5 million, and (2) whether the data presented are associated with obligations against a financial plan that fully complied with all Fund Control Notices. Each of the three reports allege "incomplete criteria [within the Annual Accounting of Drug Control Funds Circular] against which to evaluate the subject matter, in terms of measurability and applicability for multi-mission bureaus" as the reason for not reviewing these key areas.

ONDCP disagrees that the Circular presents incomplete criteria. The Circular outlines the responsibilities of both the agency and Inspector General in satisfying Public Law 105-277, October 21, 1998 [Div.C, Title VII]. Section 705(c)(4) of the Public Law states that National Drug Control Program agencies are required to seek ONDCP approval for a reprogramming of drug-related resources in excess of \$5 million. Moreover, Section 704(f) states that each National Drug Control Program agency must fully comply with Fund Control Notices issued by the Director under Section 704(d)(9) of the Public Law. The Circular reinforces these statutory requirements and multi-mission agencies are not exempt from complying with these provisions.

Although the OIG provided a negative assurance for all three submissions, the reports nevertheless failed to comply with the ONDCP Circular. As such, ONDCP has been in contact with the OIG on this issue, and the OIG has agreed to perform additional procedures in regard to

## FY 2005 Accounting of Drug Control Funds

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management's assertions. The OIG has commenced this work and will communicate the results to ONDCP along with any suggestions for facilitating future reviews. This issue will require additional follow-up with DHS financial management staff and the OIG during 2006.

**CBP:** CBP's accounting of FY 2005 drug control obligations did not satisfy all requirements established by ONDCP's Circular. Specifically, the Circular requires the OIG to express a conclusion about the reliability of each assertion made in the CBP's report, including assertions concerning reprogrammings, transfers, and fund control notices. Yet, given the OIG provided a negative assurance, CBP was assessed a rating of pass.

- The OIG cites a material weakness related to information technology. Specifically, the information technology weakness limited CBP's ability to ensure the confidentiality, integrity, and availability of financial and operational data.

**ICE:** ICE's accounting of FY 2005 drug control obligations did not satisfy all requirements established by ONDCP's Circular. Specifically, the Circular requires the OIG to express a conclusion about the reliability of each assertion made in ICE's report, including assertions concerning reprogrammings, transfers, and Fund Control Notices. Yet, given the OIG provided a negative assurance, ICE was assessed a rating of pass.

- The OIG cites material weaknesses 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.
- ICE's submission indicates the reprogramming of \$37.689 million in drug-related resources during FY 2005. Yet, ONDCP did not receive any reprogramming requests during this period.
- Although ICE asserts the methodology used to calculate obligations is reasonable and accurate in regards to workload data and estimation method, it cannot provide an assertion regarding the way in which obligations were recorded due to material weaknesses in accounting processes.

**USCG:** USCG's accounting of FY 2005 drug control obligations did not satisfy all requirements established by ONDCP's Circular. Specifically, the Circular requires the OIG to express a conclusion about the reliability of each assertion made in the USCG's report, including assertions concerning reprogrammings, transfers, and fund control notices. Yet, given the OIG provided a negative assurance, USGC was assessed a rating of pass.

- The OIG identified material weaknesses in the areas of financial management oversight; financial reporting; financial systems security; undelivered orders, accounts payable, and disbursements; budgetary accounting; actuarial liabilities; fund balance with Treasury; intragovernmental and intradepartmental balances; property, plant, and equipment; and operating materials and supplies.

## FY 2005 Accounting of Drug Control Funds

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### Department of Justice

The Department of Justice's (DOJ) accounting submission includes separate reports for the Bureau of Prisons (BOP), Drug Enforcement Administration (DEA), Organized Crime Drug Enforcement Task Force (OCDETF), and Office of Justice Programs (OJP) (Tab E).

**BOP:** BOP's accounting of FY 2005 drug control obligations satisfies all requirements established by ONDCP's Circular, including the rendering of a negative assurance by the DOJ OIG. Given this, BOP was assessed a rating of pass.

- The OIG cites a reportable condition related to information technology. Specifically, the OIG identifies control weaknesses in BOP's information security program, access control procedures, and system change control procedures. Similar weaknesses were identified in BOP's FY 2004 accounting submission. In that submission, BOP asserted DOJ's Chief Information Officer was committed to implementing a corrective action. In the current submission, BOP asserts that it has implemented a corrective action plan to remedy the weaknesses.

**DEA:** DEA's accounting of FY 2005 drug control obligations satisfies all requirements established by ONDCP's Circular, including the rendering of a negative assurance by the DOJ OIG. Given this, DEA was assessed a rating of pass.

- DEA notes a change in drug control methodology. Specifically, DEA now uses the Managerial Cost Accounting (MCA) model when allocating funds from decision units to drug functions. This procedure was previously performed manually. Although total obligations are the same between methodologies, the functional breakouts are different. DEA believes the new method more accurately reflects drug control funding by function.

**OCDETF:** OCDETF's accounting of FY 2005 drug control obligations satisfies all requirements established by ONDCP's Circular, including the rendering of a negative assurance by the DOJ OIG. Given this, OCDETF was assessed a rating of pass.

- The OIG cites a reportable condition related to the implementation of financial management access controls. Although not regarded as a material weakness within OCDETF, findings are reported due to the impact weaknesses may have on FY 2005 drug-related obligations. OCDETF notes that DOJ staff is addressing this finding, as well as others with corrective action.

**OJP:** OJP's accounting of FY 2005 drug control obligations satisfies all requirements established by ONDCP's Circular, including the rendering of a negative assurance by the DOJ OIG. Given this, OJP was assessed a rating of pass.

- The OIG cites three material weaknesses and one reportable condition. The material weaknesses regard: (1) controls over grant advance and payable estimation processes; (2) controls over financial reporting, monitoring, analysis, and documentation; and (3)

## **FY 2005 Accounting of Drug Control Funds**

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information systems controls environment. The reportable condition pertains to the grant and non-grant de-obligation process.

### **Department of State**

The Department of State's (State) accounting of FY 2005 drug control obligations (Tab F) satisfies all requirements established by ONDCP's Circular, including the rendering of a negative assurance by the Department's OIG. Given this, State was assessed a rating of pass.

- The OIG identifies two material weaknesses regarding: (1) the recording and related depreciation of personal property, and (2) State's security of information systems networks. Also cited are three reportable conditions: (1) the inadequacy of State's financial management systems, (2) management of unliquidated obligations, and (3) implementation of Managerial Cost Accounting Standards.

### **Department of Transportation**

The Department of Transportation's (DoT) drug-related activities fall below the reporting threshold of \$50 million. As a result, DoT submitted a limited report (Tab G). The report includes a table of FY 2005 obligations for the National Highway Traffic Safety Administration - Drug Impaired Driving Program, including an explanation of drug methodology. DoT's submission satisfies all requirements established by ONDCP's Circular.

### **Department of Veterans Affairs**

The Department of Veterans Affairs, Veterans Health Administration's (VHA) accounting of FY 2005 drug control obligations (Tab H) satisfies all requirements established by ONDCP's Circular, including the rendering of a negative assurance by the Department's OIG. Given this, VHA was assessed a rating of pass.

- VHA modified its methodology for calculating drug treatment costs within the VA system. Beginning this year, the 2005 actual cost levels are based on the Decision Support System (DSS) which replaced the Cost Distribution Report (CDR). The primary difference between DSS and CDR is the former permits a patient-centered accounting of costs.

### **Small Business Administration**

The Small Business Administration's (SBA) drug-related activities fall below the reporting threshold of \$50 million. As a result, SBA submitted a limited report (Tab I). The report included a table of FY 2005 obligations for the Drug-Free Workplace Program, including an explanation of drug methodology. SBA's submission satisfies all requirements established by ONDCP's Circular.





OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE  
WASHINGTON, D.C. 20301-2500

SPECIAL OPERATIONS/  
LOW-INTENSITY CONFLICT

JAN 06 2006

Mr. David J. Rivait  
Associate Director  
Office of Programs, Budget, Research and Evaluations  
Office of National Drug Control Policy  
750 17<sup>th</sup> Street, NW  
Washington, DC 20503

Dear Mr. Rivait:

In my capacity as Principal Director for Counternarcotics, I assert that the drug methodology used to calculate obligations by drug control function of Fiscal Year 2005 budgetary resources is reasonable and accurate. I further assert that the obligation table in TAB A was generated by the methodology as reflected in TAB B. The obligations are associated with a financial plan that properly reflects all changes made during the fiscal year. The Counternarcotics Central Transfer Account does not receive Fund Control Notices and, therefore, any assertion regarding this is inapplicable.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert J. Newberry".

Robert J. Newberry  
Principal Director for  
Counternarcotics

Enclosures:  
As stated

CF:  
DODIG

**CENTRAL TRANSFER ACCOUNT**

	<u>FY05</u>
Intelligence	132,023
Interdiction	651,089
Investigative	53,763
Prevention	114,572
R&D	11,931
State & Local Assistance	145,758
Treatment	6,975
Total	<b>1,116,111 *</b>

\*This amount includes a 97% obligation rate for MILPERS and a 99% obligation rate for O&M. Investment appropriations, which are multi-year, are currently obligated at 73%.

**DRUG RESOURCES PERSONNEL SUMMARY**

Total FTEs	<u>1,292</u>
	<b>1,292</b>

## DRUG METHODOLOGY

### Central Transfer Account

The Counternarcotics Central Transfer Account (CTA) was established in PBD 678 in November 1989. Under the CTA, funds are appropriated by Congress to a single budget line, not to the Services baselines. The CTA accounts for all counternarcotics resources for the Department of Defense with the exception of OPTEMPO and Active Duty MILPERS. Funds are reprogrammed from the CTA to the Services and Defense Agencies in the year of execution. The CTA allows for greater execution flexibility in the counternarcotics program with the ability to realign resources to address changes in requirements. The CTA is essential to respond effectively to the dynamic nature of the drug threat.

The Office of National Drug Control Policy (ONDCP) reports within the National Drug Control Strategy the amount of funds appropriated to the counternarcotics CTA. The actual obligations for the counternarcotics program for a particular fiscal year differ from the amount released to the CTA since some of the DoD counternarcotics effort is executed with multi-year funding.

The reprogramming process begins with reprogramming documents (DD1415 and DD1105) prepared by the Office of the Deputy Assistant Secretary of Defense for Counternarcotics and forwarded to DoD Comptroller. Funds are reprogrammed to the applicable appropriation/budget activity at the Service/Defense Agency by project (e.g., Navy's Fleet Support, Hemispheric Radar System, Counternarcotics RDT&E). The internal reprogramming (IR) action requires no congressional notification/approval.

The Services/Defense Agencies have their own internal accounting systems for tracking obligations of funds transferred from the Counternarcotics CTA. The following examples provide the process of how obligations are tracked:

- The Army Budget Office receives obligation data from the Defense Finance and Accounting System (DFAS) on a monthly basis and funds are tracked by the DFAS/Standard Army Financial Information System (STANFINS).
- The Air Force uses the USAF General Accounting & Finance System (GAFS) and the Commanders Resources Integration System (CRIS) to track obligations. Both of these systems are utilized for Counternarcotics obligations and commitments. These systems interface directly with the DFAS.
- The Navy uses the Standard Accounting and Reporting System, Field Level (STARS-FL) which provides the means of tracking allocated counternarcotics funds through the life cycle of the appropriation at the activity/field level. Navy counternarcotics funding is recorded under separate cost centers and sub-cost centers, with a line of accounting consisting of subhead, project units and cost codes specifically for counternarcotics obligation tracking.
- The Army and Air National Guard employs a central accounting service from the DFAS to consolidate, aggregate, and report on funds as they are committed, obligated, and expended. The Army State and Federal Program Accounting Codes and the Air

Accounting Codes provide funds-tracking mechanisms to reconcile funding at various levels of reporting and execution.

The Services/Defense Agencies provide quarterly obligation reports by project code to the Office of the Deputy Assistant Secretary of Defense for Counternarcotics (CN). These individual reports are recorded on a spreadsheet and compiled into a single counternarcotics obligation report. The obligation and expenditure data provided by the Services/Defense Agencies are compared against their total annual counternarcotics funding for each appropriation. At the end of the year, the Services/Defense Agencies provide an end of year status report which reflects their actual obligation data, not an estimation.

The quarterly obligation reports provided by the Services/Defense Agencies include obligation and expenditure data by project code, not down to the drug control function. In order to comply with ONDCP's circular and provide obligation data by function, it was necessary to use percentages for each project code.



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

January 26, 2006

MEMORANDUM FOR THE DEPUTY ASSISTANT SECRETARY OF DEFENSE  
(COUNTERNARCOTICS)

SUBJECT: Independent Auditor's Report on the DoD FY 2005 Detailed Accounting Report of the Funds Obligated for National Drug Control Program Activities (Report No. D-2006-047)

Public Law 105-277 is known also as "The Office of National Drug Control Policy Reauthorization Act" (the Act). The Act requires that DoD annually submit a detailed report (the Report) accounting for all funds that it obligated for National Drug Control Program activities during the previous fiscal year to the Director of the Office of National Drug Control Policy. The Report is due no later than February 1 each year. The Act also requires that the Inspector General of the Department of Defense authenticate the Report prior to its submission to the Director.

Office of National Drug Control Policy Circular "Drug Control Accounting," (the Accounting Policy Circular) April 18, 2003, provides the policies and procedures to be used in preparing the Report and authenticating the DoD funds obligated on National Drug Control Program activities. The Accounting Policy Circular specifies that the Report must contain a table of prior year drug control obligations, listed by functional area, and include five assertions relating to the obligation data presented in the table.

The Deputy Assistant Secretary of Defense (Counternarcotics) (DASD[CN]) is responsible for the detailed accounting of funds obligated by DoD for the National Drug Control Program for FY 2005. We have reviewed the DASD (CN) detailed accounting in accordance with the attestation standards established by the American Institute of Certified Public Accountants and in compliance with generally accepted government accounting standards. A review-level attestation is substantially less in scope than an examination, the objective of which is the expression of an opinion on the subject matter. Accordingly, we do not express an opinion.

We reviewed four DoD reprogramming actions that allocated \$1,147.8 million among the Military Departments, National Guard, and Defense agencies. We determined that DASD (CN) had allocated the funds to appropriations and project codes intended for the DoD Counterdrug program. We obtained the year-end obligation reports from the Military Departments and National Guard.


The DoD Office of Inspector General issued Report No. D-2006-012, "Report on Controls Over Funds Used by DoD for the National Drug Control Program" on November 7, 2005, which concluded that the funds allocated to the counterdrug program were used for counterdrug purposes for the transactions tested. However, we identified a material management control weakness related to the DoD Components' accounting for counterdrug funds. In response to this weakness, DASD (CN) issued a policy memorandum on August 25, 2005, requiring detailed transaction support for all Counterdrug obligations.

As part of our review attestation for FY 2005, we determined whether the DoD Components that received Counterdrug funding from DASD (CN) had implemented procedures to support reported obligations with detail transaction listings. We requested and obtained the listings that were available for reported obligations; however, the Military Components were not able to support all obligations with detail transaction listings. We determined that the Military Components did not have adequate time to implement procedures that would satisfy the DASD (CN) policy requiring detail transaction support for all obligations.

DASD (CN) provided the Report in a letter dated January 6, 2006, which we reviewed to determine compliance with the Accounting Policy Circular. The detailed accounting indicated that \$1,116.1 million was obligated during FY 2005 for the DoD Counterdrug program in seven functional areas. The Office of the DASD (CN) manually compiled the Report from data the Military Departments and other DoD Components submitted.

DASD (CN) initially reprogrammed the funds from the Central Transfer Account to the DoD Components, using project codes. The DoD Components provided year-end obligation reports, identified by the same project codes, to the Office of the DASD (CN). The Office of the DASD (CN) consolidated the year-end obligation reports into one obligation report. In order to present the obligations by functional area in compliance with the Accounting Policy Circular, the Office of the DASD (CN) applied percentages to each project code in the consolidated report to compute the amounts presented in the table of obligations instead of obtaining the information directly from the accounting systems.

We cannot attest to the amounts presented in the Report's table of obligations. However, we can attest that the methodology described in the Report is the methodology used to generate the amounts presented. Based on our review, except for the fact that the Office of the DASD (CN) used percentages to calculate the obligations presented by functional area, nothing came to our attention during the review that caused us to believe the detailed accounting of funds obligated by DoD on the National Drug Control Program for FY 2005 is not presented, in all material respects, in conformity with the Accounting Policy Circular.

  
Paul J. Granetto, CPA  
Assistant Inspector General  
Defense Financial Auditing  
Service



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF PLANNING, EVALUATION AND POLICY DEVELOPMENT

JAN 30 2006

John P. Walters  
Director  
Office of National Drug Control Policy  
Executive Office of the President  
Washington, D.C. 20500

Dear Mr. Walters:

In accordance with Section 1704(d) of Title 21 United States Code, enclosed please find a detailed accounting of all fiscal year 2005 Department of Education drug control funds, along with the Department of Education Assistant Inspector General's authentication of this accounting, consistent with the instructions in ONDCP Circular *Drug Control Accounting*, dated April 18, 2003.

Please do not hesitate to contact me if you have any questions about this information.

Sincerely,

Thomas P. Skelly  
Director, Budget Service

Enclosure # 1: *Department of Education Detailed Accounting of Fiscal Year 2005 Drug Control Funds*, dated January 25, 2006

Enclosure # 2: Authentication letter from Helen Lew, Assistant Inspector General for Audit Services, dated January 27, 2006

cc: Helen Lew



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE INSPECTOR GENERAL

JAN 27 2006

Office of Inspector General's Independent Report on the U.S. Department of Education's Detailed Accounting of Fiscal Year 2005 Drug Control Funds, dated January 25, 2006.

We have reviewed management's assertions contained in the accompanying Accounting, titled *Department of Education Detailed Accounting of Fiscal Year 2005 Drug Control Funds*, dated January 25, 2006 (the Accounting). The U.S. Department of Education's management is responsible for the Accounting and the assertions contained therein.

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 management's assertions. Accordingly, we do not express such an opinion.

We performed review procedures on the "Table of Prior Year Drug Control Obligations," "Disclosures," and "Assertions" contained in the accompanying Accounting. We did not review the "Program Descriptions" contained in the accompanying Accounting. In general, our review procedures were limited to inquiries and analytical procedures appropriate for our review engagement.

Based on our review, nothing came to our attention that caused us to believe that management's assertions, contained in the accompanying Accounting, are not fairly stated, in all material respects, based upon the Office of National Drug Control Policy Circular: *Drug Control Accounting*, dated April 18, 2003.

Helen Lew  
Assistant Inspector General for Audit Services



# DEPARTMENT OF EDUCATION



## DETAILED ACCOUNTING OF FISCAL YEAR 2005 DRUG CONTROL FUNDS

IN SUPPORT OF THE  
*NATIONAL DRUG CONTROL STRATEGY*

AS REQUIRED BY SECTION 1704(d) OF  
TITLE 21 UNITED STATES CODE

JANUARY 25, 2006

**DEPARTMENT OF EDUCATION**  
**DETAILED ACCOUNTING OF FISCAL YEAR 2005 DRUG CONTROL FUNDS**

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UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF PLANNING, EVALUATION AND POLICY DEVELOPMENT

JAN 25 2006

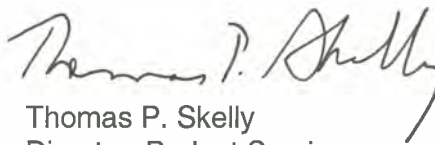
Mr. John P. Higgins, Jr.  
Inspector General  
U.S. Department of Education  
400 Maryland Avenue, S.W.  
Washington, DC 20202-1510

Dear Mr. Higgins:

As required by Section 1704(d) of Title 21 United States Code, enclosed please find a detailed accounting of all fiscal year 2005 Department of Education drug control funds for your authentication, in accordance with the guidelines in Office of National Drug Control Policy (ONDCP) Circular *Drug Control Accounting*, dated April 18, 2003.

Consistent with the instructions in the ONDCP Circular, please provide your authentication to me in writing, and I will transmit it to ONDCP along with the enclosed accounting of funds. As you know, ONDCP requests these documents by February 1, 2006, if possible. Please do not hesitate to contact me if you have any questions about the enclosed information.

Sincerely,



Thomas P. Skelly  
Director, Budget Service

## TABLE OF PRIOR YEAR DRUG CONTROL OBLIGATIONS

Fiscal Year 2005 Obligations  
(in \$ millions)

### Drug Resources by Function

Prevention	\$591.794
Total	591.794

### Drug Resources by Decision Unit

#### Safe and Drug-Free Schools and Communities Program

SDFSC State Grants	438.675
SDFSC National Programs	<u>153.119</u>
Total	591.794

NOTE: Detail may not add to total due to rounding.

## PROGRAM DESCRIPTIONS

The programs funded under the Safe and Drug-Free Schools and Communities (SDFSC) Act comprise the only Department of Education programs included in the national drug control budget. The SDFSC program provides funding for research-based approaches to drug and violence prevention that support the *National Drug Control Strategy*. Safe and Drug-Free Schools and Communities is the Federal Government's largest drug prevention program and the only Federal program that provides direct support to schools for efforts designed to prevent school violence. Under the SDFSC Act, funds are appropriated for State Grants and for National Programs.

### SDFSC State Grants

SDFSC State Grant funds are allocated by formula to States and Territories, half on the basis of school-aged population and half on the basis of each State's share, for the prior year, of Federal funds for "concentration grants to local educational agencies (LEAs) for improving the academic achievement of disadvantaged students" under section 1124A of Title I of the Elementary and Secondary Education Act (ESEA). Generally, Governors received 20 percent, and State educational agencies (SEAs) 80 percent, of each State's allocation. SEAs are required to subgrant at least 93 percent of their allocations to LEAs; these subgrants are based 60 percent on LEA shares of prior-year funding under Part A of title I of the ESEA and 40 percent on enrollment. LEAs may use their SDFSC State Grant funds for a wide variety of activities to prevent or reduce violence and delinquency and the use, possession, and distribution of illegal drugs, and thereby foster a safe and drug-free learning environment that supports academic achievement. Governors may use their funds to award competitive grants and contracts to LEAs, community-based organizations, and other public and private organizations for activities to provide safe, orderly, and drug-free schools and communities through programs and activities that complement and support activities of LEAs.

### SDFSC National Programs

SDFSC National Programs authorizes funding for several programs and activities to help promote safe and drug-free learning environments for students and address the needs of

troubled or at-risk youth, including Federal Activities (a broad discretionary authority that permits the Secretary to carry out a wide variety of activities designed to prevent the illegal use of drugs and violence among, and promote safety and discipline for, students); Evaluation and data collection activities; and an Alcohol Abuse Reduction Program to assist school districts in implementing innovative and effective programs to reduce alcohol abuse in secondary schools. SDFSC National Programs also authorizes: (1) Mentoring Programs, and (2) Project SERV (School Emergency Response to Violence, which is a crisis response program that provides education-related services to LEAs in which the learning environment has been disrupted due to a violent or traumatic crisis), both of which made obligations of funds in fiscal year 2005. However, as explained in the discussion of drug budget methodology below, funds for these two components of SDFSC National Programs are not included in the ONDCP drug budget and, therefore, they are not included in this obligations report.

## **DISCLOSURES**

### **Drug Methodology**

This accounting submission includes 100 percent of all fiscal year 2005 obligations of funds under the Safe and Drug-Free Schools and Communities (SDFSC) Act, with the exception of those SDFSC National Programs that have no clear drug control nexus. Accordingly, the amounts in the enclosed table of prior-year drug control obligations include 100 percent of funding for the SDFSC State Grants program, the SDFSC Alcohol Abuse Reduction program, and all other SDFSC National Programs, with the exclusion of obligations of funds for (1) SDFSC Mentoring Programs, (2) Project SERV (School Emergency Response to Violence), and (3) School Emergency Preparedness Initiatives.

#### **Obligations by Drug Control Function**

All obligations of funds for the SDFSC program shown in the table on page 2 of this report fall under the ONDCP drug control function category of prevention — the same functional category under which the budgetary resources for the SDFSC program are displayed for the Department of Education in the annual *National Drug Control Budget Summary* issued by ONDCP that accompanies the President's budget and in the *National Drug Control Strategy*.

#### **Obligations by Budget Decision Unit**

All obligations of drug control funds in the table on page 2 of this report are displayed using the SDFSC program as the budget decision unit — the same decision unit under which the budgetary resources for the Department of Education are displayed by ONDCP in the February 2005 *National Drug Control Budget Summary* that accompanied the 2006 President's budget in support of the *National Drug Control Strategy*.

### **Methodology Modifications**

To improve the accuracy of the Department's drug budget methodology, beginning with the transmittal to Congress of the President's 2006 budget in February 2005, the Department is also now excluding from the national drug control budget funds for School Emergency Preparedness Initiatives, which primarily support grants to school districts to strengthen and improve their emergency response and crisis management plans at the district and school level by addressing the four phases of crisis planning (prevention and mitigation, preparedness, response, and recovery). As a result of this methodology change, this detailed accounting of fiscal year 2005

drug control funds excludes \$33.2 million that the Department would have reported in the table on page 2 if we had retained the School Emergency Preparedness Initiatives in the national drug control budget.

### **Material Weaknesses or Other Findings**

The Department does not have any material weaknesses to disclose that affect the presentation of fiscal year 2005 drug-related obligations in this report. All other known weaknesses that affect the presentation of drug-related obligations in this report are explained in the drug methodology description above, and in the disclosures below.

### **Reprogrammings or Transfers**

In 2005 the Department reprogrammed a small amount of funds within the SDFSC National Programs. This reprogramming increased the amount of funding for School Emergency Preparedness Initiatives and, by doing so, reduced the amount of 2005 drug-related obligations under the program by \$2.4 million. (Note: This \$2.4 million is included in the \$33.2 million disclosed above in the statement on the impact of the methodology modification.) There were no transfers that changed the amount of drug-related budgetary resources in the Department in fiscal year 2005.

### **Other Disclosures**

The Department acknowledges the following limitations in the methodology described above for deriving the obligations of fiscal year 2005 drug control funds attributable to the SDFSC program:

- Although the budgetary resources in this report include 100 percent of obligations for SDFSC State Grants, Federal Activities, and Evaluation (exclusive of Project SERV and School Emergency Preparedness Initiatives), not all obligations of funds for these SDFSC programs support drug prevention activities — some of these funds support violence prevention and school safety activities that have no drug control-related nexus.
- Approximately \$5.8 million of the SDFSC National Programs funds included in the resource summary of this report (less than 1 percent of total fiscal year 2005 SDFSC reported drug control obligations) supported alcohol and other drug prevention projects for students enrolled in institutions of higher education; for college students served by such programs who are 21 years of age or older, alcohol is a legal drug and the alcohol prevention component of the program falls outside the scope of the *National Drug Control Strategy*.

## **ASSERTIONS**

### **Obligations by Decision Unit**

The fiscal year 2005 obligations of drug control funds shown in this report for the SDFSC drug budget decision unit are the actual 2005 obligations of funds from the Department's accounting system of record for the SDFSC program.

## **Drug Methodology**

The methodology used to calculate the fiscal year 2005 obligations of drug prevention funds presented in this report is reasonable and accurate, because: (1) the methodology captures all of the obligations of funds under the SDFSC program that reasonably have a drug control-related nexus, and (2) these obligations of funds correspond directly to the display of resources for the SDFSC program in the Department's budget justifications to Congress that accompany the President's budget.

### **Data**

No workload or other statistical information was applied in the methodology used to generate the fiscal year 2005 obligations of drug control funds presented in the table on page 2 of this report.

### **Other Estimation Methods**

Where assumptions based on professional judgment were used as part of the drug methodology, the association between these assumptions and the drug control obligations being estimated is thoroughly explained and documented in the drug methodology disclosure on page 3 and in the other disclosures on page 4 of this accounting report.

### **Financial Systems**

Financial systems supporting the drug methodology yield data that fairly present, in all material respects, aggregate obligations from which the drug-related obligation estimates are derived.

## **Application of Drug Methodology**

The methodology disclosed in the narrative of this report was the actual methodology used to generate the fiscal year 2005 obligations of drug control funds presented in the table on page 2.

## **Reprogrammings or Transfers**

The data presented in this report properly reflect changes in drug control budget resources resulting from reprogrammings of fiscal year 2005 SDFSC funds.

## **Fund Control Notices**

The Director of ONDCP has never issued to the Department of Education any Fund Control Notices under 21 U.S.C. 1703(f) or the applicable ONDCP Circular, *Budget Execution*. Therefore, the required assertion that the data presented in this report accurately reflect obligations of drug control funds that comply with all such Fund Control Notices is not applicable.



JAN 23 2006

Mr. Terry S. Zobeck  
Deputy Associate Director  
for Planning and Budget  
Office of National Drug Control Policy  
Washington, D.C. 20503

Dear Mr. Zobeck:

Enclosed are the detailed accounting submissions with IG authentications for the Department of Health and Human Services for Fiscal Year 2005 as required by the ONDCP Circular titled *Drug Control Accounting*. If you have any questions, please contact David Walter, Acting Director, Office of Audit Resolution and Cost Policy at (202) 401-2765 or [david.walter@hhs.gov](mailto:david.walter@hhs.gov).

Sincerely,

A handwritten signature in blue ink, appearing to read "Sheila Conley".

Sheila Conley  
Deputy Assistant Secretary, Finance

Enclosures



**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**ATTESTATION REVIEW: NATIONAL  
INSTITUTE ON DRUG ABUSE DRUG  
CONTROL ACCOUNTING REPORT  
FOR FISCAL YEAR 2005**

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**January 2006  
A-03-06-00351**

# *Notice*

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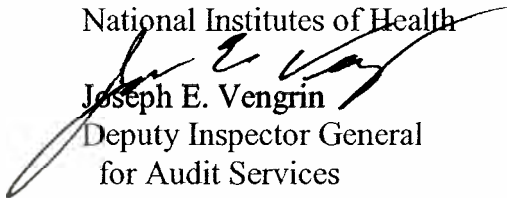




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JAN 12 2006

**TO:** Donna Jones  
Chief Financial Officer  
National Institute on Drug Abuse  
National Institutes of Health

**FROM:**   
Joseph E. Vengrin  
Deputy Inspector General  
for Audit Services

**SUBJECT:** Attestation Review: National Institute on Drug Abuse Drug Control  
Accounting Report for Fiscal Year 2005 (A-03-06-00351)

The purpose of this report is to provide you the results of our attestation review of the National Institute on Drug Abuse's (NIDA) drug control accounting report for fiscal year (FY) 2005. Our attestation review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements 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 to express an opinion on management's assertions contained in its report; accordingly, we do not express such an opinion. We reviewed the attached NIDA report entitled *Assertions Concerning Annual Accounting of Drug Control Funds*, dated November 25, 2005. The report is the responsibility of NIDA's management and was prepared by NIDA under the authority of 21 U.S.C. § 1704(d) and as required by the Office of National Drug Control Policy (ONDCP) Circular: Drug Control Accounting, dated April 18, 2003.

#### **OFFICE OF INSPECTOR GENERAL'S CONCLUSION**

Based on our review, nothing came to our attention that caused us to believe that management's assertions were not fairly stated, in all material respects.

#### **NATIONAL INSTITUTE ON DRUG ABUSE'S REPORT**

NIDA's report included a *Table of Prior Year Drug Control Obligations (Table)* for FY 2005 that reported obligations totaling approximately \$1 billion.

We performed review procedures on NIDA's *Table* and the related assertions and disclosures. In general, our review procedures were limited to inquiries and analytical procedures appropriate for our attestation review.

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Page 2 – Donna Jones

\*\*\*\*\*

This report is intended solely for the information and use of Congress, ONDCP, and NIDA, and is not intended to be and should not be used by anyone other than these specified parties. If you have questions or comments, contact me or have your staff call Stephen Virbitsky, Regional Inspector General for Audit Services, at 215-861-4470.

Attachment

*Distribution is limited to authorized officials.*

**ATTACHMENT**



## DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

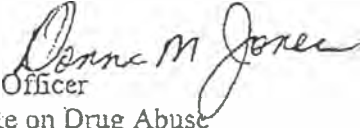
Public Health Service

NOV 25 2005

National Institutes of Health  
National Institute on Drug Abuse  
Bethesda, Maryland 20892

**MEMORANDUM TO:** Director  
Office of National Drug Control Policy

**THROUGH:** George Strader  
Deputy Chief Financial Officer  
Department of Health and Human Services

**FROM:** Donna Jones   
Chief Financial Officer  
National Institute on Drug Abuse

**SUBJECT:** Assertions Concerning Annual Accounting of Drug Control Funds

In accordance with the requirements of the Office of National Drug Control Policy Circular "Annual Accounting of Drug Control Funds," I make the following assertions regarding the attached annual accounting of drug control funds:

**Obligations by Budget Decision Unit**

I assert that obligations reported by budget decision unit are the actual obligations from the NIH financial accounting system for this budget decision unit after using NIDA's internal system to reconcile the NIH accounting system during the year.

**Drug Methodology**

I assert that the drug methodology used to calculate obligations of prior year budgetary resources by function for the institute was reasonable and accurate in accordance with the criteria listed in Section 6b(2) of the Circular. In accordance with these criteria, I have documented data which support the drug methodology, explained and documented other estimation methods (the assumptions for which are subject to periodic review) and determined that the financial systems supporting the drug methodology yield data that present fairly, in all material respects, aggregate obligations from which drug-related obligation estimates are derived.

Obligations of prior year drug control budgetary resources are calculated as follows:

FY 2005 actual obligations were determined by identifying NIDA support for projects that address drug prevention and treatment. Projects for inclusion in the ONDCP budget are identified from the NIDA coding system and database known as the "NEPS" system

(NIDA Extramural Project System). Data are entered into this system by program staff. NIDA does not need to make any assumptions or estimates to isolate its total drug control obligations as the total appropriation is drug control.

As the supporter of more than 85% of the world's research on drug abuse and addiction, the National Institute on Drug Abuse (NIDA) provides a strong science base for our Nation's efforts to reduce the abuse of drugs and their consequences. NIDA's comprehensive research portfolio addresses a broad range of drug abuse and addiction issues, ranging from the support of fundamental neurobiology to clinic-based research. As our Nation looks for science-based approaches to enhance its prevention and treatment efforts, NIDA's broad portfolio and its continuing efforts to work with other Agencies and NIH Institutes on a variety of transdisciplinary issues will provide the tools necessary to move these efforts forward. Research serves as the cornerstone of NIDA's efforts to disseminate research information and educate health professionals and the public, especially our Nation's youth, about the factors influencing drug use, its consequences, and about science-based and tested treatment and prevention techniques. These research and dissemination efforts to develop, test, and disseminate information on the basis of addiction, its consequences, and enhanced therapeutic techniques support the ONDCP Goal 3 (treatment). Efforts to enhance the science base and disseminate information on the factors that inhibit and facilitate drug use and its progression to addiction and other health consequences, and on science-based approaches for prevention interventions support the ONDCP Goal 1 (prevention).

NIDA obligations are allocated between prevention and treatment research based on the professional judgment of scientific program officials on specific grant and contract projects. These scientists review the grant application, project purpose and methodology, and/or progress report to determine whether the project meets NIDA's criteria for categorization as prevention or as treatment research. Projects are coded and entered into the NEPS system prior to funding.

The total \$1,000,056,000 is the actual amount obligated and reconciles to the NIDA Database system. The total of \$1,000,056,000 does not reconcile to the FY 2005 column of the FY 2006 Congressional Justification (CJ). This is because the FY 2005 column of the FY 2006 CJ includes a \$6,363,000 transfer for the NIH Roadmap. This adjustment to the FY 2005 column is determined by the NIH, DHHS and OMB.

### **Application of Methodology**

I assert that the drug methodology described in the preceding section was the actual methodology used to generate the table required by Section 6a. NIDA has not modified its drug methodology from the previous year. The difference between NIDA's actual obligations and the National Drug Control Strategy Budget summary number for FY 2005 are for the same reasons described above for the FY 2005 column of the FY 2006 CJ.

### Reprogrammings or Transfers

I assert that the obligation data presented are associated 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 that occurred during the fiscal year. As described above, NIDA had the following adjustment for FY 2005: a \$6,363,000 transfer for the NIH Roadmap.

### Fund Control Notices

I assert that the obligation data presented are associated against a financial plan that complied fully 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*, dated April 18, 2003.



**NATIONAL INSTITUTES OF HEALTH  
 NATIONAL INSTITUTE ON DRUG ABUSE  
 FY 2005 Actual Obligations  
 (Dollars in Thousands)**

**I. RESOURCE SUMMARY**

	FY 2005 Actual
<b>Drug Resources by Function:</b>	
Prevention	408,992
Treatment	591,064
<b>Total</b>	<b>1,000,056</b>
<b>Drug Resources by Decision Unit:</b>	
Demand Reduction	1,000,056
<b>Total</b>	<b>1,000,056</b>
<b>HIDTA Transfer</b>	
<b>ICDE Resources</b>	

**Differences Between (1) Actual Obligations and (2) the FY 05 Column of the  
 FY 06 CJ and the National Drug Control Strategy Budget Summary**

Total 2005 Col. of the FY 2006 CJ; National Drug Control Strategy	1,006,419
Comparative Transfer	<u>-6,363</u>
<b>Total Obligations</b>	<b>1,000,056</b>

## ACKNOWLEDGMENTS

This report was prepared under the direction of Stephen Virbitsky, Regional Inspector General for Audit Services. Other principal Office of Audit Services staff who contributed include:

Bert Anker, Audit Manager  
Z. Charles Yao, Auditor

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**ATTESTATION REVIEW: SUBSTANCE  
ABUSE AND MENTAL HEALTH  
SERVICES ADMINISTRATION DRUG  
CONTROL ACCOUNTING REPORT  
FOR FISCAL YEAR 2005**

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**January 2006  
A-03-06-00350**

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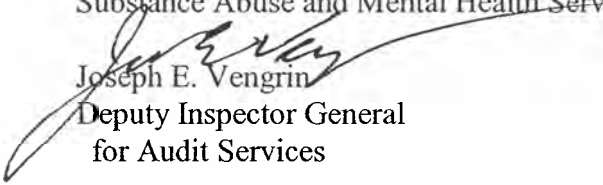




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JAN 12 2006

**TO:** Daryl W. Kade  
Chief Financial Officer  
Substance Abuse and Mental Health Services Administration

**FROM:**   
Joseph E. Vengrin  
Deputy Inspector General  
for Audit Services

**SUBJECT:** Attestation Review: Substance Abuse and Mental Health Services  
Administration Drug Control Accounting Report for Fiscal Year 2005  
(A-03-06-00350)

The purpose of this report is to provide you the results of our attestation review of the Substance Abuse and Mental Health Services Administration's (SAMHSA) drug control accounting report for fiscal year (FY) 2005. Our attestation review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements 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 to express an opinion on management's assertions contained in its report; accordingly, we do not express such an opinion. We reviewed the attached SAMHSA report entitled *Assertions Concerning Drug Control Accounting*, dated November 25, 2005. The report is the responsibility of SAMHSA's management and was prepared by SAMHSA under the authority of 21 U.S.C. § 1704(d) and as required by the Office of National Drug Control Policy (ONDCP) Circular: Drug Control Accounting, dated April 18, 2003.

### OFFICE OF INSPECTOR GENERAL'S CONCLUSION

Based on our review, nothing came to our attention that caused us to believe that management's assertions were not fairly stated, in all material respects.

### SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION'S REPORT

SAMHSA's report included a *Table of Prior Year Control Obligations (Table)* for FY 2005 that reported obligations totaling approximately \$2.6 billion.

We performed review procedures on SAMHSA's *Table* and the related assertions and disclosures. In general, our review procedures were limited to inquiries and analytical procedures appropriate for our attestation review.

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Page 2 – Daryl W. Kade

\*\*\*\*\*

This report is intended solely for the information and use of Congress, ONDCP, and SAMHSA, and is not intended to be, and should not be, used by anyone other than these specified parties. If you have questions or comments, contact me or have your staff call Stephen Virbitsky, Regional Inspector General for Audit Services, at 215-861-4470.

Attachment

*Distribution is limited to authorized officials.*

**ATTACHMENT**



## DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Substance Abuse and Mental  
Health Services AdministrationCenter for Mental Health Services  
Center for Substance Abuse  
Prevention  
Center for Substance Abuse  
Treatment  
Rockville MD 20857

NOV 25 2005

**MEMORANDUM TO:** Director  
Office of National Drug Control Policy

**THROUGH:** Terry Hurst  
Acting Deputy Assistant to the Secretary of Finance  
Department of Health and Human Services

**FROM:** Daryl Kade, Chief Financial Officer  
Office of Policy, Planning, and Budget  
Substance Abuse and Mental Health Services Administration

**SUBJECT:** Assertions Concerning Drug Control Accounting

In accordance with the requirements of the Office Of National Drug Control Policy Circular *Drug Control Accounting*, I make the following assertions regarding the attached annual accounting of drug control funds:

#### Obligations by Budget Decision Unit

I assert that obligations reported by budget decision unit are the actual obligations from SAMHSA's accounting system of record for these budget decision units.

#### Drug Methodology

I assert that the drug methodology used to calculate obligations of prior year budgetary resources by function for SAMHSA was reasonable and accurate in accordance with the criteria listed in Section 6b(2) of the Circular. In accordance with these criteria, I have documented/identified data which support the drug methodology, explained and documented other estimation methods (the assumptions for which are subjected to periodic review) and determined that the financial systems supporting the drug methodology yield data that present fairly, in all material respects, aggregate obligations from which drug-related obligation estimates are derived. (See Exhibit A)

#### Application of Drug Methodology

I assert that the drug methodology disclosed in Exhibit A was the actual methodology used to generate the table required by Section 6a.

#### Reprogrammings or Transfers

I assert that the data presented are associated with obligations against a financial plan that was revised during the fiscal year to include funds received from ONDCP in support of the Drug Free Communities Program. SAMHSA's Center for Substance Abuse Prevention (CSAP) received a



Page 2 - Director, Office of National Drug Control Policy

total of \$78,312,712 from ONDCP via an Interagency Agreement to fund activities of the Drug Free Communities Program in FY 2005. Of this total, an unexpended amount of \$1,259,562 was returned to ONDCP. The final amount awarded and managed by CSAP, \$77,780,873 is reflected on the attached Table of Prior Year Drug Control Obligations, FY 2005. SAMHSA had no other reportable reprogrammings or transfers in FY 2005.

**Fund Control Notices**

I assert that the data presented are associated with obligations against a financial plan that complied fully 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*, dated April 18, 2003.



Daryl W. Kade  
Chief Financial Officer

**Attachments:**

Table of Prior Year Drug Control Obligations, FY 2005  
Exhibit A - Drug Control Methodology

## SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION

### Table of Prior Year Drug Control Obligations FY 2005 (Dollars in millions)

#### Obligations by Drug Control Function

Prevention .....	650.3
Treatment .....	1,917.8
<b>Total .....</b>	<b>\$2,568.1</b>

#### Obligations by Budget Decision Unit

Programs of Regional and National Significance <sup>1/</sup> .....	621.1
<i>Substance Abuse Prevention (Non-add)</i> .....	(198.7)
<i>Substance Abuse Treatment (Non-add)</i> .....	(422.4)
Drug Free Communities Program <sup>2/</sup> .....	77.8
Substance Abuse Block Grant <sup>3/</sup> .....	1,775.5
Program Management <sup>4/</sup> .....	93.8
<b>Total .....</b>	<b>\$2,568.1</b>

#### *Footnotes:*

<sup>1/</sup> PRNS obligations reflect direct obligations against SAMHSA budget authority. Reimbursable obligations are not included, as these funds would be reflected in the obligations of the agency providing the reimbursable funds to SAMHSA. Substance Abuse Treatment PRNS obligations include funds provided to SAMHSA from the PHS evaluation fund.

<sup>2/</sup> Drug Free Communities Program funding was provided to SAMHSA/CSAP via Interagency Agreement.

<sup>3/</sup> SAPT Block Grant obligations include funds provided to SAMHSA from the PHS evaluation fund.

<sup>4/</sup> Program Management obligations include funds provided to SAMHSA from the PHS evaluation fund. Also, obligations reflect **total** SAMHSA Program Management funds, less reimbursements, and will not necessarily agree with "full cost" displays contained in SAMHSA budget documents.

*TOTALS MAY NOT ADD DUE TO ROUNDING*

## Exhibit A

(1) **Drug Methodology** - Actual obligations of prior year drug control budgetary resources are derived from the B332 report, Minor Object Classification Report by Allowance, and the B303 report, Minor Object Classification Report by CAN [common accounting number]. The Program Support Center (PSC) Core Accounting System, DHHS, provides both reports. Obligation details for FY 2005 as reported for the Center for Substance Abuse Prevention (CSAP), the Center for Substance Abuse Treatment (CSAT), and for SAMHSA Program Management are included in these reports, and have been certified by the SAMHSA CFO.

(a) **Obligations by Drug Control Function** - SAMHSA distributes drug control funding into two functions, prevention and treatment:

**Prevention:** This total reflects the sum of the actual obligations for:

- CSAP's Programs of Regional and National Significance (PRNS) direct funds, excluding reimbursable authority obligations;
- Drug Free Community Program funds provided by Interagency Agreement with ONDCP;
- 20% of Substance Abuse Prevention and Treatment Block Grant (SAPTBG) funds, including obligations related to receipt of PHS Evaluation funds; and
- 20% of the actual obligations of SAMHSA Program Management funds, including obligations related to receipt of PHS Evaluation funds.

Regarding allocation of 20% of the SAPTBG for the prevention function, the Public Health Services Act provides that "in expending the grant, the State involved will expend not less than 20 percent for programs for individuals who do not require treatment for substance abuse" (or, in other words, for primary prevention activities, reference PHS Act, Sec. 1922(a)(1)). For expediency and simplicity, program management actual obligations have also been allocated to the prevention function using the 20% factor as a proxy.

**Treatment:** This total reflects the sum of the actual obligations for:

- CSAT's Programs of Regional and National Significance (PRNS) direct funds, excluding reimbursable authority obligations;
- 80% of the actual obligations of the Substance Abuse Prevention and Treatment Block Grant (SAPTBG) funds, including obligations related to receipt of PHS Evaluation funds; and
- 80% of the funding for SAMHSA Program Management, including obligations related to receipt of PHS Evaluation funds;

Regarding allocation of 80% of the SAPTBG for the treatment function, rather than adding complexity to the allocation methodology, it has been determined and generally accepted that the full balance of 80% should be ascribed to the treatment function. Likewise, the 80% factor is also used to allocate the balance of program management obligations to the treatment function after the prevention allocation of 20% has been accomplished.

**(b) Obligations by Budget Decision Unit** - SAMHSA's budget decision units have been defined by Attachment B, ONDCP Circular, *Budget Formulation*, dated April 18, 2003. These units are:

- Programs of Regional and National Significance (PRNS) - Prevention (CSAP);
- Programs of Regional and National Significance (PRNS) - Treatment (CSAT);
- Substance Abuse Prevention and Treatment Block Grant (SAPTBG) - CSAT; and
- Program Management (PM) program - SAMHSA.
- In addition to the above, the Drug Free Communities Program funds provided by ONDCP are included in the Obligations by Budget Decision Unit display (CSAP).

Included in this Drug Control Accounting report for FY 2005 are 100% of the actual obligations for these five budget decision units, minus reimbursements. Actual obligations of prior year drug control budgetary resources are derived from the B332 report, Minor Object Classification Report by Allowance, and the B303 report, Minor Object Classification Report by CAN [common accounting number].

- (2) **Methodology Modifications** - There have been no changes in the SAMHSA accounting methodology since the prior year report (for FY 2004).
- (3) **Material Weaknesses or Other Findings** - There were no material weaknesses identified in this program by SAMHSA or outside sources in FY 2005.
- (4) **Reprogrammings or Transfers** - SAMHSA/CSAP received a total of \$78,312,712 from ONDCP via an Inter-Agency Agreement to fund Drug Free Communities Program activities in FY 2005. Of this total, an unexpended amount of \$1,259,562 was returned to ONDCP. SAMHSA had no other reportable reprogrammings or transfers in FY 2005.
- (5) **Other Disclosures** - None.

## ACKNOWLEDGMENTS

This report was prepared under the direction of Stephen Virbitsky, Regional Inspector General for Audit Services. Other principal Office of Audit Services staff who contributed include:

Bert Anker, Audit Manager  
Z. Charles Yao, Auditor

# DEPARTMENT OF HOMELAND SECURITY

## Office of Inspector General

Letter Report:

Independent Review of The  
U.S. Customs and Border Protection's  
Reporting of FY 2005  
Drug Control Funds



Office of Audits

OIG-06-26


March 2006



Homeland  
Security

March 20, 2006

MEMORANDUM FOR: Deborah J. Spero  
Acting Commissioner  
U.S. Customs and Border Protection

FROM:   
Richard L. Skinner  
Inspector General

SUBJECT: *Independent Review of the U.S. Customs and Border Protection's  
Reporting of FY 2005 Drug Control Funds*

The Office of National Drug Control Policy (ONDCP) requires U.S. Customs and Border Protection (CBP) 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 CBP'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 CBP 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, in its Submission, CBP reported using a factor of 90 percent to calculate the CBP Air and Marine's contribution to CBP's reported drug-related obligations. The factor used in CBP Air and Marine's actual calculation of drug-related obligations was 84 percent. The Submission also omitted a description of the methodology used by CBP Air and Marine to allocate its drug-related obligations between Intelligence and Interdiction functions. These two conditions deviate from the requirement that the drug methodology disclosed in the Submission was the actual methodology used to generate the table required by Section 6(a) of the Circular.

Our review disclosed that the *Independent Auditors' Report*<sup>1</sup> for CBP's balance sheet as of September 30, 2005, identified a material weakness related to information technology. The report said that the information technology control weaknesses limited "CBP's ability to ensure that critical financial and operational data is maintained in such a manner to ensure confidentiality, integrity, and availability." 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 CBP's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. The material weakness related to information technology deviates 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 CBP is one. We recommend that CBP, 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 matters discussed in paragraphs four and five 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.

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<sup>1</sup> See DHS Office of Inspector General Report Number OIG-06-12, December 2005. KPMG LLP, an independent public accounting firm, performed the audit of CBP's balance sheet as of September 30, 2005.



We provided a copy of this report in draft to CBP. CBP concurred with the findings and agreed to implement the report's recommendation found in paragraph six.

This report is intended solely for the information and use of CBP, 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.

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

U.S. Department of Homeland Security  
Washington, DC 20229



U.S. Customs and  
Border Protection

MAR 01 2006

TO: Director,  
Office of National Drug Control Policy

FROM: *for* Chief Financial Officer  
Customs and Border Protection *[Signature]*

SUBJECT: Fiscal Year 2005 National Drug Control Funds

Attached is the Customs and Border Protection Fiscal Year 2005 Report on the National Drug Control Funding. In FY 2005, Customs and Border Protection reported an expenditure against direct obligations of \$1,179.7 million.

To address any questions you have regarding this submission, your staff may contact Mr. Thierry Curtis on (202) 344-1256.

Richard L. Balaban

Attachment

cc: Sunday Okurume

DEPARTMENT OF HOMELAND SECURITY  
 CUSTOMS AND BORDER PROTECTION  
 Annual Reporting of FY 2005 Drug Control Funds

DETAILED ACCOUNTING SUBMISSION

A. Table of FY 2005 Drug Control Obligations

(Dollars in Millions)

<u>Drug Resources by Function:</u>	
Intelligence	\$ 159.195
<u>Interdiction</u>	<u>1,020.503</u>
TOTAL	\$ 1,179.698
<u>Drug Resources by Appropriation:</u>	
Salaries and Expenses	\$ 970.049
<u>Air</u>	<u>209.649</u>
TOTAL	\$ 1,179.698

1. Drug Methodology

On the basis of past practice, five organizations within Customs and Border Protection (CBP), the Offices of: Border Patrol; Field Operations; Information Technology; Training and Development; and CBP Air were provided with guidance on preparing estimates for the FY 2005 annual reporting of drug control funds. These offices were asked to estimate, on the basis of their expert opinion, what portion of their activities is related to drug enforcement. In addition, these organizations were also asked to only provide data for obligations against budget authority that became available in FY 2005.

All five organizations identified resources in their financial plans that support the drug enforcement mission of the agency.

OFFICE OF BORDER PATROL

There are over 11,200 Border Patrol agents that are assigned the mission of detecting and apprehending illegal entrants between the ports-of-entry along the 8,000 miles of the United States borders. These illegal entries include aliens and drug smugglers, potential terrorists, wanted criminals, and persons seeking to avoid inspection at the designated ports of entry due to their undocumented status, thus preventing their illegal entry. It has been determined that 15 percent of the total agent time nationwide is related to drug interdiction activities. These activities include staffing 26 permanent border traffic checkpoints nationwide including 526 canine units trained in the detection of humans and certain illegal drugs that are concealed within cargo containers, truck trailers, passenger vehicles and boats. In addition, agents perform line watch functions in targeted border areas that are frequent entry points for the smuggling of drugs and people into the United States.

OFFICE OF FIELD OPERATIONS

The Office of Cargo Conveyance and Security/Non-Intrusive Inspection Division of the Office of Field Operations estimates that there are currently 2,763 CBP Officer positions

that are related to drug enforcement called Enforcement Team Officers. In August 2003, CBP established a Consolidated National Inspectional Anti-Terrorism Contraband Enforcement Team (A-TCET) Policy. Under A-TCET, the former Contraband Enforcement Team (CET), Manifest Review Unit (MRU), Non-Intrusive Inspection, Canine, and Outbound teams will be united to form a single enforcement team, A-TCET. The A-TCET teams also work closely with the Passenger Enforcement Rover Team (PERT) and Passenger Analytical Unit (PAU) teams to coordinate all enforcement activities. Although the primary mission of the A-TCET teams is anti-terrorism, they will also focus on all types of contraband, including narcotics. In the past, 100 percent of CET Inspector time has been devoted to drug enforcement. Since the primary focus of A-TCET is anti-terrorism, it is estimated that 85 percent of their time is devoted to drug enforcement. Although the primary focus of CET enforcement teams has changed, there is only a slight decrease in time devoted to drug enforcement due to similarities in function. The smuggling methodologies and their indicators are believed to be similar for both narcotics and anti-terrorism activities.

By the end of FY 2005, there was a total of 646 Canine Enforcement Officers. Included in the total were 442 Narcotics Detection Teams, 17 Currency Detection Teams and 85 Narcotics/Human Smuggling Detection Teams that were nearly 100 percent devoted to smuggling interdiction. Also included in the total, but not scored for narcotics enforcement are 79 Agricultural Teams, 11 Chemical Detection Teams, and 12 Explosive Detection Teams.

There were 14,290 Other CBP Officers that, in addition to the interdiction of contraband and illegal drugs also enforce hundreds of laws and regulations of many other Federal government agencies. For example, these agencies include the U.S. Fish and Wildlife Service, the Bureau of Alcohol, Tobacco, Firearms and Explosives, and the Bureau of Export Administration among many others. CBP subject matter experts estimate that roughly 30 percent of these officers' time is devoted to drug-related activities.

#### OFFICE OF INFORMATION TECHNOLOGY

The Office of Information Technology (OIT) supports the drug enforcement mission through the acquisition, and support and maintenance of technology, such as non-intrusive inspection systems and targeting systems. Of OIT's spending on NII, 50 percent of base resources, 50 percent of support and maintenance resources, and 50 percent of non-intrusive imaging acquisition resources support the anti-drug, as well as the anti-terrorism missions.

#### OFFICE OF TRAINING AND DEVELOPMENT

The Office of Training and Development (OTD) arrived at its estimates by reviewing all courses conducted to determine if the course contained drug enforcement related material. If the course was found to contain drug related material, the funding attributed to the course was then multiplied by the drug content percentage based on the drug budget methodology. Other resources were attributed to drug enforcement activities at a rate of 31 percent based on the diverse nature of OTD's programs such as anti-terrorism, career development, and transition training of the legacy workforce.

#### CBP AIR and Marine

CBP Air's core competencies are air and marine interdiction, air and marine law enforcement, and air domain security. In this capacity, CBP Air targets the conveyances that illegally transport narcotics, arms, and aliens across our borders and in the Source, Transit and Arrival Zones. In support of Source and Transit Zone interdiction operations, the CBP Air P-3 Program has dedicated a minimum of 7,200 hours a year in support of

Joint Interagency Task Force – South. This support has been instrumental in record seizures over the past two years.

Although ninety percent of the resources that support CBP Air are considered to be drug-related, since September 11, 2001, Air has steadily increased its support to counter-terrorism by developing a more cohesive and integrated response to national security needs as well as more emphasis on illegal immigration. Currently, Air is dedicating significant assets and personnel to National Capital Region security missions, support to Operation HALCON – a US/Mexico interdiction initiative, and support to the Office of Border Patrol in Southwest Border illegal alien intervention.

2. Methodology Modifications

(a) Last year's Office of Field Operations submission the functional split for Enforcement Team Officers was an 84/16 Interdiction/Intelligence split. In this submission, the functional split for these officers is an 85/15 Interdiction/Intelligence split. The functional splits for other CBP Officers, ATS (Inbound), ATS (Land Border) and the Customs-Trade Partnership Against Terrorism (C-TPAT) have been changed from an 88/12 to an 80/20 Interdiction/Intelligence split. This change reflects professional judgment gained through field training and does not change the overall amount of resources dedicated to drug enforcement. However, it does shift \$23.6 million from the interdiction function to the Intelligence function.

3. Material Weakness or Other Findings

None

4. Reprogramming or Transfers

None

5. Other Disclosures

None

B. Assertions

1. Drug Methodology

CBP asserts that the methodology used to estimate drug enforcement related obligations and FTE utilization is reasonable and accurate. The criteria associated with this assertion are as follows:

a. Data

The estimate of drug enforcement related costs is based on the methodology described in section A.1 above, and presents a fair and accurate picture of the CBP drug enforcement mission.

b. Other Estimate Methods

None

c. Financial Systems

CBP's financial systems are capable of providing data that fairly present, in all material respects, aggregate obligations. The drug methodology described in section A.1 above is used to estimate what portion of these obligations may reasonably be considered to be associated with drug enforcement related activities.

2. Application of Methodology

The methodology described in section A.1 above was used to prepare the estimates contained in this report.

3. Reprogramming or Transfers

No changes were made to CBP's Financial Plan that required ONDCP approval per the ONDCP Circular dated April 18, 2003.

4. Fund Control Notices

The data presented are associated with obligations against the financial plan that fully complied with the fund control notice issued by the Director of The Office of National Drug Control Policy on September 13, 2004.

## 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

1



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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**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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ICE

Assistant Secretary  
Chief Financial Officer  
ICE Audit Liaison

Office of National Drug and Control Policy

Associate Director for Planning and Budget

Office of Management and Budget

Chief, Homeland Security Branch  
DHS OIG Budget Examiner

Congress

Congressional Oversight and Appropriations Committees as appropriate

## 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

1



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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# DEPARTMENT OF HOMELAND SECURITY

## Office of Inspector General

Letter Report:

Independent Review of  
The U.S. Coast Guard's  
Reporting of FY 2005  
Drug Control Funds



Office of Audits

OIG-06-27


March 2006



Homeland  
Security

March 20, 2006

MEMORANDUM FOR: Admiral Thomas H. Collins  
Commandant  
U.S. Coast Guard

FROM:   
Richard L. Skinner  
Inspector General

SUBJECT: *Independent Review of the U.S. Coast Guard's Reporting of FY 2005  
Drug Control Funds*

The Office of National Drug Control Policy (ONDCP) requires the U.S. Coast Guard (Coast Guard) 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 Coast Guard'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 the Coast Guard 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 the Coast Guard directly contributed. Those material weaknesses were identified in the areas of financial management oversight; financial reporting; financial systems security; undelivered orders, accounts payable, and disbursements; budgetary accounting; actuarial liabilities; fund balance with Treasury; intragovernmental and intradepartmental balances; property, plant, and equipment; and operating materials and supplies. 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 the Coast Guard is one. We recommend that the Coast Guard, 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 the Coast Guard. The Coast Guard responded that it generally agreed with the findings.

This report is intended solely for the information and use of the Coast Guard, 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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Associate Director for Planning and Budget

### **Office of Management and Budget**

Chief, Homeland Security Branch  
DHS OIG Budget Examiner

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Congressional Oversight and Appropriations Committees as appropriate

# Appendix A



Commandant  
United States Coast Guard

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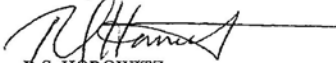
Ms. Sue Schwendiman  
Department of Homeland Security  
Director of Financial Management  
Office of the Inspector General  
1120 Vermont Avenue, 10<sup>th</sup> Floor, NW  
Washington, D.C. 20005

Dear Ms. Schwendiman,

In accordance with the Office of National Drug Control Policy Circular: *Annual Accounting of Drug Control Funds* dated April 18, 2003, I have enclosed Coast Guard's response of FY 2005 drug control obligations, drug control methodology and assertions.

If you require further assistance on this information, please contact Mr. Dave Pokora, x7-2415.

Sincerely,



K.S. HOROWITZ  
Chief Financial Officer  
U.S. Coast Guard

Enclosure

Copy: Chief Financial Officer, DHS

DEPARTMENT OF HOMELAND SECURITY  
 UNITED STATES COAST GUARD  
 ANNUAL ACCOUNTING OF  
 FY 2005 DRUG CONTROL FUNDS  
 6A. DETAILED OBLIGATION SUBMISSION

(a) Table of Prior Year Drug Control Obligations (dollars in millions)

RESOURCE SUMMARY	2005 Actual
<b>Drug Resources by Function:</b>	<b>Obligations</b>
• Interdiction	\$875.149
• Research and Development	1.378
<b>Total Resources by Function</b>	<b>\$876.527</b>
<b>Drug Resources by Decision Unit:</b>	
• Operating Expenses (OE)	\$587.820
• Reserve Training (RT)	\$12.083
• Acquisition, Construction, and Improvements (AC&I)	\$275.246
• Research, Development, Test and Evaluation (RDT&E)	\$1.378
<b>Total Drug Control Obligations</b>	<b>\$876.527</b>

(1) Drug Methodology

Over twenty years ago, the Coast Guard designed its cost allocation methodology to systematically allocate funding to the Coast Guard's primary mission areas. This methodology allocated Coast Guard costs based on the time that Coast Guard resources (cutters, aircraft, boats, and personnel) spent on various types of missions. This view of the Coast Guard budget provided valuable insight into the multi-mission use of assets and personnel. However, for many years the only information taken into consideration was results of a past year's operational activity. Prior to 1998, operational data (resource hours) and obligation data were downloaded only at the end of the fiscal year to develop mission cost allocations for the year just completed and budgetary projections for current and future years taking into account incremental changes. Today, the methodology and software have been updated to take advantage of improved technology. Further, the Coast Guard has developed an operating hour baseline as a method to allocate resource hours for each resource class to multiple Coast Guard missions. This is the basis for funding allocations in budget projections. The operating hour allocation, or baseline, is developed and modified based upon line item requests, congressional direction and national priorities.

The Coast Guard's drug control funding estimates are computed by closely examining the decision units, or appropriations, that comprise the Coast Guard's drug control budget estimates. These decision units consist of: Operating Expenses (OE); Acquisition, Construction, and Improvement (AC&I); Reserve Training (RT); and Research, Development, Test, and Evaluation (RDT&E).

**DEPARTMENT OF HOMELAND SECURITY  
UNITED STATES COAST GUARD  
ANNUAL ACCOUNTING OF  
FY 2005 DRUG CONTROL FUNDS  
6A. DETAILED OBLIGATION SUBMISSION**

**(1) Drug Methodology (Continued)**

Each decision unit contains its' own unique spending authority and methodology. For example, AC&I includes funding that can last up to five years after appropriation and RDT&E funding does not expire. OE and RT funding must be spent in the fiscal year it is appropriated and therefore their methodology is the same.

**Operating Expenses**

The majority of the funds the Coast Guard allocates to the drug interdiction program are in the Operating Expenses (OE) decision unit. OE funds are used to operate Coast Guard facilities, maintain capital equipment, improve management effectiveness, and recruit, train, and sustain an active duty military and civilian workforce. In the OE budget, the amount allocated to the drug interdiction program is derived by allocating a share of the actual expenditures based upon the amount of time aircraft, cutters, and boats spent conducting drug interdiction activities. The Coast Guard tracks the resource hours spent on each of the 11 Coast Guard programs by using a web-based Abstract of Operations (AOPS) data collection and report system. Coast Guard AOPS data is used to develop the amount of time that each asset class spent conducting each of the Coast Guard's missions. Using financial data gathered from over 3,000 cost centers around the United States along with the Abstract of Operations information, the Coast Guard is able to allocate OE costs to each of the 11 program areas consisting of: Drug Interdiction; Migrant Interdiction; Ports, Waterways and Coastal Security; Other Law Enforcement; Defense Readiness; Search and Rescue; Marine Safety; Ice Operations; Marine Environmental Protection; Living Marine Resources; and Aids to Navigation.

**Acquisition, Construction, and Improvements**

In scoring drug control funding requests within the zero-based Acquisition, Construction, and Improvement (AC&I) decision unit, professional judgment is used to evaluate every line item requested in the FY 2005 AC&I budget for its anticipated contribution to Coast Guard's 11 program areas. For each AC&I project, a discrete driver is selected to allocate the funding for that project to the various mission areas of the Coast Guard. In most cases, the driver is the percentage of time an asset contributes to the drug control mission as determined from the OE/RT Mission Cost Model (MCM). Otherwise, when a project is not related to any particular asset or series of asset classes, the project fund may benefit Coast Guard's entire inventory, the general OE AOPS MCM percentage is utilized. As with the other three appropriations, once the program percentage spreads computed for each of these drivers in the FY 2005 AC&I MCM the total bottom-line mission percentage is applied directly to the AC&I total direct obligations. After further review of previous years AC&I drug accounting methodology, this improvement was adopted for two fundamental reasons: (a) to present how total 2005 AC&I multi-year obligations support Coast Guard's current state of operations rather than dated mission spreads developed when prior year funding was first requested and; (b) to maintain a repeatable mission spread process used throughout annual budget year presentations, OMB's MAX budget system and the CFO's Statement of Net Cost reports.

**DEPARTMENT OF HOMELAND SECURITY  
UNITED STATES COAST GUARD  
ANNUAL ACCOUNTING OF  
FY 2005 DRUG CONTROL FUNDS  
6A. DETAILED OBLIGATION SUBMISSION**

**(1) Drug Methodology (Continued)**

**Reserve Training**

The Coast Guard allocates a portion of the Reserve Training (RT) decision unit funds to the drug interdiction program. RT funds are used to support Coast Guard Selected Reserve personnel who support and operate Coast Guard facilities, maintain capital equipment, improve management effectiveness, and assist in sustaining all Coast Guard operations. The actual FY 2005 obligations for the RT decision unit is determined using the same methodology used for OE.

**Research, Development, Test and Evaluation**

The final decision unit is Research, Development, Test and Evaluation (RDT&E). As with the AC&I Appropriation, scoring of drug interdiction funding is accomplished within the zero-based RDT&E decision unit and every line item requested in the FY 2005 RDT&E budget was evaluated for its anticipated contribution to drug interdiction efforts. Each RDT&E project, has a discrete driver that is selected to allocate the funding for that project to the various mission areas of the Coast Guard. These drivers are based upon experienced professional judgment. Once the unique program driver is chosen the program percentage spreads as determined from the OE/RT Mission Cost Model (MCM).

**(2) Methodology Modifications**

The methodology described above has not been modified from the previous year.

**(3) Material Weaknesses or Other Findings**

As a result of the CFO Act audit, the Coast Guard received material weaknesses in financial management, financial reporting and financial systems that impact the assurance of information in our financial reports. As such, we cannot provide assurances as to the integrity of the financial data contained in this report. Also, as a result of a separate audit relating to the Statement of Net Cost (SNC) report, the Coast Guard has received specific audit findings regarding the input processes (SRUFM, AMMIS and AOPS) that directly affect the mission cost model output reports. The SNC audit found that these input processes had not been adequately documented and did not have appropriate internal controls to support the existence, accuracy and completeness of this financial information. The Coast Guard currently has an aggressive remediation plan to correct the majority of these material weaknesses by the FY 2007 Financial Audit.

**(4) Reprogrammings or Transfers**

No reprogrammings or transfers of drug related budget resources in excess of the ONDCP's \$5 million threshold occurred during FY 2005.

**DEPARTMENT OF HOMELAND SECURITY  
UNITED STATES COAST GUARD  
ANNUAL ACCOUNTING OF  
FY 2005 DRUG CONTROL FUNDS  
6A. DETAILED OBLIGATION SUBMISSION**

**(5) Other Disclosures**

The following provides a synopsis of the United States Coast Guard's FY 2005 Drug Control Funds reporting which describes:

1. The agency's overall mission and the role of drug interdiction efforts within the Coast Guard's multi-mission structure;
2. The Coast Guard's drug control budget submission.

**Coast Guard Mission**

The Coast Guard is a military service with mandated national security and national defense responsibilities in addition to being the United States' leading maritime law enforcement agency with broad, multi-faceted jurisdictional authority. The Coast Guard is a multi-mission maritime service consisting of 11 complementary program areas: Drug Interdiction; Migrant Interdiction; Ports, Waterways and Coastal Security; Other Law Enforcement; Defense Readiness; Search and Rescue; Marine Safety; Ice Operations; Marine Environmental Protection; Living Marine Resources; and Aids to Navigation.

The Coast Guard faces many of the same challenges as the other four military services when it comes to deciding which assets should be deployed for what missions and where. This is not only true between the broad categories of missions, but also within sub-sets of the various missions the Coast Guard undertakes. For example, assets used for the Enforcement of Laws and Treaties must be divided between drug interdiction and migrant interdiction, as well as enforcement of fishing regulations and international treaties. Due to the multi-mission nature of the Coast Guard and the necessity to allocate the effort of a finite amount of assets, there is a considerable degree of asset "cross-over" between the missions. This crossover contributes to the challenges the Coast Guard faces when reporting costs for the various mission areas.

**Coast Guard's Drug Budget**

In the annual National Drug Control Strategy (NDCS) Budget Summary, all agencies present their drug control resources broken out by function, and decision unit. The presentation by decision unit is the one that corresponds most closely to the Coast Guard's congressional budget submissions and appropriations. It should be noted and emphasized that the Coast Guard does not have a specific appropriation for drug interdiction activities. All drug interdiction operations, capital improvements, reserve support, and research and development efforts are funded out of general Coast Guard appropriations. For the most part, the Coast Guard drug control budget is a reflection of the Coast Guard's overall budget. The Coast Guard's Operating Expenses appropriation budget request is incremental, focusing on the changes from the prior year base brought forward. The Coast Guard continues to present supplementary budget information through the use of a model, which allocates its base funding and incremental requests by mission.

**DEPARTMENT OF HOMELAND SECURITY  
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FY 2005 DRUG CONTROL FUNDS  
6A. DETAILED OBLIGATION SUBMISSION**

**(5) Other Disclosures (Cont.)**

This general purpose Mission Cost Model serves as the basis for developing drug control budget estimates for the OE and RT appropriations and provides allocation percentages used to develop the drug control estimates for the AC&I and RDT&E appropriations. Similarly, this is the methodology used to complete our annual submission to ONDCP for the NDCS Budget Summary.



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6B. ASSERTIONS**

**(1) Obligations by Budget Decision Unit** – N/A. As a multi-mission agency, the Coast Guard is exempt from reporting under this section as noted in ONDCP Circular: *Drug Control Accounting*, Sections 6a (1) (b).

**(2) Drug Methodology**

The following methodology was applied to derive the drug control information presented in the table in section 6A. The information reported is timely and is derived from an allocation process involving the Coast Guard's audited financial statement information.

The Coast Guard does not have a discrete drug control appropriation and its financial systems are not structured to accumulate accounting data by operating programs or missions areas. Drug control funding data is developed using a systematic process for the OE and RT appropriations, and a combination of project analysis, subject matter review and OE-based allocations for the AC&I and RDT&E appropriations.

(a) **Data** -- As pointed out in the previous section, the Coast Guard reports its drug control funding to ONDCP for each of the four appropriations or decision units. The mechanics of how each decision unit's drug control data is derived as follows:

- **Operating Expenses (OE) and Reserve Training (RT)** – Budget Authority or Expenditures are allocated to the mission areas of the Coast Guard based upon the output of a Mission Cost Model (MCM). This is basically an OE expenditure driven model that is used in presenting the mission based data shown in the OE and RT budget submissions across the 11 Coast Guard programs. The following data sources feed the FY 2005 OE/RT MCM:

1. **Core Accounting System (CAS)** – FY 2005 expense data broken down by cost center, unit name, allotment fund code, and dollar amount. This data is audited annually as part of the Chief Financial Officers Act audit process. These expenses are fed into the Standard Rates and User Fees Model (SRUFM), along with Coast Guard's operating cost reports of the Engineering Logistics Center (ELC) and Coast Guard Yard and the cost per flight hour report from the Aircraft Repair & Support Center (AR&SC). The SRUFM uses an activity-based methodology to assign and allocate expenses to the Coast Guard's assets and certain non-asset intensive missions, such as Marine Safety. The resulting total cost pools serve as one of the major inputs to the Mission Cost Model. If current year SRUFM data is not available, the previous year total cost pools are adjusted to fit the relevant fiscal year's asset inventory. For example, the FY 2005 actual expenses Mission Cost Model uses FY 2004 financial data, adjusted to reflect changes in the Coast Guard's asset inventory from FY 2004 to FY 2005. The SRUFM is reconciled to the Coast Guard's Statement of Net Cost.

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6B. ASSERTIONS

(2) Drug Methodology (cont.)

2. **Naval Electronics Supply Support System (NESSS)** – The Coast Guard Engineering Logistics Center (ELC) and Coast Guard Yard at Baltimore operate a stand alone financial system. Similar to the Core Accounting System, NESSS data is broken down by cost center, unit name, allotment fund code, and dollar amount. NESSS expense data is fed into the SRUFM and allocated to Coast Guard assets and certain non-asset intensive missions. NESSS financial data is included in the Coast Guard’s audited financial statements.
  3. **Aviation Maintenance Management Information System (AMMIS)** - The Coast Guard Aircraft Repair and Supply Center in Elizabeth City operates a stand alone financial system. Similar to the Core Accounting System, AMMIS data is broken down by cost center, unit name, allotment fund code, and dollar amount. AMMIS expense data is fed into the SRUFM and allocated to Coast Guard assets and certain non-asset intensive missions. AMMIS financial data is included in the Coast Guard’s audited financial statements.
  4. **Abstract of Operations (AOPS)** – web-based information of how an asset (aircraft, boat, or cutter) spent its time performing various missions of the Coast Guard. Each unit or activity that performs a mission is responsible for including the resource hours in the AOPS database.
  5. **Other Expenses** – The drug related pieces that feed this area of the model are the Tactical Law Enforcement Teams (TACLET), the Law Enforcement Detachments (LEDET) and the Special Projects. The percentage that drives the TACLET /LEDET resource areas are computed from team deployment days divided by the total deployment days in the fiscal year for the drug interdiction mission. The Special Projects percentage driver is formulated from a professional judgment of how funding is used to support costs related to counter-drug operations such as Frontier Shield/Frontier Lance as well as liaison costs for Coast Guard’s Organized Drug Enforcement Task Force (OCDETF).
  6. **Mission Cost Model (MCM) Application & Results** – The MCM produces a percentage of Coast Guard OE and RT expenditures allocated to each of the 11 programs.
- **Normalize to BA or Obligations** – The program percentages derived from the MCM are then applied to total OE and RT fiscal year 2005 budget authority or obligations (See Attachments A & B respectively) depending upon the reporting requirement. Budget Authority is derived from the agency's annual enacted Appropriation and expenditure data is derived from the final financial accounting Report of Budget Execution (SF-133).

DEPARTMENT OF HOMELAND SECURITY  
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6B. ASSERTIONS

**(2) Drug Methodology (cont.)**

- **Acquisition, Construction & Improvements (AC&I)** - is a multi-year appropriation where funding is available for up to 5 years depending on the nature of the project. The methodology used to develop the drug funding estimate is systematically different than that of OE and RT. AC&I drug funding levels, for either BA or obligations, is developed through an analysis of each project/line item. For each line item, a discrete driver is selected that best approximates the contribution that asset or project, when delivered, will contribute to each of the Coast Guard's 11 programs. The total program/mission area spreads for these drivers are based on the FY 2005 AC&I MCM output. To ensure consistency, the extract used for the analysis of enacted FY 2005 BA is used for the end of year analysis of obligations as well. For FY 2005 AC&I program and mission area spreads, the following data sources and methods were used:
  1. **AC&I Mission Cost Model** – was developed based on data feeds from the FY 2005 OE/RT MCM model as related in earlier OE and AC&I statements. The following data sets were then required to complete the AC&I MCM:
  2. **Drug related percentage** – The percentage spread for each driver was extracted from the OE MCM. This information was further analyzed to:
    - (a) Ensure a discrete driver representing either a particular asset, series of assets or mission was applied to each project or;
    - (b) A general OE percentage driver was used when the project's outcome was expected to benefit all inventory and/or agency needs.
  3. **Mission cost results/application** - Once the project drivers were extracted from the OE MCM, they were applied to the total AC&I BA levels derived from the agency's enacted Appropriation Bill in the FY 2005 AC&I MCM. The total allocated mission percentages from the AC&I MCM were then applied to the total AC&I 2005 obligations as reported from the CAS as of September 30, 2005 (See Attachment C).
  
- **Research, Development, Test & Evaluation (RDT&E)** - is a no-year appropriation where funding, once appropriated, may be obligated indefinitely in the future until all balances are expended. The methodology used to develop the drug-funding estimate is similar to AC&I in that drug-funding costs are based on an analysis of each project. The program/mission area percentages are based upon subject matter expert review.
  1. **RDT&E Mission Cost Model** – was developed based on data feeds from the FY 2005 OE/RT MCM model as related in earlier OE and AC&I statements. The following data sets were then required to complete the RDT&E MCM:
  2. **Drug related percentage** – The percentage spread for each driver was extracted from the OE MCM. This information was further analyzed to:

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6B. ASSERTIONS

**(2) Drug Methodology – RDT&E (cont.)**

- (a) Ensure a discrete driver representing either a particular asset, series of assets or mission was applied to each project or;
  - (b) A general OE percentage driver was used when the project's outcome was expected to benefit all inventory and/or agency needs.
3. **Mission cost results/application** - Once the project drivers were extracted from the OE MCM, they were applied to the total RDT&E BA levels derived from the agency's enacted Appropriation Bill in the FY 2005 RDT&E MCM. The total allocated mission percentages from the RDT&E MCM were then applied to the total RDT&E 2005 obligations as reported from the CAS as of September 30, 2005 (See Attachment D). BA data is derived from the agency's enacted Appropriation and expenditure data is extracted from a Finance and Procurement Desktop (FPD) transaction summary report by project. This revised application from previous year's methodology better defines the current state of Coast Guard operations and the management of its personnel and asset inventories.
- (b) **Other Estimation Methods** - Where the MCM allocates a percentage of time/effort expended to a given AC&I project/line item, in some cases changes were made to better represent the drug costs associated. As noted in the AC&I and the RDT&E methodology, experienced professional judgment is sometimes used to change a driver based on specific knowledge that a resource will be used differently than the historical profile indicates. An example of this would be in the change in the allocation of resource hours associated with a new Great Lakes icebreaker. In the past, icebreakers have dedicated a majority of their annual resource hours to ice breaking with the remainder of the annual resource hours being allotted to environmental response. The new icebreaker is being designed as more of a multi-mission asset that will be tasked with aids to navigation, marine safety, and search and rescue and aids to navigation missions in addition to its ice breaking activities. This change requires that the MCM allocation for this resource be manually adjusted, based on professional judgment, to reflect the change in the planned operating profile for the new icebreaker.
  - (c) **Financial Systems** – Data is derived from CAS, ELC, Coast Guard Yard systems. No other financial systems or information are used in developing program or mission area allocations.
- (3) Application of Drug Methodology** - The methodology disclosed in this section was the actual methodology used to generate the table required by Section 6A. Documentation on each decision unit is provided.

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6B. ASSERTIONS**

- (4) **Reprogrammings or Transfers** -- No reprogrammings or transfers of drug related budget resources in excess of the ONDCP's \$5 million threshold occurred during FY 2005.
  
- (5) **Fund Control Notices** – The FY 2005 data presented herein is associated with obligations reported in Coast Guard's FY 2005 financial plan that fully complies with all Fund Control Notices issued by the Director under 21 U.S.C. Section 1703(f) and Section 8 of ONDCP Circular, *Budget Execution*, dated April 18, 2003.

**OPERATING EXPENSES (OE)  
MISSION COST MODEL OUTPUT:**

		(dollars in thousands) FY 2005	
		Obligations	% of total
1.	Search and Rescue (SAR)	617,583	11.60%
2.	Marine Safety (MS)	445,094	8.36%
3.	Aids to Navigation (ATON)	919,428	17.27%
4.	Ice Operations (IO)	141,618	2.66%
5.	Marine Environmental Protection (MEP)	118,872	2.23%
6.	Living Marine Resources (LMR)	459,613	8.63%
7.	Drug Interdiction	587,820	11.04%
8.	Migrant Interdiction	355,451	6.68%
9.	Other Law Enforcement (OTH-LE)	56,751	1.07%
10.	Ports, Waterways & Coastal Security (PWCS)	1,210,529	22.73%
11.	Defense Readiness	412,255	7.74%
<b>Total OE Obligations</b>		<b>\$ 5,325,014</b>	<b>100%</b>

**RESERVE TRAINING (RT)  
MISSION COST MODEL OUTPUT:**

		(dollars in thousands) FY 2005	
		Obligations	% of total
1.	Search and Rescue (SAR)	12,695	11.60%
2.	Marine Safety (MS)	9,149	8.36%
3.	Aids to Navigation (ATON)	18,900	17.27%
4.	Ice Operations (IO)	2,911	2.66%
5.	Marine Environmental Protection (MEP)	2,444	2.23%
6.	Living Marine Resources (LMR)	9,448	8.63%
7.	Drug Interdiction	12,083	11.04%
8.	Migrant Interdiction	7,307	6.68%
9.	Other Law Enforcement (OTH-LE)	1,167	1.07%
10.	Ports, Waterways & Coastal Security (PWCS)	24,884	22.73%
11.	Defense Readiness	8,474	7.74%
<b>Total RT Obligations</b>		<b>\$ 109,462</b>	<b>100%</b>

**ACQUISITION, CONSTRUCTION and IMPROVEMENTS  
MISSION COST MODEL OUTPUT:**

		(dollars in thousands) FY 2005	
		Obligations	% of total
1.	Search and Rescue (SAR)	152,346	14.38%
2.	Marine Safety (MS)	16,487	1.56%
3.	Aids to Navigation (ATON)	36,913	3.48%
4.	Ice Operations (IO)	15,297	1.44%
5.	Marine Environmental Protection (MEP)	13,576	1.28%
6.	Living Marine Resources (LMR)	150,590	14.22%
7.	Drug Interdiction	275,246	25.98%
8.	Migrant Interdiction	108,832	10.27%
9.	Other Law Enforcement (OTH-LE)	23,546	2.22%
10.	Ports, Waterways & Coastal Security (PWCS)	160,254	15.13%
11.	Defense Readiness	106,219	10.03%
<b>Total RT Obligations</b>		<b>\$ 1,059,306</b>	<b>100%</b>



**RESEARCH, DEVELOPMENT, TEST and EVALUATION  
MISSION COST MODEL OUTPUT:**

		(dollars in thousands) FY 2005	
		Obligations	% of total
1.	Search and Rescue (SAR)	1,502	8.16%
2.	Marine Safety (MS)	2,135	11.60%
3.	Aids to Navigation (ATON)	2,525	13.72%
4.	Ice Operations (IO)	134	0.73%
5.	Marine Environmental Protection (MEP)	6,223	33.81%
6.	Living Marine Resources (LMR)	434	2.36%
7.	Drug Interdiction	1,378	7.49%
8.	Migrant Interdiction	833	4.53%
9.	Other Law Enforcement (OTH-LE)	54	0.29%
10.	Ports, Waterways & Coastal Security (PWCS)	2,798	15.20%
11.	Defense Readiness	389	2.11%
<b>Total RT Obligations</b>		<b>\$ 18,405</b>	<b>100%</b>

## 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,

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

**Additional Information and Copies**

To obtain additional copies of this report, call the Office of Inspector General (OIG) at (202) 254-4100, fax your request to (202) 254-4285, or visit the OIG web site at [www.dhs.gov](http://www.dhs.gov).

**OIG Hotline**

To report alleged fraud, waste, abuse or mismanagement, or any other kind of criminal or noncriminal misconduct relative to department programs or operations, call the OIG Hotline at 1-800-323-8603; write to Department of Homeland Security, Washington, DC 20528, Attn: Office of Inspector General, Investigations Division – Hotline. The OIG seeks to protect the identity of each writer and caller.



U. S. Department of Justice

Office of the Inspector General

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JAN 30 2006

Mr. David J. Rivait  
Associate Director  
Office of Planning and Budget  
Office of National Drug Control Policy  
Washington, D.C. 20503

Dear Mr. Rivait:

This letter transmits the FY 2005 attestation review reports from the U. S. Department of Justice. The attestation review reports, along with the annual detailed accounting of funds expended by each drug control program agency is required by 21 U.S.C. § 1704(d), as implemented by the Office of National Drug Control Policy (ONDCP) Circular, *Drug Control Accounting*, dated April 18, 2003.

If you have any questions, please contact me on (202) 616-4633 or Marilyn A. Kessinger, Director, Financial Statement Audit Office, on (202) 616-4660.

Sincerely,

A handwritten signature in blue ink, appearing to read "Guy K. Zimmerman".

Guy K. Zimmerman  
Assistant Inspector General  
for Audit

Enclosures



cc: Paul R. Corts  
Assistant Attorney General  
for Administration  
Chief Financial Officer  
Justice Management Division

Mikki Atsatt  
Special Assistant to the Director, Budget Staff  
Justice Management Division

Melinda Morgan  
Director, Finance Staff  
Justice Management Division

Jonathan Mattiello  
Budget Analyst  
Justice Management Division



**KPMG LLP**  
2001 M Street, NW  
Washington, DC 20036

## **Independent Accountants' Report**

Assistant Attorney General for Administration  
U.S. Department of Justice

Inspector General  
U.S. Department of Justice

We have reviewed the accompanying Table of Drug Control Obligations and related disclosures of the U.S. Department of Justice's Bureau of Prisons (BOP) for the year ended September 30, 2005. We have also reviewed the accompanying Management's Assertion Statement for Fiscal Year Ended September 30, 2005. BOP's management is responsible for the Table of Drug Control Obligations and related disclosures and the assertion.

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 Table of Drug Control Obligations and related disclosures and management's assertion. Accordingly, we do not express such an opinion.

Management of the BOP prepared the Table of Drug Control Obligations and related disclosures and management's assertion in accordance with the requirements of the Office of National Drug Control Policy (ONDCP) Circular, *Drug Control Accounting*, dated April 18, 2003.

Based on our review, nothing came to our attention that caused us to believe that (1) the Table of Drug Control Obligations and related disclosures for the year ended September 30, 2005 is not presented, in all material respects, in conformity with ONDCP's Circular, *Drug Control Accounting* (April 18, 2003), or that (2) management's assertion referred to above is not fairly stated, in all material respects, based on the criteria set forth in ONDCP's Circular, *Drug Control Accounting* (April 18, 2003).

This report is intended solely for the information and use of the management of the U.S. Department of Justice, the U.S. Department of Justice Office of 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**

December 15, 2005



**U.S. Department of Justice**

**Federal Bureau of Prisons**

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Washington, DC 20534

**Bureau of Prisons  
Management's Assertion Statement  
For Fiscal Year Ended September 30, 2005**

On the basis of the Bureau of Prisons (BOP) management control program, we assert that the BOP system of accounting, use of estimates, and system of internal controls provide reasonable assurance that:

1. Obligations reported by budget decision unit are the actual obligations from the BOP's accounting system of record for these budget decision units.
2. The methodology used by the BOP to calculate obligations of budgetary resources by function is reasonable and accurate in all material aspects.
3. The methodology disclosed in this statement was the actual methodology used to generate the Table.
4. The data presented are associated with obligations against a financial plan that did not require revision, i.e., for reprogrammings or transfers, during the fiscal year.
5. Department of Justice (DOJ) did not have any Office of National Drug Control Policy (ONDCP) Fund Control Notices issued in FY 2005.

We have documented the methodology used by BOP to identify and accumulate fiscal year 2005 drug control obligations in the Table and accompanying disclosures in accordance with the guidance of ONDCP's Circular, *Drug Control Accounting*, dated April 18, 2003. The BOP drug control methodology has been consistently applied from the previous year.

*Bruce K. Sasser*

Bruce K. Sasser  
Assistant Director  
for Administration

12/15/05  
Date

Bureau of Prisons  
Table of Drug Control Obligations  
For Fiscal Year Ended September 30, 2005  
(Dollars in thousands)

Actual 2005 Obligations

Drug Obligations by Function

Treatment	<u>\$53,293</u>
TOTAL	53,293

Drug Obligations by Decision Unit

Inmate Care and Programs	<u>53,293</u>
TOTAL	53,293

Drug Resources Personnel Summary

Total FTEs (Direct Only)	395
--------------------------	-----

Information

Total Agency Obligations (Direct Only)*	4,958,968
Drug Percentage	1%

\*Direct obligations for Salaries and Expenses and Buildings and Facilities Appropriations.

## Disclosure No 1. Drug Control Methodology

The mission of the BOP is to protect society by confining offenders in the controlled environments of prisons and community-based facilities that are safe, humane, cost-efficient, and appropriately secure, and which provide work and other self-improvement opportunities to assist offenders in becoming law-abiding citizens.

The BOP's drug resources are dedicated one hundred percent to the drug treatment program. The Drug Treatment Program includes: Drug Program Screening and Assessment; Drug Abuse Education; Non-Residential Drug Abuse Treatment; Residential Drug Abuse Treatment; and Community Transitional Drug Abuse Treatment. All drug-related resources support the National Drug Control Strategy, core priority of "Healing America's Drug Users".

The Table of Drug Control Obligations was prepared in accordance with the following Office of National Drug Control Policy (ONDCP) circular: Drug Control Accounting, dated April 18, 2003. The table represents obligations incurred by the BOP for drug control purposes. The amounts are net of all reimbursable agreements. The BOP receives drug control funds solely for the purpose of drug treatment.

Data - All accounting information for the BOP is derived from the Department of Justice (DOJ) Financial Management Information System (FMIS). FY 2005 actual obligations for Drug Treatment Programs are reported as Drug Control Obligations since the entire focus is drug related.

Financial Systems - The FMIS is the DOJ financial system that provides BOP obligation data. Obligations in this system can also be reconciled with the enacted appropriation and carryover balances.

Workyears (FTEs) - Using BOP FTE data from FMIS, the drug treatment FTEs were reported in the Table of Obligations. The FTE data is originated by the National Finance Center (NFC), and then downloaded into the FMIS. The NFC provides consolidated payroll services to numerous government agencies including the BOP.

## Disclosure No 2. Modifications to Drug Control Methodology

The overall methodology to calculate drug control obligations has not been changed from the prior year (FY 2004). Only direct obligations associated with Drug Treatment Programs in the Table of Drug Control Obligations are reported.

### Disclosure No 3. Material Weaknesses and other Findings

The results of BOP's FY 2005 financial statements audit revealed no material weaknesses. In the Report on Internal Controls, there were no financial management operations or reporting findings. There was, however, one reportable condition related to Information Technology matters. During the fiscal year 2005 audit, the auditors continued to note control weaknesses in BOP's information security program, access control procedures, and system change control procedures. According to the auditors, ongoing existence of these weaknesses makes the BOP heavily dependent on its manual financial monitoring controls. The BOP faces the risk that, if its manual monitoring controls fail, the BOP may not detect material misstatements in the financial statements before reporting deadlines. The BOP has implemented corrective action plans to specifically address each auditor recommendation found in the reportable condition related to Information Technology. The corrective action plans are reviewed and updated quarterly, at a minimum, and provided to the auditors for review and discussion.

Sources reviewed include: (a) the FY 2005 Report of Independent Auditors, Report of Independent Auditors on Internal Controls, and the Report of Independent Auditors on Compliance with other matters; and (b) the DOJ Performance and Accountability Report.

### Disclosure No 4. Reprogrammings or Transfers

There were no drug related reprogrammings or transfers during FY 2005.

### Disclosure No 5. Public Health Service (PHS) Funding

The BOP allocates funds to the PHS. The PHS provides a portion of the drug treatment for federal inmates. In FY 2005, \$587,000 was transferred from the BOP to PHS, and was designated and expended for current year obligations of PHS staff salaries, benefits, and applicable relocation expenses relating to six PHS FTEs during fiscal year 2005. Therefore, the transferred obligations and PHS FTEs were included in BOP's Table of Drug Control Obligations.

### Disclosure No 6. Other Disclosures

The DOJ did not have any ONDCP fund control notices issued in FY 2005.



**KPMG LLP**  
2001 M Street, NW  
Washington, DC 20036

## **Independent Accountants' Report**

Assistant Attorney General for Administration  
U.S. Department of Justice

Inspector General  
U.S. Department of Justice

We have reviewed the accompanying Table of Drug Control Obligations and related disclosures of the U.S. Department of Justice's Drug Enforcement Administration (DEA) for the year ended September 30, 2005. We have also reviewed the accompanying Management's Assertion Statement for Fiscal Year Ended September 30, 2005. DEA's management is responsible for the Table of Drug Control Obligations and related disclosures and the assertion.

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 Table of Drug Control Obligations and related disclosures and management's assertion. Accordingly, we do not express such an opinion.

Management of the DEA prepared the Table of Drug Control Obligations and related disclosures and management's assertion in accordance with the requirements of the Office of National Drug Control Policy (ONDCP) Circular, *Drug Control Accounting*, dated April 18, 2003.

Based on our review, nothing came to our attention that caused us to believe that (1) the Table of Drug Control Obligations and related disclosures for the year ended September 30, 2005 is not presented, in all material respects, in conformity with ONDCP's Circular, *Drug Control Accounting* (April 18, 2003), or that (2) management's assertion referred to above is not fairly stated, in all material respects, based on the criteria set forth in ONDCP's Circular, *Drug Control Accounting* (April 18, 2003).

This report is intended solely for the information and use of the management of the U.S. Department of Justice, the U.S. Department of Justice Office of 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**

December 6, 2005



**U. S. Department of Justice  
Drug Enforcement Administration**

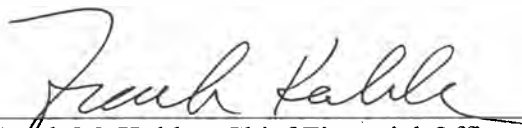
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**Drug Enforcement Administration  
Management's Assertion Statement  
For Fiscal Year ended September 30, 2005**

On the basis of the Drug Enforcement Administration's (DEA's) management control program, we assert that the DEA system of accounting, use of estimates, and systems of internal controls provide reasonable assurance that:

1. Obligations reported by budget decision unit are the actual obligations from the DEA's accounting system of record for these budget decision units.
2. The methodology used by the DEA to calculate obligations of budgetary resources by function is reasonable and accurate in all material aspects.
3. The methodology disclosed in this statement was the actual methodology used to generate the Table.
4. The data presented are associated with obligations against a financial plan that was revised during the fiscal year to properly reflect the changes, including ONDCP's approval of reprogrammings and transfers in excess of \$5 million affecting drug-related resources.
5. The Department of Justice did not have any ONDCP Fund Control Notices issued in FY 2005.

We have documented the methodology used by DEA to identify and accumulate FY 2005 drug control obligations in the Table and accompanying disclosures in accordance with the guidance of ONDCP's Circular, *Drug Control Accounting*, dated April 18, 2003.

  
Frank M. Kalder, Chief Financial Officer

12/6/05  
Date



**Table of Drug Control Obligations  
Drug Enforcement Administration  
For Fiscal Year Ending September 30, 2005  
(Dollars in thousands)**

	<b><u>FY 2005 Actual Obligations</u></b>
<b>Drug Obligations by Function:</b>	
Investigations	\$ 1,307,432
Intelligence	166,347
International	273,022
State & Local Assistance	91,559
Prevention	8,661
Total	<u>\$ 1,847,021</u>
<b>Drug Obligations by Decision Unit:</b>	
Automated Data Processing	\$ 135,096
Drug & Chemical Diversion Control	6,803
Domestic Enforcement	539,083
Foreign Cooperative Investigations	236,234
Intelligence	152,790
Laboratory Services	88,583
Management and Administration	127,561
Research, Engineering, and Technical Operations	141,099
State & Local Task Forces	251,279
Training	25,265
Total S&E	<u>\$ 1,703,793</u>
Drug Diversion Control Fee Account	143,228
Total	<u>\$ 1,847,021</u>
<b>Drug Obligations Direct Personnel Summary:</b>	
Total FTE	7,516
Total Agency Budget	\$ 1,847,021
Drug Percentage	<u>100.0%</u>

## Disclosure 1: Drug Control Methodology

The mission of the Drug Enforcement Administration (DEA) is to enforce the controlled substances laws and regulations of the United States and to bring to the criminal and civil justice system of the United States or any other competent jurisdiction, those organizations, and principal members of organizations, involved in the growing, manufacture, or distribution of controlled substances appearing in or destined for illicit traffic in the United States; and to recommend and support non-enforcement programs aimed at reducing the availability of illicit controlled substances on the domestic and international markets. In carrying out its mission, DEA is the lead agency responsible for the development of the overall Federal drug enforcement strategy, programs, planning, and evaluation. DEA's primary responsibilities include:

- Investigation and preparation for prosecution of major violators of controlled substances laws operating at interstate and international levels;
- Management of a national drug intelligence system in cooperation with Federal, state, local, and foreign officials to collect, analyze, and disseminate strategic and operational drug intelligence information;

Seizure and forfeiture of assets derived from, traceable to, or intended to be used for illicit drug trafficking;

- Enforcement of the provisions of the Controlled Substances Act and the Chemical Diversion and Trafficking Act (CDTA) as they pertain to the manufacture, distribution, and dispensing of legally produced controlled substances and chemicals;
- Coordination and cooperation with Federal, state and local law enforcement officials on mutual drug enforcement efforts and enhancement of such efforts through exploitation of potential interstate and international investigations beyond local or limited Federal jurisdictions and resources;
- Coordination and cooperation with other Federal, state, and local agencies, and with foreign governments, in programs designed to reduce the availability of illicit abuse-type drugs on the United States market through non-enforcement methods such as crop eradication, crop substitution, and training of foreign officials;
- Responsibility, under the policy guidance of the Secretary of State and U.S. Ambassadors, for all programs associated with drug law enforcement counterparts in foreign countries; and
- Liaison with the United Nations, Interpol, and other organizations on matters relating to international drug control programs.

The accompanying Table of Drug Control Obligations was prepared in accordance with the Office of National Drug Control Policy (ONDCP) Circular, *Drug Control Accounting*, dated April 18,

2003. The table represents obligations incurred by the DEA for drug control purposes and reflects 100 percent of the DEA's mission.

Since DEA's accounting system, the Federal Financial System (FFS), does not track obligation and expenditure data by ONDCP's drug functions, DEA uses a methodology supported by the ONDCP to drive obligations tracked in DEA's appropriated decision units to ONDCP's drug functions. This methodology is not consistent with the approach used in the preparation of previous reports to ONDCP and is described further in disclosure 2.

The documents accompanying this report include DEA's Table of Drug Control Obligations and associated supporting documents. It is important to stress that DEA does not track obligations and expenditures by ONDCP's drug functions. In the absence of such capability, estimates have been furnished based on DEA's Managerial Cost Accounting (MCA) data, as indicated, and no corresponding documentation has been generated.

Data: All accounting data for the DEA is maintained in FFS. FFS tracks obligation and expenditure data by a variety of attributes, including fund type, allowance center, decision unit and object class. One hundred percent of DEA's efforts are related to drug enforcement.

Other Estimation Methods: None.

Financial Systems: FFS is the information system DEA uses to track obligations and expenditures. Obligations derived from this system can also be reconciled against enacted appropriations and carryover balances. Because FFS does not track obligation and expenditure data by ONDCP's drug functions, DEA uses the following allocation percentages to drive resources associated with DEA's ten decision units to ONDCP's drug functions. These allocation percentages are based on DEA's MCA data.

DEA Decision Unit	Allocation	ONDCP Function
Drug & Chemical Diversion Control	90.32%	<i>Investigation</i>
Domestic Enforcement	97.16%	
Foreign Cooperative Investigations	2.77%	
Laboratory Services	97.29%	
Diversion Control Fee Account Appropriation	100%	
State and Local Task Force.	76.68%	
Research, Engineering & Technical Operations (RETO)	93.55%	
ADP	78.35%	
Management and Administration (M&A)	83.58%	
Training	47.40%	
Intelligence	100%	<i>Intelligence</i>
ADP	8.74%	
M&A	0.09%	

Foreign Cooperative Investigations	97.23%	<i>International</i>
Drug & Chemical Diversion Control	9.68%	
Research, Engineering & Technical Operations (RETO)	6.45%	
Laboratory Services	2.71%	
ADP	9.25%	
M&A.	10.22%	
Training	12.42%	
State and Local Task Force	23.32%	<i>State and Local Assistance</i>
Domestic Enforcement	2.84%	
ADP	3.66%	
M&A.	6.11%	
Training	40.18%	
Demand reduction effort to include actual payroll and program funds and estimated overhead for HQ and FS	100%	<i>Prevention</i>
FTE	100%	DEA Direct Total FTE (Includes both S&E plus DCFA appropriations).

- a. Investigations Function. FY 2005 obligations associated with DEA's investigations efforts were estimated at \$1,307,432 thousand.
- b. Intelligence Function. FY 2005 obligations associated with DEA's intelligence efforts were estimated at \$166,347 thousand.
- c. International Function. FY 2005 obligations associated with DEA's international efforts were estimated at \$273,022 thousand.
- d. State & Local Assistance Function. FY 2005 obligations associated with DEA's State and local assistance efforts were estimated at \$91,559 thousand.
- e. Prevention Function. FY 2005 obligations associated directly with DEA's demand reduction efforts include actual payroll and program funds, and estimated overhead for Headquarters and Field offices at \$8,661 thousand.
- f. Research and Development Function. There were no FY 2005 obligations associated with DEA's research and development.
- g. Decision Units. One hundred percent of DEA's total obligations by decision unit were associated with drug enforcement. This total is reported as tracked in FFS.
- h. FTEs. One hundred percent of all DEA FTEs are dedicated to drug enforcement efforts. DEA's Direct FTE total for FY 2005 was 7,516 through pay period 18, ending September 17, 2005.

Transfers and Reimbursements: HIDTA transfers and reimbursable obligations are excluded from DEA's Table of Drug Control Obligations since they are reported by other sources.

#### Disclosure 2: Modification of Drug Enforcement Accounting Method

DEA's methodology for allocating resources from its congressionally appropriated decision units to ONDCP's drug functions has changed since last year. In a memorandum dated November 9, 2005, DEA proposed a change to its allocation methodology. Since FY 2000, DEA had used an allocation methodology that was based on a manual analysis of actual obligations. To ensure that DEA's resources were properly reflected in ONDCP's drug functions and updated on an annual basis, DEA proposed the use of its MCA data to allocate its funds from decision units to drug functions.

DEA's MCA model provides the full cost of DEA's mission outputs (performance costs). The model not only accounts for direct costs, but also focuses on allocating administrative / overhead costs to develop the full cost of DEA's mission outputs. The MCA model uses an activity-based costing (ABC) methodology. It consists of three modules – resources, activities, and cost objects. The resources are the financial data obtained from the DEA General Ledger. The activities are the actions that utilize DEA's resources (dollars) to convert the resources into a product, mission output, or performance measurement. The cost objects are the product, mission output or performance measurement for which cost information is needed. The initial modeling process consists of a five step process: the inputting of resources, activities, and cost objects and the inputting of resource drivers to drive the resources to activities and activity drivers to drive activities to cost objects. Resource drivers are a measure of the consumption rate of a resource and are used to assign costs to activities (e.g., work hours). Activity drivers are used to assign activity costs to cost objects (mission outputs / performance measurement) and measure the frequency of activity performance required to produce a result (e.g., number of cases). The DEA MCA model uses the SAS *Oros ABC/M modeling tool*.

In a memorandum dated November 22, 2005, ONDCP approved this proposed revision. As a result, DEA's Annual Accounting of Drug Control Funds for FY 2005 is based on the newly approved allocation methodology. Although DEA's total FY 2005 obligations of \$1,847,021 thousand remain the same, the allocation between ONDCP's drug functions differs between the old and new methodologies as displayed below:

	FY 2005 Actual Obligations	
	Old Methodology	New Methodology
Drug Resources by Function:		
Investigations	\$ 1,321,615	\$ 1,307,432
Intelligence	222,986	166,347
International	280,915	273,022
State & Local Assistance	12,844	91,559
Prevention	8,661	8,661
Research and Development	-	-
Total	\$ 1,847,021	\$ 1,847,021

### Disclosure 3: Material Weaknesses and Other Findings

The results of DEA's FY 2005 financial statements audit revealed no material weaknesses and no reportable conditions.

### Disclosure 4: Reprogrammings and Transfers

In FY 2005, DEA executed four congressionally approved reprogramming requests (see the attached FY 2005 Reprogramming and Transfer Schedule). The first reprogramming request, which was requested and approved in FY 2005, included the following:

- Programmatic Realignment of Regional Enforcement Teams (RET): The permanent reprogramming of 6 positions, 3 FTE, and \$472,000 between decision units to meet priority operational requirements for FY 2005. It included redefining the scope of the RET program to meet operational priorities within existing resources.

Programmatic Realignment of the Operations Division: The permanent reprogramming of 11 positions, 6 FTE, and \$888,000 among decision units to restructure DEA's Operations Division in accordance with the priorities identified in DEA's five-year strategic plan. Although this reprogramming primarily moved funding out of the Domestic Enforcement decision unit, \$129,000 was shifted from the State and Local Task Forces decision unit into the Domestic Enforcement decision unit resulting in a net reprogramming effect of \$759,000.

- Regionalization: The permanent reprogramming of 13 positions, 6 FTE, and \$730,000 between decision units to enhance DEA's foreign operations by fully implementing regionalization.
- Afghanistan Initiative: The permanent reprogramming of 7 positions, 3 FTE, and \$703,000 between decision units to capitalize on the success of *Operation Containment* and enhance DEA's presence in Afghanistan.

The second reprogramming request, which was requested and approved in FY 2005, included the following:

- Closing of the Berlin, Germany Country Office and establishment of the Warsaw, Poland Country Office: The permanent realignment of three positions and FTE between foreign offices with no effect on current or future budgets. The cost to implement this action is approximately \$1,500,000 and will be funded within DEA's foreign decision unit. This realignment is subject to the National Security Decision Directive (NSDD)-38 processes for overseas staffing under Chief of Mission (COM) authority.
- Working Capital Fund (WCF) Reimbursement: A one-time transfer of \$12,800,000 of prior-year unobligated funds was made to the WCF. The Department subsequently made these funds available again to DEA via a reimbursable agreement to be used for investments normally funded from DEA's FY 2005 Salaries and Expenses (S&E) appropriation, thereby making base funds available to cover priority one-time needs in FY 2005. Consequently, \$12,800,000 in base funds was reprogrammed from the ADP decision unit to the Foreign Cooperative Investigations (\$5,900,000) and Laboratory Services (\$6,900,000) decision units.

The third reprogramming request, which was requested and approved in FY 2005, included the following:

FAST Position Reprogramming: The permanent reprogramming of 29 positions, 22 FTE, and \$3,834,000 between decision units to meet priority operational resource requirements and enhance international enforcement efforts for FY 2005.

The fourth and final reprogramming request, which was requested in FY 2004 and approved in segments during FY 2004 and FY 2005, included the following:

Rightsizing Reprogramming: The permanent reprogramming of 47 positions and a total of \$6,300,000 from the Domestic Enforcement decision unit to the Foreign Cooperative Investigations decision unit. In FY 2004, the reprogramming of 21 positions and \$2,154,682 was approved. In FY 2005, the remaining balance of 26 positions and \$4,145,318 was approved.

In addition, DEA had several transfers during FY 2005 (see the attached FY 2005 Reprogramming and Transfer Schedule). DEA had one transfer out of its one-year S&E account to the Department of Justice's Wire Management Office totaling \$2,014,835 and four transfers into its two-year S&E account from ONDCP's High Intensity Drug Trafficking Area (HIDTA) program totaling \$19,490,689.

#### Disclosure 5: Other Disclosures

- The Department of Justice did not have any ONDCP Fund Control Notices issued in FY 2005.

Department of Justice  
Drug Enforcement Administration  
FY 2005 Reprogramming and Transfer Schedule  
(Dollars in Thousands)

	Recoveries & Unobligated Balances Brought Forward	Enacted Budget Authority	Spending Authority from Offsetting Collections	Rescissions	Reprogrammed	Transfers In	Transfers Out	Total Availability
<b>ug Resources by Function</b>								
Investigations	\$ 76,793	\$ 1,288,186	\$ 6,680	\$ (17,366)	\$ (12,219)	\$ 15,094	\$ (1,953)	\$ 1,355,215
Intelligence	26,136	151,078	6	(1,596)	(1,144)	6	(5)	174,479
International	28,695	258,363	2,744	(4,223)	13,946	22	(22)	299,526
State & Local Assistance	3,404	92,310	39	(901)	(582)	4,369	(35)	98,603
Prevention	-	8,891	-	-	-	-	-	8,891
R & D	988	-	-	-	-	-	-	988
<b>Total</b>	<b>\$ 136,015</b>	<b>\$ 1,798,827</b>	<b>\$ 9,469</b>	<b>\$ (24,085)</b>	<b>\$ (0)</b>	<b>\$ 19,491</b>	<b>\$ (2,015)</b>	<b>\$ 1,937,702</b>
<b>ug Resources by Decision Unit</b>								
ADP	\$ 7,562	\$ 145,334	\$ -	\$ (3,676)	\$ (12,800)	\$ -	\$ -	\$ 136,420
Drug & Chemical Diversion Control	-	7,608	-	(279)	-	-	(71)	7,258
Domestic Enforcement	35,142	527,208	482	(6,906)	(10,514)	-	(1,944)	543,467
Foreign Cooperative Investigations	28,162	220,417	2,370	(3,623)	15,419	-	-	262,745
Intelligence	25,375	136,659	-	(1,253)	-	-	-	160,781
Laboratory Services	7,611	79,521	-	(1,325)	6,900	780	-	93,487
Management & Administration	409	131,034	392	(1,097)	652	-	-	131,390
Research, Engineering and Technical Operations	2,370	134,738	6,181	(1,711)	472	-	-	142,051
State and Local Task Forces	9,980	252,880	-	(1,939)	(129)	18,711	-	279,502
Training	155	25,514	-	(273)	-	-	-	25,396
Construction	988	-	-	-	-	-	-	988
Diversion Control Fee Account	18,261	137,914	43	(2,003)	-	-	-	154,216
<b>Total</b>	<b>\$ 136,015</b>	<b>\$ 1,798,827</b>	<b>\$ 9,469</b>	<b>\$ (24,085)</b>	<b>\$ -</b>	<b>\$ 19,491</b>	<b>\$ (2,015)</b>	<b>\$ 1,937,702</b>





**KPMG LLP**  
2001 M Street, NW  
Washington, DC 20036

## Independent Accountants' Report

Assistant Attorney General for Administration  
U.S. Department of Justice

Inspector General  
U.S. Department of Justice

We have reviewed the accompanying Table of Drug Control Obligations and related disclosures of the U.S. Department of Justice's Organized Crime Drug Enforcement Task Force (OCDETF) for the year ended September 30, 2005. We have also reviewed the accompanying Management's Assertion Statement for Fiscal Year Ended September 30, 2005. OCDETF's management is responsible for the Table of Drug Control Obligations and related disclosures and the assertion.

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 Table of Drug Control Obligations and related disclosures and management's assertion. Accordingly, we do not express such an opinion.

Management of the OCDETF prepared the Table of Drug Control Obligations and related disclosures and management's assertion in accordance with the requirements of the Office of National Drug Control Policy (ONDCP) Circular, *Drug Control Accounting*, dated April 18, 2003.

Based on our review, nothing came to our attention that caused us to believe that (1) the Table of Drug Control Obligations and related disclosures for the year ended September 30, 2005 is not presented, in all material respects, in conformity with ONDCP's Circular, *Drug Control Accounting* (April 18, 2003), or that (2) management's assertion referred to above is not fairly stated, in all material respects, based on the criteria set forth in ONDCP's Circular, *Drug Control Accounting* (April 18, 2003).

This report is intended solely for the information and use of the management of the U.S. Department of Justice, the U.S. Department of Justice Office of 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**

December 7, 2005



**U.S. Department of Justice**

**Criminal Division**

Executive Office for the  
Organized Crime Drug Enforcement Task Forces

*Washington, DC 20530*

**Organized Crime Drug Enforcement Task Force (OCDETF)  
Management's Assertion Statement  
For Fiscal Year Ended September 30, 2005**

On the basis of OCDETF's management control program, we assert that the OCDETF Program's system of accounting, use of estimates, and systems of internal controls provide reasonable assurance that:

1. Obligations reported by budget decision unit are the actual obligations from the OCDETF Program's accounting system of record for these budget decision units;
2. The methodology used by OCDETF to calculate obligations of budgetary resources by function is reasonable and accurate in all material aspects;
3. The methodology disclosed in this statement was the actual methodology used to generate the Table;
4. The data presented are associated with obligations against a financial plan that was revised during the fiscal year to properly reflect the changes, including ONDCP's approval of reprogrammings and transfers in excess of \$5 million affecting drug-related resources; and
5. The OCDETF Program did not have any Office of National Drug Control Policy (ONDCP) Fund Control Notices issued in FY 2005.

We have documented the methodology used by OCDETF to identify and accumulate FY 2005 drug control obligations in the Table and accompanying disclosures in accordance with the guidance of ONDCP's Circular, Drug Control Accounting, dated April 18, 2003. The OCDETF Program's drug control methodology has been consistently applied from the previous year.

\_\_\_\_\_  
Peter Maxey  
Chief, Administration and Budget

12/07/05

Date

**Department of Justice**  
**Organized Crime Drug Enforcement Task Force (OCDETF) Program**  
**Table of Drug Control Obligations**  
**For the Fiscal Year Ending September 30, 2005**

**Actual 2005 Obligations**  
**Dollars in Thousand**  
**Decision Unit Crosswalk**

Drug Obligations by Function	Annual Appropriated Funds	Decision Unit Realignment 1/			No-Year/Two-Year Reprogram Funds 2/	Total Obligations
		OCDETF	EXO	Intelligence Revised		
Investigations	\$391,716	\$4,242	0	\$395,958	7,460	\$403,418
Prosecution	119,966	1,299	0	121,265	3,614	124,879
Intelligence	26,492	287	0	26,779	0	26,779
Administrative Support:	5,828	(5,828)	0	0	0	0
<b>Total</b>	<b>\$544,002</b>	<b>\$0</b>	<b>\$0</b>	<b>\$544,002</b>	<b>\$11,074</b>	<b>\$555,076</b>

**Drug Obligations by Decision Unit 1/**

<b>Investigations:</b>						
Drug Enforcement Administration	\$177,652	\$1,923	9,343	\$188,918	1,443	190,361
Federal Bureau of Investigation	109,694	1,188	16,981	127,863	251	128,114
U.S. Marshals Service	6,345	89	0	6,414	156	6,570
Alcohol, Tobacco, Firearms and Explosives	11,078	120	0	11,198	11	11,209
Immigration and Customs Enforcement	32,690	354	455	33,499	547	34,046
Internal Revenue Service	53,830	583	0	54,413	5,052	59,465
U.S. Coast Guard	427	5	0	432	0	432
<b>Subtotal</b>	<b>391,716</b>	<b>4,242</b>	<b>26,779</b>	<b>422,737</b>	<b>7,460</b>	<b>430,197</b>

<b>Drug Intelligence:</b>						
Drug Enforcement Administration	9,243	100	-9,343	0	0	0
Federal Bureau of Investigation	16,799	182	-16,981	0	0	0
Immigration and Customs Enforcement	450	5	-455	0	0	0
<b>Subtotal</b>	<b>26,492</b>	<b>287</b>	<b>-26,779</b>	<b>0</b>	<b>0</b>	<b>0</b>

<b>Prosecution:</b>						
U.S. Attorneys	116,444	1,261	0	117,705	3,614	121,319
Criminal Division	2,902	31	0	2,933	0	2,933
Tax Division	620	7	0	627	0	627
<b>Subtotal</b>	<b>119,966</b>	<b>1,299</b>	<b>0</b>	<b>121,265</b>	<b>3,614</b>	<b>124,879</b>

<b>Administrative Support:</b>						
Executive Office for OCDETF	5,828	(5,828)	0	0	0	0
<b>Total</b>	<b>544,002</b>	<b>0</b>	<b>0</b>	<b>544,002</b>	<b>11,074</b>	<b>555,076</b>

**Drug Resources Personnel Summary:**

Total FTEs (all reimbursable)	3,756		3,756		3,756
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**Information:**

Total Agency Obligations	\$544,002	\$544,002	\$555,076
Drug Percentage	100%	100%	100%

1/ Decision Units reflect OMB approved restructuring. The OCDETF program's four decision units: Law Enforcement, Drug Intelligence, Prosecution, and Administrative Support are collapsed into two Decision Units: Investigations and Prosecutions. The Administrative Support is pro-rated among decision units based on the percentage of appropriated ICDE program funding.

2/ Total obligated balance available includes reprogrammed carryover funds in the amount of \$11,074,000 as follows:

	Amount	DEA	FBI	USMS	ATF	ICE	IRS	USA
<b>No-Year (15X0323):</b>								
Co-Located task Forces	\$1,259,000	\$1,259,000	0	0	0	0	0	0
"Panama Express"	375,000	0	\$125,000	0	0	\$250,000	0	0
USMS SORT IV	150,000	0	0	\$150,000	0	0	0	0
IRS participation in OCDETF cases	5,000,000	0	0	0	0	0	\$5,000,000	0
OCDETF Executive Office MIS	175,000	61,000	42,000	2,000	4,000	11,000	17,000	38,000
<b>Total No-Year</b>	<b>6,959,000</b>	<b>1,320,000</b>	<b>167,000</b>	<b>152,000</b>	<b>4,000</b>	<b>261,000</b>	<b>5,017,000</b>	<b>38,000</b>
<b>Two-Year (154/50323)</b>								
Litigation/Extradition Expenses	3,500,000	0	0	0	0	0	0	3,500,000
ICE participation in OCDETF cases	265,000	0	0	0	0	265,000	0	0
OCDETF Executive Office MIS	350,000	123,000	84,000	4,000	7,000	21,000	35,000	76,000
<b>Total Two-Year</b>	<b>4,115,000</b>	<b>123,000</b>	<b>84,000</b>	<b>4,000</b>	<b>7,000</b>	<b>286,000</b>	<b>35,000</b>	<b>3,576,000</b>
<b>Grand Total Carryover Reprogramming</b>	<b>11,074,000</b>	<b>1,443,000</b>	<b>251,000</b>	<b>156,000</b>	<b>11,000</b>	<b>547,000</b>	<b>5,052,000</b>	<b>3,614,000</b>

## Disclosure No 1. - Drug Control Methodology

The Organized Crime Enforcement Task Force (OCDETF) Program is comprised of member agencies from three different Departments; the Department of Justice (DOJ), the Department of Treasury (Treasury), and the Department of Homeland Security (DHS). Beginning in FY 1998 and continuing through FY 2003, OCDETF member agencies were funded through separate appropriations with DOJ, Treasury and Transportation. The U.S. Coast Guard was a member of the Department of Transportation but was subsequently transferred to the Department of Homeland Security. The official appropriation title established by Congress for OCDETF is the Interagency Crime and Drug Enforcement (ICDE) account.

During FY 2004 and 2005, the OCDETF Appropriation included funding to reimburse agencies in the Departments of Justice, Treasury and Homeland Security for their participation in the OCDETF Program. The availability of a consolidated budget has been critical to OCDETF's ability both to ensure the proper and strategic use of OCDETF resources and to effectively monitor Program performance across all Departments and participating agencies. Congress repeatedly has expressed concern with funding non-Justice agencies from the Justice appropriation, however, and, in 2005, Congress decreased base funding for non-Justice participants.

The Administration recognizes that the uncertainties surrounding continued funding for non-Justice participants pose great difficulties for OCDETF in terms of program planning and administration. Accordingly, OCDETF is not submitting a consolidated budget for FY 2006. In 2006, funding for OCDETF's non-Justice partners will be provided through the direct appropriations of the Departments of Treasury and Homeland Security. With funding provided through 3 separate appropriations, OCDETF will face new challenges related to the management and control of OCDETF funds.

OCDETF is directly charged with carrying out the Department's drug supply reduction strategy, and all of its activities are aimed at achieving a measurable reduction in the availability of drugs in this country. The disruption and dismantlement of drug trafficking networks operating regionally, nationally and internationally is a critical component of the supply reduction effort. In addition, OCDETF requires that, in *every* OCDETF case, investigators identify and target the financial infrastructure that permits the drug organization to operate; in this way, all of OCDETF's efforts support Priority III of the President's National Drug Control Strategy: "Disrupting the Market – Attacking the Economic Base of the Drug Trade." Accordingly, the Program's ICDE resources are considered to be 100 percent drug-related.

The attached Table of Drug Control Obligations was prepared in accordance with the Office of National Drug Control Policy (ONDCP) Circular, *Drug Control Accounting*, dated April 18, 2003. The Table represents obligations incurred by OCDETF for drug control purposes. All amounts are net of reimbursable agreements.

Data - All accounting information for OCDETF is derived from the Department of Justice Financial Management Information System 2 (FMIS2). ICDE resources are reported as 100 percent because the entire focus of the OCDETF Program is drug-related.

Financial Systems - FMIS2 is the financial system used to provide all OCDETF obligation data. Obligations that are derived by this system reconcile with the enacted appropriations and carryover balances.

The Decision Units are divided according to the two major functions of the task force -- Investigations and Prosecutions, and reflect the amount of reimbursable ICDE resources appropriated for each participating agency. With respect to the Table of Drug Control Obligations, the calculated amounts were derived from the FMIS2 system as follows:

Investigations Function - This function includes the reimbursable resources that support investigative activities of the following participating agencies: the Drug Enforcement Administration; Federal Bureau of Investigation; the Bureau of Alcohol, Tobacco, Firearms and Explosives; U.S. Marshals Service; the Internal Revenue Service; U.S. Immigration and Customs Enforcement; and the U.S. Coast Guard. The methodology applies 100 percent of the resources that support OCDETF investigative activities.

Prosecutions Function - This function includes the reimbursable prosecution resources for the following participating DOJ agencies: the U.S. Attorneys and the Criminal and Tax Divisions of the DOJ. The methodology applies the total of 100 percent of OCDETF's Prosecution Decision Unit resources to the Prosecutions Function.

Intelligence Function - This function includes the reimbursable resources that support intelligence activities of the following participating agencies: the Drug Enforcement Administration, Federal Bureau of Investigation and the U.S. Immigration and Customs Enforcement. The methodology applies 100 percent of the resources that support OCDETF investigative activities.

- d. FTE - The reimbursable FTE levels reported by OCDETF participating agencies are reflected in the table as 100 percent drug-related. The estimate of the reimbursable workyears was derived by determining the estimated permanent positions and workyears for each agency in each program area. The total workyears was 3,756.

#### Disclosure No 2. - Modifications to Drug Control Methodology

The overall methodology to calculate drug control obligations has not been modified. However, the decision units reported in the Table of Drug Control Obligations continue to reflect the OMB approved restructuring. Specifically, the OCDETF Program's four previous decision units: Law Enforcement, Drug Intelligence, Prosecution, and Administrative Support are collapsed into two decision units: Investigations and Prosecutions. Law Enforcement and Drug Intelligence are combined under Investigations and the administrative support of the OCDETF Executive Office is pro-rated among decision units based on the percentage of appropriated ICDE program funding.

### Disclosure No 3. - Material Weaknesses and Other Findings

The Department of Justice Offices, Boards and Divisions (OBD's) FY 2005 Independent Auditor's Report on Internal Control Over Financial Reporting revealed no material weaknesses. However, the audit noted one reportable condition relating to the OBD's Financial Management Information System's (FMIS2) implementation of OBD's management of logical access controls. These findings, while not a material weakness nor specifically directed to OCDETF, are being reported by OCDETF as an "other finding" because of their undetermined impact on the presentation of the prior year drug-related obligations.

The Department's Finance Staff is currently addressing this specific IT finding and other related findings by implementing the following corrective actions: The Office of Chief Information Officer (OCIO), working with the Chief Financial Officer and component program managers as well as their respective CIOs, will continue to develop action plans to address weaknesses identified and implement corrective actions to ensure program improvements are made and institutionalized, including necessary improvements in Operations Services Staff (OSS). In February 2005, the CIO initiated a Financial Audit Oversight Program to ensure that weaknesses identified in prior year audits are addressed and that enhancements in policies, processes, and workflow are implemented to provide the best possible support for successful audits. The corrective actions articulated in that program will continue to be pursued in order to address the reported control issues. Further, the CIO program has begun to implement an IT Security Management Scorecard to report the status, progress, schedule, management issues, risk areas, etc., related to the corrective action plans from prior year financial audits.

### Disclosure No 4. - Reprogrammings or Transfers

Total availability consists of enacted budget authority plus unobligated balances brought forward. OCDETF FY 2005 obligations include all approved reprogrammings and transfers. In FY 2005, OCDETF reprogrammed \$11,074,000 from its no-year account (15X0323) and two-year account (154/50323) as follows:

No-Year (\$6.959 million): \$1.959 million to address one-time costs associated with co-location of OCDETF Task Forces, a maritime initiative, fugitive apprehension, and a Management Information Systems upgrade; and \$5.0 million for IRS participation in the OCDETF Program.

Two-Year (\$4.115 million): \$3.5 million for the U.S. Attorney's offices for litigation expenses in OCDETF cases, including the cost of extraditions, \$.350 million for enhancements to the OCDETF Management information System (MIS), and \$265,000 for a technical adjustment for ICE. See the attached Reprogramming and Transfers Schedule.

### Disclosure No 5. - Obligations From Carryover Funds

In FY 2005, \$33,746,000 in unobligated balances was brought forward from FY 2004 and available for new obligations. Of this amount, 11,074,000, as reported under Disclosure No 4. was established as new obligations during FY 2005.

Disclosure No. 6 - Other Disclosures

OCDETF asserts that the information presented in the Table of Drug Control Obligations fairly presents the drug control obligations for OCDETF. OCDETF did not have any Office of National Drug Control Policy (ONDCP) Fund Control Notices issued in FY 2005.

**Organized Crime Drug Enforcement Task Force (OCDETF) Program  
Reprogrammings and Transfers  
FY 2005  
(Dollars in thousands)**

Line Item	Unobligated Balances and Recoveries	Enacted BA	Reprogramming 2/	Rescission 3/	Transfer 4/	Total Availability
<b>Drug Resources by Function</b>						
Investigations	0	\$403,963	\$7,460	(\$5,397)	(\$1,182)	\$404,844
Prosecution	0	123,210	3,614	(1,645)	0	125,179
Intelligence	0	33,860	0	(452)	(491)	32,917
Undistributed	33,746	...	(11,074)	0		22,672
Total	33,746	561,033	0	(7,494)	(1,673)	585,612
<b>Drug Resources by Decision Unit 1/</b>						
Investigations:						
Drug Enforcement Administration	0	183,296	1,443	(2,458)	(1,182)	181,099
Federal Bureau of Investigation	0	113,569	251	(1,507)	0	112,313
U.S. Marshals Service	0	6,495	156	(87)	0	6,564
Alcohol, Tobacco, Firearms and Explosives	0	11,339	11	(152)	0	11,198
Immigration and Customs Enforcement	0	33,465	547	(447)	0	33,565
Internal Revenue service	0	55,192	5,052	(738)	0	59,506
U.S. Coast Guard	0	607	0	(8)	0	599
Subtotal	0	403,963	7,460	(5,397)	(1,182)	404,844
Drug Intelligence:						
Drug Enforcement Administration	0	9,756	0	(131)	(289)	9,336
Federal Bureau of Investigation	0	23,648	0	(315)	(202)	23,131
Immigration and Customs Enforcement	0	456	0	(6)	0	450
Subtotal	0	33,860	0	(452)	(491)	32,917
Prosecution:						
U.S. Attorneys	0	119,266	3,614	(1,593)	0	121,287
Criminal Division	0	2,969	0	(39)	0	2,930
Tax Division	0	975	0	(13)	0	962
Subtotal	0	123,210	3,614	(1,645)	0	125,179
Total Distributed	0	561,033	11,074	(7,494)	(1,673)	562,940
Undistributed	33,746	0	(11,074)	0	0	22,672
Total	33,746	561,033	0	(7,494)	(1,673)	585,612

<sup>1/</sup>Decision Units reflect OMB approved restructuring. The OCDETF program's four decision units: Law Enforcement, Drug Intelligence, Prosecution, and Administrative Support are collapsed into two Decision Units: Investigations and Prosecutions. The Administrative Support is pro-rated among decision units based on the percentage of appropriated ICDE program funding.

<sup>2/</sup>Includes reprogrammed carryover funds as follows: No-year funding of \$6.959M (\$1.259M for Co-Located Task Forces; \$.375M for Panama Express; \$.150M for USMS SORT IV; \$.5.0M for IRS; and \$.175M for OCDETF MIS and Two-Year funding as follows: \$3.85M (\$3.5M for USAs and \$.350M for OCDETF EXO MIS).

<sup>3/</sup>Funds rescinded as required by 2005 Omnibus Appropriations Act, P.L. 108-447, December 8, 2004--Section 638 (b).

<sup>4/</sup>Represents radio resources transferred to the DOJ Narrowband Communications Account as required by P.L. 108-447.





**KPMG LLP**  
2001 M Street, NW  
Washington, DC 20036

## **Independent Accountants' Report**

Assistant Attorney General for Administration  
U.S. Department of Justice

Inspector General  
U.S. Department of Justice

We have reviewed the accompanying Table of Drug Control Obligations and related disclosures of the U.S. Department of Justice's Office of Justice Programs (OJP) for the year ended September 30, 2005. We have also reviewed the accompanying Management's Assertion Statement for Fiscal Year Ended September 30, 2005. OJP's management is responsible for the Table of Drug Control Obligations and related disclosures and the assertion.

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 Table of Drug Control Obligations and related disclosures and management's assertion. Accordingly, we do not express such an opinion.

Management of the OJP prepared the Table of Drug Control Obligations and related disclosures and management's assertion in accordance with the requirements of the Office of National Drug Control Policy (ONDCP) Circular, *Drug Control Accounting*, dated April 18, 2003.

Based on our review, nothing came to our attention that caused us to believe that (1) the Table of Drug Control Obligations and related disclosures for the year ended September 30, 2005 is not presented, in all material respects, in conformity with ONDCP's Circular, *Drug Control Accounting* (April 18, 2003), or that (2) management's assertion referred to above is not fairly stated, in all material respects, based on the criteria set forth in ONDCP's Circular, *Drug Control Accounting* (April 18, 2003).

This report is intended solely for the information and use of the management of the U.S. Department of Justice, the U.S. Department of Justice Office of 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**

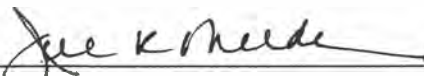
December 6, 2005

**Office of Justice Programs  
Management's Assertion Statement  
for Fiscal Year Ended September 30, 2005**

On the basis of the Office of Justice Programs (OJP) management control program, we assert that OJP system of accounting, use of estimates, and systems of internal controls provide reasonable assurance that:

1. Obligations reported by budget decision unit are the actual obligations from OJP accounting system of record for these budget decision units.
2. The methodology used by OJP to calculate obligations of budgetary resources by function is reasonable and accurate in all material aspects.
3. The methodology disclosed in this statement was the actual methodology used to generate the Table.
4. The data presented are associated with obligations against a financial plan that was revised during the fiscal year to properly reflect transfers which affected drug-related resources.
5. The Department of Justice did not have any Fund Control Notices issued in FY 2005.

We have documented the methodology used by OJP to identify and accumulate FY 2005 drug control obligations in the Table of Obligations and accompanying disclosures in accordance with the guidance of ONDCP Circular, *Drug Control Accounting*, dated April 18, 2003.

  
\_\_\_\_\_  
Jill R. Meldon, Director  
Office of Budget and Management Services  
OJP Official Responsible for Assertion

12/16/05  
\_\_\_\_\_  
Date

**Office of Justice Programs**  
**Table of Drug Control Obligations**  
**Drug Related Resources by Function and Decision Unit**  
**For the Fiscal Year Ending September 30, 2005**  
(in thousands of dollars)

	<b>FY 2005 Actual Obligations</b>
<b>Drug Obligations by Function:</b>	
Prevention	\$34,156
State and Local Assistance	119,883
Treatment	<u>80,207</u>
<b>Total</b>	<b>\$234,246</b>
<b>Drug Obligations by Decision Unit:</b>	
Regional Information Sharing System	\$39,946
Weed and Seed	64,587
Enforcing Underage Drinking Laws	25,990
Drug Court Program	46,145
Residential Substance Abuse Treatment (RSAT) Program	34,062
Arrestee Drug Abuse Monitoring (ADAM)	0
Prescription Drug Monitoring Program	7,971
Southwest Border Prosecution	13,838
Juvenile Drug Prevention Demonstration Program	<u>1,707</u>
<b>Total</b>	<b>\$234,246</b>
Methamphetamine Enforcement and Lab Cleanup <sup>1/</sup>	19,733
<b>Drug Resources Personnel Summary:</b>	
Total FTE (Direct)	66.4
<b>Information</b>	
Total Agency Obligations <sup>2/</sup>	\$1,749,050
Drug Percentage	13.4%

<sup>1/</sup> Funding for the Methamphetamine Enforcement and Lab Cleanup Program is transferred from COPS to DEA for program administration, therefore, obligations are not tracked by OJP. FY 2005 total obligations for the program were reported to OJP by the COPS budget office.

<sup>2/</sup> Total Agency Obligations exclude Public Safety Officers' Benefits (PSOB) and Crime Victims Fund (CVF).

Note: Total amounts include management and administrative costs as follows: Regional Information Sharing System (\$457); Weed and Seed (\$6,769); Enforcing Underage Drinking Laws (\$311); Drug Court Program (\$2,763); Residential Substance Abuse Treatment (\$915); Prescription Drug Monitoring Program (\$146); Southwest Border Prosecution (\$457); and Juvenile Drug Prevention Demonstration Program (\$311).

## Disclosure 1: Drug Control Methodology

The OJP mission is to provide federal leadership in developing the Nation's capacity to prevent and control crime, administer justice and assist crime victims. As such, OJP resources are primarily targeted to providing assistance to state, local and tribal governments. In executing its mission, OJP dedicates a significant level of resources to drug-related program activities, which focus on breaking the cycle of drug abuse and crime including: drug testing and treatment, provision of graduated sanctions, drug prevention and education, and research and statistics.

The Table of Drug Control Obligations was prepared in accordance with the *Drug Control Accounting*, dated April 18, 2003:

The Budget Staff of OJP Office of Budget and Management Services (OBMS) is responsible for the development and presentation of the annual OJP ONDCP Budget. Consistent with the 2004 ONDCP guidance, OJP FY 2005 accounting of drug control obligations include total obligations associated with the ten budget decision units identified for the National Drug Control Budget. Funds for nine of these decision units are directly appropriated to OJP, with funding for the Methamphetamine Enforcement and Lab Cleanup Program appropriated to the Community Oriented Policing Services (COPS), an office within the Department's Offices, Boards, and Divisions (OBDs), and transferred to the Drug Enforcement Administration (DEA) for administration. Because the obligations related to the COPS program are recorded, and included in, the financial statements of the OBDs they are not included in the FY 2005 actual obligations total on OJP Table of Drug Control Obligations. Decision units include the following:

- Regional Information Sharing System (RISS)
- Weed and Seed Program
- Enforcing Underage Drinking Laws
- Drug Court Program
- Residential Substance Abuse Treatment (RSAT) Program
- Arrestee Drug Abuse Monitoring (ADAM)
- Prescription Drug Monitoring
- Southwest Border Prosecution Initiative (COPS)
- Juvenile Drug Prevention Demonstration Program
- Methamphetamine Enforcement and Lab Cleanup (COPS)

In determining the level of resources used in support of nine of these budget decision units (excluding Methamphetamine Lab Cleanup), OJP used the following methodology:

Drug Program Obligations by Decision Unit: For eight of the budget decision units, data on obligations as of September 30, 2005 were gathered from OJP Integrated Financial Management Information System (IFMIS), Report ID: GL2e - Obligations by Budget Activity by Fund Type (Accounting Period 2005 01 to 2005 14). For the ADAM program, obligations are provided by the National Institute of Justice (NIJ), the

administering program office. In FY 2005, there were no obligations or FTE reported for ADAM. The total obligations presented for OJP are net reimbursements and funds

obligated under the Crime Victims Fund, Public Safety Officers Benefit Program, the Office on Violence Against Women, and non-OJP programs.

Management and Administration (M&A) Data. M&A costs were calculated by applying the relative percentage of Full-Time Equivalent (FTE) assigned to the nine drug-related decision units to total M&A obligations for OJP. There are no M&A costs associated with the Methamphetamine Enforcement and Lab Cleanup program, since this program is not administered by OJP.

Overall, OJP program activities support goals 1, 2 and 3 of the National Drug Control Strategy. Functionally, OJP program activities fall under the following categories: prevention, state and local assistance, and treatment. The method used to allocate OJP funds to ONDCP functions was derived through an analysis of individual program missions and by surveying program staff. A deliberate effort was made to accurately account for program activities, which resulted in some program obligations falling under multiple goals and functions. The Table of Drug Control Obligations shows FY 2005 obligations for the nine programs, categorized by function and decision unit.

With respect for the Table of Drug Control Obligations, amounts were calculated as follows:

Function:	Using obligation data as reported from IFMIS, the appropriate drug-related percentage was applied to each program/decision unit line item and totaled by function.
Decision Unit:	In accordance with the revised ONDCP circulars, 100 percent of the actual obligations for each of the budget decision units was included.
Full-Time Equivalent:	Full-Time Equivalent (FTE) data originates from the National Finance Center, but is obtained by OJP through the Department of Justice, Justice Management Division Data Center. The same percentage that is applied to calculate FTE, is also applied to the M&A obligations.

## **Disclosure 2: Modifications to Drug Control Methodology**

For FY 2005, OJP is reporting 100 percent of the obligations related to the nine budget decision units included in the National Drug Control Budget, as specified in the ONDCP Circular, *Budget Formulation*, May 13, 2004.

The methodology used to determine the total FY 2005 obligations related to the nine programs appropriated to OJP is the same used in the FY 2004 disclosures statement. To calculate management and administration (M&A) costs related to these programs, OJP is continuing to use the method it employed in FY 2004, which is consistent with the methods used to develop these costs for the annual statement of net cost (SNC) and the DOJ Annual Performance Plan. The SNC is an audited financial statement, which reports the net cost of administering programs by appropriation account and DOJ strategic function. The DOJ Annual Performance Plan reports the achievement that DOJ components experience in accomplishing set goals. Both the SNC and the DOJ Annual Performance Plan categorize funding by function and by DOJ strategic objective. In addition, both require the identification and assignment of FTE across program activities. This methodology first assigns FTE by program based on a survey of program managers and then distributes M&A costs based on the percentage of FTE, by function, to total FTE.

### **Disclosure 3: Material Weaknesses and Other Findings**

The FY 2005 Internal Control Report noted three matters that are considered to be material weaknesses and one reportable condition. These issues, as well as OJP corrective action responses, are listed below.

#### **1. Improvements needed in controls over grant advance and payable estimation processes**

In FY 2006, the Office of the Comptroller (OC) will strengthen its review process which will minimize the risk of under or overstating amounts on the financial statements. OC will continue to work with the software vendor to identify and define possible new functionalities in IFMIS to further automate the grant accrual calculation, thereby reducing the possibility of incomplete information and manual intervention. In addition, OC will train additional Accounting Division individuals in the running, analysis, calculation, and reporting of the quarterly grant accrual estimate.

In FY 2006, OC will strengthen its review process of the grant data files, specifically the completeness of the information contained in the files, as well as, ensure that all information included in the files are included in the grant population. OC will identify and document the selection criteria for the universe of grant data to be included in the grant data files. OC will perform an additional, independent review of the queries that are developed to extract the grant data. Prior to the end of each quarter, OC will revalidate the selection criteria and apply any new factors that may be appropriate. Also prior to the end of each quarter, OC will run the queries and review the resulting universe of data to check for completeness. The proposed improvements in the review process will minimize OC's risk of under or overstating amounts on the financial statements. To further improve the accuracy of grant accruals, in FY 2006 OC plans to take appropriate steps to ensure the Phase III advance is calculated and booked correctly.

On September 2, 2005, OC developed and implemented new policies and procedures to ensure that timely site visit follow-up letters are issued to the grantee. OC also established time frames for each level in the site visit follow-up process. However, in FY 2006, OC will revise the site visit policies and procedures to better reflect the current organizational structure.

- On May 11, 2005, OC revised OCPS 1240.3 to make it consistent with OMB Circular A-50, and the Inspector General Act of 1978, relating to the issuance of corrective action plan letters and resolution of Single Audit report findings.

## **2. Improvements needed in controls over financial reporting, monitoring, analysis, and documentation**

On August 17, 2005, OC implemented new journal voucher (JV) preparation practices that now include strengthening underlying supporting details and supervisory controls in reviewing and approval of JVs. OC will continue to review and strengthen its JV policies and procedures to build upon current best practices. In addition, OC will improve and update its procedures for preparing financial statements to include new automated tools, and surrounding business processes that facilitate a more seamless process of populating the financial statements from the financial system data.

In FY 2006, new procedures and policies will be developed to ensure the monthly reconciliations of the general ledger and sub ledger procedures are performed storing source transactions and documents. In addition, in FY 2006, OC will train additional staff on the reconciliation process. In FY 2005, OC conducted reconciliations of the general ledger and sub ledger in for FY 2004 and FY 2005. OC will also research documents and develop appropriate corrective actions in FY 2006.

In the last quarter of FY 2005, OC began submitting SCRs (system change requests) and DCRs (data change requests) to the OCIO to correct reconciling items in the general ledger.

Currently, OC enters all reimbursable agreements (RAs) via the IFMIS funding module where they are assigned a record identifier and posted to the General Ledger. RAs continue to be tracked in IFMIS throughout their lifecycles in the cost posting module in the IFMIS disbursements module, and to final closing. In FY 2006, OC will continue to work with the software vendor to identify and define possible new functionalities in IFMIS to accurately track IAA costs against their advances via the cost posting module of IFMIS.

### **3. Weaknesses exist in the information systems controls environment**

The Office of the Chief Information Officer (OCIO) will update its Account Management Procedures for the Enterprise Network System to include an OJP Account Access Checklist.

OCIO coordinated with OA to integrate improved Account Removal Request procedures into the OJP/OA Out-Processing Procedures developed and implemented on September 1, 2005.

On September 19, 2005, OA began distributing a weekly summary report of incoming/outgoing employees and contractors to the OCIO on a weekly basis. This report is distributed to the Account Management and Security teams within OCIO.

OCIO will update its Account Management Procedures for the Enterprise Network System to include review and comparison of weekly summary reports of incoming/outgoing employees and contractors against account creation and removal requests.

On October 17, 2005, the OCIO Security team implemented improved password assessment tools in its monthly password reviews of operating system accounts. In addition, to add application and database passwords to the scope of monthly reviews, OCIO initiated procurement for password assessment tools to review application and database password strength.

OCIO will update its Account Management Procedures to enforce a policy of one unique user account per OJP financial and financial-feeder system. Generic user accounts are currently prohibited by DOJ IT Security Standards. OJP has removed the identified generic user accounts. OCIO will update its Account Management Procedures to include searches for and investigations of accounts that appear to be generic, test or training accounts.

OCIO will update its Account Management Procedures for the Enterprise Network System to include the Account Removal Checklist and oversight procedures. The completed Account Removal Checklist provides evidence of account access removal. In addition, OCIO is implementing the Computer Associates eTrust Account Management toolset. It provides centralized account management for OJP financial and financial-feeder systems and extensive audit trails of account management activities, including account removal.

On July 31, 2005, OCIO updated its Account Management Procedures to require review of access levels for each account and re-approval by authorized officials. Also, on July 31, 2005, OCIO updated its Account Recertification Forms to provide greater clarity for current levels of access in addition to stating which accesses were kept, removed, and



added. During account recertification, access is removed for all users that are not re-approved; including separated or transferred employees and contractors.

On September 30, 2005, OCIO developed and implemented the OJP Remote Access Standard Operating Procedure that includes specific instructions guiding remote user access authorization.

OCIO created a Plan of Action with Milestones (POAM) to implement a log of security profile changes for the GMS, IFMIS, Web269, and LLEBG applications. The POAM will be complemented and implemented by December 31, 2005.

OCIO implements system patches, according to DOJ severity guidelines, on a regular basis. System patches for all vulnerabilities identified by the auditors, with no application dependencies, were completed on or before September 30, 2005. OCIO also created a POAM for vulnerabilities with application dependencies, which will be completed and implemented by December 31, 2005. In addition, on September 30, 2005, OCIO developed and implemented the OJP Patch Management/Maintenance Standard Operating Procedure that updated information systems with the most recent system patches to limit system vulnerabilities.

On July 12, 2005, OCIO revised and implemented policies and procedures for backup practices and the OJP Enterprise Backup and Restore Policies and Procedures into agreement.

On August 12, 2005, OCIO stored copies of technical and user documentation for major business applications at the off-site storage location.

On December 15, 2004, OCIO implemented Improved Change Management procedures and Internal Validation and Verification (IV&V) procedures to ensure that required artifacts are retained prior to closing change requests.

#### **4. OJP needs to improve its grant and non-grant de-obligation process**

- OC has created a Business Process Improvement (BPI) team that focuses on improving the grant closeout process. The mission of the team, made up of members of staff from across the OJP support offices, is to analyze, research, and evaluate the current grant closeout process, as well as, to identify efficiencies for those processes that can be further, developed, standardized and/or automated. The new procedures will be implemented in FY 2006, and improvements to OC's processes will be updated in its policies and procedures at that time.

OJP identified improvements in the grant closeout process that include steps for outreach from OC to the bureau/program offices and program managers. This outreach will

include reminders to the program managers of their responsibilities listed in the current OC policy. Additional steps will describe how the close out analysts will use the "Grants with End Dates Passed" reports to identify and prioritize grants that will be followed up with the bureau/program offices and/or closed out by the team. OC will also revise its grant closeout policy to include deadlines for each of these steps and a process for regular communication between OC and all outside entities, regarding procedures and milestones that affect the determination to closeout a grant. The new procedures will be implemented in FY 2006.

In the fourth quarter of FY 2005, OC began quarterly reconciliation of non-grant UDOs with the general ledger. Documents identified in this process were researched and tracked until final resolution of an appropriate posting or until a system change request was completed. In FY 2006, OC will develop policies and procedures for recording and deobligating non-grant UDOs timely. To ensure accuracy, independent reviews will be done by the Program Review Office in FY 2006.

#### **Disclosure 4: Reprogrammings or Transfers**

In accordance with the ONDCP's Circular, *Drug Control Accounting*, OJP made drug-related transfers of \$5.6 million in FY 2005. See the attached Reprogrammings and Transfers Schedule.

#### **Disclosure 5: Other Disclosures**

In FY 2005, the Office of Justice Programs received no Fund Control Notices.

Of the total FY 2005 actual obligations amount, \$40.8 million are a result of carryover unobligated resources.

**Office of Justice Programs**  
**Reprogrammings and Transfers**  
**FY 2005**  
**(in thousands)**

Table Line Item	Unoblig Bal	Enacted	Reprogrammings	Transfers		Total Availability
	Forward & Recoveries	BA <sup>2</sup>		In	Out	
<b>Drug Obligations by Function:</b>						
State and Local Assistance	17,719	133,986	---	---	(1,945)	149,759
Prevention	6,164	31,083	---	---	(525)	36,723
Treatment	<u>16,889</u>	<u>64,132</u>	---	---	<u>(3,161)</u>	<u>77,860</u>
<b>Total.....</b>	<b>40,772</b>	<b>229,201</b>	<b>0</b>	<b>0</b>	<b>(5,631)</b>	<b>264,342</b>
<b>Drug Obligations by Decision Unit:</b>						
Regional Information Sharing System	206	39,466	---	---	---	39,672
Weed and Seed	8,264	61,172	---	---	---	69,436
Enforcing Underage Drinking Laws	3,876	24,666	---	---	(525)	28,017
Drug Courts Program	7,100	39,466	---	---	(1,945)	44,621
Residential Substance Abuse Treatment	9,789	24,666	---	---	(1,216)	33,239
Arrestee Drug Abuse Monitoring Program	---	300	---	---	---	300
Prescription Drug Monitoring Program	3,598	9,866	---	---	(486)	12,978
Southwest Border Prosecution	6,477	29,599	---	---	(1,459)	34,617
Juvenile Drug Prevention Demonstration Program	<u>1,462</u>	---	---	---	---	<u>1,462</u>
<b>Total.....</b>	<b>40,772</b>	<b>229,201</b>	<b>0</b>	<b>0</b>	<b>(5,631)</b>	<b>264,342</b>
Methamphetamine Lab Cleanup <sup>1/</sup>	---	19,733	---	---	---	19,733

<sup>1/</sup> Funding for the Methamphetamine Lab Cleanup Program is transferred from COPS to DEA for program administration, therefore, obligations are neither tracked by, nor calculated in OJP obligations. FY 2005 budget authority for the program was reported to OJP by the COPS budget office.

<sup>2/</sup> Enacted Budget Authority reflects rescission amounts of .54% and .80%

Source: Unobligated balances brought forward and enacted budget authority extracted from OBMS chart entitled, "EOY Unobligated Balances 2004".




United States Department of State  
and the Broadcasting Board of Governors

*Inspector General*

January 30, 2006

MEMORANDUM

TO: INL – Ambassador Anne W. Patterson

FROM: OIG – Howard J. Krongard 

SUBJECT: *Attestation Review of Annual Accounting of Drug Control Funds for FY 2005*  
(AUD/CG-06-22)

Attached is the Office of Inspector General's (OIG) Independent Attestation Review of the Annual Accounting of Drug Control Funds for FY 2005 for the Department of State. No matters came to OIG's attention that caused OIG to believe that the Department's submission did not meet the requirements of the Office of National Drug Control Policy.

If you have any questions, please call me at (202) 663-0340 or Mark W. Duda, Assistant Inspector General for Audits, at (202) 663-0372.

Attachment: As stated.

cc: INL/RM – Mr. James Q. Kohler  
INL/RM/BUD – Mr. Edward W. Imperati



**United States Department of State  
and the Broadcasting Board of Governors**

*Office of Inspector General*

Independent Attestation Review  
Annual Accounting of Drug Control Funds  
by the Department of State  
AUD/CG-06-22

OIG has reviewed the accompanying Bureau of International Narcotics and Law Enforcement Affairs' (INL) FY 2005 detailed accounting submission to the Director of the Office of National Drug Control Policy (ONDCP). INL prepared the submission in compliance with ONDCP Circular, *Annual Accounting of Drug Control Funds*, dated April 18, 2003. This submission is the responsibility of the Department of State.

OIG conducted its review in accordance with attestation standards established by the American Institute of Certified Public Accountants as specified in section 6 of the ONDCP circular. The scope of a review is substantially less than an examination, which expresses an opinion on the submission. Accordingly, OIG does not express such an opinion.

This report is intended solely for the use of ONDCP in meeting its statutory obligation to provide an accounting of all prior-year drug control funds. It should not be used by other parties for any other purpose.

No matters came to OIG's attention that caused OIG to believe that the accompanying assertions do not, in all material respects, reliably represent the FY 2005 obligation data presented in the submission.

A handwritten signature in black ink that reads "Howard J. Krongard".

Howard J. Krongard  
Inspector General

Date: 01/30/06



**United States Department of State**

*Assistant Secretary of State  
for International Narcotics and  
Law Enforcement Affairs*

*Washington, D.C. 20520*



JAN 26 2006

Mr. David J. Rivait  
Associate Director  
Office of Planning and Budget  
Office of National Drug Control Policy  
Executive Office of the President  
Washington, D.C. 20503

Dear Mr. Rivait:

In accordance with the Office of National Drug Control Policy (ONDCP) Circular, Drug Control Accounting, dated April 18, 2003, the Department of State is submitting Fiscal Year (FY) 2005 obligation information on its drug control program. The Inspector General's attestation is included as an enclosure.

**DISCLOSURES**

***Obligations, Reprogramming, and Transfers***

The Department is providing detailed financial information on the drug control program obligations of the Bureau for International Narcotics and Law Enforcement Affairs in accordance with Section 6a of the ONDCP Circular, Drug Control Accounting. The obligation information is provided in a comparative format to show Department performance on the INL drug control program for FY 2004 and FY 2005. The reprogramming and direct apportionment information for FY 2005, which immediately follows the table of drug control obligations, is complete. ONDCP approved all reprogramming over \$5 million.

**Bureau for International Narcotics  
and Law Enforcement Affairs**

**Drug Control Obligations:**

	(In Millions)	
	FY 2004	FY 2005
	Actual	Actual
<b>Drug Resources by Drug Control Function</b>		
Interdiction	\$53.472	\$52.023
International	797.126	898.495
Total	\$850.598	\$950.518
<b>Drug Resources by Decision Unit</b>		
International Narcotics and Law Enforcement (INCLE)	\$161.815	\$246.012
INCLE - Pakistan ERF Supplemental	0.000	0.000
INCLE - Afghanistan IRRF Supplemental	50.000	0.000
ACI Supplemental	10.900	0.000
Andean Counterdrug Initiative (ACI)	627.883	704.506
Total	\$ 850.598	\$950.518
<b>Drug Resources by Function and Decision Unit</b>		
Interdiction: INCLE	\$47.293	\$46.396
Interdiction: ACI	6.179	5.627
International: INCLE	114.522	199.616
International: ACI	632.604	698.879
International: INCLE – Afghanistan IRRF Supplemental	50.000	0.000
Total	\$850.598	\$ 950.518
<b>Drug Resources Personnel Summary</b>		
Total FTE (Direct Hire Authorized)	204	216
<b>Information</b>		
*Total Agency Budget	**\$ 2,069.225	***\$1,671.341
****Drug-Related Percentage	41.11%	56.87%

\* Total Agency Budget Includes all funding directly apportioned to INL including:

\*\* FY 2004 Supplemental Funding of \$871.364 (Iraq), \$220.0 (Afghanistan) and \$10.9 (Colombia).

\*\*\* FY 2005 Supplemental Funding of \$620.0 (Afghanistan)

\*\*\*\* Total Drug Related Obligations divided by Total Agency Budget

## **Direct Apportionments, Transfers and Reprogramming**

The direct apportionment and reprogramming actions listed below are included in the FY 2005 drug-related obligations reported in the preceding table.

1. Directly apportioned \$235.104 million of ACI funds to USAID to be used for economic and social programs.
2. FY 2004 total INL funds include the following supplemental funds:
  - \$871.364 (Iraq)
  - \$220.0 (Afghanistan)
  - \$10.9 (Colombia) Supplemental funding
3. FY 2005 total INL funds include:
  - \$620.0 million in Afghanistan Supplemental

## **Drug Methodology and Other Disclosures**

The mission of the Bureau for International Narcotics and Law Enforcement Affairs (INL) is to develop, implement and monitor U.S. international counternarcotics strategies and foreign assistance programs in support of the President's National Drug Control Strategy.

To help achieve this goal, INL targets drugs at the source and in transit. Bureau goals include: reducing drug cultivation through enforcement, eradication, and alternative development programs; strengthening the capacity of law enforcement institutions to investigate and prosecute major drug trafficking organizations and to block and seize their assets; improving the capacity of host national police and military forces to attack narcotics production and trafficking centers; and fostering regional and global cooperation against drug trafficking. INL functions include foreign policy formulation and coordination, program management and diplomatic initiatives.

All obligations presented in the INL table of drug control obligations are 100 percent drug-related. Obligations for program funding for the Caribbean, Central America, and Mexico directed at interdiction, intelligence and law enforcement activities are reported under the Interdiction drug control function. All other drug control obligations are reported under the International drug control function. Funding under the Andean Counterdrug Initiative (ACI) appropriation started in FY



2002. This addition resulted in INL funding being divided between the ACI and International Narcotics Control and Law Enforcement (INCLE) decision units. There were no changes in the drug methodology between FY 2004 and FY 2005.

## **ASSERTIONS**

I assert that the drug methodology used to calculate obligations of prior year budgetary resources are reasonable, that the data presented is complete, and that the financial systems supporting the drug methodology yield data that fairly present, in all material respects, aggregated obligations from which the drug-related obligations are derived.

All Department of State INL programs, except those appropriated for international anticrime activities, are scored as 100 percent drug-related. The Department's accounting system tracks the international anticrime obligations separately from those of the drug control programs through a combination of the appropriation point limitation and the allotment. This arrangement clearly separates all the drug control obligations being reported from other funds managed by INL. Only obligations recorded under the drug control point limitations and allotments are included in the drug control obligation figures in this report.

### **Application of Methodology**

I assert that the drug methodology for the Department of State INL drug control program has not been modified over the past year. The underlying decision criteria, information sources, and management processes for managing drug programs and reporting obligation amounts remain unchanged.

I assert that the methodology disclosed in this report was the actual methodology used to generate the tables included here.

### **FY 2005 CFO Audit**

I believe the information for the Department of State in this submission is reliable and accurate, since the Department's last nine fiscal year financial statements have been audited and received unqualified "clean" opinions. In relation to internal control, the Independent Auditor's Report

cites material weaknesses in (1) the recording and related depreciation of personal property, and (2) the Department's security of information systems networks. In addition, the report cites three reportable conditions: (1) the inadequacy of the Department's financial management systems, (2) management of unliquidated obligations, and (3) implementation of the Managerial Cost Accounting Standards.

The Department is taking actions to address these findings, as well as deficiencies noted during the audit process. In October 2005, the Department's Management Control Steering Committee (MCSC) – the body charged with overseeing the Department's management control steering program under the Federal Managers' Financial Integrity Act (FMFIA) – created a subcommittee to address the weaknesses in the property area. The subcommittee is responsible for developing corrective actions needed to address these issues Department-wide. For information systems security, the Department has been tracking this area through the MCSC for several years and will re-double its efforts to resolve these weaknesses. The Department has also developed plans to resolve each of the reportable conditions.

For purposes of Section 6a reporting, I certify that the information presented for the Bureau for International Narcotics and Law Enforcement Affairs (INL) is true and correct and concur with all assertions associated with INL.




James Q. Kohler, Executive Director, Acting  
Bureau for International Narcotics and Law Enforcement Affairs

## Financial Plan

I assert that the obligation amounts presented in the drug control obligation table is associated with a financial plan that properly reflects any changes that occurred during the fiscal year. All FY 2005 transfers and fund reprogramming actions are duly noted. The obligation data presented in the report for INL are associated with the INL financial plan, as revised during FY 2005 to reflect changes, including the reprogramming and transfers in excess of \$5 million.

If you would like to address any questions associated with our submission, please call me on (202) 647-8464.

Sincerely,



Anne W. Patterson

Enclosure:  
As stated.

**INSPECTOR GENERAL REVIEW OF  
FY 2005 DRUG CONTROL FUNDS**

*National Highway Traffic Safety Administration*

*Report Number: FI-2006-033  
Date Issued: February 1, 2006*



U.S. Department of  
Transportation

Office of Inspector General

Office of the Secretary  
of Transportation

February 1, 2006

Mr. Jon E. Rice  
Chief, Budget Branch  
Office of National Drug Control Policy  
Washington, DC 20503

Dear Mr. Rice:

This report transmits the results of our independent review of the U.S. Department of Transportation National Highway Traffic Safety Administration's reporting of Fiscal Year 2005 Drug Control Funds to the Office of National Drug Control Policy, dated February 1, 2006.

We reviewed the accompanying report, to be submitted to the Office of National Drug Control Policy by the National Highway Traffic Safety Administration, with regard to the Annual Accounting of Drug Control Funds, dated February 1, 2006. The report and our review are required by 21 U.S.C. § 1704 (d).

Our review was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and Generally Accepted Government Auditing Standards. The objective of our review is to provide negative assurance as to whether any information came to our attention on the basis of the work performed to indicate that management's assertions are not presented in all material respects, based on established or stated criteria. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the *National Highway Traffic Safety Administration's Reporting of Drug Control Funds to the Office of National Drug Control Policy*. Accordingly, we do not express such an opinion.

We performed review procedures on the National Highway Traffic Safety Administration's submission (6a), Table of Prior Year Drug Control Obligations. In general, our review processes were limited to inquiries and analytical procedures appropriate for an attestation review.

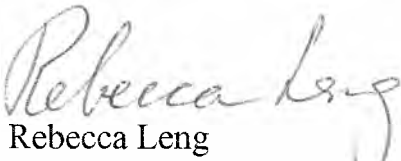
Based on our review, the accompanying *National Highway Traffic Safety Administration's Reporting of Drug Control Funds to the Office of National Drug*

*Control Policy* is presented in conformity with the Office of National Drug Control Policy Circular: Drug Control Accounting, dated April 18, 2003.

The National Highway Traffic Safety Administration has less than \$50 million in drug control funds. In accordance with the Office of National Drug Control Policy Circular: Drug Control Accounting, the Inspector General's office attests that full compliance with this circular would constitute an unreasonable reporting burden.

This report is intended solely for the use of the U.S. Congress, Office of National Drug Control Policy, and Department of Transportation.

Sincerely,

A handwritten signature in cursive script that reads "Rebecca Leng".

Rebecca Leng  
Assistant Inspector General  
for Information Technology and Computer Security

Enclosure

cc: Senior Associate Administrator  
for Policy and Operations, NHTSA



U.S. Department  
of Transportation  
**National Highway  
Traffic Safety  
Administration**

400 Seventh Street, S.W.  
Washington, D.C. 20590

February 1, 2006

Mr. Jon E. Rice  
Chief, Budget Branch  
Office of National Drug Control Policy  
Washington, DC 20503

Dear Mr. Rice:

In accordance with the Office of National Drug Control Policy Circular: Annual Accounting of Drug Control Funds, the National Highway Traffic Safety Administration's (NHTSA) Fiscal Year 2005 Drug Control Obligation Summary is enclosed. NHTSA's obligations for drug-related activities fall below the reporting threshold of \$50 million; therefore, only a limited report is required to satisfy the statutory requirement.

NHTSA's point of contact for this report is Mrs. Laurie Brown-Poindexter. She can be reached on (202) 366-5456, if you require further assistance.

Sincerely,

A handwritten signature in blue ink, appearing to read "G. Walter".

Gregory A. Walter  
Senior Associate Administrator  
for Policy and Operations

Enclosures

**NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION  
FISCAL YEAR 2005 DRUG CONTROL OBLIGATIONS SUMMARY  
(\$MILLIONS)**

**FY 2005  
Estimate**

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**Drug Methodology:**

The Drug Impaired Driving Program provides technical support for Drug Recognition Expert training. In addition, the program focuses on greater consistency in enforcement, prosecution, adjudication, prevention, education, drug testing and treatment.

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**Drug Functions:**

Prevention	1.2
------------	-----

Total	1.2
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**Drug Budget Decision Unit:**

Highway Safety Programs: Drug Impaired Driving*	1.2
--	-----

Total	1.2
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\*Note: In FY2005 no funding was appropriated for the Drug Impaired Driving program. NHTSA allocated 1.2 million from the Impaired Driving program to fund the Drug Impaired Driving program.  
Formerly named Drug Evaluation and Classification (DEC)

Full compliance with circular: Annual Accounting of Drug Control Funds would constitute an unreasonable reporting burden.





**DEPARTMENT OF VETERANS AFFAIRS  
DEPUTY ASSISTANT SECRETARY FOR FINANCE  
WASHINGTON DC 20420**

**FEB 1 2006**

Mr. Terry S. Zobeck  
Deputy Associate Director for Planning and Budget  
Office of National Drug Control Policy  
Executive Office of the President  
750 – 17<sup>th</sup> Street, NW  
Washington, DC 20503

Dear Mr. Zobeck:

Enclosed is a copy of the Department of Veterans Affairs' (VA) Detailed Accounting Submission report providing the information required by the ONDCP Circular, Drug Control Accounting, and the Office of Inspector General's (OIG) attestation of this submission.

We appreciate having the opportunity to provide this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Edward J. Murray", is written over a light blue rectangular background.

Edward J. Murray

Enclosure



DEPARTMENT OF VETERANS AFFAIRS  
Office of Inspector General  
Washington, DC 20420

January 26, 2006

TO: Chief Financial Officer (004)  
Chief Financial Officer, Veterans Health Administration (17)

FROM: Director, Financial Audit Division (52CF)

SUBJECT: **Final Report** - Attestation of the Department of Veterans Affairs (VA)  
Fiscal Year 2005 Detailed Accounting Submission to the Office of  
National Drug Control Policy. (Report No. 06-00763-66)

1. The Office of Inspector General (OIG) reviewed the detailed accounting submission to the Office of National Drug Control Policy (ONDCP) which includes the accompanying Table of Drug Control Obligations (hereafter referred to as "Resource Summary") and related disclosures of VA's Veterans Health Administration for the fiscal year ended September 30, 2005. VA's management is responsible for the Resource Summary and related disclosures (See attachment).
2. Our review was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants, and the 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 Resource Summary and related disclosures. Accordingly, we do not express such an opinion.
3. VA management prepared the Resource Summary and related disclosures (attached) in accordance with the requirements of the ONDCP Circular, *Drug Control Accounting*, dated April 18, 2003.
4. Based upon our review, nothing came to our attention that caused us to believe that the accompanying Resource Summary and related disclosures are not presented in all material aspects in conformity with ONDCP requirements, as further described in Disclosure 1 of the attachment.
5. We provided you our draft report to review and you concurred on the draft report with no comments.

Page 2  
Mr. Henke  
Mr. Norris

6. This report is intended solely for the information and use of the OIG, VA management, the ONDCP, and Congress. This report is not intended to be and should not be used by anyone other than these specified parties.

For the Assistant Inspector General  
For Auditing

A handwritten signature in cursive script that reads "Marie A. Maguire".

MARIE A. MAGUIRE

ATTACHMENT

**Statement of Disclosures and Assertions for FY 2005 Drug Expenditures  
Submitted to Office of National Drug Control Policy (ONDCP) for FY Ending  
September 30, 2005**

In accordance with ONDCP's Circular, Drug Control Accounting, dated April 18, 2003, the Veterans Health Administration asserts that the VHA system of accounting, use of actuals, and systems of internal controls provide reasonable assurance that:

Expenditures and Obligations are based upon the actual expenditures as reported by the Decision Support System (DSS).

The methodology used to calculate expenditures of budgetary resources is reasonable and accurate in all material respects and as described herein was the actual methodology used to generate the costs.

Accounting changes are as stated in the disclosures that follow.

January 4, 2006

## Disclosure 1: Drug Control Methodology

### Decision Support System

The 2005 actuals are based on the Decision Support System (DSS) which replaced the Cost Distribution Report (CDR). The primary difference between DSS and the CDR is a mapping of cost centers by percentage to bed sections or out patient visit groups. DSS maps cost to departments, costs are then assigned to one of 56,000 intermediate products using Relative Value Units (RVU). Relative Value Units basically defined as the determining factor of how much resources it takes to produce an intermediate product. Each Cost Category for example Fixed Direct Labor or Variable Labor has a RVU for each intermediate product. All intermediate products are assigned to an actual patient encounter either inpatient or outpatient using the patient care data bases. In DSS the costs are not averaged rather they are reported by the total of the encounters and can be drilled to patient specific. Also DSS includes all overhead costs assigned to a facility to include Headquarters, National programs and Network Costs. DSS does not pick up the costs of capital expenditures; it picks up the depreciation costs. In synopsis DSS records the full cost of a patient encounters either inpatient or outpatient that can be rolled up to various views.

The Department of Veterans Affairs, through its Veterans Health Administration, operates a national network of 250 substance abuse treatment programs located in the Department's medical centers, domiciliaries and outpatient clinics. These programs include 15 medical inpatient programs, 69 residential rehabilitation programs, 49 "intensive" outpatient programs, and 117 standard outpatient programs.

Veterans Health Administration in keeping with modern medical practice, continues to improve service delivery by expanding primary care and shifting treatment services to lower cost settings when clinically appropriate. Within services for addicted veterans, this has involved a substantial shift over the past 10 years from inpatient to outpatient models of care.

All inpatient programs provide acute, in-hospital care and a subset also provide detoxification and stabilization services, as well. They typically treat patients for 14-28 days and then provide outpatient aftercare. Inpatient programs are usually reserved for severely impaired patients (e.g., those with co-occurring substance abuse and serious mental illness). Inpatient treatment for drug addiction has become rare in VA just as it has in other parts of the healthcare system; only 2,000 drug using veterans received such treatment in 2005. The rest of VA's 24-hour care settings are classified as residential rehabilitation. They are based in on-site VA domiciliaries and in on- and off-site residential rehabilitation

centers. They are distinguished from inpatient programs in having less medical staff and services and longer lengths of stay (about 50 days).

Most drug-dependent veterans are treated in outpatient programs. Intensive outpatient programs provide more than 3 hours of service per day to each patient, and patients attend them 3 or more days per week. Standard outpatient programs typically treat patients for an hour or two per treatment day, and patients attend them 1 or 2 days a week.

VA's Program Evaluation and Resource Center (PERC) completed a Drug and Alcohol Program Survey of 100% of its substance abuse programs in FY 2004, which described their staffing, structure, services and history in detail. This report was provided to many agencies, including ONDCP, and is available online at <http://www.chce.research.med.va.gov/chce/pdfs/2004DAPS.pdf>. The next iteration of this survey will enter the field in the fall of 2006.

The investment in health care and specialized treatment of veterans with drug abuse problems, funded by the resources in Medical Care, helps avoid future health, welfare and crime costs associated with illegal drug use.

In FY 2005, VHA provided specialty substance abuse treatment to almost 70,000 veterans who used illicit drugs. The most prevalent drug used was cocaine, followed by heroin, cannabis and amphetamines, respectively. About two-thirds of VA drug abuse patients were in Means Test Category A, reflecting very low income. About one-fourth of these patients had a service-connected disability (the term "service-connected" refers to injuries sustained in military service, especially those injuries sustained as a result of military action).

The dollars expended in VHA research help to acquire new knowledge to improve the prevention, diagnosis and treatment of disease, and generate new knowledge to improve the effectiveness, efficiency, accessibility and quality of veterans' health care.

The accompanying Department of Veterans Affairs, Resource Summary was prepared in accordance with the following Office of National Drug Control Policy (ONDCP) circulars (a) Annual Accounting of Drug Control Funds, dated April 18, 2003, and (b) Budget Instructions and Certification Procedures, dated April 18, 2003. In accordance with the guidance provided in the Office of National Drug Control Policy's letter of September 7, 2004 VA's methodology only incorporates Specialized Treatment costs.

VA does not track obligations and expenditures by ONDCP function. In the absence of such capability, actuals have been furnished, as indicated.

VA considers substance abuse to include both alcohol abuse and drug abuse. Both conditions are treated in VA substance abuse clinics. ONDCP has requested that VA provide information only on drug abuse patients. To that end,

VA has determined the percentage of patients treated in substance abuse settings for domiciliary substance abuse, inpatient treatments in specialized substance abuse programs, and outpatient substance abuse clinics. VA considers Special Treatment costs to be all costs generated by the treatment of patients with drug use disorders treated in specialized substance abuse treatment programs. For the specialized substance abuse treatment programs and clinics, VA used Decision Support System (DSS) data.

VA relies on DSS to determine costs in various bed sections and clinical settings. All expenses for specialized inpatient, outpatient care, and extended care are incorporated in the spending model.

- a. Specialized Treatment, Inpatient – FY 2005 obligations were \$161.088 million. VA assumed a drug-related percent of 82.56%<sup>1</sup>.
- b. Specialized Treatment, Domiciliary – FY 2005 obligations were \$56.248 million. VA assumed a drug-related percent of 79.14%<sup>2</sup>.
- c. Specialized Treatment, Outpatient – FY 2005 obligations were \$168.315 million. VA assumed a drug-related percent of 92.16%<sup>3</sup>.
- d. Research and Development – FY 2005 obligations were \$10.479 million.
- e. FTEs. Specialized FTE is 3,650 and is comprised of the following: Specialized Inpatient FTE = 1,539 (drug-related percent of 82.56%); Specialized Domiciliary FTE = 566 (drug-related percent of 79.14%); and Specialized Outpatient FTE = 1,555 (drug-related percent of 92.16%).

This budget accounts for drug-related costs for VHA Medical Care and Research. It is not all encompassing of drug-related costs for the agency. VA incurs costs related to accounting and security of narcotics and other controlled substances and costs of law enforcement related to illegal drug activity, however; these costs are assumed to be relatively small and would not have a material effect on the aggregate VA costs reported.

#### Modification of VA's Accounting Methodology

In accordance with the guidance provided in the Office of National Drug Control Policy's letter of September 7, 2004 VA's methodology only incorporates

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<sup>1</sup> Percent of all Substance Use Disorder Inpatients seen in a Specialized Substance Use Disorder Unit with a drug diagnosis.

<sup>2</sup> Percent of all Substance Use Disorder Extended Care Patients seen in a Specialized Substance Use Disorder Unit with a drug diagnosis.

<sup>3</sup> Percent of all Substance Use Disorder Clinic Stops made by drug patients.

Specialized Treatment costs and no longer takes into consideration Other Related Treatment costs.

Disclosure 2: Application of Drug Methodology

Drug methodology detailed in Disclosure 1 was the actual methodology used to generate the Resource Summary.

Disclosure 3: Reprogrammings and Transfers

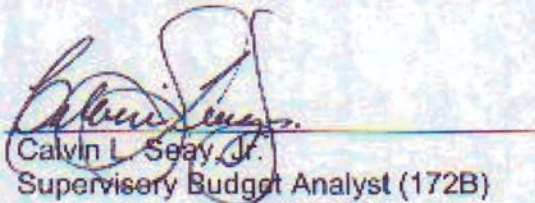
There was no reprogramming of funds that specifically affected drug control-related funding because drug control expenditures are reported on the basis of patients served in various VA clinical settings for specialized substance abuse treatment programs.

Disclosure 4: Fund Control Notices

The data presented are associated with obligations against a financial plan that was based upon a methodology in accordance 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.



Paul J. Markie  
Director, Budget Office (172B)



Calvin L. Seay, Jr.  
Supervisory Budget Analyst (172B)



Department of Veterans Affairs  
Resource Summary  
Budget Authority in Millions

Description	2005 Actual
Drug Resources by Function & Decision Unit:	
Medical Care:	
Specialized Treatment	
Domiciliary .....	\$56.248
Inpatient.....	\$161.088
Outpatient.....	\$168.315
Specialized Treatment .....	\$385.651
Research & Development .....	\$10.479
Drug Resources by Function & Decision Unit, Total .....	\$396.130
Drug Resources Personnel Summary	
Total FTE.....	3,650
Total Agency Budget (w/o Supplementals, w/Transfers) .....	\$70,801.6
Drug Percentage.....	.56%



U.S. SMALL BUSINESS ADMINISTRATION  
WASHINGTON, D.C. 20416

JAN 10 2006

Mr. Terry S. Zobeck  
Deputy Associate Director  
Office of National Drug Control Policy  
Executive Office of the President  
Washington, DC 20053

Dear Mr. Zobeck:

As requested, this is the U.S. Small Business Administration's (SBA) response to your letter dated December 8, 2005.

**Drug Methodology Fiscal Year 2005**

<u>Drug Function</u>	<u>Budget Decision Unit</u>
Prevention - \$1M	Education - \$1M

If you have any questions concerning this report, please contact Rachel Karton or Terry Nelson in SBA's Office of Small Business Development Centers at 202.205.6766.

We attest that full compliance with the ONDCP Circular would create an unreasonable burden on the SBA.

Antonio Doss  
Associate Administrator  
Small Business Development Centers

Jennifer Main  
Acting Chief Financial Officer

Peter McClintock  
Acting Inspector General

SBA IS AN EQUAL OPPORTUNITY EMPLOYER AND PROVIDER

# 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 policies 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,

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