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Executive Summary

Background

This presents for Congress the *Fiscal Year 2006 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)." That provision was not changed by the ONDCP Reauthorization Act of 2006 (Public Law 109-469, December 29, 2006).

In order to comply with this statutory provision, ONDCP issued a Circular, *Annual Accounting of Drug Control Funds* (Tab K), 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.

Department Compliance and Attestation Reviews

All National Drug Control Program agencies were able to comply with the provisions of the Drug Control Accounting 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 2006 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)
Defense	Yes	Pass
Education		
Office of Safe and Drug-Free Schools	Yes	Pass
Health and Human Services		
National Institute on Drug Abuse	Yes	Pass
Substance Abuse and Mental Health Services Administration	Yes	Pass
Homeland Security		
Customs and Border Protection	Yes	Pass
Immigration and Customs Enforcement	Yes	Pass
U.S. Coast Guard	Yes	Pass
Justice		
Bureau of Prisons	Yes	Pass
Drug Enforcement Administration	Yes	Pass
Organized Crime Drug Enforcement Task Force	Yes	Pass
Office of Justice Programs	Yes	Pass
State		
Bureau of International Narcotics and Law Enforcement Affairs	Yes	Pass
Transportation		
National Highway Traffic Safety Administration[/1]	Yes	N.A.
Department of the Treasury		
Internal Revenue Service	Yes	Pass
Veterans Affairs		
Veterans Health Administration	Yes	Pass
Small Business Administration[/1]	Yes	N.A.

Notes:

[/1] 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.

Summary of Agency Reports

Department of Defense

The Department of Defense's (DoD) accounting of FY 2006 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 DoD OIG issued a report in FY 2005 entitled, *Report on Controls Over Funds Used by DoD for the National Drug Control Program*. This report 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. As part of the FY 2006 review, the OIG assessed whether military components implemented procedures to support reported obligations with detailed transaction listing. The OIG concludes that while the Army and Navy have implemented such procedures, the Air Force and National Guard have not. The Office of the DASD CN is working with the remaining agencies to implement proper procedures.

- 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 Office of the DASD CN compiled amounts manually instead of obtaining information directly from accounting systems. DoD notes that there is an error in total obligations reported for FY 2006. The report, which identifies $969.6 million in obligations, inadvertently excludes $10.4 million. The correct FY 2006 obligations total is $980 million.

- The amount of DoD funds appropriated to the Counterdrug Central Transfer Account (CTA) is reported within the National Drug Control Strategy – 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 accounting of FY 2006 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.

- 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).

- A total of $7.3 million of Safe and Drug-Free Schools program funds support 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 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 2006 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 2006 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.

- The management of the HHS Program Support Center (PSC), SAMHSA's financial accounting service provider, identified a systems nonconformance and one material weakness in FY 2006. Regarding the nonconformance, PSC's financial system does not comply with the requirements of the Federal Financial Management Improvement Act of 1996. Concerning the material weakness, due to the lack of an integrated financial management system, significant adjustments to financials statements are recorded manually. This presents a serious risk of error. SAMHSA indicates that these issues are addressed in FY 2007 through the PSC implementation of the Unified Financial Management System (UFMS).

Department of Homeland Security

The Department of Homeland Security's (DHS) accounting submission includes separate reports for Customs and Border Protection (CBP), Immigration and Customs Enforcement (ICE), and the United States Coast Guard (USCG) (Tab D). In the previous year's submission (see *FY 2005 Accounting of Drug Control Funds*), the DHS OIG did not complete their review. Specifically, the OIG did not review two key areas:

(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;
(2) whether the data presented are associated with obligations against a financial plan that fully complied with all Fund Control Notices.

To complete their review, the OIG agreed to perform additional procedures during the FY 2006 review with regard to management's assertions made in FY 2005. ONDCP received a final revised submission from DHS on August 23, 2007. In this submission, the OIG indicates that CBP, ICE, and USCG have implemented additional procedures to ensure compliance with requirements for reprogramming and transfer requests. Further, the OIG asserts that CBP, ICE, and USCG have implemented manual procedures to comply with Funds Control Notices.

CBP: CBP's accounting of FY 2006 drug control obligations satisfies all requirements established by ONDCP's Circular, including the rendering of a negative assurance by the DHS OIG. Given this, CBP was assessed a rating of pass.

- The OIG cites material weaknesses in the areas of financial management, financial reporting, and financial systems for the Department. The OIG indicates that CBP does not contribute to these weaknesses. CBP indicates that no weaknesses, other than those that are known, affected the presentation of prior year drug-related obligations.

ICE: ICE's accounting of FY 2006 drug control obligations satisfies all requirements established by ONDCP's Circular, including the rendering of a negative assurance by the DHS OIG. Given this, ICE was assessed a rating of pass.

- The OIG cites material weaknesses in the areas of financial management, financial reporting, and financial systems for the Department. The OIG indicates that ICE contributed to the material weaknesses and has formulated a corrective action plan to resolve items by FY 2009.

USCG: USCG's accounting of FY 2006 drug control obligations satisfies all requirements established by ONDCP's Circular, including the rendering of a negative assurance by the DHS OIG. Given this, USCG was assessed a rating of pass.

- The OIG cites material weaknesses in the areas of financial management, financial reporting, and financial oversight for the Department. The OIG indicates that USCG contributed to the material weaknesses in each of the three areas and has formulated a corrective action plan to resolve items by FY 2010.

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 2006 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 BOP's Information System Controls Environment. Information System weaknesses continue to exist in the Financial Management Information System (FMIS2) accounting system, which processes BOP's financial transactions. The current state of the system makes BOP dependent on manual financial monitoring controls. If manual monitoring controls fail, BOP may not detect material misstatements in financial statements before reporting deadlines. BOP has implemented corrective action plans to address this issue.

DEA: DEA's accounting of FY 2006 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.

OCDETF: OCDETF's accounting of FY 2006 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 FMIS2 security program, systems software, and application controls. Although not regarded as a material weakness within OCDETF, the condition is noted due to the potential impact on FY 2006 drug-related obligations. OCDETF notes that DOJ is addressing this finding with corrective action.

OJP: OJP's accounting of FY 2006 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 two material weaknesses and one reportable condition. The material weaknesses exist in: (1) Information System Controls Environment, and (2) controls over grant advance and payable estimation processes. The reportable condition pertains to the grant de-obligation process.

Department of State

The Department of State's (State) accounting of FY 2006 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 six reportable conditions: (1) the recording of personal property related depreciation; (2) the Department's security of information systems; (3) the inadequacy of the Department's financial management systems; (4) management of undelivered orders; (5) implementation of the Managerial Cost Accounting Standards; and (6) recording of real property and related depreciation. The first two reportable conditions were cited as material weaknesses in FY 2005, and downgraded in FY 2006. State will continue work to resolve deficiencies in FY 2007.

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 2006 obligations for the National Highway Traffic Safety Administration - Drug Impaired Driving Program and an explanation of drug methodology. DoT's submission satisfies all requirements established by ONDCP's Circular.

Department of the Treasury

The Department of the Treasury's accounting of FY 2006 drug control obligations (Tab H) satisfies all requirements established by ONDCP's Circular, including the rendering of a negative assurance by the Treasury Inspector General for Tax Administration (TIGTA). Given this, Treasury was assessed a rating of pass.

- In FY 2006, the Internal Revenue Service (IRS) received a direct appropriation for activities as a member of the Organized Crime Drug Enforcement Task Force. In previous years, resources were appropriated to the Department of Justice and subsequently reimbursed to IRS.

- The TIGTA noted a material weakness related to information security. Although this weakness is not specifically directed to OCDETF, it was reported because of its potential impact on drug-related obligations. Further, TIGTA noted that IRS adequately explained and documented its cost allocation methodology with one exception: a $2 million adjustment to salaries and benefits related to program management and analytical support staff costs.

Department of Veterans Affairs

The Department of Veterans Affairs (VA), Veterans Health Administration's (VHA) accounting of FY 2006 drug control obligations (Tab I) 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 identified three material weaknesses and two reportable conditions. The weaknesses occur in Information Technology Security Controls, Integrated Financial Management System, and Operational Oversight. The reportable conditions pertain to Transactions Rejected by FMS and Intergovernmental Transactions. VA's CFO has a remediation plan to address these issues.

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 J). The report includes a table of FY 2006 obligations for the Drug-Free Workplace Program and an explanation of drug methodology. SBA's submission satisfies all requirements established by ONDCP's Circular.

Department of Defense

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

January 29, 2007

MEMORANDUM FOR THE DEPUTY ASSISTANT SECRETARY OF DEFENSE (COUNTERNARCOTICS)

SUBJECT: Independent Auditor's Report on the DoD FY 2006 Detailed Accounting Report of the Funds Obligated for National Drug Control Program Activities (Report No. D-2007-052)

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) to the Director of the Office of National Drug Control Policy accounting for all funds DoD expended for National Drug Control Program activities during the previous fiscal year. 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 DoD must use to prepare the Report and authenticate the DoD funds expended 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]) was responsible for the detailed accounting of funds obligated and expended by DoD for the National Drug Control Program for FY 2006. 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 done to express an opinion on the subject matter. Accordingly, we do not express an opinion.

We reviewed four DoD reprogramming actions that allocated $1,022.9 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 our identification of 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 2006, we determined whether the DoD Components that received Counterdrug funding from DASD (CN) had implemented procedures to support reported obligations with detailed transaction listings. We requested and obtained the listings that were available for reported obligations; however, the Military Components were not able to support all Counterdrug obligations with detailed transaction listings. The Army and Navy were able to support a majority of their reported obligations with detailed transaction listings. In contrast, the Air Force and National Guard had not implemented adequate procedures to support their reported obligations with detailed transaction listings.

DASD (CN) provided us the Report in a letter dated December 18, 2006, which we reviewed to determine compliance with the Accounting Policy Circular. The detailed accounting indicated that $969.6 million was obligated during FY 2006 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 2006 is not presented, in all material respects, in conformity with the Accounting Policy Circular.

Paul J. Granetto

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

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
2900 DEFENSE PENTAGON
WASHINGTON, DC 20301-2900

INTERNATIONAL SECURITY POLICY

DEC 18 2006

Mr. Terry S. Zobeck
Deputy Associate Director
Planning and Budget
Office of National Drug Control Policy
750 17th Street, NW
Washington, DC 20503

Dear Mr. Zobeck:

In my capacity as Acting Deputy Assistant Secretary of Defense for Counternarcotics, I assert that the drug methodology used to calculate obligations by drug control function of Fiscal Year 2006 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,

Edward Frothingham III

Edward Frothingham III
Acting Deputy Assistant Secretary of Defense for Counternarcotics

Enclosures:
As stated

CF:
DODIG

CENTRAL TRANSFER ACCOUNT

	FY06
Intelligence	141,261
Interdiction	479,303
Investigative	43,774
Prevention	166,694
R&D	15,482
State & Local Assistance	116,028
Treatment	7,104
Total	**969,646** *

*This amount includes a 99% obligation rate for MILPERS and a 97% obligation rate for O&M. Investment appropriations, which are multi-year, are currently obligated at 64%.

DRUG RESOURCES PERSONNEL SUMMARY

Total FTEs	1,254
	1,254

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.

Department of Education

Office of Safe and Drug-Free Schools and Communities

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF PLANNING, EVALUATION AND POLICY DEVELOPMENT

JAN 3 0 2007

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 705(d) of the Office of National Drug Control Policy (ONDCP) Reauthorization Act of 1998 (21 U.S.C. 1704(d)), enclosed please find a detailed accounting of all fiscal year 2006 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

Thomas P. Skelly
Director, Budget Service

Enclosure # 1: *Department of Education Detailed Accounting of Fiscal Year 2006 Drug Control Funds*, dated January 24, 2007

Enclosure # 2: Authentication letter from Helen Lew, Assistant Inspector General for Audit Services, dated January 29, 2007

cc: Helen Lew

400 MARYLAND AVE., SW, WASHINGTON, DC 20202
www.ed.gov

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UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

JAN 29 2007

Office of Inspector General's Independent Report on the U.S. Department of Education's Detailed Accounting of Fiscal Year 2006 Drug Control Funds, dated January 24, 2007

We have reviewed management's assertions contained in the accompanying Accounting, titled *Department of Education Detailed Accounting of Fiscal Year 2006 Drug Control Funds*, dated January 24, 2007 (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

Helen Lew
Assistant Inspector General for Audit Services

400 MARYLAND AVE., S.W., WASHINGTON, DC 20202-1510
www.ed.gov

Our mission is to ensure equal access to education and to promote educational excellence throughout the nation.

DEPARTMENT OF EDUCATION

DETAILED ACCOUNTING OF FISCAL YEAR 2006 DRUG CONTROL FUNDS

IN SUPPORT OF THE

NATIONAL DRUG CONTROL STRATEGY

AS REQUIRED BY SECTION 705(d) OF THE OFFICE OF NATIONAL DRUG CONTROL POLICY REAUTHORIZATION ACT OF 1998

(21 U.S.C. 1704(d))

JANUARY 24, 2007

DEPARTMENT OF EDUCATION

DETAILED ACCOUNTING OF FISCAL YEAR 2006 DRUG CONTROL FUNDS

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UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF PLANNING, EVALUATION AND POLICY DEVELOPMENT

JAN 24 2007

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 705(d) of the Office of National Drug Control Policy (ONDCP) Reauthorization Act of 1998 (21 U.S.C. 1704(d)), enclosed please find a detailed accounting of all fiscal year 2006 Department of Education drug control funds for your authentication, in accordance with the guidelines in 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, 2007, if possible. Please do not hesitate to contact me if you have any questions about the enclosed information.

Sincerely,

Thomas P. Skelly

Thomas P. Skelly
Director, Budget Service

400 MARYLAND AVE., SW, WASHINGTON, DC 20202
www.ed.gov

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TABLE OF PRIOR YEAR DRUG CONTROL OBLIGATIONS

	Fiscal Year 2006 Obligations (in $ millions)
Drug Resources by Function	
Prevention	$489.989
Total	489.989
Drug Resources by Decision Unit	
Safe and Drug-Free Schools and Communities Program	
SDFSC State Grants	346.682
SDFSC National Programs	143.307
Total	489.989

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 receive 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 2006. 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 2006 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 2006 *National Drug Control Budget Summary* that accompanied the 2007 President's budget in support of the *National Drug Control Strategy*.

Methodology Modifications

The Department does not have any drug control budget methodological modifications to disclose.

Material Weaknesses or Other Findings

The Department does not have any material weaknesses to disclose that affect the presentation of fiscal year 2006 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 2006 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 2006 drug-related obligations under the program by $0.483 million. (Note: This $0.483 million is included in the $27.2 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 2006.

Other Disclosures

The Department acknowledges the following limitations in the methodology described above for deriving the obligations of fiscal year 2006 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 $7.3 million of the SDFSC National Programs funds included in the resource summary of this report (1.5 percent of total fiscal year 2006 SDFSC reported drug control obligations) supported 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 2006 obligations of drug control funds shown in this report for the SDFSC drug budget decision unit are the actual 2006 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 2006 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 2006 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 2006 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 2006 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.

Department of Health & Human Services

National Institute on Drug Abuse
Substance Abuse and Mental Health Services Administration

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Washington, D.C. 20201

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 attestation reviews for the Department of Health and Human Services for Fiscal Year 2006 as required by the ONDCP Circular titled *Drug Control Accounting*.

If you have any questions, please contact Jose Villar, Director, Division of Financial Systems Policy, Payment Integrity and Audit Resolution at (202) 690-6488 or jose.villar@hhs.gov.

Sincerely,

Sheila O. Conley
Deputy Assistant Secretary, Finance

Enclosures:
NIDA Drug Control Accounting Report
SAMHSA Drug Control Accounting Report

Notices

THIS REPORT MAY CONTAIN SENSITIVE INFORMATION

This report should not be reproduced or released to any other party without specific written approval of the Deputy Inspector General for Office of Audit Services

OAS FINDINGS AND OPINIONS

The recommendation for the disallowance of proposed costs as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG OAS. Final determination on these matters will be made by authorized officials of the awarding agency.

Department of Health and Human Services

OFFICE OF
INSPECTOR GENERAL

Attestation Review: National Institute on Drug Abuse Drug Control Accounting Report for Fiscal Year 2006

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Daniel R. Levinson
Inspector General

January 2007
A-03-07-00352

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Warning – This report contains restricted information for official use.

Washington, D.C. 20201

JAN 24 2007

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 2006 (A-03-07-00352)

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) 2006. 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 27, 2006. 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 2006 that reported obligations totaling approximately $990 million.

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Page 2 – Donna Jones

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.

****

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 & HUMAN SERVICES

Public Health Service

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

NOV 27 2006

MEMORANDUM TO: Director
Office of National Drug Control Policy

THROUGH: Sheila Conley
Deputy Assistant Secretary for Finance
Department of Health and Human Services

FROM: Donna Jones Donna M 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 2006 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 community-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 $990,404,743 is the actual amount obligated and reconciles to the NIDA Database system. The total of $990,404,743 does not reconcile to the FY 2006 column of the FY 2007 Congressional Justification (CJ). This is because the FY 2006 column of the FY 2007 CJ includes an $8,937,000 transfer for the NIH Roadmap and a $686,957 transfer to the Centers for Medicaid and Medicare Services (CMS) Program. This adjustment to the FY 2006 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 2006 are for the same reasons described above for the FY 2006 column of the FY 2007 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 adjustments for FY 2006: an $8,937,000 transfer for the NIH Roadmap and a $686,957 transfer for the CMS Program.

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 2006 Actual Obligations
(Dollars in Thousands)

I. RESOURCE SUMMARY

	FY 2006 Actual
Drug Resources by Function:	
Prevention	406,526
Treatment	583,879
Total	990,405
Drug Resources by Decision Unit:	
Demand Reduction	990,405
Total	990,405
HIDTA Transfer	
ICDE Resources	

Differences Between (1) Actual Obligations and (2) the FY 06 Column of the FY 07 CJ and the National Drug Control Strategy Budget Summary
(Dollars in Thousands)

Total 2006 Col. of the FY 2007 CJ; National Drug Control Strategy	1,000,029
HHS 1% Transfer	-687
Comparative Transfer	-8,937
Total Obligations	990,405

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, Senior Auditor/Auditor-in-Charge
Ebony Mahoney, 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 2006

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Daniel R. Levinson
Inspector General

January 2007
A-03-07-00351

DEPARTMENT OF HEALTH & HUMAN SERVICES Office of Inspector General

Washington, D.C. 20201

Warning – This report contains restricted information for official use.

JAN 24 2007

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 2006 (A-03-07-00351)

The purpose of this report is to provide you the results of our attestation review of the Substance Abuse and Mental Health Services Administration (SAMHSA) drug control accounting report for fiscal year (FY) 2006. 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 30, 2006. 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 2006 that reported obligations totaling approximately $2.5 billion.

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Page 2 – Daryl W. Kade

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.

****

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 & HUMAN SERVICES

Substance Abuse and Mental Health Services Administration

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

NOV 3 0 2006

MEMORANDUM TO: Director, Office of National Drug Control Policy

THROUGH: Sheila Conley
Deputy Assistant Secretary for 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*, as revised on April 18, 2003, 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

Page 2 - Director, Office of National Drug Control Policy

Free Communities Program. SAMHSA's Center for Substance Abuse Prevention (CSAP) received a total of $77,569,443 from ONDCP via an Interagency Agreement to fund activities of the Drug Free Communities Program in FY 2006. In addition, SAMHSA Drug Program-related funds in the amount of $1,627,000 were reprogrammed by the Office of the Secretary, HHS, to "address unexpected needs in the Centers for Medicare and Medicaid Services (CMS)." SAMHSA had no other reportable reprogrammings or transfers in FY 2006.

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 2006
Exhibit A - Drug Control Methodology
Exhibit B – Memo, Subject: FY 2006 Management Assurance

SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION

Table of Prior Year Drug Control Obligations
FY 2006
(Dollars in millions)

Obligations by Drug Control Function

Prevention	640.2
Treatment	1,878.1
Total	$2,518.3

Obligations by Budget Decision Unit

Programs of Regional and National Significance [1]	591.4
Substance Abuse Prevention (Non-add)	*(192.8)*
Substance Abuse Treatment (Non-add)	*(398.6)*
Drug Free Communities Program [2]	77.6
Substance Abuse Block Grant [3]	1,757.4
Program Management [4]	91.9
Total	$2,518.3

Footnotes:

[1] 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.

[2] Drug Free Communities Program funding was provided to SAMHSA/CSAP via Interagency Agreement.

[3] SAPT Block Grant obligations include funds provided to SAMHSA from the PHS evaluation fund.

[4] 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 2006 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, but including obligations related to receipt of PHS Evaluation funds;
- 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 2006 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 2005).

(3) **Material Weaknesses or Other Findings** - See Exhibit B.

(4) **Reprogrammings or Transfers** – SAMHSA's Center for Substance Abuse Prevention (CSAP) received a total of $77,569,443 from ONDCP via an Interagency Agreement to fund activities of the Drug Free Communities Program in FY 2006. In addition, SAMHSA Drug Program-related funds in the amount of $1,627,000 were reprogrammed by the Office of the Secretary, HHS, to "address unexpected needs in the Centers for Medicare and Medicaid Services (CMS)." SAMHSA had no other reportable reprogrammings or transfers in FY 2006.

(5) **Other Disclosures** – None.

Exhibit B

DEPARTMENT OF HEALTH & HUMAN SERVICES

Substance Abuse and Mental Health Services Administration

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

OCT 13 2006

TO: Sheila Conley, Chairman
A-123 Senior Assessment Team
U.S. Department of Health and Human Services

FROM: Eric Broderick, Assistant Surgeon General
Daryl Kade, Chief Financial Officer
Substance Abuse and Mental Health Services Administration (SAMHSA)

SUBJECT: FY 2006 Management Assurance

The Substance Abuse and Mental Health Services Administration (SAMHSA) management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). SAMHSA provides a qualified statement of assurance that its internal controls and financial management systems meet the objectives of FMFIA with the exception of one material weakness and one systems non-conformance. The details of these exceptions are provided in Attachment 1.

SAMHSA conducted its evaluation of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, SAMHSA identified one systems nonconformance under Section 4 of FMFIA as of September 30, 2006. Other than the nonconformance, which is described in Attachment 1, the internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations were operating effectively and no other material weaknesses were found in their design or operation.

In addition, SAMHSA conducted its evaluation of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the Department of Health and Human Services' *Guidance Manual to Implement Appendix A of OMB Circular A-123*. Based on the results of this evaluation, SAMHSA identified one material weakness under Section 2 of FMFIA as of June 30, 2006. Other than the material weakness, which is described in Attachment 1, the internal controls over financial reporting were operating effectively and no other material weaknesses were found in their design or operation.

Eric Broderick

Eric B. Broderick, D.D.S., M.P.H.
Assistant Surgeon General
Date: 10/13/06

D W Kade

Daryl W. Kade
Chief Financial Officer
Date: 10/13/06

Office of the Administrator—Office of Applied Studies—Office of Communications—Office of Policy, Planning and Budget—Office of Program Services

Attachment 1

SAMHSA uses the Program Support Center (PSC) as a service provider for financial accounting services. PSC has issued a qualified assurance statement for the following services used by SAMHSA: Human Resource Systems Services, Accounting Services, Debt Collection Center Services, and Payroll Accounting Services. The management of PSC reported a material systems nonconformance for Section 4 of FMFIA as of September 30, 2006 and a material weakness for Section 2 of FMFIA in its internal control over financial reporting for these services as of June 30, 2006.

Systems Nonconformance under Section 4 of FMFIA

The PSC financial management systems are not in compliance with the requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996. The PSC financial systems do not comply with the Federal financial management systems requirements of OMB Circular A-127, *Financial Management Systems*, and the United States Government Standard General Ledger (USSGL) at the transaction level.

Material Weakness under Section 2 of FMFIA for Internal Control over Financial Reporting

As in prior years, significant adjustments to reported balances, and numerous accounting entries recorded outside the general ledger system are needed to produce the SAMHSA financial statements due to lack of an integrated financial management system. Although tests of the compensating manual controls disclosed no evidence of material error, the manual nature of the closing process presents a significant risk of error, which is deemed a material weakness in internal control over financial reporting.

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, Senior Auditor/Auditor-in-Charge
Ebony Mahoney, Auditor

Department of Homeland Security

Customs and Border Protection
Immigration and Customs Enforcement
United States Coast Guard

Office of Inspector General

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

Homeland Security

AUG 2 2 2007

MEMORANDUM FOR: W. Ralph Basham
Commissioner
United States 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 2006 Drug Control Funds*

Attached for your information is our report, *Independent Review of The U.S. Customs and Border Protection's Reporting of FY 2006 Drug Control Funds.*

The report contains one recommendation aimed at improving the drug control reporting. Your office concurred with the recommendation. Within 90 days of the date of this memorandum, please provide our office with additional information about the activities underway or planned by CBP to address our recommendations, including responsible parties, key milestones, and other supporting information.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. An executive summary, but not the full report, will be posted on our website.

Should you have any questions, please call me, or your staff may contact James Taylor, Deputy Inspector General, at (202) 254-4100.

Attachment

DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General

Independent Review of The U.S. Customs and Border Protection's Reporting of Fiscal Year 2006 Drug Control Funds

OIG-07-69

August 2007

Office of Inspector General

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

Homeland Security

AUG 2 2 2007

MEMORANDUM FOR: W. Ralph Basham
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 2006 Drug Control Funds*

We have reviewed management's assertions in Section B of the accompanying U.S. Customs and Border Protection's (CBP) annual report of FY 2006 drug control funds (Submission). The Submission, including the assertions made, is required by 21 U.S.C. § 1704(d) and Office of National Drug Control Policy (ONDCP) Circular, *Drug Control Accounting* (Circular), and is the responsibility of CBP's management.

Our review was conducted according to 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 assertions in Section B of the Submission. Accordingly, we do not express such an opinion as a result of our review.

The *Independent Auditors' Report* for the FY 2006 financial statements of the Department of Homeland Security (DHS), of which CBP is a part, addresses material weaknesses related to financial management, financial reporting, and financial systems. However, none of these were attributable to CBP. 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. 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.

Based on our FY 2006 review, nothing came to our attention that caused us to believe that management's assertions included in Section B of the accompanying Submission (Attachment A) are not fairly stated in all material respects based on the criteria set forth in the Circular.

During our FY 2005 review, we did not perform any tests related to reprogrammings and transfers due to what we considered "incomplete criteria against which to evaluate the subject matter, in terms of measurability and applicability for multi-mission bureaus." However, ONDCP later requested that we perform additional procedures in these areas to satisfy the requirements. During the performance of these additional procedures, we noted that CBP did not have formal mechanisms or procedures in place to track reprogrammings and transfers affecting drug funds as they occur, or to alert management when the $5 million threshold is reached so that the necessary approvals can be obtained from ONDCP. As such, we conducted an FY 2006 review of CBP's handling of reprogrammings. We noted that the agency now has a manual process for tracking reprogrammings. However, no formal procedures have been developed to manage the process. Based on the information provided by CBP and from our inquiries, reprogrammings did not meet the $5 million threshold in FY 2006.

Also, in our FY 2005 review we did not test CBP's compliance with ONDCP issued Fund Control Notices due to what we considered "incomplete criteria against which to evaluate the subject matter, in terms of measurability and applicability for multi-mission bureaus." However, in our FY 2006 review we asked CBP Budget personnel about the procedures in place to alert them concerning compliance with the Fund Control Notices. They informed us that they monitor drug obligations on a monthly basis to determine compliance. They also informed us that obligations to date were compared to one-third of the total drug request to determine whether more was obligated than authorized by the Fund Control Notice prior to having their financial plan approved. We recommend that CBP document the procedures used to make this determination.

We provided a copy of this report in draft to CBP. CBP had no comment on the report.

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, please call me, or your staff may contact James L. Taylor, Deputy Inspector General, at (202) 254-4100.

Attachment A

DEPARTMENT OF HOMELAND SECURITY
CUSTOMS AND BORDER PROTECTION
Annual Reporting of FY 2006 Drug Control Funds

DETAILED ACCOUNTING SUBMISSION

A. Table of FY 2006 Drug Control Obligations

(Dollars in Millions)

Drug Resources by Function:	
Intelligence	$ 219.258
Interdiction	1,210.190
TOTAL	$ 1,429.448
Drug Resources by Appropriation:	
Salaries and Expenses	$ 1,022.920
Air	406.528
TOTAL	$ 1,429.448

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 2006 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 2006.

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 12,000 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 529 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, as of August 2006, there were 2,600 CBP

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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 also works 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. It is estimated that 85 percent of the A-TCET is devoted to drug enforcement. The smuggling methodologies and their indicators are believed to be similar for both narcotics and anti-terrorism activities.

As of August 2006, there was a total of 574 Canine Enforcement Officers. Included in the total were 320 Narcotics Detection Teams, 10 Currency Detection Teams and 138 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 82 Agricultural Teams, and 24 Explosive Detection Teams.

As of August 2006, there was also 14,289 Other CBP Officers that in addition to the interdiction of contraband and illegal drugs 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 mission critical targeting software systems. Of OIT's spending, 50 percent of base of the Enforcement Technology Center; 100 percent of ATS-Narcotics systems software costs, 50 percent of the Treasury Enforcement Communications System (TECS) and ATS-Passenger software costs; and 10 percent of data center operations costs are estimated in support of the drug mission.

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 and Marine 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 and Marine 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 90 percent of the resources that support CBP Air and Marine are considered to be drug-related, since September 11, 2001, Air and Marine 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 and Maine is dedicating significant assets and personnel in support of Operation HALCON – a US/Mexico interdiction initiative, and support to the Office of Border Patrol in Southwest Border illegal alien intervention.

2. Methodology Modifications

There were no methodology modifications since last year.

3. Material Weakness or Other Findings

There were no material weaknesses or other findings by independent sources, or other known weaknesses, which may affect the presentation of prior year drug-related obligations data.

4. Reprogramming or Transfers

There are no reprogrammings or transfers that affected drug-related budgetary resources in excess of $5 million.

5. Other Disclosures

There are no other disclosures as we feel are necessary to clarify any issues regarding the data reported under this circular.

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

There are no other estimation methods that are used as part of the drug methodology.

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.

Additional Information and Copies

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- Fax the complaint directly to us at (202) 254-4292;
- Email us at DHSOIGHOTLINE@dhs.gov; or
- Write to us at:
  DHS Office of Inspector General/MAIL STOP 2600, Attention: Office of Investigations - Hotline, 245 Murray Drive, SW, Building 410, Washington, DC 20528.

The OIG seeks to protect the identity of each writer and caller.

DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General

Independent Review of
The U.S. Immigration and Customs
Enforcement's Reporting of
FY 2006 Drug Control Funds

OIG-07-71

September 2007

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

Homeland Security

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's Reporting of FY 2006 Drug Control Funds*

We have reviewed management's assertions in Section B of the accompanying U.S. Immigration and Customs Enforcement's (ICE) annual report of FY 2006 drug control funds (Submission). The Submission, including the assertions made, is required by 21 U.S.C. § 1704(d) and Office of National Drug Control Policy (ONDCP) Circular, *Drug Control Accounting* (Circular), and is the responsibility of ICE's management.

Our review was conducted according to 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 assertions in Section B of the Submission. Accordingly, we do not express such an opinion as a result of our review.

The *Independent Auditors' Report* for the FY 2006 financial statements of the Department of Homeland Security (DHS), of which ICE is a part, addresses material weaknesses related to financial management, financial reporting, and financial systems. ICE contributed to the material weaknesses related to financial reporting and has formulated a plan to correct these weaknesses by FY 2009. 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. 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.

Based on our FY 2006 review, except for the effects, if any, of the material weaknesses, as described above, nothing came to our attention that caused us to believe that management's assertions included in Section B of the accompanying Submission (attachment A) are not fairly stated in all material respects based on the criteria set forth in the Circular.

During our FY 2005 review, we did not perform any tests related to reprogrammings and transfers due to what we considered "incomplete criteria against which to evaluate the subject matter, in terms of measurability and applicability for multi-mission bureaus." However, ONDCP later requested that we perform additional procedures in these areas to satisfy the requirements. During the performance of these additional procedures, we noted that ICE did not have formal mechanisms or procedures in place to track reprogrammings and transfers affecting drug funds as they occur, or to alert management when the $5 million threshold is reached so that the necessary approvals can be obtained from ONDCP. As such, we conducted an FY 2006 review of ICE's handling of reprogrammings. We noted that the agency now has a manual process for tracking reprogrammings. However, no formal procedures have been developed to manage the process. Based on the information provided by ICE and from our inquiries, reprogrammings did not meet the $5 million threshold in FY 2006.

Also, in our FY 2005 review we did not test ICE's compliance with ONDCP issued Fund Control Notices due to what we considered "incomplete criteria against which to evaluate the subject matter, in terms of measurability and applicability for multi-mission bureaus." In our FY 2006 review we looked at ICE's compliance with Fund Control Notices and noted that ICE has a manual process in place to track compliance with the Fund Compliance Notices. However, this process, identified below, is not formally documented. During FY 2006 ICE officers recorded the type of work performed in the ICE law enforcement case management system. ICE used the to track statistics for the annual budget and compared the budgeted obligations to actual obligations recorded in the accounting system at year-end. We noted that in FY 2007 ICE also started performing this procedure on a quarterly basis as well as at year-end. We recommend that ICE formally document the policies and procedures to track compliance with ONDCP issued Fund Control Notices.

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

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.

Should you have any questions, please call me, or your staff may contact James L. Taylor, Deputy Inspector General, at (202) 254-4100.

Attachment A

Department of Homeland Security
U.S. Immigration and Customs Enforcement
Detailed Accounting of Drug Control Funds During FY 2006

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

	(in Millions) FY 2006
Drug Resources by Function	
Office of Investigations	380,762
Office of Intelligence	3,569
Total	384,331
Drug Resources by Decision Unit	
Salaries and Expenses	384,331
Total	384,331
Information	
Total Agency Budget	3,575,162
Drug Control Percentage	11%

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 2006, the percentage was 30.2%. To calculate a dollar amount, this percentage was applied to actual obligations incurred by the Office of Investigations against budget authority gained in FY 2006, excluding reimbursable authority.

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

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2) Office of Intelligence

ICE employs the same methodology for calculating all drug control activities within the Office of Intelligence's budget. For FY 2006, 9.7% 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 2006 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 from FY 2005.

Disclosure No. 3: Material Weakness or Other Findings

In 2006 Immigration and Customs Enforcement (ICE) provided reasonable assurance regarding its financial controls and reporting pursuant to the Department of Homeland Security (DHS) Financial Accountability Act, P.L. 108-330. Specifically, internal controls over financial reporting were designed effectively within the scope of the DHS Consolidated Balance Sheet audit and based on management's assessments of internal controls over financial reporting. Overall, ICE was able to reduce the number of material weaknesses from eight in FY 2005 to two in FY 2006, Budgetary Accounting and Financial Systems Security.

In 2006, ICE also reported, pursuant to 31 U.S.C. 3512(d)(2)(B), that its financial system conformed with government-wide requirements except for a non-conformance wherein ICE's financial accounting system did not interface with the acquisition and asset management systems. This did not prevent ICE from effectively managing acquisition or property management transactions entered into the accounting system because reconciliations were performed to ensure data integrity. An interface between the acquisition system and accounting system has been developed and is expected to be deployed in FY 2007.

This year ICE made substantial progress in building a culture of financial accountability and instilling financial integrity throughout the organization. Structural changes within management were undertaken, including the appointment of ICE's first Deputy Assistant Secretary for Management. Key positions in the Office of the Chief Financial officer (CFO) were filled and Director positions within OCFO were elevated to Senior Executive Service positions. The Project Management Office was established, with responsibility for overseeing and monitoring a comprehensive Financial Action Plan (FAP). The FAP provided a structure and linkage across all CFO offices, ICE program offices, and financial customers. As part of the FAP, ICE developed and implemented initiatives and corrective action plans to remediate known issues and deficiencies.

Also this year, considerable focus was given to strengthening ICE's Internal Control Program. A Senior Assessment Team, comprised of senior managers from both administrative and program areas, was established to provide oversight of internal control assessments, and to serve as a forum for discussing and resolving identified deficiencies. An entity-level assessment of internal controls was conducted, resulting in an assessment of ICE controls for standards relating to Control Environment, Risk Assessment, Information and Communication, and Monitoring. Three key financial reporting processes were documented and tests were conducted on the design of internal controls relating to these processes.

Disclosure No. 4: Reprogrammings or Transfers

	FY 2006 Base	(in Millions) FY 2006 Reprogrammings or Transfers	FY 2006 Total
Drug Resources by Drug Control Function			
Intelligence	3,066	503	3,569
Investigations	381,951	(2,719)	379,232
Total	**$ 385,017**	**$ (2,216)**	**$ 382,801**
Drug Resources by Budget Decision Unit			
Salaries and Expenses	385,017	(2,216)	382,801
Total	**$ 385,017**	**$ (2,216)**	**$ 382,801**

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.

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.

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- Fax the complaint directly to us at (202) 254-4292;
- Email us at DHSOIGHOTLINE@dhs.gov; or
- Write to us at:
  DHS Office of Inspector General/MAIL STOP 2600, Attention: Office of Investigations - Hotline, 245 Murray Drive, SW, Building 410, Washington, DC 20528.

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DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General

Independent Review of The U.S. Coast Guard's Reporting of FY 2006 Drug Control Funds

OIG-07-70

August 2007

Office of Inspector General

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

Homeland Security

AUG 2 2 2007

MEMORANDUM FOR: Admiral Thad M. Allen
Commandant
U.S. Coast Guard

FROM: Richard L. Skinner
Inspector General

SUBJECT: *Independent Review of The U.S. Coast Guard's Reporting of FY 2006 Drug Control Funds*

Attached for your information is our report, *Independent Review of The U.S. Coast Guard's Reporting of FY 2006 Drug Control Funds.*

This report does not contain recommendations. Therefore, no formal action is required.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. The full report will be posted on our website.

Should you have any questions, please call me, or your staff may contact James Taylor, Deputy Inspector General, at (202) 254-4100.

Attachment

Office of Inspector General

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

Homeland Security

AUG 2 2 2007

MEMORANDUM FOR: Admiral Thad M. Allen
Commandant
U.S. Coast Guard

FROM: Richard L. Skinner
Inspector General

SUBJECT: *Independent Review of the U.S. Coast's Guard Reporting of FY 2006 Drug Control Funds*

We have reviewed management's assertions in Section B of the accompanying U.S. Coast Guard's (USCG) annual report of FY 2006 drug control funds (Submission). The Submission, including the assertions made, is required by 21 U.S.C. § 1704(d) and Office of National Drug Control Policy (ONDCP) Circular, *Drug Control Accounting* (Circular), and is the responsibility of USCG's management.

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 assertions in Section B of the Submission. Accordingly, we do not express such an opinion as a result of our review.

The *Independent Auditors' Report* for the FY 2006 financial statements of the Department of Homeland Security (DHS), of which USCG is a part, identified material weaknesses related to financial management, financial reporting, and financial systems. USCG contributed to the material weaknesses in all three areas. USCG currently has a remediation plan to correct these material weaknesses by FY 2010. Reportable conditions are matters coming to the auditors' attention relating to significant deficiencies in the design or operation of the internal controls 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. 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.

Based on our FY 2006 review, except for the effects, if any, of the material weaknesses, as described above, nothing came to our attention during our review that caused us to believe that management's assertions included in Section B of the accompanying Submission (Attachment A) are not fairly stated in all material respects, based on the criteria set forth in the Circular.

During our FY 2005 review, we did not perform any tests related to reprogrammings and transfers due to what we considered "incomplete criteria against which to evaluate the subject matter, in terms of measurability and applicability for multi-mission bureaus." However, ONDCP later requested that we perform additional procedures in these areas to satisfy the requirements. In performing these additional procedures, we noted that USCG did not have formal mechanisms or procedures in place to track reprogrammings and transfers affecting drug funds as they occur, or to alert management when the $5 million threshold is reached so that the necessary approvals can be obtained from ONDCP. USCG informed us that they were in the process of formalizing procedures for tracking reprogrammings and transfers. Based on our additional procedures mentioned above and our review of the FY 2006 submission, we determined that USCG had developed a formal process for handling reprogrammings and transfers; developed policies and procedures; and begun tracking reprogrammings and transfers. Based on the information provided by the USCG, reprogrammings did not meet the $5 million threshold in FY 2006.

Also, in our FY 2005 review we did not test USCG's compliance with ONDCP issued Fund Control Notices due to what we considered "incomplete criteria against which to evaluate the subject matter, in terms of measurability and applicability for multi-mission bureaus." However, in our FY 2006 review we looked at USCG's compliance with Fund Control Notices and noted that USCG has a manual process in place to track compliance with the Fund Control Notices. This process calculates the total drug obligations from the beginning of the fiscal year to the date of approval of the financial plan by ONDCP and compares that with one-third of the total drug request for the year to determine whether obligations were greater or lesser than the request. Based on the process and methodology used, USCG was in compliance with the Fund Control Notice for FY 2006.

We provided the report to the Coast Guard. The Coast Guard concurred with the report.

This report is intended solely for the information and use of USCG, 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, please call me, or your staff may contact James L. Taylor, Deputy Inspector General, at (202) 254-4100.

Attachment A

DEPARTMENT OF HOMELAND SECURITY
UNITED STATES COAST GUARD
ANNUAL ACCOUNTING OF
FY 2006 DRUG CONTROL FUNDS
6A. DETAILED OBLIGATION SUBMISSION

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

RESOURCE SUMMARY	2006 Actual Obligations
Drug Resources by Function:	
• Interdiction	$1,032,913
• Research and Development	900
Total Resources by Function	**$1,033,813**
Drug Resources by Decision Unit:	
• Operating Expenses (OE)	$752.188
• Reserve Training (RT)	$16.025
• Acquisition, Construction, and Improvements (AC&I)	$264.700
• Research, Development, Test and Evaluation (RDT&E)	$.900
Total Drug Control Obligations	**$1,033,813**

(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 the previous 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 revised 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).

1

DEPARTMENT OF HOMELAND SECURITY
UNITED STATES COAST GUARD
ANNUAL ACCOUNTING OF
FY 2006 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 the methodology for these two appropriations 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 2006 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 are computed for each of these drivers in the FY 2006 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 2006 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.

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DEPARTMENT OF HOMELAND SECURITY
UNITED STATES COAST GUARD
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FY 2006 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 2006 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 2006 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 these material weaknesses over the next several years.

(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 2006.

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DEPARTMENT OF HOMELAND SECURITY
UNITED STATES COAST GUARD
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FY 2006 DRUG CONTROL FUNDS
6A. DETAILED OBLIGATION SUBMISSION

(5) Other Disclosures

The following provides a synopsis of the United States Coast Guard's FY 2006 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.

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DEPARTMENT OF HOMELAND SECURITY
UNITED STATES COAST GUARD
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FY 2006 DRUG CONTROL FUNDS
6A. DETAILED OBLIGATION SUBMISSION

(5) <u>Other Disclosures (Cont.)</u>

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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DEPARTMENT OF HOMELAND SECURITY
UNITED STATES COAST GUARD
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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.

Data: As outlined 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 2006 OE/RT MCM:

  1) Core Accounting System (CAS) – FY 2004 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 2006 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 2006. The SRUFM is reconciled to the Coast Guard's Statement of Net Cost.

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DEPARTMENT OF HOMELAND SECURITY
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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) 2006 Baseline and Abstract of Operations (AOPS) – AOPS is a web-based information system that reports how an asset (aircraft, boat, or cutter) was utilized across various missions of the Coast Guard. Each unit or activity that performs a mission is responsible for including the resource hours in the Baseline and 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 two chief input drives to the MCM are: 1) The financial costs of each Coast Guard asset and other expenses areas, made up of direct, support and overhead costs; and, 2) The projected 2006 baseline and AOPS hours. The support and overhead costs for each asset and other expenses element is applied to hours projected from the 2006 enacted baseline. These costs are reflective of the more static conditions of Coast Guard operations relative to the support functions and administrative oversight. The direct costs are applied to the final AOPS hours to show the dynamic flow of operations experienced during fiscal year 2006. The overall affect of the computed from the static baseline and the reality of AOPS results in a percentage to drive Coast Guard OE expenditures allocated across 11 programs.

DEPARTMENT OF HOMELAND SECURITY
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FY 2006 DRUG CONTROL FUNDS
6B. ASSERTIONS

(2) Drug Methodology (cont.)

- **Normalize to BA or Obligations** – The program percentages derived from the MCM are then applied to total OE and RT fiscal year 2006 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).

- **Acquisition, Construction & Improvements (AC&I)** – 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 2006 AC&I MCM output. To ensure consistency, the extract used for the analysis of enacted FY 2006 BA is used for the end of year analysis of obligations as well. For FY 2006 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 2006 OE/RT MCM model as related in earlier OE and AC&I statements. The following data sets were than 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 2006 AC&I MCM. The total allocated mission percentages from the AC&I MCM were than applied to the total AC&I 2006 obligations as reported from the CAS as of September 30, 2006 (see Attachment C).

- **Research, Development, Test & Evaluation (RDT&E)** – 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.

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DEPARTMENT OF HOMELAND SECURITY
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6B. ASSERTIONS

(2) Drug Methodology (cont.)

1) RDT&E Mission Cost Model – was developed based on data feeds from the FY 2006 OE/RT MCM model as related in earlier OE and AC&I statements. The following data sets were than 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:

   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 2006 RDT&E MCM. The total allocated mission percentages from the RDT&E MCM were than applied to the total RDT&E 2006 obligations as reported from the CAS as of September 30, 2006 (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 it's personnel and asset inventories.

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.

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.

DEPARTMENT OF HOMELAND SECURITY
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FY 2006 DRUG CONTROL FUNDS
6B. ASSERTIONS

(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.

(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 2006.

(5) **Fund Control Notices** – The FY 2006 data presented herein is associated with obligations reported in Coast Guard's FY 2006 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.

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Attachment A

OPERATING EXPENSES (OE) MISSION COST MODEL OUTPUT:

	(dollars in thousands) FY 2006 Obligations	% of total
1. Search and Rescue (SAR)	579,880	10.67%
2. Marine Safety (MS)	526,844	9.70%
3. Aids to Navigation (ATON)	900,740	16.58%
4. Ice Operations (IO)	86,337	1.59%
5. Marine Environmental Protection (MEP)	132,420	2.44%
6. Living Marine Resources (LMR)	490,779	9.03%
7. Drug Interdiction	752,188	13.84%
8. Other Law Enforcement (OTH-LE)	68,952	1.27%
9. Migrant Interdiction	317,441	5.84%
10. Ports, Waterways & Coastal Security (PWCS)	1,206,508	22.20%
11. Defense Readiness	371,500	6.84%
Total OE Obligations	$ 5,433,589	100%

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Attachment B

RESERVE TRAINING (RT)
MISSION COST MODEL OUTPUT:

		(dollars in thousands) FY 2006 Obligations	% of total
1.	Search and Rescue (SAR)	12,354	10.67%
2.	Marine Safety (MS)	11,224	9.70%
3.	Aids to Navigation (ATON)	19,189	16.58%
4.	Ice Operations (IO)	1,840	1.59%
5.	Marine Environmental Protection (MEP)	2,821	2.44%
6.	Living Marine Resources (LMR)	10,456	9.03%
7.	Drug Interdiction	16,025	13.84%
8.	Other Law Enforcement (OTH-LE)	1,469	1.27%
9.	Migrant Interdiction	6,763	5.84%
10.	Ports, Waterways & Coastal Security (PWCS)	25,702	22.20%
11.	Defense Readiness	7,914	6.84%
	Total OE Obligations	$ 115,757	100%

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Attachment C

ACQUISITION, CONSTRUCTION and IMPROVEMENTS MISSION COST MODEL OUTPUT:

	(dollars in thousands) FY 2006 Obligations	% of total
1. Search and Rescue (SAR)	100,434	11.87%
2. Marine Safety (MS)	22,192	2.62%
3. Aids to Navigation (ATON)	30,227	3.57%
4. Ice Operations (IO)	4,662	0.55%
5. Marine Environmental Protection (MEP)	15,679	1.85%
6. Living Marine Resources (LMR)	135,847	16.06%
7. Drug Interdiction	264,700	31.28%
8. Other Law Enforcement (OTH-LE)	19,137	2.26%
9. Migrant Interdiction	94,803	11.20%
10. Ports, Waterways & Coastal Security (PWCS)	112,453	13.29%
11. Defense Readiness	45,988	5.44%
Total OE Obligations	$ 846,122	100%

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Attachment D

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

	(dollars in thousands) FY 2006 Obligations	% of total
1. Search and Rescue (SAR)	1,612	9.21%
2. Marine Safety (MS)	3,025	17.28%
3. Aids to Navigation (ATON)	2,757	15.75%
4. Ice Operations (IO)	86	0.49%
5. Marine Environmental Protection (MEP)	6,374	36.40%
6. Living Marine Resources (LMR)	489	2.79%
7. Drug Interdiction	900	5.14%
8. Other Law Enforcement (OTH-LE)	132	0.75%
9. Migrant Interdiction	317	1.81%
10. Ports, Waterways & Coastal Security (PWCS)	1,447	8.26%
11. Defense Readiness	370	2.11%
Total OE Obligations	$ 17,509	100%

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  DHS Office of Inspector General/MAIL STOP 2600, Attention: Office of Investigations - Hotline, 245 Murray Drive, SW, Building 410, Washington, DC 20528.

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Department of Justice

Bureau of Prisons
Drug Enforcement Administration
Organized Crime Drug Enforcement Task Force
Office of Justice Programs

U. S. Department of Justice

Office of the Inspector General

JAN 3 0 2007

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 2006 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 Circular, *Drug Control Accounting*, dated April 18, 2003.

If you have any questions, please contact me on (202) 616-4633 or Mark L. Hayes, Acting Director, Financial Statement Audit Office, on (202) 616-4660.

Sincerely,

Scott A. Spaulding

for Guy K. Zimmerman
Assistant Inspector General
for Audit

Enclosures

cc: Lee J. Lofthus
Assistant Attorney General
for Administration
Chief Financial Officer
Justice Management Division

Mikki Atsatt
Senior Budget Policy Advisor, Budget Staff
Justice Management Division

Melinda Morgan
Director, Finance Staff
Justice Management Division

Jonathan Mattiello
Budget Analyst, Budget Staff
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, 2006. We have also reviewed the accompanying Management's Assertion Statement for Fiscal Year Ended September 30, 2006. BOP's management is responsible for the Table of Drug Control Obligations, 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, 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, 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, 2006 are not presented, in all material respects, in conformity with ONDCP's Circular, *Drug Control Accounting*, dated 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*, dated 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 22, 2006

U.S. Department of Justice

Federal Bureau of Prisons

Washington, DC 20534

Bureau of Prisons
Management's Assertion Statement
For Fiscal Year Ended September 30, 2006

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 of Drug Control Obligations.

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. BOP did not have any Office of National Drug Control Policy (ONDCP) Fund Control Notices issued in FY 2006.

We have documented the methodology used by BOP to identify and accumulate FY 2006 drug control obligations in the Table of Drug Control Obligations 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

12/22/06
Date

U.S. Department of Justice
Bureau of Prisons
Table of Drug Control Obligations
For Fiscal Year Ended September 30, 2006
(Dollars in thousands)

	Actual FY 2006 Obligations
Drug Obligations by Function	
Treatment	$62,632
TOTAL	62,632
Drug Obligations by Decision Unit	
Inmate Care and Programs	62,632
TOTAL	62,632
Drug Resources Personnel Summary	
Total Full Time Equivalents FTEs (Direct Only)	466
Information	
Total Agency Obligations (Direct Only)*	4,995,085
Drug Percentage	1.3%

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

Disclosure No 1. Drug Control Methodology

The mission of the Bureau of Prisons (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 (FMIS2). FY 2006 actual obligations for Drug Treatment Programs are reported as Drug Control Obligations since the entire focus is drug related.

Financial Systems - The FMIS2 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 Full Time Equivalents (FTEs) - Using BOP FTE data from FMIS2, the drug treatment FTEs were reported in the Table of Drug Control Obligations. The FTE data is originated by the U.S. Department of Agriculture's National Finance Center (NFC), and then downloaded into the FMIS2. 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 2005). 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 2006 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 the Information System (IS) Controls Environment. During the FY 2006 audit, the auditors noted the BOP made improvements in its entity-wide security program and its change control procedures for its financially significant systems, as well as its general support systems. However, IS control weaknesses continue to exist in the FMIS2 accounting system, which processes the BOP's financial transactions, as well as in access control procedures for the BOP's major business application and general support systems. 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 the IS Controls Environment. 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 2006 Report of Independent Auditors, Report of Independent Auditors on Internal Controls, and the Report of Independent Auditors on Compliance and 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 2006.

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 2006, $690,000 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 seven PHS FTEs during FY 2006. Therefore, the transferred obligations and PHS FTEs were included in BOP's Table of Drug Control Obligations.

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, 2006. We have also reviewed the accompanying Management's Assertion Statement for Fiscal Year Ended September 30, 2006. DEA's management is responsible for the Table of Drug Control Obligations, 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, 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, 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, 2006 are not presented, in all material respects, in conformity with ONDCP's Circular, *Drug Control Accounting*, dated 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*, dated 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 22, 2006

U. S. Department of Justice
Drug Enforcement Administration

Drug Enforcement Administration
Management's Assertion Statement
For Fiscal Year ended September 30, 2006

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 of Drug Control Obligations.

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. DEA did not have any ONDCP Fund Control Notices issued in FY2006.

We have documented the methodology used by DEA to identify and accumulate FY 2006 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
Frank M. Kalder, Chief Financial Officer

12/02/06
Date

U.S. Department of Justice
Drug Enforcement Administration
Table of Drug Control Obligations
For Fiscal Year Ending September 30, 2006
(Dollars in thousands)

	FY 2006 Actual Obligations
Drug Obligations by Function:	
Investigations	$ 1,321,314
Intelligence	164,039
International	312,412
State & Local Assistance	90,513
Prevention	7,810
Research and Development	988
Total	$ 1,897,076
Drug Obligations by Decision Unit:	
Salary and Expense (S&E) Appropriation	
Automated Data Processing	$ 120,804
Domestic Enforcement	555,168
Foreign	270,114
Intelligence	153,002
Labs	81,767
Management and Administration	132,735
Research, Engineering and Technical Operations	155,629
State & Local	254,594
Training	23,986
Total Salary and Expense (S&E) Appropriation	$ 1,747,799 *
Construction Appropriation	988
Drug Diversion Control Fee Account Appropriation	148,289
Total	$ 1,897,076
Drug Obligations Direct Personnel Summary:	
Total Full-Time Equivalent (FTE)	8,806
Total Agency Obligations	$ 1,897,076
Drug Percentage	100.0%

* Includes obligations of carryover unobligated balances

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 Managerial Cost Accounting (MCA), a methodology approved by ONDCP to allocate obligations tracked in DEA's appropriated decision units to ONDCP's drug functions.

<u>Data:</u> 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.

<u>Other Estimation Methods:</u> None.

<u>Financial Systems:</u> 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.

<u>Managerial Cost Accounting (MCA):</u> DEA uses allocation percentages generated by MCA to allocate resources associated with DEA's ten decision units to ONDCP's drug functions. The MCA model using an activity-based costing methodology provides the full cost of DEA's mission outputs (performance costs). The table below shows the allocation percentages based on DEA's MCA data.

DEA Decision Unit	Allocation	ONDCP Function
Automated Data Processing (ADP)	81.03%	Investigations
Domestic Enforcement	93.90%	
Foreign Cooperative Investigations	6.24%	
Laboratory Services	56.32%	
Management and Administration (M&A)	81.91%	
Research, Engineering & Technical Operations (RETO)	90.29%	
State and Local Task Force	81.05%	
Training	41.06%	
Diversion Control Fee Account (DCFA) Appropriation	100.00%	
Automated Data Processing (ADP)	5.98%	Intelligence
Domestic Enforcement	0.13%	
Foreign Cooperative Investigations	0.09%	
Intelligence	100.00%	
Laboratory Services	0.59%	
Management and Administration (M&A)	0.41%	
Research, Engineering & Technical Operations (RETO)	0.01%	
State and Local Task Force	0.72%	
Training	0.02%	

DEA Decision Unit	Allocation	ONDCP Function
Automated Data Processing (ADP)	9.34%	International
Domestic Enforcement	2.32%	
Foreign Cooperative Investigations	93.58%	
Laboratory Services	3.44%	
Management and Administration (M&A)	10.09%	
Research, Engineering & Technical Operations (RETO)	9.26%	
State and Local Task Force	0.19%	
Training	21.75%	
Automated Data Processing (ADP)	3.65%	State & Local Assistance
Domestic Enforcement	3.65%	
Foreign Cooperative Investigations	0.11%	
Laboratory Services	0.65%	
Management and Administration (M&A)	7.59%	
Research, Engineering & Technical Operations (RETO)	0.44%	
State and Local Task Force	18.04%	
Training	37.17%	
Demand reduction effort-includes payroll, benefits, program funds, and estimated overhead for Headquarters (HQ) and Field Support (FS)	100.00%	Prevention
Construction Appropriation	100.00%	Research and Development
Full Time Equivalents (FTE)	100.00%	DEA Direct Total FTE (includes both S&E plus DCFA appropriations)

The table below shows drug obligations by ONDCP functions using MCA allocations.

Drug Obligations by Function:	Total
Investigations	$ 1,321,314
Intelligence	$ 164,029
International	$ 312,412
State & Local Assistance	$ 90,513
Prevention	$ 7,810
Research and Development	$ 998
Total	$ 1,897,076

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.

Full Time Equivalents (FTE): One hundred percent of all DEA FTEs are dedicated to drug enforcement efforts. DEA's Direct FTE (includes both S&E plus DCFA appropriations) total for FY 2006 was 8,806 through pay period 19, ending September 30, 2006.

Transfers and Reimbursements: High Intensity Drug Trafficking Area (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 method for tracking drug enforcement funds has not been modified from FY 2005 method.

Disclosure 3: Material Weaknesses and Other Findings

The results of DEA's FY 2006 financial statements audit revealed no material weaknesses and no reportable conditions.

Disclosure 4: Reprogrammings and Transfers

In FY 2006, DEA executed one congressionally approved reprogramming request (see the attached Table of FY 2006 Reprogramming and Transfers). The reprogramming request, which was requested and approved in FY 2006, included the following:

The Department's Working Capital Fund (WCF) Reimbursement: A one-time transfer of $23,300,000 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 required IT projects that would have otherwise had to be funded from DEA's FY 2006 Salaries and Expenses (S&E) appropriation. Reprogrammings under the Drug Resources by Function section of the Table of FY 2006 Reprogammings and Transfers are based on the same MCA allocation percentages as the Table of Drug Control Obligations. The table below reflects this allocation by Decision Unit to ONDCP Drug Functions.

Drug Obligations by Function:	Domestic	ADP	Total
Investigations	$ 21,879	$ (18,880)	$ 2,999
Intelligence	30	(1,393)	(1,363)
International	541	(2,177)	(1,636)
State & Local Assistance	850	(850)	-
Prevention			-
Research and Development			-
Total	$ 23,300	$ (23,300)	$ (0)

In addition, DEA had several transfers during FY 2006 (see the attached Table of FY 2006 Reprogrammings and Transfers). DEA had five transfers into its S&E Account; one transfer from Department of State totaling $5,000,000 and four transfers from ONDCP's High Intensity Drug Trafficking Area (HIDTA) program totaling $15,697,331. Also, DEA had two transfers out of its S&E account-one to the Department of Justice's Wire Management Office totaling $9,530,841 and the other to ONDCP's High Intensity Drug Trafficking Area (HIDTA) totaling $65,000.

Transfers under the Drug Resources by Function section of the Table of FY 2006 Reprogammings and Transfers are based on the same MCA allocation percentages as the Table of Drug Control Obligations.

Disclosure 5: Other Disclosures

- DEA did not have any ONDCP Fund Control Notices issued in FY 2006.

Department of Justice
Drug Enforcement Administration
Table of FY 2006 Reprogrammings and Transfers
(Dollars in Thousands)

	Reprogrammed	Transfers In	Transfers Out	Total
Drug Resources by Function				
Investigations	$ 2,999	$ 13,123	$ (8,686)	$ 7,436
Intelligence	(1,363)	117	(14)	(1,260)
International	(1,636)	4,728	(570)	2,522
State & Local Assistance		2,728	(325)	2,403
Prevention	-	-	-	-
R & D	-	-	-	-
Total	$ -	$ 20,696	$ (9,595)	$ 11,101
Drug Resources by Decision Unit				
ADF	$ (23,300)	$ -	$ -	$ (23,300)
Domestic Enforcement	23,300	-	(8,836)	14,464
Foreign Cooperative Investigations		5,000	(376)	4,624
Intelligence		-	-	-
Laboratory Services		627	(383)	244
Management & Administration		-	-	-
Research, Engineering and Technical Operations		-	-	-
State and Local Task Forces		15,069	-	15,069
Training		-	-	-
Construction		-	-	-
Diversion Control Fee Account		-		-
Total	$ -	$ 20,696	$ (9,595)	$ 11,101

KPMG

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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 Forces (OCDETF) Program for the year ended September 30, 2006. We have also reviewed the accompanying Management's Assertion Statement for Fiscal Year Ended September 30, 2006. The OCDETF Program's management is responsible for the Table of Drug Control Obligations, 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, related disclosures and management's assertion. Accordingly, we do not express such an opinion.

Management of the OCDETF Program prepared the Table of Drug Control Obligations, 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, 2006 are not presented, in all material respects, in conformity with ONDCP's Circular, *Drug Control Accounting*, dated 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*, dated 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 22, 2006

U.S. Department of Justice

Criminal Division

Executive Office for the Organized Crime Drug Enforcement Task Forces

Washington, DC 20530

U.S. Department of Justice
Organized Crime Drug Enforcement Task Forces (OCDETF) Program
Management's Assertion Statement
For Fiscal Year Ended September 30, 2006

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 of Drug Control Obligations;

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 2006.

We have documented the methodology used by OCDETF to identify and accumulate FY 2006 drug control obligations in the Table of Drug Control Obligations 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

12/22/2006
Date

U.S. Department of Justice
Organized Crime Drug Enforcement Task Forces (OCDETF) Program
Table of Drug Control Obligations
For the Fiscal Year Ending September 30, 2006

Actual 2006 Obligations
Dollars in Thousands
Decision Unit Crosswalk

Drug Obligations by Function	Annual Appropriated Funds	OCDETF Executive Office	Revised	No-Year Reprogram Funds 2/	Total Obligations
Investigations	[illegible]	$2,319	[illegible]	[illegible]	[illegible]
Prosecution	129,772	[illegible]	[illegible]	[illegible]	[illegible]
Intelligence	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Administrative Support	3,473	(3,473)	0	[illegible]	[illegible]
Total	[illegible]	$0	[illegible]	[illegible]	[illegible]
Drug Obligations by Decision Unit 1/					
Investigations					
Drug Enforcement Administration	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Federal Bureau of Investigation	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
U.S. Marshals Service	[illegible]	54	[illegible]	[illegible]	[illegible]
Alcohol, Tobacco, Firearms and Explosives	11,174	83	[illegible]	[illegible]	[illegible]
Subtotal	[illegible]	2,319	[illegible]	[illegible]	[illegible]
Drug Intelligence					
Drug Enforcement Administration	[illegible]	[illegible]	[illegible]	0	[illegible]
Federal Bureau of Investigation	[illegible]	[illegible]	[illegible]	0	[illegible]
Subtotal	[illegible]	[illegible]	[illegible]	0	[illegible]
Prosecution					
U.S. Attorneys	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Criminal Division	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tax Division	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Subtotal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Administrative Support					
Executive Office for OCDETF	3,473	[illegible]	0	0	0
Total	[illegible]	0	[illegible]	[illegible]	[illegible]
Drug Resources Personnel Summary					
Total Full Time Equivalents	[illegible]		[illegible]		[illegible]
Information					
Total Agency Obligations	[illegible]		[illegible]		[illegible]
Drug Percentage	[illegible]		[illegible]		[illegible]

1/ [illegible]

2/ [illegible]

No-Year [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total No-Year	[illegible]	[illegible]	[illegible]	[illegible]

3/ [illegible]

4/ [illegible]

U.S. Department of Justice

Criminal Division
Executive Office for the Organized Crime Drug Enforcement Task Forces

Washington, DC 20530

U.S. Department of Justice
Organized Crime Drug Enforcement Task Forces (OCDETF) Program
Management's Disclosure Statement
For Fiscal Year Ended September 30, 2006

Disclosure No 1. - Drug Control Methodology

The Organized Crime Drug 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. (Prior to the creation of DHS, which involved the transfer of the U.S. Coast Guard to DHS from the Department of Transportation, OCDETF was funded in DOJ, Treasury and Transportation appropriations.) Currently, only Justice OCDETF appropriated funding comes from DOJ's Interagency Crime and Drug Enforcement (ICDE) account.

During FY 2004 and 2005, the ICDE 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. However, Congress repeatedly expressed concern with funding non-DOJ agencies via a DOJ appropriations account, and in 2005, Congress decreased base funding for non-DOJ program participants.

Recognizing that uncertainty surrounding funding levels for non-DOJ participants posed great difficulties for OCDETF in terms of program planning and administration, the Administration did not submit a consolidated budget for the program in FY 2006 and FY 2007. Instead, funding for OCDETF's non-DOJ partners was requested through direct appropriations for Treasury and DHS. With funding provided through 3 separate appropriations, OCDETF faced new challenges related to the management and control of Program 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 particular, OCDETF requires that, in *every* OCDETF case, investigators identify and target the financial infrastructure that permits the drug organization to operate. As such, 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" and all of 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 from the ICDE account incurred by OCDETF for drug control purposes. All amounts are net of reimbursable agreements.

> Data - All accounting information for OCDETF is derived from DOJ's Financial Management Information System 2 (FMIS2). ICDE resources are reported as 100 percent drug-related because the entire focus of the OCDETF Program is drugs.
>
> Financial Systems - FMIS2 is the financial system used to provide all ICDE obligation data. Obligations that are derived by this system reconcile with the enacted appropriations and carryover balances.

OCDETF Decision Units are divided according to the four major functions of the task force -- Investigations, Prosecutions, Intelligence and Administration -- 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:

a. 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; and the U.S. Marshals Service. The methodology applies 100 percent of the resources that support OCDETF investigative activities.

b. 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.

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

d. Administrative Support Function- This function includes funding for the OCDETF Executive Office for program oversight and support activities, as well as reimbursable resources to provide financial investigative training for member agencies.

e. 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 in FY 2006 was 3,299.

Disclosure No.2. - Modifications to Drug Control Methodology

The overall methodology to calculate drug control obligations has not been modified in the Table of Drug Control Obligations. However, the Administration's FY 2007 request for OCDETF reflects a restructuring that would collapse the OCDETF Program's four decision units- Investigations, Drug Intelligence, Prosecution, and Administrative Support- into two decision units- Investigations and Prosecutions. Under this proposed new methodology, 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 2006 Independent Auditor's Report on Internal Control Over Financial Reporting revealed no material weaknesses.

However, the audit noted one reportable condition- that improvements are needed in the Department's and components' financial systems general and application controls. Weaknesses were identified in the Financial Management Information System's (FMIS2) security program, systems software, and application 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 drug-related obligations.

The Department's Office of the Chief Information Officer (OCIO), working with the Chief Financial Officer and component program managers as well as their respective CIOs, will develop proactive corrective action plans. These plans will be validated by the Department's OCIO. In addition, the Department's OCIO will ensure that all weaknesses identified in prior year audits are addressed and that enhancements in policies, processes, and work flow are implemented to provide the best possible support for successful financial audits. The corrective action plans are a subset of the Department's overall capital Plans of Actions and Milestones and are available to the Office of the Inspector General and reported to OMB in the Department's quarterly Federal Information Security Management Act (FISMA) Reports.

Disclosure No.4. - Reprogrammings or Transfers

Total availability consists of enacted budget authority for FY 2006, plus unobligated balances and recoveries brought forward from prior years. OCDETF's FY 2006 obligations include all approved reprogrammings and transfers. In FY 2006, OCDETF reprogrammed $13,982,680 from its no-year account (15X0323) as follows: $.634 million to support the co-located Major Mexican Traffickers Task Force (MMTTF); $.515 million to support Operation Panama Express; $10.638 million to provide for ongoing operations and annual maintenance costs incurred by the OCDETF Fusion Center (OFC); and $2.0 million to support increasing litigation costs and other case-related expenses incurred by the U.S. Attorney's Offices in connection with their pursuit of complex, multi-jurisdictional and international OCDETF cases. Also included in this amount was an erroneous financial posting of $195,436, which will be corrected in FY 2007. See the attached

Reprogramming and Transfers Schedule. Finally, OCDETF also transferred radio resources to the DOJ Narrowband Communications Account as required by P.L. 109-108 119 Stat. 2291.

Disclosure No 5. - Obligations From Carryover Funds

In FY 2006, $20,717,129 in unobligated balances and prior year recoveries was brought forward from FY 2005 and available for new obligations. Of this amount, $13,982,680, as reported under Disclosure No 4., was established as new obligations during FY 2006.

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 2006.

U.S. Department of Justice
Organized Crime Drug Enforcement Task Forces (OCDETF) Program
Reprogrammings and Transfers
FY 2006
(Dollars in thousands)

Line Item	Unobligated Balances and Recoveries	Enacted BA	Reprogramming 2/	Rescission 3/	Transfer 4/	Total Availability
Drug Resources by Function						
Investigations	0	$323,026	$1,344	($4,126)	(1,111)	$319,1[illegible]
Prosecution	0	133,481	2,000	(1,705)	0	133,776
Intelligence	0	32,93[illegible]	10,638	(420)	0	43,15[illegible]
Undistributed	20,717	0	(13,982)	0	0	6,735
Total	20,717	489,440	0	(6,251)	(1,111)	502,795
Drug Resources by Decision Unit 1/						
Investigations						
Drug Enforcement Administration	0	186,872	301	(2,387)	(886)	183,90[illegible]
Federal Bureau of Investigation	0	117,562	1,043	(1,501)	(225)	116,879
U.S. Marshals Service	0	7,118	0	(91)	0	7,027
Alcohol, Tobacco, Firearms and Explosives	0	11,270	0	(147)	0	11,123
Immigration and Customs Enforcement	0	0	0	0	0	0
Internal Revenue Service	0	0	0	0	0	0
U.S. Coast Guard	0	0	0	0	0	0
Subtotal	0	[illegible]	1,344	(4,126)	(1,111)	[illegible]
Drug Intelligence						
Drug Enforcement Administration	0	11,984	[illegible]	(153)	0	[illegible]
Federal Bureau of Investigation	0	20,950	[illegible]	(267)	0	[illegible]
Immigration and Customs Enforcement	0	0	0	0	0	0
Subtotal	0	[illegible]	10,638	(420)	0	[illegible]
Prosecution						
U.S. Attorneys	0	129,746	2,000	(1,657)	0	130,089
Criminal Division	0	2,738	0	(35)	0	2,703
Tax Division	0	997	0	(13)	0	984
Subtotal	0	133,481	2,000	(1,705)	0	133,776
Total Distributed	0	489,440	13,982	(6,251)	(1,111)	496,060
Undistributed	20,717	0	(13,982)	0	0	6,735
Total	20,717	489,440	0	(6,251)	(1,111)	502,795

1/ Decision Units in this table do not reflect the Administration's proposed restructuring in 2007. The OCDETF Program's four decision units (Investigations, Drug Intelligence, Prosecution, and Administrative Support) would be collapsed into two Decision Units: Investigations and Prosecutions, with Administrative Support pro-rated among decision units based on the percentage of appropriated OCDETF program funding. However, in order to reflect obligations by the prescribed ONDCP drug function, the administrative support has been prorated in the table.

2/ Includes reprogrammed carryover funds as follows: No-year funding of $13.982 M ($.834 M for the Major Mexican Traffickers Task Force (MMTTF), $.515 M for Panama Express, $10.638 M for the OCDETF Fusion Center (OFC), and $2.0 M for Litigation/Extradition Expenses. Also included is an erroneous financial posting of $195K reflected in the administrative support assigned to FBI's Investigations decision unit.)

3/ Funds rescinded as required by the DOJ Appropriations Act, 2006 (P.L. 109-108) and the DOD Appropriations Act, 2006 (P.L. 109-148).

4/ Represents radio resources transferred to the DOJ Narrowband Communications Account as required by P.L. 109-108, 119 Stat. 2290

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, 2006. We have also reviewed the accompanying Management's Assertion Statement for Fiscal Year Ended September 30, 2006. OJP's management is responsible for the Table of Drug Control Obligations, 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, 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, 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, 2006 are not presented, in all material respects, in conformity with ONDCP's Circular, *Drug Control Accounting*, dated 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*, dated 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 22, 2006

U.S. Department of Justice
Office of Justice Programs
Management's Assertion Statement
for Fiscal Year Ended September 30, 2006

On the basis of the Office of Justice Programs' (OJP's) 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's 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 of Drug Control Obligations.

4. The data presented are associated with obligations against a financial plan that was revised during the fiscal year (FY) to properly reflect transfers which affected drug-related resources.

5. OJP did not have any Fund Control Notices issued in FY 2006.

We have documented the methodology used by OJP to identify and accumulate FY 2006 drug control obligations in the Table of Drug Control Obligations and accompanying disclosures, in accordance with the guidance of the Office of National Drug Control Policy (ONDCP) Circular, *Drug Control Accounting*, dated April 18, 2003.

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

December 22, 2006
Date

U.S. Department of Justice
Office of Justice Programs
Table of Drug Control Obligations
Drug Related Resources by Function and Decision Unit
For the Fiscal Year Ended September 30, 2006
(in thousands of dollars)

	FY 2006 Actual Obligations
Drug Obligations by Function:	
Prevention	$30,142
State and Local Assistance	135,277
Treatment	19,460
Total	**$184,879**
Drug Obligations by Decision Unit:	
Regional Information Sharing System	$40,142
Weed and Seed	59,707
Enforcing Underage Drinking Laws	24,171
Drug Court Program	8,741
Residential Substance Abuse Treatment (RSAT) Program	10,719
Prescription Drug Monitoring Program	7,656
Southwest Border Prosecution	29,190
Domestic Cannabis Eradication and Suppression Program	4,553
Total	**$184,879**
Methamphetamine Enforcement and Lab Cleanup [1/]	19,745
Drug Resources Personnel Summary:	
Total Full Time Equivalent (FTE)	55.4
Information	
Total Agency Obligations [2/]	$1,917,477
Drug Percentage	9.6% [3/]

[1/] 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 2006 total obligations for the program were reported to OJP by the COPS budget office.

[2/] Total Agency Obligations exclude Public Safety Officers' Benefits and Crime Victims Fund.

[3/] Total Obligations in the numerator exclude Methamphetamine Enforcement and Lab Cleanup obligations.

Note: Total amounts include management and administrative costs as follows: Regional Information Sharing System ($420), Weed and Seed ($6,174), Enforcing Underage Drinking Laws ($272), Drug Court Program ($841), RSAT Program ($841), Prescription Drug Monitoring Program ($146); and Southwest Border Prosecution ($420).

Disclosure 1: Drug Control Methodology

OJP's 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 ONDCP Circular, *Drug Control Accounting*, dated April 18, 2003.

OJP's 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 Budget Formulation guidance, OJP FY 2006 accounting of drug control obligations include total obligations associated with the eleven budget decision units identified for the National Drug Control Budget. Funds for ten of these decision units are directly appropriated to OJP. Funding for the Methamphetamine Enforcement and Lab Cleanup Program is appropriated to the Office of 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 reported in the financial statements of the OBDs, they are not included in the FY 2006 actual obligations total on OJP Table of Drug Control Obligations. Decision units include the following:

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

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

- <u>Drug Program Obligations by Decision Unit</u>: For eight of the budget decision units, data on obligations as of September 30, 2006 were gathered from OJP Integrated Financial Management Information System (IFMIS), Report ID: GL2e - Obligations by Budget

Activity by Fund Type (Accounting Period 2006 01 to 2006 13). For the ADAM budget decision unit, obligations are provided by the National Institute of Justice (NIJ), the administering office. In FY 2006, there were no obligations or FTEs reported for ADAM. For the remaining budget decision unit, Juvenile Drug Prevention Demonstration Program, there were no obligations or FTEs reported, as this program has been eliminated. 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 obligations were allocated 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. In FY 2006, funding for the Domestic Cannabis Eradication and Suppression Program was appropriated to OJP; however, through an inter-agency agreement with DEA, obligations were transferred for the administration of the program. Therefore, there were no M&A obligations associated with the Domestic Cannabis Eradication and Suppression Program nor the Methamphetamine Enforcement and Lab Cleanup Program, as neither of these programs were 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 2006 obligations for the nine programs, categorized by function and decision unit.

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 U.S. Department of Agriculture's 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, was also applied to the M&A obligations.

Disclosure 2: Modifications to Drug Control Methodology

In FY 2006, 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*, dated May 13, 2004.

The methodology used to determine the total FY 2006 obligations related to the nine programs appropriated to OJP is the same used in the FY 2005 disclosures statement. To calculate M&A obligations related to these programs, OJP is continuing to use the method it employed in FY 2005, 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 obligations based on the percentage of FTEs, by function, to total FTE.

Disclosure 3: Material Weaknesses and Other Findings

The FY 2006 Internal Control Report notes two material weaknesses and one reportable condition. These findings, as well as recommendations and OJP management responses, are listed below.

MATERIAL WEAKNESSES

Weaknesses Exist in the Information System Controls Environment

Entity-Wide Security Program Needs Improvement

Recommendation 1: Develop a process to ensure contractors follow DOJ IT policies and procedures. In addition, ensure that all contractor staff is trained to adhere to new DOJ IT standards. (New)

OJP concurs with this recommendation. OCIO will ensure that policies and procedures are developed or revised, as appropriate, for all significant OCIO processes. The policies and procedures will include requirements for daily monitoring and interaction by OCIO government personnel, as well as routine reporting requirements for contractors. All OCIO contractors and government staff will be trained on the new procedures.

Recommendation 2: Coordinate with the Office of Administration (OA) to provide a weekly summary report of new and separated employees and contractors and distribute the reports to

the Account Management Operation Team for removal and disablement of user accounts in accordance with DOJ ITS standards. (Updated)

OJP concurs with this recommendation. OCIO will revise its account management and outprocessing policies and procedures to include steps that will ensure that the Account Management Operation Team receives timely information regarding separated employees and contractors.

Recommendation 3: Implement a process to ensure that all government and contractor employees receive security awareness training on an annual basis. (New)

OJP concurs with this recommendation. OCIO will update its IT security awareness training policies and procedures, which will include a requirement that user accounts be disabled for non-compliance with OJP's annual computer security training requirements.

Recommendation 4: Require all Federal and contract employees to acknowledge and sign the ROB prior to being granted access to all OJP applications. The ROB should clearly delineate responsibilities and expected behavior of all individuals with access to the system. The rules should state the consequences of inconsistent behavior and noncompliance. (New)

OJP concurs with this recommendation. OCIO will update its IT security awareness training policies and procedures to ensure that Rules of Behavior statements are signed by all Federal and contract employees prior to being granted access to all OJP applications. In addition, OCIO will include a requirement that users sign Rules of Behavior statements annually, in conjunction with the annual computer security awareness training.

<u>**Access Controls for the General Network Need Improvement**</u>

Recommendation 5: Develop procedures that address security incident reporting on all websites hosted by contractors for grantees and ensure that all contractor staff are trained on the new policies and procedures implemented. (New)

OJP concurs with this recommendation. OCIO will revise its Incidence Response Plan (IRP) to include the security incident reporting process for web sites hosted by contractors for grantees. In addition, OCIO will ensure that OCIO government staff and contractors are trained on the revised IRP.

Recommendation 6: Implement modifications to its port security software configurations to increase the effectiveness of the software and begin conducting daily tests of the software to monitor the operating effectiveness of the software. (New)

OJP concurs with this recommendation. OCIO will implement: 1) an automated custom port security service that will run on its DHCP servers; 2) port security on all Cisco switches; and 3) a full Cisco Enterprise Solution using Cisco Secure Access Server. In addition, OCIO will develop policies and procedures to monitor the effectiveness of the port security solutions.

Recommendation 7: Enforce policies and procedures requiring personnel to have only one unique user account to access OJP information systems. Document processes relative to the creation, use, or routine monitoring and auditing of activity related to generic user accounts. In addition, OJP should ensure the removal of all generic, training, and test accounts from the production environment and conduct all training in a separate environment. (Repeat)

OJP concurs with this recommendation. OCIO will develop and implement policies and procedures to ensure that generic accounts (when required) are created by authorized personnel, and that the user account lists are periodically monitored to identify and disable unauthorized generic accounts. In addition, OCIO will ensure that testing is not conducted in the production environment.

Recommendation 8: Develop and maintain a user administration database or log which contains all authorization forms for each user. This information should be retained during the lifespan of the user identification (ID) and for a minimum of six months after the user has been deleted from the system. (New)

OJP concurs, in part, with this recommendation. OCIO will work with OJP's Office of General Counsel to clarify OJP's record retention requirements. Based on that clarification, OJP will revise its account management procedures and implement a process to electronically maintain access authorization documentation.

Recommendation 9: Ensure procedural improvements are made to maintain evidence of remote access authorization to the OJP's ENS. (Updated)

OJP concurs with this recommendation. OCIO will revise its account management procedures, which will include procedures to ensure that documentation is maintained to support users' authorization for remote access.

Recommendation 10: Ensure procedural improvements are made to maintain evidence of access removal from the system, and to ensure that users are removed from OJP applications and the ENS in a timely manner (i.e., upon employee departure). (Updated)

OJP concurs with this recommendation. OCIO will revise its account management and outprocessing policies and procedures to include steps that will ensure that the Account Management Operation Team receives timely information regarding separated employees and contractors, and that documentation to support access removal from OJP systems is maintained in accordance with OJP's record retention policies.

Recommendation 11: Maintain a log of changes to security profiles for OJP's major business applications, specifically GMS, IFMIS, Web 269, and LLEBG and review the logs periodically. (Repeat)

OJP concurs with this recommendation. OCIO will implement monitoring of logs of changes to security profiles using the E-Trust tool developed by Computer Associates. In addition, OCIO will develop procedures to ensure that logs of changes to security files for OJP's major business applications are monitored, and that the monitoring process is adequately documented.

Recommendation 12: Develop, implement, and adhere to policies and procedures for the recertification of all accounts on OJP's financial systems, mixed feeder systems, and their general support systems. The annual recertification should ensure all accounts, including privileged and non-privileged users, are valid with authorized approval and have the appropriate level of access. The process should be documented and auditable. In addition, the procedures should include the removal or update of user accounts for separated or transferred employees and contractors. (Repeat)

OJP concurs with this recommendation. OCIO will develop and implement policies and procedures for ensuring that users accessing OJP's systems are appropriately authorized and have the appropriate level of access based on their job responsibilities. In addition, OCIO will revise its account management policies and procedures to ensure that the accounts for separated employees and contractors are promptly removed and the accounts for transferred employees and contractors are revised and updated, as appropriate.

System Software Controls Need Strengthening

Recommendation 13: Maintain current and up to date security patches on all of its workstations. (Updated)

OJP concurs with this recommendation. OCIO will implement various network vulnerability scanning tools to enable it quickly detect and resolve (e.g. applying appropriate security patches) known vulnerabilities.

Recommendation 14: Develop and maintain a user administration database or log which contains all authorization forms for each user. This information should be retained during the lifespan of the user ID and for a minimum of six months after the user has been deleted from the system. (New)

OJP concurs, in part, with this recommendation. OCIO will work with OJP's Office of General Counsel to clarify OJP's record retention requirements. Based on that clarification, OJP will revise its account management procedures and implement a process to electronically maintain access authorization documentation.

Recommendation 15: Revise its system software change control process to include the documentation required prior to making a change. Appropriate authorizations should be obtained prior to the actual software change being implemented into the production environment. (New)

OJP concurs with this recommendation. OCIO will revise its change control procedures to detail the documentation required to support changes and the level of approvals required for each type of change.

Service Continuity Needs Improvement

Recommendation 16: Ensure that the practices for the management of tape backup are in compliance with the OJP Enterprise Backup and Restore Policies and Procedures. (Repeat)

OJP concurs with this recommendation. OCIO will revise its backup and restore policies and procedures, and train OCIO government and contractor personnel, to clarify the frequency in which application tapes should be rotated. In addition, the revised procedures will include a process to ensure that the most current system and application documentation and standard operating policies and procedures are maintained at the backup storage site and the COOP site.

Application and System Change Controls Processes Need Improvement

Recommendation 17: Ensure all changes made to network devices are properly authorized and revise their Change Control Procedures to ensure all application, system, and network device changes are appropriately documented and approved. (New)

OJP concurs with this recommendation. OCIO will revise its change control procedures to detail the documentation required to support changes and the level of approvals required for each type of change.

Recommendation 18: Require that the OCIO ensures that all program divisions appropriately document all test data, test plans, and program change results to ensure the quality of program changes. (New)

OJP concurs with this recommendation. OCIO will revise its change control procedures to detail the documentation required to support changes and the level of approvals required for each type of change.

Recommendation 19: Maintain complete and proper documentation evidencing the completion of change requests, change requests approvals, test plans and results, user acceptance approvals, and system migration approvals for all application and system software enhancements, modifications, and data changes. (Repeat)

OJP concurs with this recommendation. OCIO will revise its change control procedures to detail the documentation required to support changes and the level of approvals required for each type of change.

<u>**Application Controls Need Strengthening**</u>

Recommendation 20: Review access controls over the IFMIS application and remove users' access privileges that are not required to perform their job functions and responsibilities. (New)

OJP concurs with this recommendation. OCIO will develop and implement policies and procedures for ensuring that users accessing OJP's systems are appropriately authorized and have the appropriate level of access based on their job responsibilities. In addition, OCIO will revise its account management policies and procedures to ensure that the accounts for separated employees and contractors are promptly removed and the accounts for transferred employees and contractors are revised and updated, as appropriate.

Recommendation 21: Improve access controls over the IFMIS application by ensuring that user access is limited to the employee's job function and responsibility. (New)

OJP concurs with this recommendation. OCIO will develop and implement policies and procedures for ensuring that users accessing OJP's systems are appropriately authorized and have the appropriate level of access based on their job responsibilities. In addition, OCIO will revise its account management policies and procedures to ensure that the accounts for separated employees and contractors are promptly removed and the accounts for transferred employees and contractors are revised and updated, as appropriate.

<u>**Improvements Needed in Controls Over Grant Advance and Payable Estimation Processes**</u>

Recommendation 22: Develop and implement policies and procedures to periodically validate the accuracy of the calculations used to derive the quarterly grant accrual and should continue to improve and formalize its review process of the grant data files, specifically the completeness and accuracy of the information contained in the files. OJP should perform independent reviews to ensure that all information included in the files is complete and that the correct amounts are recorded to the financial statements. (Updated)

OJP concurs with this recommendation. During FY 2006, OJP documented the grant accrual process which requires verification and validation of information in the grant files by management. Each phase of the process has requirements that must be completed before the next phase begins. For example, queries are run to verify that the system calculated amounts equal to the amount posted in the general ledger, and verification that reimbursable grants are assigned to a trading partner. Once the grant files are run, management verifies that the amounts are reasonable, and that there are no major discrepancies between the numbers of grants (approximately 17,000 in the entire grant population) and the number in the grant accrual calculation.

In FY 2007, OJP will continue to refine its policies and procedures to ensure the grant accrual methodology is reasonable and that files used to support to the grant accrual calculation are complete.

Recommendation 23: Develop policies and procedures that specifically identify the impact of new grant programs on the quarterly grant accrual prior to the issuance of the interim and year-end financial statements. Additionally, OJP should enhance its grant accrual process to ensure that it is capable of producing a consistent listing of all open grants that agrees to the UDO balance in the general ledger and to ensure that it properly accounts for all block grants determined to be in a liability position. (New)

OJP concurs with this recommendation. In FY 2006, during the management review phase of the grant accrual process, OJP identified new grant programs that required a change in the grant accrual methodology. Adjustments to the grant accrual were made prior to the fiscal year which resulted in a change to the prior quarter's grant accrual. In FY 2007, OJP will work with the program offices to develop a proactive approach to ensure measures are in place to identify new grant programs that could possibly affect OJP's financial reporting. In addition, OJP will continue to ensure that all report UDO balances agrees to the general ledger.

Recommendation 24: Consider performing the Phase I adjustment factor process for confirmed grants along with the grant confirmation process until the look-back analysis shows that the grantee confirmation results are within a reasonable range of the subsequently reported actual amount. Specifically, OJP should use the results of the Phase I adjustment factor process, instead of the results of the confirmation process, as the basis for their period-end accrual until the confirmation process is capable of producing a consistently accurate accrual. (New)

OJP concurs with this finding. In FY 2007, OJP will consider making changes to the grant confirmation process.

Recommendation 25: Strictly enforce its policy relating to the OC personnel promptly performing follow-up procedures for on-site financial reviews of grantees. Specifically, OJP should perform timely follow up with grantees in accordance with the timeframes established in its policy to allow for any weaknesses identified to be addressed and resolved timely. In addition, OJP should select its site visit sample statistically from the complete population of grants. (Repeat)

OJP concurs with this recommendation. On April 3, 2006, in an effort to better align its responsibilities with the structure of the organization, the Office of the Comptroller (OC) placed the grants financial management, external oversight, grantee financial management training and policy functions into one Division. By June 30, 2006, the reorganization allowed the monitoring reports to be issued within the required time frames, and reduced the backlog of reports.

In FY 2006, OJP developed its monitoring plan using both risked based and random sample factors. Under this methodology, all grants have an opportunity to be reviewed. In FY 2007, OJP will continue to refine the site visit sample selection methodology.

REPORTABLE CONDITION

OJP Needs to Improve Its Grant De-obligation Process

Recommendation 26: Continue to enforce the policy and continue to consistently utilize the grant closeout process policies and procedures to facilitate a more timely review of grants that are beyond the end date or had a final SF-269 submitted based on the revised grant closeout policy. (Repeat)

OJP concurs with this recommendation. In April 2006, OC implemented a reorganization which included changes to management, staffing, and processes for the closeout function within OC. In May 2006, OJP launched QuickWin process improvements to the closeout process throughout OJP, and initiated a Functional Requirements Document (FRD) to automate the closeout process. These changes resulted in improved processes and an increased emphasis by OJP leadership on the importance of the closeout process.

By the end of the first half of FY 2006 (as of March 31, 2006), OJP had completed only 3,528 closeouts. By the end of FY 2006, the closeout total rose to 9,120 closeouts. As of today, there are 2,700 closeouts in OC in various stages of grantee contact and resolution. We expect these to be resolved within a few weeks. Currently, there are 2,115 grants with the Program Offices for closeout. OC staff has developed regular contacts with the Program Offices and their managers, and together we are working to complete these closeouts as well. Closeout status reports are posted on the OJP Portal on a monthly basis to provide Program Offices with specific information concerning closeouts that are due or overdue.

An automated process for closeouts is anticipated for the spring of 2007. We expect to have reduced or eliminated the current closeout backlog by that time.

Disclosure 4: Reprogrammings or Transfers

In accordance with the ONDCP's Circular, *Drug Control Accounting*, OJP made drug-related transfers-out of $5.0 million in FY 2006. See the attached Reprogrammings and Transfers Schedule.

Disclosure 5: Other Disclosures

- In FY 2006, OJP received no Fund Control Notices.
- Of the total FY 2006 actual obligations amount, $36.6 million are a result of carryover unobligated resources.

U.S. Department of Justice
Office of Justice Programs
Reprogrammings and Transfers
FY 2006
(in thousands)

Table Line Item	Unobligated Balances Forward & Recoveries	Enacted BA[a]	Reprogrammings	Transfers In	Transfers Out	Total Availability
Drug Obligations by Function:						
State and Local Assistance	32,479	[illegible]	—	—	(2,404)	156,176
Prevention	3,445	29,617	—	—	(1,4[illegible])	31,902
Treatment	920	12,744	—	—	(1,1[illegible])	12,280
Total	36,890	175,482	0	0	(4,994)	207,858
Drug Obligations by Decision Unit:						
Regional Information Sharing System	0	39,719	—	—	—	39,722
Weed and Seed	10,032	49,361	—	—	—	[illegible]
Enforcing Underage Drinking Laws	2,442	24,691	—	—	(1,400)	[illegible]
Drug Court Program	0	9,873	—	—	(565)	[illegible]
Residential Substance Abuse Treatment	[illegible]	9,872	—	—	(565)	[illegible]
Arrestee Drug Abuse Monitoring Program	—	—	—			0
Prescription Drug Monitoring Program	2,141	7,404	—		(429)	9,129
Southwest Border Prosecution	21,799	29,617	—		(1,957)	49,218
Juvenile Drug Prevention Demonstration Program	—	—	—		—	0
Domestic Cannabis Eradication and Suppression Program	—	4,336	—		(283)	4,053
Total	36,890	175,482	0	0	(4,994)	207,858
Methamphetamine Lab Cleanup[b]	—	19,745	—	—		19,745

[illegible]

[illegible]
[illegible]

Department of State

Bureau of International Narcotics and Law Enforcement Affairs

United States Department of State
and the Broadcasting Board of Governors

Inspector General

[illegible] 29 2007

MEMORANDUM

TO: INL - Ambassador Anne W. Patterson

FROM: OIG - Howard J. Krongard HJK

SUBJECT: Attestation Review of Annual Accounting of Drug Control Funds for FY 2006 (AUD/IP-07-16)

Attached is the Office of Inspector General's (OIG) Independent Attestation Review of the Annual Accounting of Drug Control Funds for FY 2006 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. Robert S. Byrnes
INL/RM/BUD - Mr. Edward Imperati

Independent Attestation Review
Annual Accounting of Drug Control Funds
by the Department of State
AUD/IP-07-16

OIG has reviewed the accompanying Bureau of International Narcotics and Law Enforcement Affairs (INL) FY 2006 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 7 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 2006 obligation data presented in the submission.

Howard J. Krongard

Howard J. Krongard
Inspector General

Date: [illegible]

United States Department of State

Assistant Secretary of State
for International Narcotics and
Law Enforcement Affairs

Washington, D.C. 20520

FEB - 8 2007

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

Dear Mr. Zobeck:

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) 2006 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 of International Narcotics and Law Enforcement Affairs (INL) 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 2005 and FY 2006. The reprogramming and direct apportionment information for FY 2006, which immediately follows the table of drug control obligations, is complete. ONDCP approved all reprogrammings.

Bureau for International Narcotics and Law Enforcement Affairs

Drug Control Obligations:

		($ In Millions) FY 2005 Actual	FY 2006 Actual
Drug Resources by Drug Control Function			
Interdiction		52.023	54.683
International		898.495	911.290
	Total	950.518	965.973
Drug Resources by Decision Unit			
International Narcotics Control and Law Enforcement (INCLE)		246.012	348.259
Andean Counterdrug Initiative (ACI)		704.506	617.714
		0.000	0.000
		0.000	0.000
	Total	950.518	965.973
Drug Resources by Function and Decision Unit			
Interdiction: INCLE		46.396	50.770
Interdiction: ACI		5.627	3.910
International: INCLE		199.616	297.489
International: ACI		698.879	613.804
	Total	950.518	965.973
Drug Resources Personnel Summary			
Total FTEs (Direct Only)		216	222
Information			
Total Agency Budget *		1,671.341	1,307.283
Drug-Related Percentage **		56.87%	73.89%

* Total Agency Budget includes all funding directly apportioned to INL including FY 2005 Supplemental INCLE

** 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 2006 drug-related obligations reported in the preceding table.

1. Directly apportioned $226.484 million of ACI funds to USAID to be used for economic and social programs.

2. Transferred $5 million of ACI funds to DEA to support a computer surveillance technology program in Colombia

3. Reprogrammed $18 million of INCLE funds from crop control/eradication programs in Afghanistan to procure three fixed-wing aircraft to support counternarcotics efforts in Afghanistan.

Drug Methodology and Other Disclosures

The mission of the Bureau of 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 2005 and FY 2006.

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 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 2006 CFO Audit

I believe the information for the Department of State in this submission is reliable and accurate, since the Department's last ten fiscal year financial statements have been audited and received unqualified (or "clean") opinions. In relation to internal control, the Independent Auditor's Report cites six reportable conditions: (1) the recording of personal property and related depreciation, (2) the Department's security of information systems networks, (3) the inadequacy of the Department's financial management systems, (4) management of unliquidated obligations, (5) implementation of the Managerial

Cost Accounting Standards, and (6) recording of real property and related depreciation.

The Department is taking action to address the deficiencies noted during the audit process. As a result of the Department's significant efforts during FY 2006, including emphasis by the Management Control Steering committee - the body charged with overseeing the Department's management control steering program under the Federal Managers' Financial Integrity Act - the auditors downgraded accounting for personal property and information systems security from material weaknesses to reportable conditions. The Department will continue its actions in FY 2007 to resolve the remaining deficiencies.

For purposes of Section 6a reporting, I certify that all 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

Robert S. Byrnes

Robert S. Byrnes, Executive Director
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 2006 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 2006 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) 776-8526.

Sincerely,

Anne W. Patterson

Anne W. Patterson

Enclosure:
As stated.

Department of Transportation

National Highway Traffic Safety Administration

INSPECTOR GENERAL REVIEW OF FY 2006 DRUG CONTROL FUNDS

National Highway Traffic Safety Administration

Report Number: FI-2007-029

Date Issued: February 1, 2007

U.S. Department of Transportation

Office of the Secretary of Transportation

Office of Inspector General
Washington, DC 20590

February 1, 2007

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 2006 Drug Control Funds to the Office of National Drug Control Policy, dated February 1, 2007.

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, 2007. 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 was 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.

Report No. FI-2007-029

Enclosure
Page 1 of 2

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

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

February 1, 2007

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 Funds, the National Highway Traffic Safety Administration's (NHTSA) Fiscal Year 2006 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 Mr. David Bilker. He can be reached on (202) 366-5445, if you require further assistance.

Sincerely,

Gregory A. Walter
Senior Associate Administrator
for Policy and Operations

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NHTSA
People Saving People
www.nhtsa.dot.gov

DOT AUTO SAFETY HOTLINE
888-DASH-2-DOT
888-327-4236

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 is reporting $1.5 million in drug control obligations for fiscal year 2006, which is below the $50 million threshold for full reporting 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,

Rebecca Leng

Rebecca Leng
Assistant Inspector General
for Financial and Information Technology Audits

Enclosure

cc: Senior Associate Administrator
for Policy and Operations, NHTSA

Report No. FI-2007-029

Enclosure
Page 2 of 2

NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION
FISCAL YEAR 2006 DRUG CONTROL OBLIGATIONS SUMMARY
($MILLIONS)

FY 2006
Estimate

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.

Drug Resources by Drug Control Function:	
Research & Development	1.5
Total	1.5
Drug Resources by Budget Decision Unit:	
Highway Safety Program-Drug Recognition Expert Program	1.5
Total	1.5

Note:

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

Department of the Treasury

Internal Revenue Service

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

CHIEF FINANCIAL OFFICER

February 1, 2007

MEMORANDUM FOR DAVID RIVAIT 2/13/07
ASSOCIATE DIRECTOR FOR PERFORMANCE AND BUDGET

FROM: Janice Lambert Janice Lambert
Chief Financial Officer

SUBJECT: Internal Revenue Service (IRS) Fiscal Year (FY) 2006 Detailed Accounting Submission of Drug Control Funds

This memorandum transmits the IRS FY 2006 Detailed Accounting Submission of Drug Control Funds for its Organized Crime Drug Enforcement Task Force (OCDETF) program. The IRS submission includes the table of drug control obligations and accompanying assertions in accordance with Office of National Drug Control Policy (ONDCP) Circular, *Drug Control Accounting*, dated April 18, 2003. This transmittal also includes the Treasury Inspector General for Tax Administration's (TIGTA) attestation review of the IRS FY 2006 Detailed Accounting Submission of Drug Control Funds.

The IRS report states that all OCDETF obligations are fairly presented and are in accordance with the documented IRS methodology used to derive them. TIGTA concludes that the methodology used to calculate the FY 2006 OCDETF obligations was generally well documented.

If you have any questions, please contact me at (202) 622-6400, or have a member of your staff contact Pamela J. LaRue, Associate Chief Financial Officer for Corporate Performance Budgeting at (202) 622-4663.

Enclosures

Internal Revenue Service
Organized Crime Drug Enforcement Task Force (OCDETF) Program
FY 2006 Detailed Accounting Submission
February 1, 2007

Table of FY 2006 Drug Control Obligations

Drug Resources by Function	($000)
Investigations	$ 55,484
Total	$ 55,484
Drug Resources by Decision Unit	
Narcotics Crimes - OCDETF Program	$ 55,484
Total	$ 55,484

Assertions

(1) Drug Methodology

P.L. 109-115 transferred $55.6 million from the Department of Justice (DOJ) to the Internal Revenue Service (IRS) as direct funding to support the OCDETF Program. As a result, FY 2006 was the first year that OCDETF funding became a permanent part of the IRS appropriation. In the past, the IRS OCDETF program operated under a reimbursable agreement with DOJ. The IRS OCDETF program is managed by the Criminal Investigation (CI) division.

In FY 2006, to implement the transition from the DOJ appropriation to the IRS appropriation, DOJ transferred 329 FTE (254 special agent FTE and 75 support FTE) to CI. The resources transferred with the 329 FTE were $55,584,000. This amount was reduced by a one percent rescission, reducing the CI OCDETF resources to $55,028,000 and 326 FTE (252 special agent FTE and 74 support FTE).

The above FY 2006 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.

Data - The CI Criminal Investigation Management Information System (CIMIS) is the source of the data used to derive the actual FTE spent on the IRS OCDETF program. CI special agents submit CIMIS time reports monthly detailing their activities relating to investigations (direct investigative time or DIT). Each investigation is associated with a specific program. The percentage of DIT spent on each program is calculated monthly with an annual percentage calculated after the close of the fiscal year. The annual percentage of DIT used for the OCDETF program is multiplied by the total CI FTE for the fiscal year to determine the number of FTE expended on the OCDETF program.

Financial Systems - The IRS Integrated Financial System (IFS) is the source of all OCDETF obligations. The FY 2006 OCDETF obligations reconcile with the FY 2006 enacted appropriation for OCDETF.

The OCEDTF program is carried out by the CI Narcotics Crimes decision unit. The FY 2006 OCDETF obligations in IFS were derived as described below.

For FY 2006, using the methodology described in the Data section above, CI calculated that it dedicated 8.8 percent of its DIT to the OCDETF program. This amount, when applied to the total FY 2006 CI FTE, resulted in 248 special agent FTE and 89 support FTE, for a total of 337 FTE, spent on the OCDETF program. CI applied the 8.8 percent DIT spent on OCDETF cases to total FY 2006 CI obligations (net of the CI headquarters staff dedicated to the OCDETF program) to derive the special agent, labor and non-labor costs charged to the OCDETF program. In addition, CI headquarters (HQ) staff dedicated full-time to the OCDETF program and OCDETF information technology (IT) costs are included in the actual OCDETF expenditures. The FY 2006 OCDETF funds were spent as follows:

Labor and non-labor support costs	$53,625,529
HQ staff dedicated to OCDETF	$ 1,358,194
IT costs	$ 500,000
Total OCDETF	$55,483,723

(2) Methodology Modifications

The methodology to calculate drug control obligations has not been modified, and the obligations presented in the FY 2006 Table of Drug Control Obligations were derived based on the above methodology.

(3) Material Weaknesses or Other Findings

As presented in the November 2006 Government Accountability Office (GAO) Financial Audit of the IRS FY 2006 and 2005 Financial Statements (Report Number GAO-07-136) and in the IRS FY 2006 Statement of Qualified Assurance of Achievement Management Control Objectives, the IRS has a material weakness with respect to information security. Although this material weakness is not specifically directed to OCDETF, it is being reported because of its undetermined impact on the presentation of drug-related obligations.

The IRS has an established corrective action plan to address the information security material weakness and will recommend the closure of this weakness in January 2009.

In addition, the IRS continues to improve its enterprise-wide IT security program to bring the IRS in full compliance with the requirements of the Federal Information Security Management Act (FISMA). IRS efforts in FY 2004 and FY 2005 were focused on the completion of security certification and accreditation of the network infrastructure systems, which we achieved at the end of FY 2005. In FY 2006, the IRS updated its security plans and completed the certification and accreditation for one-third of its systems to comply with new process guidance issued by the Office of Management and Budget and the National Institute of Standards and Technology. The remaining systems will be updated in FY 2007 and FY 2008.

(4) Reprogramming or Transfers

As authorized in the IRS FY 2006 appropriations, CI reprogrammed $500,000 in FY 2006 OCDETF funds to the IRS Information Systems appropriation to cover IT costs related to the OCDETF program.

(5) Other Disclosures

The information presented in the FY 2006 Table of Drug Control Obligations fairly presents the drug control obligations for the IRS OCDETF program. 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. Section 1703(f) and Section 8 of the ONDCP Circular, *Budget Execution*. The IRS did not have any ONDCP Fund Control Notices in FY 2006.

The IRS has no other disclosures regarding its OCDETF program.

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Attestation Review of the Internal Revenue Service's Fiscal Year 2006 Annual Accounting of Drug Control Funds

February 1, 2007

Reference Number: 2007-10-046

This report remains the property of the Treasury Inspector General for Tax Administration (TIGTA) and may not be disseminated beyond the Internal Revenue Service without the permission of the TIGTA.

Phone Number | 202-927-7037
Email Address | Bonnie.Heald@tigta.treas.gov
Web Site | http://www.tigta.gov

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

February 1, 2007

MEMORANDUM FOR CHIEF FINANCIAL OFFICER

Michael R. Phillips

FROM: Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Attestation Review of the Internal Revenue Service's Fiscal Year 2006 Annual Accounting of Drug Control Funds (Audit # 200710032)

This report presents the results of our attestation review of the Internal Revenue Service's (IRS) Fiscal Year (FY) 2006 Office of National Drug Control Policy (ONDCP)[1] detailed accounting submission. The purpose of this review was to express a conclusion about the reliability of each assertion made in the detailed accounting submission.

Impact on the Taxpayer

The IRS reported that it expended $55.484 million on ONDCP-related activities in FY 2006. Reliable financial information is critical to the IRS' ability to accurately report on the results of its operations to both internal and external stakeholders, including taxpayers.

Synopsis

We determined that the IRS' FY 2006 ONDCP detailed accounting submission and assertions, submitted to us on January 11, 2007, did not include all required material information or a reasonably detailed explanation regarding the methodology used to calculate funds expended. Specifically, ONDCP reporting guidelines require that all funds expended on ONDCP-related activities during a fiscal year be clearly reported. However, the IRS simply re-reported the funding of $55.028 million it had received for the ONDCP in FY 2006 and noted that funds

[1] The ONDCP was established in 1988 to set priorities, implement a national strategy, and certify Federal Government drug control budgets. Pub. L. No. 105-277 (Division C-Title VII), Section 707(d) (1988).

Attestation Review of the Internal Revenue Service's Fiscal Year 2006 Annual Accounting of Drug Control Funds

actually expended were not materially different. ONDCP guidelines also require that the methodology used to calculate funds expended be fully explained. However, the IRS noted only that ONDCP funds expended were calculated based on direct investigative time without any detailed explanation regarding the methodology used to accomplish this calculation.

In fact, the only methodology clearly outlined by the Criminal Investigation (CI) function during our inquiries was the unit cost approach associated with the funding transfer, after rescission, of $55.028 million. As part of our fieldwork, we did inquire as to whether funds expended during FY 2006 were considered in preparing the ONDCP report and were informed by the CI function at the time that this was not done.

On January 25, 2007, we provided a discussion draft audit report notifying the IRS that its ONDCP detailed accounting submission was materially incomplete. We also informed the IRS that the unit cost methodology was inadequate for the purpose of calculating funds expended in FY 2006, in the event it relied on this approach in any way.

In response to this report, the IRS indicated it had calculated funds expended on the ONDCP program in FY 2006 to be $55.484 million. In addition, the IRS indicated that this calculation was based on the application of direct investigative time attributable to the ONDCP program to CI function funds expended in FY 2006. The IRS' response also noted that this calculation included a number of adjustments it had made to reflect costs specifically attributable to the ONDCP.

In general, we found the overall cost allocation methodology described in the IRS' response to our discussion draft report to be adequately explained and documented, with the exception of one matter. Specifically, the IRS adjusted its allocation-based estimate of ONDCP funds expended upwards by $2 million primarily to reflect salary and benefits related to program management and analytical support staff costs it directly attributed to the program. However, the IRS did not provide an explanation as to why these types of costs were so unique that that they would not also be incurred by other CI function programs and therefore already be reflected in the overall allocated cost calculation.

Based on our review, if the IRS' FY 2006 ONDCP report were adjusted to reflect the additional information and cost calculation methodology included in the IRS response to our discussion draft report, nothing came to our attention, with the exception of the matter discussed in the preceding paragraph, to indicate that the assertions are not presented in all material respects in accordance with ONDCP-established criteria.

Recommendation

We recommended the Chief Financial Officer ensure future ONDCP reports use an analysis of current period financial activity in determining the funds expended.

Attestation Review of the Internal Revenue Service's Fiscal Year 2006 Annual Accounting of Drug Control Funds

Response

The IRS agreed with our recommendation and, as discussed above, included in its response a description of the method used to calculate the FY 2006 drug resources based on current period funds expended. Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the IRS managers affected by the report recommendation. Please contact me at (202) 622-6510 if you have questions or Nancy Nakamura, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

Attestation Review of the Internal Revenue Service's Fiscal Year 2006 Annual Accounting of Drug Control Funds

Table of Contents

Attestation Review of the Internal Revenue Service's Fiscal Year 2006 Annual Accounting of Drug Control Funds

Abbreviations

CI	Criminal Investigation
FTE	Full-Time Equivalent
FY	Fiscal Year
IRS	Internal Revenue Service
ONDCP	Office of National Drug Control Policy

Attestation Review of the Internal Revenue Service's Fiscal Year 2006 Annual Accounting of Drug Control Funds

Background

> **National Drug Control Program agencies are required to submit to the Director of the ONDCP, not later than February 1 of each year, a detailed accounting of all funds expended.**

The Anti-Drug Abuse Act of 1988[1] establishes as a policy goal the creation of a drug-free America. A key provision of the Act is the establishment of the Office of National Drug Control Policy (ONDCP) to set priorities, implement a national strategy, and certify Federal Government drug control budgets. The Internal Revenue Service's (IRS) Narcotics Program supports the National Drug Control Strategy through continued support of the Organized Crime and Drug Enforcement Task Force.

This review was conducted as required by the National Drug Enforcement Policy (21 U.S.C. Section 1704(d)) and the ONDCP Circular entitled *Annual Accounting of Drug Control Funds*, dated April 18, 2003. The National Drug Control Program agencies[2] are required to submit to the Director of the ONDCP, not later than February 1 of each year, a detailed accounting of all funds expended (the ONDCP Circular requires amounts obligated) during the previous fiscal year. Further, it requires such accounting to be authenticated by the Inspector General of each agency prior to its submission.

The Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia, and Independent Agencies Appropriations Act, 2006,[3] was enacted on November 30, 2005. Within this law is a specific appropriation of $55.584 million to fund the IRS Criminal Investigation (CI) function drug enforcement actions.

This review was performed in the IRS Headquarters offices of the Chief Financial Officer and Chief, CI, in Washington, D.C., during the period December 2006 through January 2007. Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. An attestation review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the ONDCP detailed accounting submission assertions. Accordingly, we do not express such an opinion.

Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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[1] Pub. L. No. 105-277 (Division C-Title VII), Section 707(d) (1988).
[2] National Drug Control Program Agencies are defined as any agency that is responsible for implementing any aspect of the National Drug Control Strategy.
[3] Pub. L. No. 109-115 (2005).

Attestation Review of the Internal Revenue Service's Fiscal Year 2006 Annual Accounting of Drug Control Funds

Results of Review

The Methodology Used to Calculate the Internal Revenue Service's Fiscal Year 2006 Annual Drug Control Funds Expended Was Generally Well Documented

We reviewed the IRS ONDCP detailed accounting submission and assertions for Fiscal Year (FY) 2006, which ended September 30, 2006 (see Appendix IV). This submission, including the assertions made, was prepared pursuant to 21 U.S.C. § 1704(d) and the ONDCP Circular *Annual Accounting of Drug Control Funds*, and is the responsibility of the IRS. The assertions, as required by Section 5.b. of the ONDCP Circular, include statements that the methodology used is reasonable and accurate, including explanations and documentation of estimation assumptions used; the methodology disclosed was the actual methodology used; and the data presented are associated with obligations against a financial plan that reflects changes, if made. The ONDCP Circular also requires that such accounting be authenticated by the Inspector General of each agency prior to its submission.

In FY 2006, ONDCP funding became a permanent part of the IRS' budget. In prior years, IRS-related ONDCP funds expended were reimbursed by the Department of Justice. The IRS noted in its FY 2006 ONDCP report that, in conjunction with this change in funding structure, the Department of Justice transferred 329 Full-Time Equivalents (FTE)[1] and associated funding of $55.584 million to the IRS in FY 2006. This amount was reduced by a subsequent 1 percent Department of the Treasury budget rescission to $55.028 million and 326 FTEs. The IRS also noted in its FY 2006 ONDCP report that the resources associated with this transfer were calculated by multiplying the FTEs transferred by a unit cost rate.

Overall, we found the IRS' FY 2006 ONDCP Report, which was submitted to us on January 11, 2007, did not include all required material information or a reasonably detailed explanation regarding the methodology used to calculate funds expended. Specifically, ONDCP reporting guidelines require that all funds expended on ONDCP-related activities during a fiscal year be clearly reported. However, the IRS simply re-reported the funding of $55.028 million it had received for the ONDCP in FY 2006 and noted that funds actually expended were not materially different. ONDCP guidelines also require that the methodology used to calculate funds expended be fully explained. However, the IRS noted only that ONDCP funds expended were calculated based on direct investigative time without any detailed explanation regarding the methodology used to accomplish this calculation.

[1] A measure of labor hours in which 1 FTE is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For FY 2006, 1 FTE was equal to 2,080 staff hours.

Attestation Review of the Internal Revenue Service's Fiscal Year 2006 Annual Accounting of Drug Control Funds

In fact, the only methodology clearly outlined by the CI function during our inquiries was the unit cost approach associated with the funding transfer, after rescission, of $55.028 million. As part of our fieldwork, we did inquire as to whether funds expended during FY 2006 were considered in preparing the ONDCP report and were informed by the CI function at the time that this was not done.

On January 25, 2007, we provided a discussion draft audit report notifying the IRS that the January 11, 2007, FY 2006 ONDCP Report was materially incomplete. We also informed the IRS that the unit cost methodology was inadequate for the purpose of calculating funds expended in FY 2006, in the event it relied on this approach in any way.

Specifically, although historical costs were used by the IRS in developing the unit cost rate for special agents, this rate was subsequently inflated by numerous material, unsupported adjustments. For example, the unit cost rate calculation for special agent-related indirect costs such as rent, supplies, and other services was subsequently increased by 75 percent by the IRS CI function as part of the ONDCP calculation process. The CI function was unable to provide any detailed analysis or documentation to support any of these adjustments.

In response to the discussion draft report, the IRS indicated it had calculated funds expended on the ONDCP program in FY 2006 to be $55.484 million. In addition, the IRS indicated that this calculation was based on the application of direct investigative time attributable to the ONDCP program to CI function funds expended in FY 2006. The IRS' response also noted that this calculation included a number of adjustments it had made to reflect costs specifically attributable to the ONDCP.

In general, we found the overall cost allocation methodology described in the IRS' response to our discussion draft report to be adequately explained and documented, with the exception of one matter. Specifically, the IRS adjusted its allocation-based estimate of ONDCP funds expended upwards by $2 million primarily to reflect salary and benefits related to program management and analytical support staff costs it directly attributed to the program. However, the IRS did not provide an explanation as to why these types of costs were so unique that that they would not also be incurred by other CI function programs and therefore already be reflected in the overall allocated cost calculation.

Based on our review, if the IRS' FY 2006 ONDCP report were adjusted to reflect the additional information and cost calculation methodology included in the IRS response to our discussion draft report, nothing came to our attention, with the exception of the matter discussed in the preceding paragraph, to indicate that the assertions are not presented in all material respects in accordance with ONDCP-established criteria.

Recommendation

Recommendation 1: The Chief Financial Officer should ensure future ONDCP reports use an analysis of current period financial activity in determining the funds expended.

Attestation Review of the Internal Revenue Service's Fiscal Year 2006 Annual Accounting of Drug Control Funds

Management's Response: The IRS agreed with our recommendation and included in its response a description of the method used to calculate the FY 2006 drug resources based on current period funds expended.

* * * * *

While this report is an unrestricted public document, the information it contains is intended solely for the use of the IRS, the United States Department of the Treasury, the ONDCP, and Congress. It is not intended to be, and should not be, used by anyone other than these specified parties.

Attestation Review of the Internal Revenue Service's Fiscal Year 2006 Annual Accounting of Drug Control Funds

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to perform an attestation review of the IRS' reporting of FY 2006 ONDCP obligations for the purpose of expressing a conclusion on the reliability of the assertions made in the detailed accounting submission. To accomplish our objective, we:

I. Obtained an understanding of the process used to prepare the IRS FY 2006 ONDCP detailed accounting submission.

   A. Discussed the process to record and report ONDCP expenditures with responsible IRS personnel.

   B. Obtained any documents such as the detailed accounting submission, written procedures, supporting worksheets, and recording modifications that evidence the methodology used.

II. Evaluated the reasonableness of the drug methodology process.

   A. Reviewed data supporting the detailed accounting submission to establish its relationship to the amounts being reported.

   B. Reviewed the estimation methods used for consistency with reported amounts.

III. Performed sufficient verifications of reported obligations to support our conclusion on the reliability of the assertions.

   A. Verified whether the detailed accounting submission includes all of the required elements.

   B. Verified the mathematical accuracy of the obligations presented, traced the information to the supporting documentation, and reviewed the supporting documentation for reasonableness.

Appendix II

Major Contributors to This Report

Nancy Nakamura, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)
John R. Wright, Director
Anthony J. Choma, Audit Manager
Mildred Rita Woody, Lead Auditor
Robert Beel, Senior Auditor
Kanika Kals, Auditor
Richard Louden, Auditor

Attestation Review of the Internal Revenue Service's Fiscal Year 2006 Annual Accounting of Drug Control Funds

Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner - Attention: Chief of Staff C
Deputy Commissioner for Operations Support OS
Deputy Commissioner for Services and Enforcement SE
Chief, Criminal Investigation SE:CI
Deputy Chief, Criminal Investigation SE:CI
Deputy Chief Financial Officer OS:CFO
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National Taxpayer Advocate TA
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Audit Liaisons:
    Chief, Criminal Investigation SE:CI
    Chief Financial Officer OS:CFO

Attestation Review of the Internal Revenue Service's Fiscal Year 2006 Annual Accounting of Drug Control Funds

Appendix IV

Internal Revenue Service Fiscal Year 2006 Detailed Accounting Submission of Drug Control Funds

CHIEF FINANCIAL OFFICER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

January 11, 2007

MEMORANDUM FOR MICHAEL PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Janice Lambert Janice Lambert
Chief Financial Officer

SUBJECT: Internal Revenue Service's (IRS) Fiscal Year (FY) 2006 Detailed Accounting Submission of Drug Control Funds

The Internal Revenue Service (IRS) is submitting this report to the Treasury Inspector General for Tax Administration (TIGTA) to comply with Section 7, Inspector General Authentication, of the Office of National Drug Control Policy (ONDCP) Circular: Drug Control Accounting, dated April 18, 2003. This circular requires TIGTA to perform an attestation review of this report before the IRS submits it to ONDCP. After the IRS receives TIGTA's conclusion as to the reliability of each assertion made in the report, I will forward this document to the ONDCP.

If you have any questions, please contact me at (202) 622-6400, or have a member of your staff contact Pamela J. LaRue, Associate Chief Financial Officer for Corporate Performance Budgeting at (202) 622-4860.

Attachment

cc: Tony Choma

Attestation Review of the Internal Revenue Service's Fiscal Year 2006 Annual Accounting of Drug Control Funds

Attachment – 12/29/06

INTERNAL REVENUE SERVICE
ANNUAL ACCOUNTING OF DRUG CONTROL FUNDS

DETAILED ACCOUNTING SUBMISSION

A. Table of FY 2006 Drug Control Obligations

Drug Resources by Function	($000)
Investigations	$55,028
Total	$55,028
Drug Recources by Decision Unit	
Narcotics Crimes	$55,028
Total	$55,028

(1) Drug Methodology

- The Internal Revenue Service's (IRS) Drug Control Budget contains the Criminal Investigation (CI) Narcotics-Related Financial Crime Program. The Office of National Drug Control Policy (ONDCP) requires Criminal Investigation to only report on the Organized Crime and Drug Enforcement Task Force (OCDETF) portion of our Narcotics program.

- During FY 2006, IRS-CI dedicated 8.8% of its Direct Investigative Time (DIT) to the OCDETF Program. This amount, when applied to the total realized FTE in FY 2006, resulted in approximately 248 special agent FTE and 89 support FTE for a total of 337 FTE. Since this was less than a 5% change to our estimate of 326 FTE, we determined that we would use our allocated 326 FTE and related dollar amount for our year-end reporting.

- Fiscal Year 2006 was the first year that the OCDETF funding became a permanent part of the CI regular budget. In the past, OCDETF was a reimbursable program and was reimbursed and reported by the Department of Justice (DOJ).

- In FY 2006, DOJ transferred 329 FTE (254 special agent FTE and 75 support FTE) to CI. The resources associated with this transfer of FTE were computed by multiplying the number of FTE by a Unit Cost Rate for the type of employee FTE that was being transferred. These Unit Cost Rates are costs that are computed annually and include all costs that apply when an employee is newly hired or is already on-board. These costs are adjusted annually for changes in business practices and cost of living adjustments.

- In FY 2006, the resources transferred with the 329 FTE were $55,584,000. This amount was reduced by an across the board 1% rescission made by Treasury which

Attestation Review of the Internal Revenue Service's Fiscal Year 2006 Annual Accounting of Drug Control Funds

reduced our OCDETF resources down to $55,028,000 and 326 FTE (252 special agent FTE and 74 support FTE).

(2) Methodology Modifications. As authorized in the IRS 2006 Appropriations, CI Narcotics-Related Financial Crime Program did reprogram funds into the IRS Information Systems appropriation in FY 2006.

(3) Material Weaknesses or Other Findings. None

(4) Reprogramming or Transfers. As acknowledged above, $500K was reprogrammed to the IRS Information Systems appropriation.

(5) Other Disclosures: None

II. Assertions

1) Drug Methodology. The methodology used to calculate obligations of prior year budgetary resources is reasonable and accurate.

(a) Data

Data is retrieved from the Criminal Investigation Management Information System (CIMIS) to determine the number of FTE's used in drug control activities. Special agents submit CIMIS time reports monthly detailing their activities relating to investigations (direct investigative time or DIT). Each investigation is associated with a specific program and sub-program area. The percentage of DIT used on each program area is calculated monthly with a final annual percentage determined after the close of the fiscal year. The annual percentage of DIT used for Narcotics-Related Financial Crimes program is applied to realized FTE as calculated by CIMIS to determine the number of FTE expended on the complete Narcotics program. The Narcotics Program DIT is split out into sub-programs which included OCDETF, among other Narcotics related programs. OCDETF DIT is used to determine the OCDETF FTE expended on the OCDETF program and is computed separately.

(b) Other Estimation Methods. Planned FTE utilization determined the distribution of non-labor funds to CI field offices.

(c) Completeness. The Internal Revenue Service Drug Control Budget contains only the Criminal Investigation Organized Crime and Drug Enforcement Task Force Program.

(d) Financial Systems. This Service's Integrated Financial System (IFS) is the final authority for the IRS resource obligations. The Criminal Investigation Management Information System (CIMIS) is the final authority for the Direct Investigative Time reporting.

2) Application of Methodology. The methodology disclosed in this section is the actual methodology used to generate the table required by Section 6A of the Office of National Drug Control Policy Circular: Drug Control Accounting. Calculations are sufficiently well documented to independently reproduce this data and ensure consistency between reporting years.

3) Financial Plan-Including Reprogramming or Transfers. The data presented is associated with obligations against a financial plan and properly reflects any revisions occurring during the fiscal year.

Attestation Review of the Internal Revenue Service's Fiscal Year 2006 Annual Accounting of Drug Control Funds

Appendix V

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

CHIEF FINANCIAL OFFICER

January 30, 2007

MEMORANDUM FOR MICHAEL PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Janice Lambert Janice Lambert
Chief Financial Officer

SUBJECT: Comments and Response to Discussion Draft Audit Report Attestation Review of the Internal Revenue Service's Fiscal Year 2006 Annual Accounting of Drug Control Funds (Audit # 200710032)

The Internal Revenue Service (IRS) appreciates the opportunity to respond to the findings of TIGTA audit 200710032 - Attestation Review of the Internal Revenue Service's Fiscal Year 2006 Annual Accounting of Drug Control Funds.

In preparing the FY 2006 Office of National Drug Control Policy (ONDCP) report, the IRS relied on the same methodology that was used when the OCDETF program was operated on a reimbursable basis with the Department of Justice. We agree with the TIGTA recommendation that ONDCP reports should use "current period financial activity in determining funds expended." In fact, the IRS did use the actual Organized Crime Drug Enforcement Task Force (OCDETF) activity to calculate the FY 2006 OCDETF expenditures. The Direct Investigative Time (DIT) spent by agents on OCDETF-related programs is regularly reported through the Criminal Investigation (CI) Division's timekeeping system and is used to calculate the number of full-time equivalent (FTE) applied to OCDETF through the course of the fiscal year. However, during the attestation review we think a miscommunication led to a misinterpretation of the methodology employed by the IRS to document OCDETF resource utilization. TIGTA raised the following issues:

- "Overall, we found the IRS' FY 2006 ONDCP report does not include all required material information, and the methodology used to calculate the IRS' cost per unit contains a number of material unsupported cost estimates."
- "Specifically, although historical costs were used by the IRS in developing the unit cost rate for special agents, we found that this rate was subsequently inflated by numerous material unsupported adjustments when applied to estimated and realized FTEs to determine the total funds budgeted and expended."

Attestation Review of the Internal Revenue Service's Fiscal Year 2006 Annual Accounting of Drug Control Funds

P.L. 109-115 transferred $55.6 million from the Department of Justice to the IRS as direct funding to support the OCDETF Program. As noted in the TIGTA report, this amount was reduced by the 1 percent budget rescission to $55.028 million and 326 FTEs. The FTE unit cost rate and the adjustments as described above were used to establish the initial receipt of the $55.028 million OCDETF funding for CI in the Integrated Financial System (IFS). This initial IFS allocation of the $55.028 million, however, is not the methodology used for determining how the funds were expended.

As recommended by TIGTA, CI applies its DIT spent on OCDETF cases, which was 8.8 percent of all DIT in FY 2006, to derive the special agent, labor, and non-labor costs charged to the OCDETF program. In addition, CI headquarters (HQ) staff dedicated full-time to the OCDETF program and OCDETF information technology (IT) costs are included in the actual OCDETF expenditures. The FY 2006 OCDETF funds were spent as follows:

Labor and non-labor support costs:	$53,625,529
(8.8% DIT x total CI expenditures net of HQ staff and IT OCDETF costs)	
HQ staff dedicated to OCDETF:	$ 1,358,194
IT costs:	$ 500,000
Total OCDETF	$55,483,723

If you have any questions or require additional assistance, please contact Dawn Mertz, Acting Director of Planning and Strategy at (202) 622-6469 or Senior Analyst Darryl Williams at 202-622-3214.

Department of Veterans Affairs

Veterans Health Administration

Department of Veterans Affairs
Office of Inspector General

Independent Review of VA's Fiscal Year 2006 Detailed Accounting Submission To the Office of National Drug Control Policy

Report No. 07-00753-102

March 15, 2007

VA Office of Inspector General
Washington, DC 20420

To Report Suspected Wrongdoing in VA Programs and Operations
Call the OIG Hotline - (800) 488-8244

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

DATE: March 14, 2007

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

FROM: Assistant Inspector General for Auditing (52)

SUBJECT: **Final Report** – Independent Review of VA's Fiscal Year 2006 Detailed Accounting Submission to the Office of National Drug Control Policy (Report No. 07-00753-102)

1. The Office of National Drug Control Policy (ONDCP) requires VA to submit an annual Detailed Accounting Submission (Submission), as authorized by 21 U.S.C. § 1704(d) and ONDCP Circular: *Drug Control Accounting* (Circular), dated April 18, 2003, to ONDCP. The Submission is included in this report at Attachment A. The Submission, including the assertions made, is the responsibility of VA management.

2. We have reviewed management's assertions as required by the Circular concerning its drug methodology, reprogrammings and transfers, and fund control notices. The assertions are found in the Submission on page 1, third paragraph; page 4, "Disclosure 2: Application of Drug Methodology;" page 5, "Disclosure 3: Reprogrammings and Transfers;" and page 5, "Disclosure 4: Fund Control Notices."

3. Our review was conducted in accordance with 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 assertions in the Submission. Accordingly, we do not express such an opinion.

4. Our *Report of the Audit of the Department of Veterans Affairs Consolidated Financial Statements for Fiscal Years 2006 and 2005* (Report No. 06-01279-24, November 14, 2006), identified three material weaknesses. These material weaknesses were identified as "Information Technology (IT) Security Controls," "Integrated Financial Management System," and "Operational Oversight." The report also referred to two reportable conditions identified by another independent public accounting firm engaged by VA to assist in an internal control assessment pursuant to Office of Management and Budget Circular A-123 Appendix A.

Management's Responsibility for Internal Control. These reportable conditions were identified as "Transactions rejected by FMS" and "Intergovernmental Transactions."

5. 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 caused by error or fraud 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 involve matters coming to the auditor's attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in the auditor's judgment, could adversely affect VA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

6. Based upon our review, except for the effects, if any, of the material weaknesses and reportable conditions discussed in the fourth paragraph of this report, nothing came to our attention that caused us to believe that management's assertions included in the accompanying Submission and identified in the second paragraph of this report are not fairly stated in all material respects based on the criteria set forth in the Circular.

7. We provided you our draft report for review. You agreed with the report, but chose to not provide comments.

8. This report is intended solely for the information and use of VA management, the ONDCP, and the U.S. Congress (See Attachment B for Report Distribution). This report is not intended to be and should not be used by anyone other than these specified parties.

(original signed by:)

Belinda J. Finn

Attachments

Attachment A

Statement of Disclosures and Assertions for FY 2006 Drug Expenditures Submitted to Office of National Drug Control Policy (ONDCP) for FY Ending September 30, 2006

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.

Attachment A

January 19, 2007

Disclosure 1: Drug Control Methodology

Decision Support System

The 2006 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 2006. 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).

Attachment A

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 has entered the field and a report is anticipated in the summer of 2007.

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 2006, VHA provided specialty substance abuse treatment to over 90,000 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.

Page 3 of 6

Attachment A

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 2006 obligations were $121.638 million. VA assumed a drug-related percent of 61.66%[1].

b. Specialized Treatment, Domiciliary – FY 2006 obligations were $44.441 million. VA assumed a drug-related percent of 78.33%[2].

c. Specialized Treatment, Outpatient – FY 2006 obligations were $167.620 million. VA assumed a drug-related percent of 92.30%[3].

d. Research and Development – FY 2006 obligations were $11.375 million.

e. FTEs. Specialized FTE is 3,194 and is comprised of the following: Specialized Inpatient FTE = 1,176 (drug-related percent of 61.66%; Specialized Domiciliary FTE = 447 (drug-related percent of 78.33%); and Specialized Outpatient FTE = 1,571 (drug-related percent of 92.30%).

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 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.

[1] Percent of all Substance Use Disorder Inpatients seen in a Specialized Substance Use Disorder Unit with a drug diagnosis.

[2] Percent of all Substance Use Disorder Extended Care Patients seen in a Specialized Substance Use Disorder Unit with a drug diagnosis.

[3] Percent of all Substance Use Disorder Clinic Stops made by drug patients.

Attachment A

Disclosure 3: Reprogrammings and Transfers
There was no reprogramming of funds/transfers 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.

Disclosure 5: Revised Drug Percent
Per John McKellar, Health Science Specialist, PERC the original "Percent of All Substance Use Disorder Inpatients Seen in a Specialized Substance Use Disorder Unit with a Drug Diagnosis" was changed and lowered because it mistakenly included all inpatients with a Substance Use Disorder diagnoses rather then just a drug diagnosis. The error was discovered when the description of the "actuals" was run on Wednesday, January 17, 2007. On Thursday, January 18, 2007 VHA requested permission from ONDCP to resubmit its budget based on the revised drug percent. ONDCP's decision regarding that request is still pending as of January 19, 2007.

James F. McGahs
Associate Chief Financial Officer
for Resource Management (172)

Date

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

1/19/2007
Date

Page 5 of 8

Attachment A

Department of Veterans Affairs
Resource Summary
Budget Authority in Millions

Description	2006 Actual
Drug Resources by Function & Decision Unit:	
Medical Care:	
Specialized Treatment	
Domiciliary	$44.441
Inpatient	$121.638
Outpatient	$167.620
Specialized Treatment	$333.699
Research & Development[4]	$11.375
Drug Resources by Function & Decision Unit, Total	$345.074
Drug Resources Personnel Summary	
Total FTE	3,194
Total Enacted Appropriations	$73,736.8
Drug Percentage	.47%

[4] Due to time constrains the $11.375 million for Research and Development is an estimate per Maureen Carroll, Senior Financial Manager (1281).

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Attachment B

REPORT DISTRIBUTION

VA DISTRIBUTION

Chief Financial Officer (004)
Chief Financial Officer, Veterans Health Administration (17)
Veterans Health Administration Audit Liaison (10B5)

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Office of National Drug Control Policy, Associate Director for Planning and Budget

Small Business Administration

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

MAR - 1 2007

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

Dear Mr. Zobeck:

Thank you for your letter dated November 17, 2006. As requested, the U.S. Small Business Administration's (SBA) is providing the following response.

Drug Methodology Fiscal Year 2006

Drug Function	Budget Decision Unit
Prevention - $.986M	Education - $.986M

If you have any questions concerning this report, please contact Terry Nelson in SBA's Office of Small Business Development Centers at 202-205-7304.

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
Chief Financial Officer

Eric Thorson
Inspector General

ONDCP Circular: Drug Control Accounting

April 18, 2003

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.[1] 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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[1]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.[2]

(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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[2]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