EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503

April 23, 2009

The Honorable Nancy Pelosi
Speaker of the House of Representative
235 Cannon House Office Building
Washington, DC 20515-1314

Dear Speaker Pelosi:

Enclosed for the information of the House are the *Fiscal Year 2008 Performance Summary Report and the Fiscal Year 2008 Accounting of Drug Control Funds.* These reports were prepared by the Office of National Drug Control Policy (ONDCP), pursuant to P.L. 105-277 (Div. C-Title VII), section 705(d), with the close cooperation of Executive Department officials.

For each National Drug Control Program Agency, the accompanying Accounting Report provides a detailed accounting of funds expended for drug control activities during FY 2008. In addition, as required by statute, this accounting information has been authenticated by agency Inspectors General where appropriate, and the report includes their associated analyses. The Agency Accounting Report for the Department of Interior will be sent later since they are late with their submission.

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ONDCP is committed to improving the accuracy and reliability of agency financial data supporting the drug control programs of the President and the accountability systems that monitor their performance. These annual reports of drug control funds and program performance will serve as valuable tools to assist in these important efforts. If I can be of assistance or if you have any questions, please contact me directly at (202) 395-6709 or contact Deborah Walker of my Office of Legislative Affairs at (202) 395-5595.

Respectfully,

Edward H. Jurith
Acting Director

Enclosure

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503
April 23, 2009

The Honorable Joseph R. Biden, Jr.
President of the Senate
S-212 The Capitol
Washington, DC 20510

Dear Mr. President:

Enclosed for the information of the Senate are the *Fiscal Year 2008 Performance Summary Report and the Fiscal Year 2008 Accounting of Drug Control Funds.* These reports were prepared by the Office of National Drug Control Policy (ONDCP), pursuant to P.L. 105-277 (Div. C-Title VII), section 705(d), with the close cooperation of Executive Department officials.

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Respectfully,

Ed

Edward H. Jurith
Acting Director

Enclosure

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503

April 23, 2009

The Honorable Patrick Leahy
Chairman, Senate Committee on the Judiciary
224 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Leahy:

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Edward H. Jurith
Acting Director

Enclosure

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503
April 23, 2009

The Honorable Arlen Specter
Ranking Member, Committee on the Judiciary
152 Dirksen Senate Office Building
Washington, DC 20510

Dear Ranking Member Specter:

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Edward H. Jurith
Acting Director

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503

April 23, 2009

The Honorable Richard Durbin
Chairman, Subcommittee on Crime and Drugs
309 Hart Senate Office Building
Washington DC 20510

Dear Chairman Durbin:

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503

April 23, 2009

The Honorable Lindsey Graham
Ranking Member, Subcommittee on Crime and Drugs
Committee on the Judiciary
United States Senate
290 Senate Russell Building
Washington, DC 20510

Dear Ranking Member Graham:

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503

April 23, 2009

The Honorable Daniel Inouye
Chairman, Senate Committee on Appropriations
S-131 Capitol
Washington, DC 20510

Dear Chairman Inouye:

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Edward H. Jurith
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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503

April 23, 2009

The Honorable Thad Cochran
Ranking Member, Senate Committee on Appropriations
S-146 A Capitol
Washington, DC 20510

Dear Ranking Member Cochran:

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Respectfully,

Edward H. Jurith
Acting Director

Enclosure

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503
April 23, 2009

The Honorable Richard Durbin,
Chairman, Subcommittee on Financial Services and General Government
Committee on Appropriations
184 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Durbin:

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Edward H. Jurith
Acting Director

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503

April 23, 2009

The Honorable Susan Collins
Ranking Member, Subcommittee on Financial Services and General Government
142 Senate Dirksen Building
Washington, DC 20510

Dear Ranking Member Collins:

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Edward H. Jurith
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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503
April 23, 2009

The Honorable Charles Grassley
Co-Chairman, Senate Caucus on International Narcotics Control
135 Hart Senate Office Building
Washington, DC 20510

Dear Chairman Grassley:

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503

April 23, 2009

The Honorable Diane Feinstein
Chairwoman, Senate Caucus on International Narcotics Control
331 Hart Senate Office Building
Washington, DC 20510

Dear Chairwoman Feinstein:

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Enclosure

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503
April 23, 2009

The Honorable John Conyers, Jr.
Chairman, Committee on the Judiciary
2138 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Conyers:

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503

April 23, 2009

The Honorable Lamar S. Smith
Ranking Member, Committee on the Judiciary
B-351 Rayburn House Office Building
Washington, DC 20515

Dear Ranking Member Smith:

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
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April 23, 2009

The Honorable David Obey
Chairman, House Committee on Appropriations
H-218 Capitol
Washington, DC 20515

Dear Chairman Obey:

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503

April 23, 2009

The Honorable Jerry Lewis
Ranking Member, House Committee on Appropriations
1016 Longworth House Office Building
Washington, DC 20515

Dear Ranking Member Lewis:

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Acting Director

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503

April 23, 2009

The Honorable Jose Serrano
Chairman, Subcommittee on Financial Services and General Government
Committee on Appropriations
United States House of Representatives
B-300 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Serrano:

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Acting Director

Enclosure

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503
April 23, 2009

The Honorable Jo Ann Emerson
Ranking Member, Subcommittee on Financial Services and General Government
Committee on Appropriations
United States House of Representatives
1001 Longworth House Office Building
Washington, DC 20515

Dear Ranking Member Emerson:

Enclosed for the information of the House are the *Fiscal Year 2008 Performance Summary Report and the Fiscal Year 2008 Accounting of Drug Control Funds.* These reports were prepared by the Office of National Drug Control Policy (ONDCP), pursuant to P.L. 105-277 (Div. C-Title VII), section 705(d), with the close cooperation of Executive Department officials.

For each National Drug Control Program Agency, the accompanying Accounting Report provides a detailed accounting of funds expended for drug control activities during FY 2008. In addition, as required by statute, this accounting information has been authenticated by agency Inspectors General where appropriate, and the report includes their associated analyses. The Agency Accounting Report for the Department of Interior will be sent later since they are late with their submission.

For each National Drug Control Program Agency, the accompanying Performance Summary Report provides performance-related information for the agency's drug control activities as well as management assertions regarding the appropriateness and soundness of the performance system. In addition, the reliability of these assertions has been authenticated by agency Inspectors General. This report also includes their associated analyses. Agency Performance Summary Reports from the Department of Defense, the Department of Homeland Security's Customs and Border Protection, and the Department of Interior will be sent later since they are late with their submissions.

ONDCP is committed to improving the accuracy and reliability of agency financial data supporting the drug control programs of the President and the accountability systems that monitor their performance. These annual reports of drug control funds and program performance will serve as valuable tools to assist in these important efforts. If I can be of assistance or if you have any questions, please contact me directly at (202) 395-6709 or contact Deborah Walker of my Office of Legislative Affairs at (202) 395-5595.

Respectfully,

Edward H. Jurith
Acting Director

Enclosure

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503

April 23, 2009

The Honorable Edolphus Towns
Chairman, House Committee on Oversight and Government Reform
2157 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Towns:

Enclosed for the information of the House are the *Fiscal Year 2008 Performance Summary Report and the Fiscal Year 2008 Accounting of Drug Control Funds.* These reports were prepared by the Office of National Drug Control Policy (ONDCP), pursuant to P.L. 105-277 (Div. C-Title VII), section 705(d), with the close cooperation of Executive Department officials.

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503

April 23, 2009

The Honorable Darrell Issa
Ranking Member, House Committee on Oversight and Government Reform
2157 Rayburn House Office Building
Washington, DC 20515

Dear Ranking Member Issa:

Enclosed for the information of the House are the *Fiscal Year 2008 Performance Summary Report and the Fiscal Year 2008 Accounting of Drug Control Funds.* These reports were prepared by the Office of National Drug Control Policy (ONDCP), pursuant to P.L. 105-277 (Div. C-Title VII), section 705(d), with the close cooperation of Executive Department officials.

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Respectfully,

Edward H. Jurith
Acting Director

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503

April 23, 2009

The Honorable Dennis Kucinich
Chairman Subcommittee on Domestic Policy
B-349B Rayburn House Office Building
Washington, DC 20515

Dear Chairman Kucinich:

Enclosed for the information of the House are the *Fiscal Year 2008 Performance Summary Report and the Fiscal Year 2008 Accounting of Drug Control Funds.* These reports were prepared by the Office of National Drug Control Policy (ONDCP), pursuant to P.L. 105-277 (Div. C-Title VII), section 705(d), with the close cooperation of Executive Department officials.

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Respectfully,

Edward H. Jurith
Acting Director

Enclosure

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503

April 23, 2009

The Honorable Jim Jordan
Ranking Member, Subcommittee on Domestic Policy
Committee on Oversight and Government Reform
B-350 Rayburn House Office Building
Washington, DC 20515

Dear Ranking Member Jordan:

Enclosed for the information of the House are the *Fiscal Year 2008 Performance Summary Report and the Fiscal Year 2008 Accounting of Drug Control Funds.* These reports were prepared by the Office of National Drug Control Policy (ONDCP), pursuant to P.L. 105-277 (Div. C-Title VII), section 705(d), with the close cooperation of Executive Department officials.

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Edward H. Jurith
Acting Director

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Table of Contents

Executive Summary

Background

This presents for Congress the *Fiscal Year 2008 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 but one of the National Drug Control Program agencies complied with the provisions of the Drug Control Accounting Circular dated May 1, 2007. This fact is evident, along with whether an agency passed or failed the required attestation review, in the table below. For the purpose 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 2008 drug control obligations were not reviewable. Customs and Border Protection (CBP), the United States Coast Guard (USCG), and the Bureau of International Narcotics and Law Enforcement Affairs (INL) all failed. Details on each agency's report are discussed below.

At the time of compiling this report, the Department of Interior's OIG report was not complete, and ONDCP did not want to delay further this report. ONDCP will transmit the Department of Interior report later this year.

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		
Indian Health Services (IHS)	Yes	Pass
National Institute on Drug Abuse	Yes	Pass
Substance Abuse and Mental Health Services Administration	Yes	Pass
Homeland Security		
United States Coast Guard	Yes	Fail
Immigration and Customs Enforcement	Yes	Pass
Customs and Border Protection	No	Fail
Department of Interior	Not Complete	Not Complete
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	Fail
United States Agency for International Development	Yes	Pass
Transportation		
National Highway Traffic Safety Administration	Yes	N.A. [/1]
Department of the Treasury		
Internal Revenue Service	Yes	Pass
Veterans Affairs		
Veterans Health Administration	Yes	Pass
Small Business Administration	Yes	N.A. [/1]

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 2008 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.

Department of Education

The Department of Education's accounting of FY 2008 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).
- Approximately $6.2 million of Safe and Drug-Free Schools National Programs 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 Indian Health Services (IHS), the National Institute on Drug Abuse (NIDA) and the Substance Abuse and Mental Health Services Administration (SAMHSA) (Tab C). The Centers for Medicaid and Medicare Services (CMS) program featured in the Drug Budget is not included; CMS represents actuarial outlay estimates rather than budget authority, and therefore it is not appropriate to produce a detailed accounting submission containing a table of prior year obligations and corresponding assertions.

IHS: IHS's accounting of FY 2008 drug control obligations satisfies all requirements established by ONDCP's Circular, including the rendering of a negative assurance by the HHS OIG. Given this, IHS was assessed a rating of pass.

NIDA: NIDA's accounting of FY 2008 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 2008 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) provides SAMHSA's financial accounting services. PSC evaluated its internal controls and provided a qualified statement of assurance that its internal controls meet the objectives of the Federal Financial Management Improvement Act (FMFIA) of 1996, with the following material weakness and non-conformance exceptions:

- PSC financial management systems do not fully comply with the Federal financial management systems requirements of the OMB Circular A-127, *Financial Management Systems*, and the United States Standard General Ledger (USSGL) at the transaction level. As in prior years, PSC continues to have internal control weaknesses in its financial management systems and processes for producing financial statements. PSC made progress in FY 2008 toward phased deployment of fully integrated FFMIA compliant systems. The lack of final implementation of the system and weaknesses in internal controls make it difficult for PSC to prepare financial statements.
- PSC detected weaknesses in the oversight and management of information system controls in key financial management systems, including access and change controls and inadequate documentation for systems and processes. This can compromise the integrity of PSC's data and increase the risk that HHS's data may be inappropriately used or disclosed. In addition, the financial management systems are not currently in conformance with legal and regulatory guidelines as established by the appropriate governing bodies.

Department of Homeland Security

The Department of Homeland Security's (DHS) accounting submission includes separate reports for the United States Coast Guard (USCG), Customs and Border Patrol (CBP), and Immigration and Customs Enforcement (ICE) (Tab D).

USCG: USCG management could not provide to the DHS OIG an assurance as to the integrity of the financial data contained within the detailed accounting submissions. As a result, the independent auditor was unable to provide an opinion. Therefore, USCG was assessed a rating of fail.

- The Independent Auditors' Report for the USCG identified material weaknesses in financial management, financial reporting, and financial systems that impact the assurance of information in their financial reports.
- The USCG revised its Financial Strategy for Transformation and Audit Readiness as a result of weaknesses cited in the FY 2007 financial report. The USCG remediation plan includes chartering an Audit Readiness Planning Team (ARPT) to map processes, conduct gap analysis, track processes to assertions at the transaction level, and associate deliverables to milestones. Implementation of internal controls addressing deficiencies will be put into action after FY 2008.

CBP: CBP could not assert that data presented are associated with obligations against a financial plan that, if revised during the fiscal year, properly reflects those changes, including failure to obtain ONDCP's approval of reprogrammings or transfers affecting drug-related resources in excess of $1 million. As a result, the Independent Auditors could not complete their review of CBP management's assertions on the Table of FY 2008 Drug Control Obligations and related disclosures. Therefore, CBP was assessed a rating of fail.

- Pursuant to CBP's FY 2008 Internal Control Assurance Statement, CBP reported an IT material weakness citing limited ability to ensure critical and operational data maintenance in a manner that ensures confidentiality, integrity, and availability, which impacts the primary system CBP utilizes to support drug control obligation expenditures.

ICE: ICE's accounting of FY 2008 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.

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 2008 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 independent audit identified no material weaknesses but noted one deficiency related to Information Systems Controls. The BOP has implemented corrective action plans to specifically address this deficiency.

DEA: DEA's accounting of FY 2008 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 2008 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.

- While no material weaknesses were identified, the DOJ Offices, Boards and Divisions (OBDs) FY 2008 Independent Auditors' Report noted one deficiency in the design of controls over Journal Entries related to preparation, review, and approval of Journal Entries recorded in the OBDs' financial management system as "on-top" adjustments within its financial statement preparation database. The impact of this deficiency on the presentation of drug-related obligations is undetermined. While this deficiency requires attention, it did not affect the IG's ability to render a favorable opinion. DOJ will develop a corrective action plan to address this deficiency.

OJP: OJP's accounting of FY 2008 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 reported no material weaknesses. However, it did identify the following deficiencies: 1) improvements are needed in its grant de-obligation process,

  2) weaknesses exist in the Information System Controls Environment. OJP has already developed an action plan to correct these deficiencies.

Department of State

The Department of State's (State) accounting of FY 2008 drug control obligations (Tab F) satisfies all requirements established by ONDCP's Circular.

INL: The OIG found that the Department's financial system did not support management's fiduciary role by providing complete, reliable, consistent, timely and useful financial management information. This was deemed beyond the control of the Bureau of International Narcotics and Law Enforcement Affairs (INL). Therefore, State INL was assessed a rating of fail.

- The independent external auditor found that the Department's financial management system was inadequate. There is a risk of materially misstating financial information under the current system.

USAID: USAID Chief Financial Officer found no material weakness or other finding that affects the presentation of prior year drug related obligations data. Reported obligations supported the decision units as defined for USAID in the 2008 version of Attachment B of the ONDCP Circular: Budget Formulation, May 1, 2007. USAID was assessed a rating of pass.

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 2008 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 2008 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.

Department of Veterans Affairs

The Department of Veterans Affairs (VA), Veterans Health Administration's (VHA) accounting of FY 2008 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. However, the IG noted the following material weaknesses in the IG's systems of reporting and internal control:

- VHA identified three material weaknesses in VA's Financial Management System Functionality, Information Technology Security Controls, and Financial Management Oversight. As a result of these weaknesses, the IG's opinion is qualified because of the possible effects these weaknesses could have on VA's financial reporting.

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 2008 obligations for the Drug-Free Workplace Program and an explanation of drug methodology. SBA's submission satisfies all requirements established by ONDCP's Circular, including concurrence from the SBA OIG that an alternative report was proper.

Tab A
Department of Defense

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
2900 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-2900

GLOBAL SECURITY
AFFAIRS

JAN - 9 2009

Mr. Jon Rice
Associate Director
Performance and Budget
Office of National Drug Control Policy
750 17th Street, NW
Room 535
Washington, DC 20503

Dear Mr. Rice:

The drug methodology used to calculate obligations by drug control function of Fiscal Year 2008 budgetary resources is reasonable and accurate. 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 Notice. Performance Reporting will be addressed under separate correspondence.

Sincerely,

Richard J. Douglas
Deputy Assistant Secretary of Defense
Counternarcotics, Counterproliferation & Global Threats

Enclosures:
As stated

CF:
DODIG

Counternarcotics Central Transfer Account Obligations

($ 000)

ONDCP Resource Categories	FY-08
Intelligence: Dom Law Enforcement	42,310
Intelligence: Interdiction	34,321
Intelligence: International	84,880
Interdiction	291,569
International	385,981
Investigative	50,679
Prevention	127,484
Prosecution	0
R&D: Interdiction	12,817
R&D: International	4,194
State and Local Assistance	150,905
Treatment	8,249
TOTAL	**1,193,388** *

* This amount inlcudes a 0.98% obligation rate for MILPERS and a 0.99% obligation rate for O&M. Investment appropriations, which are multi-year, are currently obligated at 0.34%.

DRUG RESOURCES PERSONNEL SUMMARY

Total FTEs	1,484

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). Beginning in FY 2008, the collection of obligation data has be via the DASD CN database 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 data which reflects their actual obligations, not an estimation.

The quarterly obligation data collected is by project code, not down to the drug control function. In order to comply with ONDCP's circular and provide obligation data by function, it was necessary to use percentages for each project code.

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

February 10, 2009

MEMORANDUM FOR THE DEPUTY ASSISTANT SECRETARY OF DEFENSE (COUNTERNARCOTICS, COUNTERPROLIFERATION, and GLOBAL THREATS)

SUBJECT: Independent Auditor's Report on the DoD FY 2008 Detailed Accounting Report of the Funds Obligated for National Drug Control Program Activities (Report No. D-2009-053)

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 Public Law was reauthorized by Public Law 109-469 in December 2006. The Act 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) May 1, 2007, 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, Counterproliferation, and Global Threats) [DASD (CN/CP/GT)] was responsible for the detailed accounting of funds obligated and expended by DoD for the National Drug Control Program for FY 2008. We have reviewed the DASD (CN/CP/GT) detailed accounting in accordance with the attestation standards established by the American Institute of Certified Public Accountants and in compliance with generally accepted government auditing standards. We performed a review-level attestation, which 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 six DoD reprogramming actions that allocated $1,314.8 million among the Military Departments, National Guard, and Defense agencies. We reviewed the year-end obligation report and determined that DASD (CN/CP/GT) allocated the funds to appropriations and project codes intended for the DoD Counterdrug program.

The DoD Office of Inspector General previously 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/CP/GT) issued a policy memorandum on August 25, 2005, requiring detailed transaction support for all Counterdrug obligations.

As part of our review attestation for FY 2008, we determined whether the DoD Components that received Counterdrug funding from DASD (CN/CP/GT) had implemented procedures to support reported obligations with detailed transaction listings. We requested and obtained the listings that were available for reported obligations. We were able to obtain the majority of detail transactions for the Military Component obligations.

DASD (CN/CP/GT) provided us the Report in a letter dated January 9, 2009, which we reviewed to determine compliance with the Accounting Policy Circular. The detailed accounting indicated that during FY 2008 the DoD obligated $1,193.4 million in the Counterdrug program functional areas. The Office of the DASD (CN/CP/GT) compiled the Report from data the Military Departments and other DoD Components submitted.

DASD (CN/CP/GT) initially reprogrammed the funds from the Central Transfer Account to the DoD Components, using project codes. Beginning in FY 2008, the DoD Components provided year-end obligation data to DASD (CN/CP/GT) through the DASD CN database which compiled the data into one obligation report. In order to present the obligations by functional area in compliance with the Accounting Policy Circular, DASD (CN/CP/GT) 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.

Based on our review, except for the DASD (CN/CP/GT) use of 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 2008 is not presented, in all material respects, in conformity with the Accounting Policy Circular.

Patricia A. Marsh

Patricia A. Marsh, CPA
Assistant Inspector General
Defense Business Operations

Tab B
Department of Education

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF PLANNING, EVALUATON AND POLICY DEVELOPMENT

January 30, 2009

Edward H. Jurith
Acting Director
Office of National Drug Control Policy
Executive Office of the President
Washington, D.C. 20500

Dear Mr. Jurith:

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 2008 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 May 1, 2007.

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 2008 Drug Control Funds*, dated January 23, 2009

Enclosure # 2: Authentication letter from Keith West, Assistant Inspector General for Audit Services, dated January 30, 2009

cc: Keith West

DEPARTMENT OF EDUCATION

DETAILED ACCOUNTING OF
FISCAL YEAR 2008 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 23, 2009

DEPARTMENT OF EDUCATION

DETAILED ACCOUNTING OF FISCAL YEAR 2008 DRUG CONTROL FUNDS

TABLE OF CONTENTS

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF PLANNING, EVALUATON AND POLICY DEVELOPMENT

JAN 2 3 2009

Ms. Mary Mitchelson
Inspector General (Acting)
U.S. Department of Education
400 Maryland Avenue, S.W.
Washington, DC 20202-1510

Dear Ms. Mitchelson:

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 2008 Department of Education drug control funds for your authentication, in accordance with the guidelines in ONDCP Circular *Drug Control Accounting*, dated May 1, 2007.

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, 2009, 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. S.W., WASHINGTON, DC 20202
www.ed.gov

TABLE OF PRIOR-YEAR DRUG CONTROL OBLIGATIONS

	Fiscal Year 2008 Obligations (in $ millions)
Drug Resources by Function	
Prevention	$432.098
Total	432.098
Drug Resources by Decision Unit	
Safe and Drug-Free Schools and Communities Program	
SDFSC State Grants	297.017
SDFSC National Programs	135.081
Total	432.098

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 2008. 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 2008 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 2008 *National Drug Control Budget Summary* that accompanied the 2009 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 2008 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 disclosures below.

Reprogrammings or Transfers

In 2008 the Department twice reprogrammed a small amount of funds within the SDFSC National Programs. These reprogrammings increased the amount of funding for School Emergency Preparedness Initiatives by a total of $1.7 million and, in doing so, reduced the amount of Education's 2008 drug-related obligations by that same amount. There were no transfers that changed the amount of drug-related budgetary resources in the Department in fiscal year 2008.

Other Disclosures

The Department acknowledges the following limitations in the methodology described above for deriving the obligations of fiscal year 2008 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 $6.2 million of the SDFSC National Programs funds included in the resource summary of this report (1.4 percent of total fiscal year 2008 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 2008 obligations of drug control funds shown in this report for the SDFSC drug budget decision unit are the actual 2008 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 2008 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 2008 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 2008 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 2008 SDFSC funds. In 2008 the Department twice reprogrammed a small amount of funds within the SDFSC National Programs: once on February 4 and again on September 5. The September 5 reprogramming exceeded $1 million and was approved in advance by ONDCP, as required by law. The February 4 reprogramming was less than $1 million and was not subject to ONDCP approval.

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.

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

January 30, 2009

Office of Inspector General's Independent Report on the U.S. Department of Education's Detailed Accounting of Fiscal Year 2008 Drug Control Funds, *dated January 23, 2009*

We have reviewed management's assertions contained in the accompanying Accounting, titled *Department of Education Detailed Accounting of Fiscal Year 2008 Drug Control Funds,* dated January 23, 2009 (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 May 1, 2007.

Keith West

Keith West
Assistant Inspector General for Audit Services

Tab C
Department of Health and Human Services

Indian Health Services

National Institute on Drug Abuse

Substance Abuse and Mental Health Services Administration

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Washington DC 20201

Mr. Jon Rice
Associate Director for Performance and Budget
Office of National Drug Control Policy
Washington, D.C. 20503

Dear Mr. Rice:

As required by the Office of National Drug Control Policy (ONDCP) Circular titled *Drug Control Accounting*, dated May 1, 2007, enclosed are Department of Health and Human Services (HHS) detailed accounting submissions accompanied by the HHS Office of Inspector General attestation reviews for fiscal year 2008 for the following bureaus: i) Substance Abuse and Mental Health Services Administration (SAMHSA), ii) National Institutes of Health – National Institute on Drug Abuse (NIDA), and iii) Indian Health Service (IHS).

In accordance with the agreement dated May 14, 2008, with Mr. Thomas A. Johnson of your office, this package does not include a detailed accounting submission for the Centers for Medicare and Medicaid Services (CMS) because the funding associated with the CMS program featured in the Drug Budget represents actuarial outlay estimates rather than budget authority. Therefore, we agreed that it is not appropriate to produce a detailed accounting submission containing a table of prior year obligations and corresponding assertions.

If you have any questions, please contact Ms. Christine Jones, Director, Division of Systems Policy, Payment Integrity and Audit Resolution at (202) 690-7542 or christine.jones@hhs.gov.

Sincerely,

Sheila O. Conley
Deputy Assistant Secretary, Finance

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

cc: HHS Office of Inspector General

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

JAN 16 2009

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: Independent Attestation Review: National Institute on Drug Abuse Assertions Concerning Drug Control Accounting for Fiscal Year 2008 (A-03-09-00353)

The purpose of this report is to provide the results of our attestation review of the National Institute on Drug Abuse (NIDA) fiscal year (FY) 2008 assertions concerning drug control accounting and the accompanying table of FY 2008 Actual Obligations (Table).

Pursuant to 21 U.S.C. § 1704(d)(A), each National Drug Control Program agency must submit to the Director of the Office of National Drug Control Policy (ONDCP), not later than February 1 of each year, a detailed accounting of all funds expended by the agency for National Drug Control Program activities during the previous FY. The section further requires such accounting "to be authenticated by the Inspector General for each agency prior to submission to the Director." The report and related assertions are the responsibility of NIDA's management and were prepared by NIDA as specified in section 6 of the ONDCP Circular entitled "Drug Control Accounting," dated May 1, 2007.

As required by 21 U.S.C. § 1704(d)(A), we reviewed the attached NIDA report entitled "Assertions Concerning Drug Control Accounting," dated November 4, 2008. 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.

NATIONAL INSTITUTE ON DRUG ABUSE REPORT

NIDA's report consisted of the Table, which reported obligations totaling $1,007,295,000.

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

OFFICE OF INSPECTOR GENERAL CONCLUSION

Based on our review, nothing came to our attention that caused us to believe that NIDA's assertions and accompanying Table were not fairly stated, in all material respects, based on the ONDCP Circular entitled "Drug Control Accounting," dated May 1, 2007.

****

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, please contact me, or have your staff call Stephen Virbitsky, Regional Inspector General for Audit Services, Region III, at (215) 861-4470.

Attachment

DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

NOV 04 2008

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

MEMORANDUM TO: Director
Office of National Drug Control Policy

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

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

SUBJECT: Assertions Concerning Drug control Accounting

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 2008 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 $1,007,295,000 is the actual amount obligated and reconciles to the NIDA Database system. The total of $1,007,295,000 does not reconcile to the FY 2008 column of the FY 2009 Congressional Justification (CJ). This is because the FY 2008 column of the FY 2009 CJ excludes the FY 2008 War Supplemental of $5,322,000 and a transfer of $1,273,000 from the Office of the Director of NIH to NIDA for the Genes, Environment and Health Initiative (GEI). The adjustments to the FY 2008 column are 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 2008 are for the same reasons described above for the FY 2008 column of the FY 2009 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 2008: (1) a supplemental increase of $5,322,000 provided in the FY 2008 War Supplemental, and (2) a transfer of $1,273,000 from the Office of the Director NIH for the Genes, Environment and Health Initiative.

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 2008 Actual Obligations
(Dollars in Thousands)

I. RESOURCE SUMMARY

	FY 2008 Actual
Drug Resources by Function:	
Prevention	413,459
Treatment	593,836
Total	1,007,295
Drug Resources by Decision Unit:	
Demand Reduction	1,007,295
Total	1,007,295
HIDTA Transfer	
ICDE Resources	

Differences Between (1) Actual Obligations and (2) the FY 08 Column of the FY 09 CJ and the National Drug Control Strategy Budget Summary
(Dollars in Thousands)

Total 2008 Col. of the FY 2009 CJ; National Drug Control Strategy	1,000,700
Supplemental Adjustment from FY '08 War Supplemental	5,322
GEI Transfer	1,273
Total Obligations	1,007,295

JAN 16 2009

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

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

SUBJECT: Independent Attestation Review: Substance Abuse and Mental Health Services Administration Assertions Concerning Drug Control Accounting for Fiscal Year 2008 (A-03-09-00351)

The purpose of this report is to provide the results of our attestation review of the Substance Abuse and Mental Health Services Administration (SAMHSA) fiscal year (FY) 2008 assertions concerning drug control accounting and the accompanying table of Prior Year Drug Control Obligations: FY 2008 (Table).

Pursuant to 21 U.S.C. § 1704(d)(A), each National Drug Control Program agency must submit to the Director of the Office of National Drug Control Policy (ONDCP), not later than February 1 of each year, a detailed accounting of all funds expended by the agency for National Drug Control Program activities during the previous FY. The section further requires such accounting "to be authenticated by the Inspector General for each agency prior to submission to the Director." The report and related assertions are the responsibility of SAMHSA's management and were prepared by SAMHSA as specified in section 6 of the ONDCP Circular entitled "Drug Control Accounting," dated May 1, 2007.

As required by 21 U.S.C. § 1704(d)(A), we reviewed the attached SAMHSA report entitled "Assertions Concerning Drug Control Accounting," dated November 10, 2008. 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.

SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION REPORT

SAMHSA's report consisted of the Table, which reported obligations totaling $2,534,700,000, and related exhibits.

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

OFFICE OF INSPECTOR GENERAL CONCLUSION

Based on our review, nothing came to our attention that caused us to believe that SAMHSA's assertions and accompanying Table were not fairly stated, in all material respects, based on the ONDCP Circular entitled "Drug Control Accounting," dated May 1, 2007.

****

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, please contact me, or have your staff call Stephen Virbitsky, Regional Inspector General for Audit Services, Region III, at (215) 861-4470.

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

November 10, 2008

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 May 1, 2007, I make the following assertions regarding the attached annual accounting of drug control funds:

Obligations by Budget Decision Unit

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

Drug Methodology

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

Application of Drug Methodology

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

Reprogrammings or Transfers

I assert that the data presented are associated with obligations against a financial plan that was revised during the fiscal year to include funds received from ONDCP in support of the Drug

Free Communities Program. SAMHSA's Center for Substance Abuse Prevention (CSAP) received a total of $89,139,106 from ONDCP via an Interagency Agreement to fund activities of the Drug Free Communities Program in FY 2008. SAMHSA had no other reportable reprogrammings or transfers in FY 2008.

Fund Control Notices

I assert that the data presented are associated with obligations against SAMHSA's financial plan which complied fully with all ONDCP Budget Circulars.

D W Kade

Daryl W. Kade
Chief Financial Officer

Attachments:

Table of Prior Year Drug Control Obligations, FY 2008
Exhibit A - Drug Control Methodology
Exhibit B - FY 2008 Management Assurance (SAMHSA)

SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION

Table of Prior Year Drug Control Obligations
FY 2008
(Dollars in millions)

Obligations by Drug Control Function

Prevention	653.5
Treatment	1,881.3
Total	**$2,534.7**

Obligations by Budget Decision Unit

Programs of Regional and National Significance [1/]	593.8
Substance Abuse Prevention (Non-add)	*(194.0)*
Substance Abuse Treatment (Non-add)	*(398.8)*
Drug Free Communities Program [2/]	89.1
Substance Abuse Block Grant [3/]	1,758.7
Program Management [4/]	93.1
Total	**$2,534.7**

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. Obligations reflect total SAMHSA Program Management funds, less reimbursements, as prescribed by ONDCP Budget Circulars.

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 SAMHSA Unified Financial Management System (UFMS), PSC Status of Funds by Allotment and Allowance Report.

(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 actual obligations of SAMHSA Program Management funds, 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 May 1, 2007. 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 through an Interagency Agreement with SAMHSA are included in the Obligations by Budget Decision Unit display (CSAP).

Included in this Drug Control Accounting report for FY 2008 are 100% of the actual obligations for these five budget decision units, minus reimbursements. Obligations against funds provided to SAMHSA from the PHS Evaluation Fund are included. Actual obligations of prior year drug control budgetary resources are derived from the SAMHSA Unified Financial Management System (UFMS), PSC Status of Funds by Allotment and Allowance Report.

(2) **Methodology Modifications** - There have been no changes in the SAMHSA accounting methodology since the prior year report (for FY 2007).

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

(4) **Reprogrammings or Transfers** – SAMHSA entered into an Interagency Agreement with ONDCP in the amount of $89,139,106 to fund activities of the Drug Free Communities Program in FY 2008. SAMHSA had no other reportable reprogrammings or transfers in FY 2008.

(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 17 2008

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

FROM: Acting Administrator
Chief Financial Officer

SUBJECT: Fiscal Year (FY) 2008 Management Assurance

The Substance Abuse and Mental Health Services Administration (SAMHSA) is an Operating Division (OPDIV) of the Department of Health and Human Services (HHS). SAMHSA's 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) and OMB Circular A-123, *Management's Responsibility for Internal Control*, dated December 21, 2004. These objectives are to ensure: 1) effective and efficient operations; 2) compliance with applicable laws and regulations; and 3) reliable financial reporting.

In accordance with the HHS *Guidance Manual for OMB Circular A-123 Assessments*, SAMHSA has evaluated its internal controls and financial management systems to determine whether these objectives are being met.

Based on this evaluation, SAMHSA provides a qualified statement of assurance that with the exception of the two material weaknesses pertaining to its service provider as discussed below (see Table 1), SAMHSA's internal controls and financial management systems meet the objectives of FMFIA. The material weaknesses (described below), relate to Section 2 of FMFIA and also constitute non-conformances under Section 4 of FMFIA.

Description of Service Provider's Material Weaknesses and Corrective Actions

SAMHSA uses the HHS Program Support Center (PSC) as a service provider for accounting and financial reporting. PSC evaluated its internal controls and financial systems in accordance with HHS *Guidance Manual for OMB Circular A-123 Assessments* and provided a qualified statement of assurance that its internal controls meet the objectives of FMFIA, except for the following material weaknesses under Section 2 of FMFIA:

1. PSC Financial Systems and Reporting Processes
PSC financial management systems are not in substantial compliance with the requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996 because they do not fully comply with the Federal financial management

systems requirements of the Office of Management and Budget Circular A-127, *Financial Management Systems*, and the United States Standard General Ledger (USSGL) at the transaction level.

Also, as in prior years, PSC continues to have internal control weaknesses in its financial management systems and processes for producing financial statements. PSC made progress in FY 2008 toward phased deployment of fully integrated FFMIA compliant systems. The lack of final implementation of the system and weaknesses in internal controls make it difficult for PSC to prepare financial statements.

2. PSC Oversight and Management of Information System Controls and Security
Weaknesses in the oversight and management of information system controls were detected in key financial management systems. The primary findings included access and change controls and inadequate documentation for systems and processes, which can compromise the integrity of PSC's data and increase the risk that HHS's data may be inappropriately used or disclosed. In addition, the financial management systems are not currently in conformance with legal and regulatory guidelines as established by the appropriate governing bodies.

PSC's Corrective Actions:
PSC's assurance statement states that progress has been made on unsupported accounting entries and inadequately prepared reconciliations identified during prior CFO Audits and prior OMB Circular A-123 assessments. PSC has addressed some of these issues by the implementation of the Unified Financial Management System (UFMS), however problems continue to persist because documented policies and procedures are not consistently followed resulting in inefficient processing of transactions, untimely resolution of issues, omitted certificates of documents, and inability to retain proper documentation. PSC has implemented compensating controls to mitigate and prevent a further material weakness in Budgetary Accounting.

Assurance for Internal Control over Operations and Compliance

SAMHSA conducted its evaluation of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with the HHS *Guidance Manual for OMB Circular A-123 Assessments*. Based on the results of this evaluation, SAMHSA identified one material weakness, as of September 30, 2008, in its internal control over the effectiveness and efficiency of operations under Section 2 of FMFIA which also constitutes a nonconformance under Section 4 of FMFIA. The weakness pertains to operations and compliance matters identified by PSC relating to oversight and management of information system controls and security as discussed above. Other than the exception described above (see Table 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.

Assurance for Internal Control over Financial Reporting

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 HHS *Guidance Manual for OMB Circular A-123 Assessments.* Based on the results of this evaluation, SAMHSA identified one material weakness in its internal control over financial reporting as of June 30, 2008. This material weakness constitutes a nonconformance under Section 4 of FMFIA, and pertains to matters identified by PSC relating to financial systems and reporting processes discussed above. Other than the exception described above (see Table 1), the internal controls over financial reporting as of June 30, 2008, 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.
Acting Administrator
Assistant Surgeon General

Daryl W. Kade
Chief Financial Officer

Table 1

Summary of Material Weaknesses/Systems Non-Conformances

Control Area	FMFIA Section 2			FMFIA Section 4
	Operations (as of September 30, 2008)	**Compliance (as of September 30, 2008)**	**Financial Reporting (as of June 30, 2008)**	**Non-Conformance (as of September 30, 2008)**
Financial Systems and Processes operated by the PSC	--	--	X	X
Oversight and Management of Information System Controls operated by the PSC	X	--	--	X

JAN 16 2009

TO: Elizabeth A. Fowler
Chief Financial Officer
Indian Health Service

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

SUBJECT: Independent Attestation Review: Indian Health Service Assertions Concerning Drug Control Accounting for Fiscal Year 2008 (A-03-09-00355)

The purpose of this report is to provide the results of our attestation review of the Indian Health Service (IHS) fiscal year (FY) 2008 assertions concerning drug control accounting and the accompanying table of FY 2008 Drug Control Obligations.

Pursuant to 21 U.S.C. § 1704(d)(A), each National Drug Control Program agency must submit to the Director of the Office of National Drug Control Policy (ONDCP), not later than February 1 of each year, a detailed accounting of all funds expended by the agency for National Drug Control Program activities during the previous FY. The section further requires such accounting "to be authenticated by the Inspector General for each agency prior to submission to the Director." The report and related assertions are the responsibility of IHS's management and were prepared by IHS as specified in section 6 of the ONDCP Circular entitled "Drug Control Accounting," dated May 1, 2007.

As required by 21 U.S.C. § 1704(d)(A), we reviewed the attached IHS report entitled "Assertions Concerning Drug Control Accounting," dated November 26, 2008. 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.

INDIAN HEALTH SERVICE REPORT

IHS's report consisted of a table of FY 2008 Drug Control Obligations that reported obligations totaling $73,062,000, and a related funding table.

Notice - This is a limited distribution report.
Distribution is limited to authorized officials.

We performed review procedures on IHS's assertions and the accompanying table of FY 2008 Drug Control Obligations. In general, we limited our review procedures to inquiries and analytical procedures appropriate for the attestation review.

OFFICE OF INSPECTOR GENERAL CONCLUSION

Based on our review, nothing came to our attention that caused us to believe that IHS's assertions and accompanying FY 2008 Drug Control Obligations table were not fairly stated, in all material respects, based on the ONDCP Circular entitled "Drug Control Accounting," dated May 1, 2007.

****

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

Attachment

DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

Indian Health Service
Rockville MD 20852

November 26, 2008

TO: Director
Office of National Drug Control Policy

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

FROM: Chief Financial Officer

SUBJECT: Assertions Concerning Drug Control Accounting

In accordance with the requirements of the Office of National Drug Control Policy Circular *Drug Control Accounting*, I make the following assertions regarding the attached annual accounting of drug control funds for the Indian Health Service (IHS):

Obligations by Budget Decision Unit

I assert that obligations reported by budget decision unit are the actual obligations from the bureau's accounting system of record for these budget decision units, consistent with the drug budget methodology discussed below.

Drug Methodology

I assert that the drug methodology used to calculate obligations of prior year budgetary resources by function for all bureaus 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 respect, aggregate obligations from which drug-related obligation estimates are derived.

The IHS methodology for estimating the drug control budget was established using the amounts appropriated for the Alcohol and Substance Abuse Prevention programs authorized under P.L. 102-573, the Indian Health Amendments of 1992. See attached table "Alcoholism and Substance Abuse Prevention Treatment Program Authorized Under P.L. 102-573" for list of programs. This table reflects estimated amounts. When originally authorized and appropriated, the funds were allocated to tribes in their self-determination contract by specific programs. However, when the programs were reauthorized and captured under public law 102-573, some IHS area offices allocated the funds in lump sum while others maintained the specific program breakout. Therefore, at the current time precise amounts of funding for each program are not available. The table is maintained to estimate current funding level and is the basis of the drug budget control methodology. Excluded is the amount for the Adult Treatment programs, which represents the original authorization for IHS to provide alcohol treatment services. The focus on alcoholism treatment is the reason for the exclusion.

Drug Resources by Decision Unit: The IHS drug control funds are appropriated in two budget line items: 1) Alcohol and Substance Abuse and 2) Urban Indian Health Programs (UIHP). The Alcohol and Substance Abuse funds are primarily allocated to Tribes under Self-Determination contracts and compacts, where they manage the programs and have authority to reallocate funds to address local priorities. The portion of the alcohol fund included in the drug control budget methodology is as described above, i.e., the entire budget excluding the amount for adult treatment. The Urban Indian Health Program funds are allocated through contracts and grants to 501(c)(3) organizations. The portion of UIHP funds included in the drug control budget methodology is for NIAAA programs transferred to the IHS under the UIHP budget.

Drug Resources by Function: Under the methodology, two programs through FY 2007 were identified as Prevention programs, Community Education and Training and Wellness Beyond Abstinence. In FY 2008, one half of the new funds appropriated for Methamphetamine and Suicide prevention and treatment were also included in the Prevention function. The treatment function comprises the remaining program excluding adult treatment. In addition, the amount of UIHP funds is included under the treatment function.

Application of Drug Methodology

I assert that the drug methodology disclosed in this section was the actual methodology used to generate the table required by Section 6a of the Circular.

Reprogramming or Transfers

I assert 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 reprogramming or transfers affecting drug-related resources in excess of $1 million. IHS did not reprogram or transfer any funds included in its drug control budget.

Funds 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 May 1, 2007.

Elizabeth A. Fowler

Elizabeth A. Fowler

Attachments:
Table – Alcoholism and Substance Abuse Prevention Treatment Program Authorized Under P.L. 102-573
Table – FY 2008 Drug Control Obligations

Alcoholism and Substance Abuse Prevention
Treatment Program
Authorized under P.L. 102-573
IHS FY 2009 Congressional Justification
(Dollars in Thousands)

Amount of Funds	FY 2005 Approp	FY 2006 Approp	FY 2007 Enacted	FY 2008 Enacted	FY 2009 Estimate
Adult Treatment 3/................	$78,763	$81,099	$83,947	$89,161	$83,369
Regional Treatment Centers	$18,882	$19,442	$20,125	$23,403	$21,883
Community Education & Training.........................	$7,316	$7,533	$7,798	$8,282	$7,744
Community Rehabilitation/ Aftercare..........................	$23,766	$24,471	$25,330	$26,903	$25,155
Gila River...........................	$182	$187	$194	$206	$193
Contract Health Service......	$8,366	$8,614	$8,917	$9,471	$8,855
Navajo Rehab. Program....	$322	$332	$343	$365	$341
Urban Clinical Services........	$686	$706	$731	$776	$726
Wellness Beyond Abstinence.......................	$790	$813	$842	$894	$836
Meth Prev & Treatment.......	--	--	--	$13,782	$12,887
Total..............................	$139,073	$143,198	$148,226	$173,243	$161,988

URBAN HEALTH PROGRAM 1/

Amount of Funds	FY 2005 Approp	FY 2006 Approp	FY 2007 Enacted	FY 2008 Est	FY 2009 Est
Expand Urban Programs....	$3,722	$3,869	$3,981	$4,081	$0

INDIAN HEALTH FACILITIES 2/

Amount of Funds	FY 2005 Approp	FY 2006 Approp	FY 2007 Enacted	FY 2008 Est	FY 2008 Est
Construction........................	0	0	0	0	0

Alcohol/Substance Abuse	**$139,073**	**$143,198**	**$148,226**	**$173,243**	**$161,988**
Urban Health Program	**3,722**	**3,869**	**3,981**	**4,081**	**0**
Facilities Construction	**0**	**0**	**0**	**0**	**0**
GRAND TOTAL....................	**$142,794**	**$147,067**	**$152,208**	**$177,324**	**$161,988**

1/ The Urban Program was funded under P.L. 100-690, and is now funded under P.L. 102-573.
2/ These funds are included in the Outpatient Sub-sub-activity.
3/ Adult Treatment funds of $89,161,000 are excluded from the ONDCP Drug Control Budget and Moyer Anti-Drug Abuse methodologies because this program reflects the original authorized program for IHS with the sole focus of alcoholism treatment services for adults. This determination was made in consultation with ONDCP when the drug control budget was initially developed in the early-1990s.

INDIAN HEALTH SERVICE
FY 2008 Drug Control Obligations

	($000)	
	Appropriated	**Obligated** [1]
Drug Resources by Function		
Prevention	$16,067	$9,176
Treatment	$72,096	$63,886
	$88,163	$73,062
Drug Resources by Decision Unit		
Alcohol and Substance Abuse	$84,082	$69,655
Urban Indian Health Program [2]	$4,081	$3,407
	$88,163	$73,062

[1] In FY 2008, IHS appropriations included $13,781,600 in X-year funds in the Alcohol and Substance Abuse sub-sub activity for methamphetamine and suicide prevention activities. These funds were not obligated during FY 2008, pending completion of Tribal consultation on allocation of the funds. An additional $644,630 was unobligated in annual A/SA funds.

[2] The appropriated amount for Urban Indian Health Programs was an estimate. The Obligated amount reflects actual funding for the designated programs in FY 2008.

Tab D
Department of Homeland Security

United States Coast Guard

Immigration and Customs Enforcement

Customs and Border Protection

Office of Inspector General

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

Homeland Security

February 12, 2009

MEMORANDUM FOR: The Honorable Admiral Thad M. Allen
Commandant
United States Coast Guard

Richard L. Skinner

From: Richard L. Skinner
Inspector General

Subject: *Independent Review of the U.S. Coast Guard's Reporting of FY 2008 Drug Control Obligations*

Attached for your information is our report, *Independent Review of the U.S. Coast Guard's Reporting of FY 2008 Drug Control Obligations*. This report contains no recommendations.

We contracted with the independent public accounting firm KPMG LLP to perform the review. The review was conducted according to attestation standards established by the American Institute of Certified Public Accountants. Due to the U.S. Coast Guard's inability to provide assurance as to the integrity of the financial data contained within the detailed accounting submission, KPMG LLP was unable to complete the review. As a result, KPMG was unable to provide an opinion on the Table of Prior Year Drug Control Obligations and related disclosures.

Should you have any questions, please call me, or your staff may contact Anne L. Richards, Assistant Inspector General for Audits, at 202-254-4100.

Attachment

Department of Homeland Security
Office of Inspector General

Independent Review of the U.S. Coast Guard's Reporting of FY 2008 Drug Control Obligations

OIG-09-26

February 2009

Office of Inspector General

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

February 12, 2009

Preface

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

This report presents the results of the review of the Table of Prior Year Drug Control Obligations and related disclosures of the U.S. Coast Guard for the fiscal year ended September 30, 2008, for the Office of National Drug Control Policy. We contracted with the independent public accounting firm KPMG LLP to perform the review. U.S. Coast Guard's management prepared the Table of Prior Year Drug Control Obligations and related disclosures to comply with the requirements of the Office of National Drug Control Policy Circular, *Drug Control Accounting,* dated May 1, 2007. However, due to the U.S. Coast Guard's inability to provide assurance as to the integrity of the financial data contained within the detailed accounting submissions, KPMG LLP was unable to complete the review. As a result, KPMG was unable to provide an opinion on the Table of Prior Year Drug Control Obligations and related disclosures.

We trust the information in this report will continue to result in effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

Richard L. Skinner
Inspector General

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Telephone 202 533 3000
Fax 202 533 8500
Internet www.us.kpmg.com

January 26, 2009

Ms. Anne Richards
Assistant Inspector General for Audits
Office of the Inspector General
U.S. Department of Homeland Security
1120 Vermont Avenue, NW
Washington, DC 20005

Dear Ms. Richards:

We were engaged to review the Table of Prior Year Drug Control Obligations and related disclosures, and the accompanying management's assertions of the Department of Homeland Security's (DHS) United States Coast Guard (USCG) for the year ended September 30, 2008. USCG management is responsible for the Table of Prior Year Drug Control Obligations and related disclosures, and the assertions.

The Office of National Drug Control Policy (ONDCP) Circular: *Drug Control Accounting* (May 1, 2007), requires management to disclose any material weaknesses or other findings affecting the presentation of data reported. Management reported that it "cannot provide assurances as to the integrity of the financial data contained" in its Table of Prior Year Drug Control Obligations and related disclosures.

In accordance with applicable professional standards, without a positive assertion provided by management we are unable to complete our review of USCG's Table of Prior Year Drug Control Obligations, and related disclosures, and management's assertion. Accordingly, we are unable to provide an Independent Accountants' Report on the Table of Prior Year Drug Control Obligations and related disclosures, and management's assertions pursuant to the requirements of ONDCP Circular: *Drug Control Accounting* (May 1, 2007).

Sincerely,

KPMG LLP

Scot G. Janssen
Partner

U.S. Department of Homeland Security
United States Coast Guard

Commandant
United States Coast Guard

2100 Second Street, S.W.
Washington, DC 20593-0001
Staff Symbol: CG-821
Phone: (202) 372-3518
Fax: (202)372-2311
Email:Abby.S.Benson@uscg.mil

7110

JAN 29 2009

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

Dear Mr. Shiffer,

In accordance with the Office of National Drug Control Policy Circular: *Annual Accounting of Drug Control Funds* dated May 1, 2007 and based on KPMG recommended revisions in their January 23, 2009 teleconference call, enclosed is the Coast Guard's revised report of FY 2008 drug control obligations, drug control, methodology and assertions.

If you require further assistance on this information, please contact LCDR Abby Benson at (202) 372-3518.

Sincerely,

T.W. JONES
Captain, U.S. Coast Guard
Chief, Office of Budget and Programs

Enclosures

Copy: DHS Budget Office

DEPARTMENT OF HOMELAND SECURITY
UNITED STATES COAST GUARD
ANNUAL ACCOUNTING OF
FY 2008 DRUG CONTROL FUNDS
6A. DETAILED OBLIGATION SUBMISSION

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

RESOURCE SUMMARY	2008 Actual
Drug Resources by Function:	**Obligations**
• Interdiction	$974.809
• Research and Development	1.341
Total Resources by Function	**$976.150**
Drug Resources by Decision Unit:	
• Operating Expenses (OE)	$752.595
• Reserve Training (RT)	$15.557
• Acquisition, Construction, and Improvements (AC&I)	$206.657
• Research, Development, Test and Evaluation (RDT&E)	$1.341
Total Drug Control Obligations	**$976.150**

(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. Starting in 2000 a more improved methodology, known as the Mission Cost Model (MCM) was developed to effectively present Coast Guard missions more accurately using activity based cost accounting principles. 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) Drug Methodology (cont.)

Each decision unit contains its own unique spending authority and methodology. For example, AC&I include funding that can last up to five years after appropriation and RDT&E funding does not expire. Unless stipulated by law, 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 project requested in the FY 2008 AC&I budget for its anticipated contribution to Coast Guard's 11 program areas. For each AC&I project, a discrete profile is established 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 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 the Coast Guard's entire inventory and other expense categories. With this condition, 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 2008 AC&I MCM, the total bottom-line mission percentage is applied directly to the AC&I total direct obligations. This percentage allocation is a repeatable mission spread process which the Coast Guard uses throughout its annual budget year presentations, namely OMB's MAX budget system for the President's Budget submission and the CFO's Statement of Net Cost report.

(1) <u>Drug Methodology (cont.)</u>

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 final FY 2008 obligations for the RT decision unit are 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 2008 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 MCM.

(2) <u>Methodology Modifications</u>

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

(3) <u>Material Weaknesses or Other Findings</u>

As a result of the CFO Act audit and feedback provided in the enclosed Independent Auditors' Report: Exhibit I – Material Weaknesses in Internal Control (Enclosure 1), and as described in the enclosed 2008 U.S. Coast Guard Assurance Statement (Enclosure 2), the Coast Guard has 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.

The Coast Guard has chartered an Audit Readiness Planning Team (ARPT) which is mapping processes, conducting gap analysis, tracking processes to assertions at the transaction level, and associating deliverables to milestones. Upon completion of this analysis, the Coast Guard will aggressively update Mission Action Plans (MAPS) that guide our implementation of internal controls leading to assurance over financial information. This information is used in the Mission Cost Model (MCM) to produce a portion of this report. Additionally, we will pursue improved internal controls in the collection of our Abstract of Operations information necessary to give assurance to the non-financial data used to produce a portion of this report.

(4) Reprogrammings or Transfers

During FY 2008, the Coast Guard has no reports of transfers or reprogramming actions affecting in excess of $1 million drug-related budget resources.

(5) Other Disclosures

The following provides a synopsis of the United States Coast Guard's FY 2008 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 and is 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

Coast Guard's Drug Budget (cont.)

brought forward. The Coast Guard continues to present supplementary budget information through the use of the Mission Cost Model (MCM), which allocates base funding and incremental requests by mission.

This general purpose MCM 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.

DEPARTMENT OF HOMELAND SECURITY
UNITED STATES COAST GUARD
ANNUAL ACCOUNTING OF
FY 2008 DRUG CONTROL FUNDS
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 Mission Cost Model (MCM) is an estimate of mission costs allocated across Coast Guard's eleven mission/programs, versus actual accounting of drug funded obligations. The information reported is timely and is derived from an allocation process involving the Coast Guard's financial statement information. In Coast Guard's opinion, the methodology outlined below is a reasonable and accurate portrayal of the agency's mission/program presentations, because it is repeatable and supported by the most current financial and abstract of operations data available. The following methodology was applied to derive the drug control information presented in the table in section 6A.

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 2008 OE/RT MCM:

    1) <u>Core Accounting System (CAS)</u> – FY 2008 actual expenses Mission Cost Model uses FY 2007 financial data, adjusted to reflect changes in the Coast Guard's asset inventory from FY 2007 to FY 2008. These expenses are fed into the Standard Rates Model (SRM), 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 SRM 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 SRM data is not available, the previous year total cost pools are adjusted to fit the relevant fiscal year's asset inventory. The SRM is reconciled to the Coast Guard's Statement of Net Cost.

(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 SRM and allocated to Coast Guard assets and certain non-asset intensive missions. NESSS financial data is included in the Coast Guard's 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 SRM and allocated to Coast Guard assets and certain non-asset intensive missions. AMMIS financial data is included in the Coast Guard's financial statements.

4) 2008 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 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 professional judgment regarding how funding is used to support costs related to counter-drug operations such as High Intensity Drug Traffic Area (HIDTA) activities and liaison costs for the Coast Guard's Organized Drug Enforcement Task Force (OCDETF).

6) Mission Cost Model (MCM) Application & Results – The two chief input drivers 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 2008 AOPS hours. The support and overhead costs for each asset and other expenses element is applied to hours projected from the 2008 AOPS. 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 2008. The overall affect of the computed amount from the static baseline, and the reality of AOPS, results in a percentage to drive Coast Guard OE expenditures allocated across 11 programs.

(2) Drug Methodology (cont.)

- **Normalize to Budget Authority or Obligations –** The program percentages derived from the MCM are then applied to total OE and RT fiscal year 2008 budget authority and obligations (see Attachments A & B respectively), depending upon the reporting requirement. Budget Authority (BA) 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 2008 AC&I MCM output. To ensure consistency, the extract used for the analysis of enacted FY 2008 BA is used for the end of year analysis of obligations as well. For FY 2008 AC&I program and mission area spreads, the following data sources and methods were used:

  1) <u>AC&I Mission Cost Model</u> – was developed based on data feeds from the FY 2008 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) <u>Drug related percentage</u> – 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) <u>Mission cost results/application</u> - 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 2008 AC&I MCM. The total allocated mission percentages from the AC&I MCM were than applied to the total AC&I 2008 obligations as reported from the CAS as of September 30, 2008 (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.

(2) Drug Methodology (cont.)

1) RDT&E Mission Cost Model – was developed based on data feeds from the FY 2008 OE/RT MCM model as 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 2008 RDT&E MCM. The total allocated mission percentages from the RDT&E MCM were than applied to the total RDT&E 2008 obligations as reported from the CAS as of September 30, 2008 (See Attachment D). BA data is derived from the agencies enacted Appropriation and expenditure data is extracted from a Finance and Procurement Desktop (FPD) transaction summary report by project. This revised application from previous year's methodology better defines the current state of Coast Guard operations and the management of its personnel and asset inventories.

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 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. The Coast Guard has not fully implemented corrective actions to remediate weaknesses identified by the independent auditors during the annual CFO audits.

Financial Systems (cont.) – As a result, the Coast Guard could not assert to the completeness, existence (validity), accuracy, valuation or presentation of its financial data.

(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 -- During FY 2008, Coast Guard had no transfers or reprogramming actions affecting in excess of $1 million drug-related budget resources.

(5) Fund Control Notices – The FY 2008 data presented herein is associated with drug control funding reported in Coast Guard's FY 2008 financial plan. ONDCP did not issue Coast Guard a Fund Control Notice for FY 2008.

Attachment A

OPERATING EXPENSES (OE)
MISSION COST MODEL OUTPUT:

	(dollars in thousands) FY 2008 Obligations	% of total
1. Search and Rescue (SAR)	733,910	12.01%
2. Marine Safety (MS)	526,133	8.61%
3. Aids to Navigation (ATON)	1,034,133	16.93%
4. Ice Operations (IO)	113,003	1.85%
5. Marine Environmental Protection (MEP)	134,629	2.20%
6. Living Marine Resources (LMR)	582,070	9.53%
7. Drug Interdiction	752,595	12.32%
8. Other Law Enforcement (OTH-LE)	87,773	1.44%
9. Migrant Interdiction	378,626	6.20%
10. Ports, Waterways & Coastal Security (PWCS)	1,360,293	22.26%
11. Defense Readiness	406,500	6.65%
Total OE Obligations	$ 6,109,665	100%

RESERVE TRAINING (RT)
MISSION COST MODEL OUTPUT:

	(dollars in thousands) FY 2008 Obligations	% of total
1. Search and Rescue (SAR)	15,171	12.01%
2. Marine Safety (MS)	10,876	8.61%
3. Aids to Navigation (ATON)	21,377	16.93%
4. Ice Operations (IO)	2,336	1.85%
5. Marine Environmental Protection (MEP)	2,782	2.20%
6. Living Marine Resources (LMR)	12,032	9.53%
7. Drug Interdiction	15,557	12.32%
8. Other Law Enforcement (OTH-LE)	1,814	1.44%
9. Migrant Interdiction	7,827	6.20%
10. Ports, Waterways & Coastal Security (PWCS)	28,117	22.26%
11. Defense Readiness	8,405	6.66%
Total OE Obligations	$ 126,294	100%

ACQUISITION, CONSTRUCTION and IMPROVEMENTS MISSION COST MODEL OUTPUT:

	(dollars in thousands) FY 2008 Obligations	% of total
1. Search and Rescue (SAR)	169,215	15.23%
2. Marine Safety (MS)	41,741	3.76%
3. Aids to Navigation (ATON)	78,650	7.08%
4. Ice Operations (IO)	10,401	0.94%
5. Marine Environmental Protection (MEP)	18,451	1.66%
6. Living Marine Resources (LMR)	160,099	14.41%
7. Drug Interdiction	206,657	18.60%
8. Other Law Enforcement (OTH-LE)	23,469	2.11%
9. Migrant Interdiction	131,247	11.81%
10. Ports, Waterways & Coastal Security (PWCS)	195,809	17.62%
11. Defense Readiness	75,471	6.79%
Total OE Obligations	$ 1,111,210	100%

[1/] Includes $31.975 million recoveries of prior year obligations.

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

	(dollars in thousands) FY 2008 Obligations	% of total
1. Search and Rescue (SAR)	2,021	10.58%
2. Marine Safety (MS)	1,648	8.63%
3. Aids to Navigation (ATON)	3,143	16.46%
4. Ice Operations (IO)	197	1.03%
5. Marine Environmental Protection (MEP)	5,784	30.29%
6. Living Marine Resources (LMR)	1,010	5.29%
7. Drug Interdiction	1,341	7.02%
8. Other Law Enforcement (OTH-LE)	152	0.80%
9. Migrant Interdiction	675	3.53%
10. Ports, Waterways & Coastal Security (PWCS)	2,424	12.69%
11. Defense Readiness	703	3.68%
Total OE Obligations [1/]	$ 19,098	100%

[1/] Includes $1.047 million recoveries of prior year obligations.

ENCLOSURE 1

Independent Auditors' Report
Exhibit I – Material Weaknesses in Internal Control – U.S. Coast Guard

I-A Financial Reporting

Background: In FY 2007, we reported that the Coast Guard had several internal control weaknesses that led to a material weakness in financial reporting. In FY 2008, the Coast Guard revised its *Financial Strategy for Transformation and Audit Readiness* (FSTAR). The FSTAR is a comprehensive plan to identify and correct the root causes of control deficiencies. However, most of the actions outlined in FSTAR are scheduled to occur after FY 2008, and consequently, the Coast Guard was not able to make substantial progress in correcting the deficiencies we reported in previous years, and repeated below.

Conditions: The Coast Guard:

- Has not developed and implemented an effective general ledger system. The Core Accounting System (CAS), Aircraft Logistics Management Information System (ALMIS), and Naval Engineering Supply Support System (NESSS) general ledgers do not comply with the requirements of the *Federal Financial Management Improvement Act* (FFMIA), We noted that:
  - The general ledgers do not allow for compliance with the United States Standard General Ledger (USSGL) at the transaction level. For example, the general ledgers include non-compliant account definitions, invalid accounts, improper posting logic codes and inconsistent crosswalks to the Coast Guard *Treasury Information Executive Repository* (TIER) database;
  - The CAS general ledger includes static balances related to a legacy general ledger conversion;
  - Financial data in the general ledger may be compromised by automated and manual changes that are unsubstantiated, through the use of information technology (IT) scripts;
  - Financial information submitted to the Department for consolidation is from a database that does not maintain detail at the transaction level and is not reconciled or supported by the transaction level detail in the Coast Guard's three general ledgers; and
  - Topside adjustments necessary to close and report financial activity are not recorded at the transaction level in the respective general ledgers. Period-end and opening balances are not supported by transactional detail in the three general ledgers.
- Does not have properly designed, implemented and effective policies, procedures, and controls surrounding its financial reporting process, in order to support beginning balances, year-end close-out, and the cumulative results of operation analysis. For example, the Coast Guard does not have effective policies, procedures and / or internal controls:
  - To identify the cause and resolve system-level abnormal balances and account relationship discrepancies, e.g., budgetary to proprietary reconciliations, and identified potential errors in its financial data;
  - Over the process of preparing and reviewing adjustments to account balances and financial statement disclosures, and uses high-level analytical comparisons to identify adjusting entries;
  - To assess potential financial system problems, such as posting logic errors and automated changes to financial data through scripts (system modifications);
  - To record, review, and monitor accounts receivable activity;
  - To compile, support, review, and report financial statement disclosures submitted for incorporation in the DHS financial statements, to include the effective completion of the U.S. Government Accountability Office (GAO) Disclosure Checklist and valid support for the preparation of statement of net cost disclosures; and
  - To track and reconcile intragovernmental transactions with its Federal trading partners, especially those outside DHS, and to determine that Coast Guard intragovernmental balances, as reported in the DHS financial statements, are complete, accurate, appropriately valued, belong to the Coast Guard, and presented properly in the financial statements.

Independent Auditors' Report
Exhibit I – Material Weaknesses in Internal Control – U.S. Coast Guard

Cause/Effect: Some of the conditions described above are related to the conditions described in Exhibit III-G *Entity-Level Controls.* The Coast Guard has general ledger structural and IT system functionality deficiencies that make the financial reporting process more complex and difficult. The financial reporting process is overly complex, labor intensive, and requires a significant number of topside adjustments (adjustments made outside the core accounting system for presentation of financial information given to the Department for consolidation). The accuracy of financial information is highly dependent on the knowledge and experience of a limited number of key financial personnel rather than on clearly documented procedural manuals and process-flow documentation. Consequently, the Coast Guard can not be reasonably certain that its financial statements are complete or accurate at any time. In its annual Assurance Statement provided to the DHS Secretary in September 2008, the Coast Guard was unable to provide reasonable assurance that internal controls over financial reporting are operating effectively, and was unable to represent to its auditors that any significant balance sheet line items, except for investments and contingent liabilities, are fairly stated at September 30, 2008.

Criteria: FFMIA Section 803(a) requires that Federal financial management systems comply with (1) Federal accounting standards, (2) Federal system requirements, and (3) the USSGL at the transaction level. FFMIA emphasizes the need for agencies to have systems that can generate timely, reliable, and useful information with which to make informed decisions to ensure ongoing accountability.

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires that agencies establish internal controls according to standards prescribed by the Comptroller General and specified in the GAO *Standards for Internal Control in the Federal Government (Standards).* These standards define internal control as an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

The GAO *Standards* require that internal controls be documented in management directives, administrative policies or operating manuals; transactions and other significant events be clearly documented; and information be recorded and communicated timely with those who need it within a timeframe that enables them to carry out their internal control procedures and other responsibilities.

The *Treasury Federal Intragovernmental Transactions Accounting Policies Guide,* dated August 15, 2008, and OMB Circular No. A-136, *Financial Reporting Requirements,* as revised, require Federal CFO Act and non-CFO Act entities identified in the Treasury Financial Manual (TFM) 2008, Vol. I, Part 2-Chapter 4700, *Agency Reporting Requirements for the Financial Report of the United States Government,* to perform quarterly reconciliations of intragovernmental activity/balances. TFM, Section 4706, *Intragovernmental Requirements,* requires reporting agencies to reconcile and confirm intragovernmental activity and balances quarterly for specific reciprocal groupings. TFM Bulletin 2007-03, *Intragovernmental Business Rules,* also provides guidance to Federal agencies for standardizing the processing and recording of intragovernmental activities.

Recommendations: We recommend that the Coast Guard:

1. Implement an integrated general ledger system that is FFMIA compliant. Until an integrated general ledger system is implemented, ensure that all financial transactions and adjustments, including top-side entries, are recorded in the proper general ledger at the detail USSGL transaction level as they occur, and all financial statement line items should be reconciled and supported by transactional detail contained in the general and subsidiary ledgers;
2. Conduct an assessment to identify and remove all non-compliant chart of account definitions, invalid and static accounts, identify any improper posting logic transaction codes, and identify inconsistencies in crosswalks to the TIER database provided to DHS OFM for consolidation;
3. Identify and evaluate each manual and automated IT script to determine the effect on the current year and prior year financial statement balances, and make adjustments in the appropriate general ledger system, as necessary;
4. Establish new or improve existing policies, procedures, and related internal controls to ensure that:

Independent Auditors' Report
Exhibit I – Material Weaknesses in Internal Control – U.S. Coast Guard

a) The year-end close-out process, reconciliations, and financial data and account analysis procedures are supported by documentation, including evidence of effective management review and approval, and beginning balances in the following year are determined to be reliable and auditable;

b) Topside adjustments to account balances and abnormal balances and account relationship discrepancies, e.g., budgetary to proprietary reconciliations, are identified, reviewed, and documented;

c) Account reconciliations, for each of the three general ledgers and the monthly TIER submission, are performed timely each month, and differences are researched and resolved before the next month's reporting cycle. Reconciliations should include all funds maintained by the Coast Guard, including revolving, special, and trust funds;

d) All accounts receivables are identified and comprehensive Coast Guard-wide policies and procedures are implemented, including internal controls at a sufficient level of detail to determine that the accounts receivable process is effective to support management assertions, in compliance with generally accepted accounting principles, for the accounts receivable balance reported on the Coast Guard balance sheet; and

e) Financial statement disclosures submitted for incorporation in the DHS financial statements are compiled, supported, reviewed, and reported, to include the effective completion the GAO Disclosure Checklists and valid support for the preparation of the statement of net cost disclosure; and

5. Establish a formal documented review and approval process over reconciliation activities performed by Coast Guard to ensure that all intragovernmental activity and balances are identified and differences are being resolved in a timely manner in coordination with the Department's OFM. Intragovernmental balances should be reconciled to supporting detail files prior to submission to OFM.

I-B Information Technology (IT) General and Application Controls

Background: The Coast Guard maintains three general ledger systems that support its financial statements and other financial data provided to DHS OFM for consolidation, which are CAS, ALMIS, and NESSS – described in Exhibit I-A, *Financial Reporting*. Our audit included a review of the Coast Guard's IT general controls (ITGC), and specifically in six key control areas: entity-wide security program planning and management, access control, application software development and change control, system software, segregation of duties, and service continuity. During FY 2008, the Coast Guard took actions to improve aspects of its ITGC to address our prior year findings; however, the Coast Guard did not make all of the necessary improvements that they had planned to make during the year.

Conditions: During our FY 2008 ITGC testing, we identified 22 findings, of which 21 were repeat findings from prior years and one is a new finding. The ITGC and other financial system control weaknesses were identified at Coast Guard Headquarters and its components. We noted control deficiencies in three general control areas that when combined, present more than a remote possibility of materially impacting financial data integrity. The control deficiencies identified included:

- Weak security configurations and excessive access to key Coast Guard financial applications, as well as lack of review of privileged user actions;
- Application change control processes that are not adequately designed nor operating effectively; and
- Entity-wide security program deficiencies involving personnel background checks, IT security awareness training, policies and procedures for prompt employee termination, and lack of finalized certification and accreditation documentation.

The application change control process (second bullet), above is considered to be a material weakness impacting the DHS consolidated financial statements. In addition, the control deficiencies in application

I.3

Independent Auditors' Report
Exhibit I – Material Weaknesses in Internal Control – U.S. Coast Guard

change control processes are among the principle causes of the Coast Guard's inability to support its financial statement balances. See Exhibit I-A, *Financial Reporting*, for a discussion of the related conditions causing significant noncompliance with the requirements of FFMIA. Our ITGC findings are described in greater detail in a separate *Limited Official Use* (LOU) letter provided to the Coast Guard and DHS management.

Cause/Effect: The Coast Guard has made progress correcting certain ITGC weaknesses identified in previous years. Specifically, the Coast Guard was able to close out 20 prior-year findings in the area of access controls, entity-wide security program, and service continuity. In addition, the Coast Guard has enhanced the assessment of the root cause of the ITGC weaknesses in order to effectively remediate issues; however, the Coast Guard was not able to fully implement all of its plans of action and milestones to remediate all ITGC control deficiencies in FY 2008.

Many of these weaknesses were inherited from system development activities that did not incorporate strong security controls during the initial implementation of the system more than five years ago, and will take several years to fully address. These weaknesses exist both in the documentation of processes and the implementation of adequate security controls over processes and within financial systems. Specifically, policies and procedures supporting the operation of various processes within control areas such as change control were developed without taking into account required security practices. Consequently, as policies and procedures are updated, many Coast Guard components are challenged to move away from previous methodologies and fully implement and enforce these new controls.

The effect of these ITGC weaknesses limits the Coast Guard's ability to ensure that critical financial data is reliable and is maintained in a manner to ensure confidentiality, integrity, and availability. In addition, as a result of the presence of IT weaknesses, there is added dependency on the other mitigating manual controls to be operating effectively at all times. Because mitigating controls often require more human involvement, there is an increased risk that human error could materially affect the financial statements.

Criteria: The *Federal Information Security Management Act* (FISMA), passed as part of the *Electronic Government Act of 2002*, mandates that Federal entities maintain IT security programs in accordance with National Institute of Standards and Technology (NIST) guidance.

OMB Circular No. A-130, *Management of Federal Information Resources*, describes specific essential criteria for maintaining effective general IT controls.

FFMIA sets forth legislation prescribing policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems. The purpose of FFMIA is (1) to provide for consistency of accounting by an agency from one fiscal year to the next, and uniform accounting standards throughout the Federal Government, (2) require Federal financial management systems to support full disclosure of Federal financial data, including the full costs of Federal programs and activities, (3) increase the accountability and credibility of federal financial management, (4) improve performance, productivity and efficiency of Federal Government financial management, and (5) establish financial management systems to support controlling the cost of Federal Government.

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, states, "Agency managers should continuously monitor and improve the effectiveness of internal control associated with their programs. This continuous monitoring, and other periodic evaluations, should provide the basis for the agency head's annual assessment of and report on internal control, as required by FMFIA." This Circular indicates that "control weaknesses at a service organization could have a material impact on the controls of the customer organization. Therefore, management of cross-servicing agencies will need to provide an annual assurance statement to its customer agencies in advance to allow its customer agencies to rely upon that assurance statement. Management of cross-servicing agencies shall test the controls over the activities for which it performs for others on a yearly basis. These controls shall be highlighted in management's annual assurance statement that is provided to its customers [e.g., TSA]. Cross-servicing and customer agencies will need to coordinate the timing of the assurance statements."

DHS' *Sensitive Systems Policy Directive, 4300A*, as well as the DHS' *Sensitive Systems Handbook* documents policies and procedures adopted by DHS intended to improve the security and operation of all DHS IT systems including the Coast Guard IT systems.

I.4

Independent Auditors' Report
Exhibit I – Material Weaknesses in Internal Control – U.S. Coast Guard

The GAO's *Federal Information System Controls Audit Manual* (FISCAM) provides a framework and recommended audit procedures that are used to conduct the IT general control test work.

Recommendations: We recommend that the DHS Office of Chief Information Officer in coordination with the Office of the Chief Financial Officer (OCFO) make the following improvements to the Coast Guard's financial management systems:

1. Implement the recommendations in our LOU letter provided to the Coast Guard and DHS management, to effectively address the deficiencies identified including: (1) weak security configurations and excessive access to key Coast Guard financial applications, including review of as of privileged user actions, (2) application change control processes, and (3) entity-wide security program issues;
2. Design and implement plan of action and milestones that address the root cause of the weakness; and
3. Develop and implement policies and procedures that appropriately consider required security practices when supporting the operation of various processes within the change control area.

I-C Fund Balance with Treasury

Background: In FY 2007, we reported a material weakness in Fund Balance with Treasury (FBwT) at the Coast Guard. In FY 2008, the Coast Guard revised its remediation plan (FSTAR); however, the majority of corrective actions are scheduled to occur after FY 2008, and accordingly, many of the conditions stated below are repeated from our FY 2007 report. FBwT at the Coast Guard totaled approximately $5.2 billion, or approximately 8.3 percent of total DHS FBwT, at September 30, 2008. The majority of these funds represented appropriated amounts that were obligated, but not yet disbursed, as of September 30, 2008.

Conditions: The Coast Guard has not developed and validated a comprehensive process, to include effective internal controls, to ensure that FBwT transactions exists and are complete and accurate. For example, the Coast Guard:

- Did not maintain adequate supporting documentation that validated the accuracy for five of the six Coast Guard Agency Location Codes FBwT reconciliations;
- Recorded adjustments to the general ledger FBwT accounts including adjustments to agree Coast Guard balances to Treasury amounts, that were unsupported and subsequently submitted to the Treasury;
- Does not have an effective process for clearing of suspense account transactions related to FBwT. The Coast Guard lacks documented and effective policies and procedures and internal controls necessary to support the completeness, existence, and accuracy of suspense account transactions. In addition, the Coast Guard was unable to produce complete and accurate detail listings of suspense transactions recorded in the general ledger; and
- Was unable to provide military and civilian payroll data to support the summary payroll transactions processed through the Coast Guard's FBwT. In addition, the Coast Guard lacked formal policies and procedures for processing and documenting all military and civilian payroll transactions.

Cause/Effect: The Coast Guard had not designed and implemented accounting processes, including a financial system that complies with federal financial system requirements, as defined in OMB Circular No. A-127, *Financial Management Systems*, and the requirements of the *Joint Financial Management Improvement Program* (JFMIP), now administered by the *Financial Systems Integration Office* (FSIO), to fully support the FY 2008 FBwT activity and balance as of September 30, 2008. Failure to implement timely and effective reconciliation processes could increase the risk of undetected errors and/or violations of appropriation laws, including instances of undiscovered *Anti-deficiency Act* violations or fraud, abuse and mismanagement of funds, which could lead to inaccurate financial reporting and affects DHS' ability to effectively monitor its budget status.

Independent Auditors' Report
Exhibit I – Material Weaknesses in Internal Control – U.S. Coast Guard

Criteria: Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*, paragraph 39 states, "Federal entities should explain any discrepancies between fund balance with Treasury in their general ledger accounts and the balance in the Treasury's accounts and explain the causes of the discrepancies in footnotes to the financial statements. (Discrepancies due to time lag should be reconciled and discrepancies due to error should be corrected when financial reports are prepared). Agencies also should provide information on unused funds in expired appropriations that are returned to Treasury at the end of a fiscal year."

Per *Fund Balance with Treasury Reconciliation Procedures, a Supplement to the I TFM 2-5100*, Section V, "Federal agencies must reconcile their SGL 1010 account and any related subaccounts [...] on a monthly basis (at minimum). [...] Federal agencies must [...] resolve all differences between the balances reported on their G/L FBwT accounts and balances reported on the [*Government-wide Accounting* system (GWA)]." In addition, "An agency may not arbitrarily adjust its FBWT account. Only after clearly establishing the causes of errors and properly documenting those errors, should an agency adjust its FBWT account balance. If an agency must make material adjustments, the agency must maintain supporting documentation. This will allow correct interpretation of the error and its corresponding adjustment."

Section 803(a) of FFMIA requires that Federal financial management systems comply with (1) Federal accounting standards, (2) Federal financial management system requirements, and (3) the USSGL at the transaction level. FFMIA emphasizes the need for agencies to have systems that can generate timely, reliable, and useful information with which to make informed decisions to ensure ongoing accountability.

The GAO *Standards* hold that transactions should be properly authorized, documented, and recorded accurately and timely.

Recommendations: We recommend that the Coast Guard:

1. Establish policies, procedures, and internal controls to ensure that FBwT transactions are recorded accurately and completely and in a timely manner, and that all supporting documentation is maintained for all recorded transactions. These policies and procedures should allow the Coast Guard to:
   a) Perform complete and timely FBwT reconciliations using the Treasury Government-wide Accounting tools;
   b) Better manage its suspense accounts to include researching and clearing items carried in suspense clearing accounts in a timely manner during the year, and maintaining proper supporting documentation in clearing suspense activity; and
   c) Maintain payroll data supporting payroll transactions processed through FBwT and have access to complete documentation, if needed.

I-D Capital Assets and Supplies

Background: The Coast Guard maintains approximately 59 percent of all DHS property, plant, and equipment (PP&E), including a large fleet of boats and vessels. Many of the Coast Guard's assets are constructed over a multi-year period, have long useful lives, and undergo extensive routine servicing that may increase their value or extend their useful lives. In FY 2008, the Coast Guard revised corrective action plans (FSTAR) to address the PP&E process and control deficiencies, and began remediation efforts. However, the FSTAR is scheduled to occur over a multi-year time-frame. Consequently, most of the conditions cited below have been repeated from our FY 2007 report.

Operating Materials and Supplies (OM&S) are maintained by the Coast Guard in significant quantities and consist of tangible personal property to be consumed in normal operations to service marine equipment, aircraft, and other operating equipment. The majority of the Coast Guard's OM&S is physically located at either two Inventory Control Points (ICPs) or in the field. The Coast Guard's policy requires regularly scheduled physical counts of OM&S, which are important to the proper valuation of OM&S and its safekeeping. The conditions cited below for OM&S have been repeated from our FY 2007 report.

Conditions: The Coast Guard has not:

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Independent Auditors' Report
Exhibit I – Material Weaknesses in Internal Control – U.S. Coast Guard

Regarding PP&E:

- Consistently applied policies and procedures to ensure appropriate documentation supporting PP&E acquisitions, and their existence, is maintained to support capitalized PP&E. In cases where original acquisition documentation has not been maintained, the Coast Guard has not developed and documented methodologies and assumptions to support the value of PP&E;
- Implemented appropriate controls and related processes to accurately, consistently, and timely record additions to PP&E and construction in process (CIP), transfers from other agencies, disposals in its fixed asset system, and valuation and classification of repairable PP&E;
- Implemented accurate and complete asset identification, system mapping, and tagging processes that include sufficient detail, e.g., serial number, to clearly differentiate and accurately track physical assets to those recorded in the fixed asset system; and
- Properly accounted for some improvements and impairments to buildings and structures, capital leases, and selected useful lives for depreciation purposes, consistent with generally accepted accounting principles (GAAP).

Regarding OM&S:

- Implemented policies, procedures, and internal controls to support the completeness, accuracy, existence, valuation, ownership, and presentation assertions related to the FY 2008 OM&S and related account balances;
- Fully designed and implemented policies, procedures, and internal controls over physical counts of OM&S to remediate conditions identified in previous years;
- Properly identified (bar-coded or tagged) recorded OM&S; and
- Established processes and controls to fully support the calculated value of certain types of OM&S to approximate historical cost.

Cause/Effect: PP&E policies and procedures are not appropriately designed, consistently followed, or do not include sufficient controls to ensure compliance with policy or to ensure complete supporting documentation is maintained and readily-available. The fixed asset module of the Coast Guard's CAS is not updated for effective tracking and reporting of PP&E. As a result, the Coast Guard is unable to accurately account for its PP&E, and provide necessary information to DHS OFM for consolidated financial statement purposes.

Coast Guard management deferred correction of most OM&S weaknesses reported in previous years, and acknowledged that the conditions we reported in prior years remained throughout FY 2008. Lack of comprehensive and effective policies and controls over the performance of physical counts, and appropriate support for valuation, may result in errors in the physical inventory process or inventory discrepancies that could result in financial statement misstatements.

Criteria: SFFAS No. 6, *Accounting for Property, Plant, and Equipment,* provides the general requirements for recording and depreciating property, plant and equipment.

The Federal Accounting Standards Advisory Board (FASAB)'s Federal Financial Account Standards Interpretation No. 7, dated March 16, 2007, defines "items held for remanufacture" as items "in the process of (or awaiting) inspection, disassembly, evaluation, cleaning, rebuilding, refurbishing and/or restoration to serviceable or technologically updated/upgraded condition. Items held for remanufacture may consist of: Direct materials, (including repairable parts or subassemblies [...]) and Work-in-process (including labor costs) related to the process of major overhaul, where products are restored to 'good-as-new' condition and/or improved/upgraded condition. 'Items held for remanufacture' share characteristics with 'items held for repair' and items in the process of production and may be aggregated with either class. Management should use judgment to determine a reasonable, consistent, and cost-effective manner to classify processes as 'repair' or 'remanufacture'."

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Exhibit I – Material Weaknesses in Internal Control – U.S. Coast Guard

FFMIA Section 803(a) requires each agency to implement and maintain a system that complies substantially with Federal financial management system requirements. OMB Circular No. A-127 prescribes the standards for federal agencies' financial management systems. That Circular requires an agency's system design to have certain characteristics that include consistent "internal controls over data entry, transaction processing, and reporting throughout the system to ensure the validity of the information and protection of Federal Government resources."

According to GAO *Standards for Internal Control in the Federal Government*, assets at risk of loss or unauthorized use should be periodically counted and compared to control records. Policies and procedures should be in place for this process. The FSIO publication, *Inventory, Supplies, and Material System Requirements*, states that "the general requirements for control of inventory, supplies and materials consist of the processes of receipt and inspection, storing, and item in transit." Specifically, the "placement into inventory process" requires that an agency's inventory, supplies and materials system must identify the intended location of the item and track its movement from the point of initial receipt to its final destination." SFFAS No. 3, *Accounting for Inventory and Related Property*, states OM&S shall be valued on the basis of historical cost.

Recommendations: We recommend that the Coast Guard:

Regarding PP&E:

1. Improve controls and related processes and procedures to ensure that documentation supporting existing PP&E acquisitions, additions, transfers, and disposals, to include the CIP process, is maintained to support capitalized PP&E;
2. Implement processes and controls to record PP&E transactions accurately, consistently, and timely in the fixed asset system; record an identifying number in the fixed asset system at the time of asset purchase to facilitate identification and tracking; and ensure that the status of assets is accurately maintained in the system;
3. Revise procedures for performing physical inventories of repairable items, to include procedures for resolving differences and reporting results, to ensure that repairable PP&E is accurately and completely classified and recorded. Support the pricing methodology used to value repairable PP&E to ensure that balances, as presented in the financial statements, approximate amortized historical cost; and
4. Review policies and procedures to account for improvements and impairments to buildings and structures, capital leases, and identify proper useful lives for depreciation purposes in accordance with GAAP.

Regarding OM&S:

5. Update OM&S physical count policies, procedures, and controls, and provide training to personnel responsible for conducting physical inventories, and include key elements of an effective physical inventory in the policies;
6. Consider adopting an inventory control system for OM&S as a method of tracking usage and maintaining a perpetual inventory of OM&S on hand; and
7. Establish processes and controls to support the calculated value of OM&S to ensure accounting is consistent with GAAP.

I-E Actuarial and Other Liabilities

Background: The Coast Guard maintains pension, medical, and post employment travel benefit programs that require actuarial computations to record related liabilities for financial reporting purposes. The Military Retirement System (MRS) is a defined benefit plan that covers both retirement pay and health care benefits for all active duty and reserve military members of the Coast Guard. The medical plan covers active duty, reservists, retirees/survivors and their dependents that are provided care at Department of Defense (DoD) medical facilities. The post employment travel benefit program pays the cost of

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transportation for uniformed service members upon separation from the Coast Guard. Annually, participant and cost data is extracted by the Coast Guard from its records and provided to an actuarial firm as input for the liability calculations. The accuracy of the actuarial liability as reported in the financial statements is dependent on the accuracy and completeness of the underlying participant and cost data provided to the actuary as well as the reasonableness of the assumptions used. A combined unfunded accrued liability of approximately $30.1 billion for the plans is reported in the DHS consolidated balance sheet as of September 30, 2008.

The Coast Guard estimates accounts payable as a percentage of undelivered orders (UDOs) based on historical trends. As described in Exhibit I-F, *Budgetary Accounting*, reliable accounting processes surrounding the recording of obligations and disbursements, and tracking of UDOs, are key to the accurate reporting of accounts payable in the Coast Guard's financial statements.

The Coast Guard's environmental liabilities consist of two main types: shore facilities and vessels. Shore facilities include any facilities or property other than ships, e.g., buildings, fuel tanks, lighthouses, small arms firing ranges (SAFRs), etc.

The Coast Guard estimates its legal liabilities to include Oil Spill Liability Trust Fund claims that are incorporated, and recorded, as part of the DHS legal liability on DHS financial statements.

Conditions: We noted the following internal control weaknesses related to actuarial and other liabilities. The Coast Guard does not:

- Have effective policies, procedures, and controls to ensure the completeness and accuracy of participant data, medical cost data, and trend and experience data provided to, and used by, the actuary for the calculation of the MRS pension, medical, and post employment benefit liabilities. Reconciliations between subsidiary and general ledger amounts for medical expenditures are not effective;
- Have effective policies, procedures and internal controls over the Coast Guard's process for reconciling military payroll recorded in the CAS general ledger to detail payroll records. Military personnel data changes, including changes in leave balances and payroll corrections, are not processed in the appropriate payroll and/or reporting periods, and consequently impact the completeness and accuracy of leave and payroll accruals as well as data used for actuarial projections;
- Use a reliable methodology to estimate accounts payable. The method used was not supported as to the validity of data, assumptions, and criteria used to develop and subsequently validate the reliability of the estimate for financial reporting; and
- Support the completeness, existence, and accuracy assertions of the data utilized in developing the estimate for the FY 2008 environmental liability account balance. The Coast Guard has not fully developed, documented, and implemented the policies and procedures in developing, preparing, and recording the environmental liability estimates related to shore facilities, and has not approved policies and procedures for the review of the environmental liability estimate related to vessels.

Cause/Effect: Much of the data required by the actuary comes from personnel and payroll systems that are outside of the Coast Guard's accounting organization and are instead managed by the Coast Guard's Personnel Service Center (PSC). The Coast Guard has not updated its experience study since 2006, which contained several errors, and therefore, management is unable to provide assurance on the completeness and accuracy of the experience study which affects the completeness and accuracy of actuarially determined liabilities as stated in the DHS consolidated balance sheet at September 30, 2008. In addition, the Coast Guard does not have sufficient controls to prevent overpayments for medical services. Thus, inaccurate medical costs submitted to the Coast Guard actuary could result in a misstatement of the actuarial medical liability and related expenses.

The Coast Guard has not yet developed comprehensive policies and procedures or corrective action plans to address the conditions above, and consequently, management is unable to assert to the accuracy and completeness of the accounts payable and payroll accruals recorded as of September 30, 2008.

Independent Auditors' Report
Exhibit I – Material Weaknesses in Internal Control – U.S. Coast Guard

Criteria: According to SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, paragraph 95, the employer should recognize an expense and a liability for other post employment benefits (OPEB) when a future outflow or other sacrifice of resources is probable and measurable on the basis of events occurring on or before the reporting date. Further, the long-term OPEB liability should be measured at the present value of future payments, which requires the employer to estimate the amount and timing of future payments, and to discount the future outflow over the period for which the payments are to be made.

The GAO *Standards* hold that transactions should be properly authorized, documented, and recorded accurately and timely. SFFAS No. 1 states, "When an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of the goods. If invoices for those goods are not available when financial statements are prepared, the amounts owed should be estimated."

Statement on Auditing Standards (SAS) No. 57, *Auditing Accounting Estimates,* states "An entity's internal control may reduce the likelihood of material misstatements of accounting estimates." The standard specifically identifies, "accumulation of relevant, sufficient, and reliable data on which to base an accounting estimate," and "comparison of prior accounting estimates with subsequent results to assess the reliability of the process used to develop estimates" as two relevant aspects of internal control.

Federal Accounting Standards Advisory Board (FASAB) Technical Release No. 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government,* states that an agency is required to recognize a liability for environmental cleanup costs as a result of past transactions or events when a future outflow or other sacrifice of resources is probable and reasonably estimable. Probable is related to whether a future outflow will be required. Reasonably estimable relates to the ability to reliably quantify in monetary terms the outflow of resources that will be required.

Recommendations: We recommend that the Coast Guard:

Regarding actuarial liabilities:

1. Establish and document policies, procedures, and effective controls to ensure the completeness and accuracy of the actuarial pension, medical, and post employment travel benefit liabilities;

2. Establish and document policies, procedures, and effective controls to ensure the completeness and accuracy of participant data, medical cost data, and trend and experience data provided to, and used by, the actuary for the calculation of the MRS pension, medical, and post employment travel benefit liabilities; and

3. Perform a periodic reconciliation between the medical expenditures recorded in the subsidiary ledger and those recorded in the CAS, and address differences before data is provided to the actuary. This reconciliation should be performed for all significant sources of medical actuarial data, including TriCare, and DoD Military Treatment Facilities (MTFs). In addition, this reconciliation should be reviewed by someone other than the preparer to ensure accuracy.

Regarding accounts payable and payroll:

4. Analyze and make appropriate improvements to the methodology used to estimate accounts payable and support all assumptions and criteria with appropriate documentation to develop and subsequently validate the estimate for financial reporting; and

5. Implement corrective action, including appropriately designed and implemented internal controls, to support the completeness, existence, and accuracy of changes in member personnel data records and military payroll transactions, and to include recorded accrued military leave and payroll liabilities.

Regarding environmental liabilities:

6. Develop consistent written agency-wide policies, procedures, processes, and controls to ensure identification of and recording of all environmental liabilities, define the technical approach, cost estimation methodology, and overall financial management oversight of its environmental remediation projects. The policies should include:

Independent Auditors' Report
Exhibit I – Material Weaknesses in Internal Control – U.S. Coast Guard

a) Procedures to ensure the proper calculation and review of cost estimates for consistency and accuracy in financial reporting, including the use of tested modeling techniques, use of verified cost parameters, and assumptions;

b) Periodically validate estimates against historical costs; and

c) Ensure that detailed cost data is maintained and reconciled to the general ledger.

I-F Budgetary Accounting

Background: Budgetary accounts are a category of general ledger accounts where transactions related to the receipt, obligation, and disbursement of appropriations and other authorities to obligate and spend agency resources are recorded. Each Treasury Account Fund Symbol (TAFS) with separate budgetary accounts must be maintained in accordance with OMB and Treasury guidance. The Coast Guard has over 90 TAFS covering a broad spectrum of budget authority, including annual, multi-year, and no-year appropriations; and several revolving, special, and trust funds. In addition, the Coast Guard estimates accounts payable at year end as a percentage of UDOs based on historical trends. Reliable accounting processes surrounding obligations, UDOs and disbursements are key to the accurate reporting of accounts payable in the DHS consolidated financial statements.

Conditions: We noted the following internal control weaknesses related to budgetary accounting, many of which were repeated from our FY 2007 report.

- The policies, procedures and internal controls over the Coast Guard's process for validation and verification of UDO balances are not effective to ensure that recorded obligations and UDO balances were complete, valid, accurate, and that proper approvals and supporting documentation is maintained.
- Procedures used to record commitment/obligations and internal controls within the process have weaknesses that could result in obligations of funds in excess of the apportioned and/or allotted amounts. In addition, the Coast Guard has not fully implemented current policies and procedures to monitor un-obligated commitment activity in CAS throughout the fiscal year as only a de-commitment process is executed at year end.
- The Coast Guard's procedures, processes, and internal controls in place to verify the completeness and accuracy of the year-end obligation pipeline adjustment to record all executed obligations were not properly designed and implemented. These deficiencies affected the completeness, existence, and accuracy of the year-end "pipeline" adjustment that was made to record obligations executed before year end.
- Automated system controls are not effectively used to prevent the processing of procurement transactions by an individual who does not have warrant authority, or by contracting officer's with expired warrant authority.

Cause/Effect: Several of the Coast Guard's budgetary control weaknesses can be corrected by modifications or improvements to the financial accounting system, process improvements, and strengthened policies and internal controls. Weak controls in budgetary accounting, and associated contracting practices increase the risk that the Coast Guard could violate the *Anti-deficiency Act* and overspend its budget authority. The financial statements are also at greater risk of misstatement. The untimely release of commitments may prevent funds from being used timely for other purposes.

Criteria: According to the Office of Federal Financial Management's *Core Financial System Requirements*, dated January 2006, an agency's core financial management system must ensure that an agency does not obligate or disburse funds in excess of those appropriated or authorized, and "the Budgetary Resource Management Function must support agency policies on internal funds allocation methods and controls." The *Federal Acquisition Regulation* (FAR) Section 1.602 addresses the authorities and responsibilities granted to contracting officers. Treasury's USSGL guidance at TFM S2 08-03 (dated August 2008) specifies the accounting entries related to budgetary transactions.

Independent Auditors' Report
Exhibit I – Material Weaknesses in Internal Control – U.S. Coast Guard

FFMIA Section 803(a) requires that each Agency implement and maintain a system that complies substantially with Federal financial management system requirements. OMB Circular No. A-127 sets forth the standards for federal financial management systems.

Recommendations: We recommend that the Coast Guard:

1. Improve policies, procedures, and the design and effectiveness of controls related to processing obligation transactions, including periodic review and validation of UDOs. Emphasize to all fund managers the need to perform effective reviews of open obligations, obtain proper approvals, and retain supporting documentation;
2. Revise controls and related policies and procedures to periodically review commitments;
3. Improve procedures, processes, and internal controls to verify the completeness and accuracy of the year-end obligation pipeline adjustment to record all executed obligations for financial reporting; and
4. Establish automated system controls to prevent incurring a commitment/obligation in excess of established targets so that funds are not obligated in excess of the apportioned and allotted amounts and preclude the processing of procurement transactions if the contracting officer's warrant authority had expired.

ENCLOSURE 2

U.S. Department of Homeland Security

United States Coast Guard

Commandant
United States Coast Guard

2100 Second Street, S.W.
Washington, DC 20593-0001
Staff Symbol: CG-8
Phone: (202) 372-3470
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1401

SEP 29 2008

Memo for: Michael Chertoff
Secretary

From: Admiral T. W. Allen
Commandant; (202) 372-4423

Subj: U.S. COAST GUARD 2008 ASSURANCE STATEMENT

Purpose:

In accordance with your delegation of responsibilities to me, I have directed an evaluation of the internal controls at the United States Coast Guard (USCG) in effect during the fiscal year ended September 30, 2008. This evaluation was conducted in accordance with OMB Circular No. A-123, Management's Responsibility for Internal Control, revised December 21, 2004 and GAO's Standard of Internal Control in the Federal Government. Based on the results of this evaluation, the USCG is providing the enclosed assurance statements.

Background:

Management assurance regarding internal controls is required per OMB Circular A-123 (rev. 12/21/2004). The assurance addresses the following four legislative areas:

FMFIA Section 2, 31 U.S.C. 3512 (d)(2)
Requires agencies to establish and maintain internal controls. The agency head must annually evaluate and report that internal controls are achieving their intended objectives related to the effectiveness and efficiency of operations, the reliability of financial reporting, and compliance with applicable laws and regulations.

DHS Financial Accountability Act P.L. 108-330
Requires agencies to establish and maintain internal controls over financial reporting. The agency head must annually evaluate and report on the effectiveness of the internal controls over financial reporting.

FMFIA Section 4, 31 U.S.C. 3512 (d)(2)(B)
Requires agencies to maintain an integrated financial management system that complies with Federal systems requirements, Federal Accounting Standard Advisory Board Standards (FASAB), and the U.S. Standard General Ledger at the transaction level. The agency head must annually evaluate and report on conformance of financial management systems with Federal requirements.

Subj: U.S. COAST GUARD 2008 ASSURANCE STATEMENT

Reports Consolidation Act, 31 U.S.C. 3516 (e)
Authorizes consolidation of financial and performance management reports by Federal agencies. The agency head must annually evaluate and report on the completeness and reliability of performance data used in the Performance and Accountability Report.

Discussion:

Although the enclosed Coast Guard FY 2008 Assurance Statement does not convey vast improvement over last year, we have made significant strides in improving internal controls, business processes, and our overall approach to audit readiness. As such, we continue to make progress towards remediation of material weaknesses that exist with internal controls over financial reporting. The following areas are particularly noteworthy.

Entity Level Controls:
We continue to improve the Coast Guard's overall control environment. Through a concerted effort to improve internal controls, governance, and collaboration with the Department, we have been able to make strides in fully understanding and remediating the root causes of material weaknesses in our control environment. We have refocused our Senior Management Council (SMC) and Senior Assessment Team (SAT). The Vice Commandant now chairs the SMC and on a monthly basis, she engages key process owners at the Flag Officer and Senior Executive level to ensure unity of audit readiness/remediation effort. Additionally, the DHS CFO is a regular participant in our monthly SMC meetings, which has proven very valuable for both the Coast Guard and DHS. DHS CFO participation increases transparency, best integrates our internal efforts with the Department, and establishes a more robust governance structure. Our SAT brings together appropriate subject matter experts to work specific technical issues, integrate efforts across the enterprise, and make sound, well reasoned recommendations for SMC action. Organizationally, we are reassessing the financial management roles and responsibilities and required competencies throughout the Service. Finally, we have engaged the National Academy for Public Administration to review our overall modernization effort, with a specific focus on the organizational structure and enterprise processes related to financial management.

Investments:
In FY 2008 we will assert our balance sheet investment balance of $2.9 billion is complete, accurate, and properly recorded. This is the first year since the creation of DHS the Coast Guard has been able to support all relevant assertions for this line item, representing approximately 18% of the Service's total assets and nearly 99% of DHS' total investment balance. This accomplishment has a material impact on the Department's consolidated financial statements.

Funds Balance with Treasury:
We continue to make progress towards reconciliation of pay transactions in Funds Balance with Treasury (FBwT). For the first time since DHS was established, in FY 2008 we began to reconcile retired and annuitant military payroll cash disbursements with Treasury. In FY 2009 we will also begin to reconcile active duty and reserve military payroll cash disbursements with Treasury. These, and other remediation efforts, will allow us to properly account for more than $3.2 billion of annual transaction activity.

Property Management:
We continue to make progress in this area and are aggressively using the results of a comprehensive valuation review to validate the initial cost of a significant portion of inventory and Construction-In-Progress (CIP). This effort will allow us to more accurately value property in our financial system. In addition, the Coast Guard prepared 149 property cost documentation packages supporting an initial acquisition cost of $2.45 billion of property, plant, and equipment (PP&E). Once reviewed and accepted, this will bring the total amount of PP&E the Coast Guard has supported in original acquisition cost from $5.25 billion to $7.7 billion, out of a total acquisition cost of $13.6 billion for all PP&E.

Contingent Legal Liabilities:
In FY 2008, we will be able to support all relevant assertions for our contingent legal liabilities balance of almost $250 million. Over the last year we have developed and implemented comprehensive policies, procedures and controls in this area and the effort has yielded positive results, helping to support the Department's overall improvement in consolidated legal liabilities.

Deepwater:
As presented in the Assurance Statement, we have made significant progress in addressing internal control deficiencies in the Deepwater acquisition program. These deficiencies were originally identified in internal and external studies and audits. As a result of these studies/audits, as well as Departmental and Congressional oversight, and prior to the development of a formal Mission Action Plan (MAP), the Coast Guard had already embarked on a significant acquisition reform strategy, codified in a two-year strategic plan, the *Blueprint for Acquisition Reform*. Subsequently, we have developed a MAP with detailed milestones to complement ongoing reform activities and remediate the known remaining acquisition deficiencies. Substantial progress has been made and we continue to implement controls and monitor compliance in areas of acquisition, design, delivery, program management, contractor accountability, human capital, and cost control.

Way Ahead:

The previous examples provide an overview of some of the progress we have made to enhance our audit remediation and control environment. While we have made progress over the past year, challenges remain. To better address those challenges the Vice Commandant directed a comprehensive review of our MAPs going forward. This was done in full cooperation between my CFO and the DHS CFO. Various internal and external reviews had identified concerns with our overall plan and our ability to communicate progress in addressing financial statement material weaknesses. The Audit Readiness Planning Team (ARPT) was chartered by the Vice Commandant in April 2008 to address root cause conditions and develop a holistic, multi-year plan to integrate existing financial management initiatives, implement effective internal controls, remediate and support financial reporting, and achieve audit readiness. The ARPT is a matrixed team of highly experienced Coast Guard, Department and contractor experts with strong governmental accounting backgrounds. We have held weekly meetings with DHS CFO staff throughout this process and are currently working with the DHS CFO to define joint areas for focus in FY 2009 and FY 2010. Additionally, the revision to our Financial Strategy for

Transformation and Audit Readiness (FSTAR) is being drafted by the ARPT and it will provide the roadmap for audit remediation.

One of our top challenges is our need to address significant deficiencies in our current core accounting and related systems. The challenges associated with our financial systems will limit our ability to fully remediate material weaknesses in many financial reporting processes. We will continue to work with the DHS CFO and Resource Management Transformation Office (RMTO) to develop a way-ahead that is fully integrated with Departmental efforts in this area. Until we successfully transition to a new financial system, we will not be able to fully support the balances on our financial statements due to existing systems deficiencies and functionality gaps.

I would be pleased to meet with you and discuss our financial management progress to date and the status of our ongoing work.

Recommendation:

I recommend you include this submission as part of the Department's preparation of its consolidated assurance statement.

Executive Secretariat Clearance:

__________________ DATE: __________________

Fred L. Schwien

The Secretary

APPROVED:__________________ DATE: __________________

DISAPPROVED: __________________ DATE: __________________

COMMENTS:

Enclosure: U.S. Coast Guard FY 08 Assurance Statements

Dear Secretary Chertoff:

In accordance with your delegation of responsibilities to me, I have directed an evaluation of the internal control at the United States Coast Guard in effect during the fiscal year ended September 30, 2008. This evaluation was conducted in accordance with OMB Circular No. A-123, *Management's Responsibility for Internal Control*, Revised December 21, 2004. Based on the results of this evaluation, the United States Coast Guard provides the following assurance statements.

Reporting Pursuant to FMFIA Section 2. 31 U.S.C.3512 (d)(2)

The United States Coast Guard provides reasonable assurance that internal controls are achieving their intended objectives, with the exception of the following material weakness that was noted:

Material Weakness:

- **Compliance with Laws and Regulations**
  During a prior period, the USCG developed and implemented policy that allowed the use of Operating Expense (OE) funds, up to a predetermined threshold, to address some aspects of shore facilities projects. Subsequent to establishing the policy, the USCG exceeded the predetermined thresholds and acknowledged lack of authority to address these projects with OE funds. The USCG has since rescinded the policy in question and implemented new internal controls and policy to monitor and prevent this from reoccurring.

The following Reportable Condition was noted:

- **Deepwater**
  As previously reported multiple control deficiencies exist in the Deepwater program as identified in external audits and reports. USCG developed a Mission Action Plan with detailed milestones to remediate these deficiencies, and substantial progress has been made. USCG continues to implement controls to address known deficiencies in the following areas: design, acquisition, delivery, program management, contractor accountability, human capital and cost control.

Reporting Pursuant to the DHS Financial Accountability Act. P.L. 108-330

The scope of United States Coast Guard's efforts focused on executing corrective actions to design and implement internal controls pursuant to the DHS Accountability Act as of September 30, 2008.

The United States Coast Guard is unable to provide reasonable assurance that internal control over financial reporting was operating effectively. The following material weaknesses were found and management is updating Mission Action Plans to remediate them:

- **Entity Level Controls:** In 2006, the USCG conducted an assessment of internal controls at the entity level using the Government Accountability Office (GAO) Internal Control and Evaluation Tool. Considerable deficiencies identified in FY 2006 remain in the current year within the following areas: control environment; risk assessment; information and communications; monitoring. In FY 2008, the USCG remediated certain control environment deficiencies with the establishment and execution of a more effective governance structure for financial transformation and oversight, including re-emphasizing the roles and responsibilities of the Senior Management Council and the Senior Assessment Team.

- **Fund Balance with Treasury:** The USCG is unable to fully reconcile its FBwT accounts. USCG cannot produce complete and accurate populations of suspense account transactions, nor distinguish posting from clearing transactions in suspense. Also, the USCG is unable to complete reconciliations of its FBwT related to Military Payroll. The USCG's military payroll system, the Joint Uniform Payroll System (JUMPS) cannot track the payroll data necessary for USCG to reconcile Treasury payment details and produce accurate FBwT reporting. The USCG is unable to fully track and reconcile intra-governmental transactions with its trading partners.

  Progress with FBwT continues through the ongoing development of the Subsidiary Ledger Reconciliation Tool for Active and Reserve payroll and other process improvements to permit the reconciliation of military payroll.

- **Contingent Liabilities:** Significant weaknesses exist in Actuarial Liabilities and Environmental Liabilities:

  o Actuarial Liabilities - USCG does not have controls in place to determine that the underlying data used to calculate Actuarial Liabilities is accurate and complete.
  o Environmental Liabilities - USCG has no documented policies and procedures for Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) cases. USCG does not have sufficient support related to Environmental Liabilities resulting in potentially unrecorded and unidentified liabilities.

  Legal Liabilities, which is another sub-set of Contingent Liabilities, is not part of the material weakness condition due to progress made in developing and implementing improved policies, procedures and controls.

- **Property Management:** There is a general lack of documented policies and procedures related to property management sub-processes and related systems. Deficiencies include the lack of adequate control in Construction-in-Progress, Operating Material and Supplies, and Personal and Real property. In addition, there are severe system limitations and inadequate costing processes.

  Progress with Property Management continues through improved valuation of previously unsubstantiated cost of inventory and construction in progress.

- **General Ledger Management Function: Financial Reporting:** The three primary general ledgers are not fully compliant with the USSGL and contain improper posting logic codes. Limitations of the GL systems, timing issues, and the use of multiple GL systems with different GL accounts, contribute to the inappropriate recording of transactions and a significant number of "on-top" adjustments at month end.

- **Human Resources & Payroll:** The military payroll system (JUMPS) does not provide accurate data to the USCG general ledger. JUMPS does not provide accounting information to reconcile Treasury, payroll and general ledger details. The Post Retirement Benefits sub-process has a pervasive lack of controls and there is no process to verify the actuarial liability.

- **Budgetary Resources Management:** The three general ledger systems are not fully compliant with the USSGL at the transaction level. Two of the three do not interface with the Core Accounting System, except for Tier reporting at the summary GL level. The primary budgetary resource management system is not designed to manage and maintain complete budgetary accounting data and does not permit the necessary level of funds control, creating the risk of Anti-Deficiency Act violations.

- **Receivables Management:** USGC does not record certain balances in the general ledger in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by the Federal Accounting Standards Advisory Board (FASAB). This is due in large part to its lack of policies and procedures in several key sub-process areas related to accounts receivable.

- **Revenue Management:** USGC does not record certain balances in the general ledger in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by the Federal Accounting Standards Advisory Board (FASAB). There is no documented standard operating procedure in place to ensure that all projects are closed-out appropriately with all bills and refunds generated as needed.

- **Information Systems:** The FMFIA Section 4 assessment indicates that internal controls over financial systems are inadequate to detect or prevent material errors in the financial statements. A number of non-conformances described in the FMFIA Section 4 assurance statement are a root cause that will limit the USCG's ability to fully remediate material weaknesses in many financial reporting processes. Accordingly, this condition also represents a material weakness in internal control over financial reporting.

Reporting Pursuant to FMFIA Section 4. 31 U.S.C.3512 (d)(2)(B)

The United States Coast Guard's financial management systems do not conform with government-wide requirements. The areas of non-conformance listed below were documented. Management is continuing to execute, and update as appropriate, Mission Action Plans to remediate the following:

- **U.S. Standard General Ledger**
  The designs of the USCG's financial and mixed systems do not reflect financial information classification structures that are consistent with the U.S. Standard General Ledger and provide for tracking of specific program expenditures.

- **Integration of Financial and Mixed Systems**
  The lack of integration of the USCG's financial and mixed systems precludes the use of common data elements to meet reporting requirements, and to collect, store, and retrieve financial information. Similar kinds of transactions are not processed throughout the systems using common processes, which could result in data redundancy and inconsistency.

- **Financial reporting and budgets**
  The USCG's financial and mixed systems do not allow for financial statements and budgets to be prepared, executed, and reported in accordance with the requirements prescribed by OMB, e.g., OMB Circular A-11, preparation and submission of budget estimates, those prescribed by the U.S. Department of Treasury, and/or the Federal Accounting Standards Advisory Board (FASAB).

- **Laws and regulations**
  The USCG's financial and mixed systems do not include a system of internal controls that ensure resource use and financial reporting are consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; reliable data is obtained, maintained, and disclosed in reports; and transactions are processed in accordance with Generally Accepted Accounting Principles (GAAP).

- **System Adaptability**
  The USCG does not evaluate how effectively and efficiently the financial and mixed systems support the USCG's changing business practices and make appropriate modifications to its information systems.

- **Risk assessment and security**
  The USCG does not adequately assess IT security risks or have a documented entity-wide security program plan. For financial and mixed systems that contain "sensitive information" as defined by the Computer Security Act, the USCG has not planned for or incorporated security controls in accordance with OMB Circular A-130. Some of the legacy financial and mixed systems were developed prior to the implementation of some of these regulations and are therefore, not designed to comply with them. Vessel Logistics System (VLS) and Core Accounting System (CAS) are on the OMB high risk list.

- **Documentation and support**
  Adequate technical systems documentation, training, and user support is not consistently available to enable the users of all of the financial and mixed systems to understand, maintain, and operate the systems in an effective and efficient manner.

- **Physical and logical controls**
  The USCG's financial and mixed systems contain weaknesses in the standardization of physical and logical controls, and segregation of duties.

- **Service Continuity**
  The USCG does not adequately assess the criticality and sensitivity of computerized operations, or identify supporting resources, to prevent and/or minimize potential damage from the interruption of service.

- **Software Development**
  The USCG does not consistently apply a defined software development and change control process to software changes and development efforts for all financial and mixed systems. USCG does not perform complete monitoring of the access to, the use of, or the control changes to, systems software. Furthermore, CG financial management and mixed systems do not conform to existing applicable functional requirements.

Reporting Pursuant to the Reports Consolidation Act. Section 3516(e)

The USCG's performance data used in the Performance and Accountability Report are complete and reliable, except for the following material inadequacy:

- **Financial Reporting**: The USCG does not have documentation and adequate controls to support the process to validate that the full cost by strategic goal, as presented in the notes to the consolidated financial statements, is materially consistent with actual costs incurred.

Report Distribution

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

Office of Inspector General

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

January 30, 2009

MEMORANDUM FOR: John P. Torres
Acting Assistant Secretary
United States Immigration and Customs Enforcement

Richard L. Skinner

From: Richard L. Skinner
Inspector General

Subject: *Independent Review of the U.S. Immigration and Customs Enforcement's Reporting of FY 2008 Drug Control Obligations*

Attached for your information is our report, *Independent Review of the U.S. Immigration and Customs Enforcement's Reporting of FY 2008 Drug Control Obligations*. This report contains no recommendations.

We contracted with the independent public accounting firm KPMG LLP to perform the review. The 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. Accordingly, KPMG LLP does not express such an opinion as a result of its review.

Should you have any questions, please call me, or your staff may contact Anne L. Richards, Assistant Inspector General for Audits, at 202-254-4100.

Attachment

Department of Homeland Security
Office of Inspector General

Independent Review of the U.S. Immigration and Customs Enforcement's Reporting of FY 2008 Drug Control Obligations

OIG-09-19

January 2009

Office of Inspector General

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

Homeland Security

January 30, 2009

Preface

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

This report presents the results of the review of the Table of Prior Year Drug Control Obligations and related disclosures of the U.S. Immigration and Customs Enforcement for the fiscal year ended September 30, 2008, for the Office of National Drug Control Policy. We contracted with the independent public accounting firm KPMG LLP to perform the review. U.S. Immigration and Customs Enforcement's management prepared the Table of Prior Year Drug Control Obligations and related disclosures to comply with the requirements of the Office of National Drug Control Policy Circular, *Drug Control Accounting*, dated May 1, 2007. KPMG LLP is responsible for the attached independent accountants' report dated January 23, 2009, and the conclusions expressed in the report. We do not express an opinion on the Table of Prior Year Drug Control Obligations and related disclosures.

It is our hope that the information in this report will continue to result in effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

Richard L. Skinner

Richard L. Skinner
Inspector General

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Accountants' Report

Inspector General
U.S. Department of Homeland Security

We have reviewed the accompanying Table of Prior Year Drug Control Obligations and related disclosures of the U.S. Department of Homeland Security's (DHS) Immigration and Customs Enforcement (ICE) for the year ended September 30, 2008. We have also reviewed the accompanying management's assertions for the year ended September 30, 2008. ICE's management is responsible for the Table of Prior Year Drug Control Obligations and related disclosures and the assertions.

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

Management of ICE prepared the Table of Prior Year Drug Control Obligations and related disclosures and management's assertions to comply with the requirements of the Office of National Drug Control Policy (ONDCP) Circular, *Drug Control Accounting*, dated May 1, 2007.

Based on our review, nothing came to our attention that caused us to believe that (1) the Table of Prior Year Drug Control Obligations and related disclosures for the year ended September 30, 2008 is not presented, in all material respects, in conformity with ONDCP's Circular, *Drug Control Accounting* (May 1, 2007), or that (2) management's assertions referred to above are not fairly stated, in all material respects, based on the criteria set forth in ONDCP's Circular, *Drug Control Accounting* (May 1, 2007).

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

KPMG LLP

January 23, 2009

Department of Homeland Security
U.S. Immigration and Customs Enforcement
Detailed Accounting of Drug Control Funds during FY 2008

A. Table of Prior Year Drug Control Obligations

		(in Millions) FY 2008 Final
Drug Resources by Budget Decision Unit and Function:		
Salaries and Expenses		
Intelligence: Domestic Law Enforcement	$	3.921
Intelligence: International	$	0.484
International	$	4.568
Investigations	$	388.933
Total, Salaries and Expenses	**$**	**397.906**
Total Funding	**$**	**397.906**
HIDTA Transfer	$	1.540

Disclosure No. 1: Drug Methodology

U.S. 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 three ICE programs which undertake drug-related investigative activity: Office of Investigations, International Affairs and the Office of Intelligence.

Investigations Program

- 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. Applying the percentage to total of direct resources results in a cost allocated to drug cases. This percentage may fluctuate from year to year. For FY 2008 the percentage was 27.5%. To calculate a dollar amount, this percentage is applied to actual obligations incurred by the Office of Investigations (OI) against budget authority gained in FY 2008, excluding reimbursable authority.

Intelligence Program

- ICE employs the same methodology as Investigations for calculating all drug control activities within the Office of Intelligence's budget. For FY 2008, 9.4% 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 2008 incurred by the Office of Intelligence for all activities.

- The Intelligence Requirement Intake System – IRIS tracks request for intelligence work by customer. Requests made by the Office of International Affairs are classified as inherently international and all other customers are classified as inherently domestic. In FY 2008, 11% of IRIS requests were international in nature.

International Affairs Program

- The methodology for the Office of International Affairs (OIA) is also based on investigative hours recorded in ICE's automated Case Management System which are represented as full time equivalent (FTE) agents. For FY 2008, 4.4% was applied to actual obligations against budget authority gained in FY 2008 incurred by the Office of International Affairs for all activities. This percentage represents the relationship of FTE agents with the number of overseas agents.

<u>Disclosure No. 2: Methodology Modifications</u>

As requested by the Office of National Drug Control Policy, the FY 2008 Table of Prior Year Drug Control Obligations sub-divided Intelligence activity between domestic and international work. The new methodology adds an additional step to the FY 2007 methodology and is discussed above. In comparing the FY 2008 methodology against the FY 2007 methodology, there is no quantitative difference in the total amount reported for the Office of Intelligence or ICE.

<u>Disclosure No. 3: Material Weaknesses or Other Findings</u>

In FY 2008, there were no known material weaknesses or other findings by independent sources which might affect the presentation of the Immigration and Customs Enforcement's prior year drug-related obligations data.

<u>Disclosure No. 4: Reprogrammings or Transfers</u>

No Reprogrammings or Transfers of drug-related budget resources occurred during FY 2008.

<u>Disclosure No. 5: Other Disclosures</u>

In previous submissions, the Office of International Affairs' drug-related obligations and program requests were included as part of the Office of Investigations' request. In FY 2007, there was an organizational change that established OIA as a stand-alone office within ICE. All submissions beginning with FY 2007 reflect this change.

There are no other disclosures, which we feel are necessary to clarify any issues regarding the data reported.

B. Assertions

Assertion No. 1: Obligations by Budget Decision Unit

Not Applicable- noted in the ONDCP Circular: Drug *Control Accounting 6 (b) (1).*

Assertion No. 2: Drug Methodology

The methodology used to calculate obligations of prior year budgetary resources by budget decision unit and function is reasonable and accurate in regard to the workload data employed and the estimation methods used. The workload data is derived from the TECS and IRIS systems discussed in the methodology section above and based on work performed between October 1, 2007 and September 30, 2008. There are no other estimation methods used. The financial system used to calculate the drug-related budget obligations is the Federal Financial Management System (FFMS) which is capable of yielding data that fairly presents, in all material respects, aggregate obligations.

Assertion No. 3 Application of Drug Methodology

The methodology disclosed in section A, Disclosure No. 1 was the actual methodology used to generate the table.

Assertion No. 4: Reprogrammings or Transfers

No Reprogrammings or Transfers of drug-related budget resources occurred during FY 2008.

Assertion No. 5: Fund Control Notices

No Fund Control Notice was issued by the ONDCP Director under 21 U.S.C. section 1703(f) to ICE in FY 2008. The data presented are associated with obligations against a financial plan that was sent to ONDCP in FY 2008.

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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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Office of Inspector General

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

Homeland Security

February 12, 2009

MEMORANDUM FOR: The Honorable W. Ralph Basham
Commissioner
United States Customs and Border Protection

Richard L. Skinner

From: Richard L. Skinner
Inspector General

Subject: *Independent Review of the U.S. Customs and Border Protection's Reporting of FY 2008 Drug Control Obligations*

Attached for your information is our report, *Independent Review of the U.S. Customs and Border Protection's Reporting of FY 2008 Drug Control Obligations*. This report contains no recommendations.

We contracted with the independent public accounting firm KPMG LLP to perform the review. The review was conducted according to attestation standards established by the American Institute of Certified Public Accountants.

U.S. Customs and Border Protection's management reported that it cannot assert that "the data presented are associated with obligations against a financial plan that, if revised during the fiscal year, properly reflects those changes, including [Office of National Drug Control Policy's] approval of reprogrammings or transfers affecting drug-related resources in excess of $1 million." As a result, KPMG LLP was unable to complete its review and report on management's assertions on the Table of FY 2008 Drug Control Obligations pursuant to the requirements of the Office of National Drug Control Policy Circular.

Should you have any questions, please call me, or your staff may contact Anne L. Richards, Assistant Inspector General for Audits, 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 FY 2008 Drug Control Obligations

OIG-09-28

February 2009

Office of Inspector General

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

Homeland Security

February 12, 2009

Preface

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

This report presents the results of the review of the Table of FY 2008 Drug Control Obligations and related disclosures of the U.S. Customs and Border Protection for the fiscal year ended September 30, 2008, for the Office of National Drug Control Policy. We contracted with the independent public accounting firm KPMG LLP to perform the review. U.S. Customs and Border Protection's management prepared the Table of FY 2008 Drug Control Obligations and related disclosures to comply with the requirements of the Office of National Drug Control Policy Circular, *Drug Control Accounting*, dated May 1, 2007. KPMG LLP is responsible for the attached independent accountants' report dated February 2, 2009, and the conclusions expressed in the report.

U.S. Customs and Border Protection's management reported that it cannot assert that "the data presented are associated with obligations against a financial plan that, if revised during the fiscal year, properly reflects those changes, including [Office of National Drug Control Policy's] approval of reprogrammings or transfers affecting drug-related resources in excess of $1 million." As a result, KPMG LLP was unable to complete its review and report on management's assertions on the Table of FY 2008 Drug Control Obligations pursuant to the requirements of the Office of National Drug Control Policy Circular. We do not express an opinion on the Table of FY 2008 Drug Control Obligations and related disclosures.

We trust the information in this report will continue to result in effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

Richard L. Skinner

Richard L. Skinner
Inspector General

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Accountants' Report

Inspector General
U.S. Department of Homeland Security

We have reviewed the accompanying Table of FY 2008 Drug Control Obligations and related disclosures of the U.S. Department of Homeland Security's (DHS) Customs and Border Protection (CBP) for the year ended September 30, 2008. We were also engaged to review the accompanying management's assertions for the year ended September 30, 2008. CBP's management is responsible to prepare the Table of FY 2008 Drug Control Obligations and related disclosures and the assertions to comply with the requirements of the Office of National Drug Control Policy (ONDCP) Circular: *Drug Control Accounting* dated May 1, 2007 (ONDCP Circular).

The ONDCP Circular requires management to make certain assertions related to the accuracy and completeness of the Table of FY 2008 Drug Control Obligations and related disclosures. Management reported that they can not assert that the "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 $1 million," as required by the ONDCP Circular.

In accordance with applicable professional standards, without a positive assertion provided by management we are unable to complete our review of management's assertions on the Table of FY 2008 Drug Control Obligations and related disclosures. Accordingly, our review procedures are limited to the subject matter of the Table of FY 2008 Drug Control Obligations and related disclosures only, and we are unable to report on management's assertions pursuant to the requirements of the ONDCP Circular.

Our review of the subject matter of the Table of FY 2008 Drug Control Obligations and related disclosures 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 FY 2008 Drug Control Obligations and related disclosures. Accordingly, we do not express such an opinion.

Based on our review, nothing came to our attention that caused us to believe that the subject matter of the Table of FY 2008 Drug Control Obligations and related disclosures for the year ended September 30, 2008 is not presented, in all material respects, in conformity with ONDCP's Circular.

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

February 2, 2009

DEPARTMENT OF HOMELAND SECURITY
CUSTOMS AND BORDER PROTECTION
Annual Reporting of FY 2008 Drug Control Funds

DETAILED ACCOUNTING SUBMISSION

A. Table of FY 2008 Drug Control Obligations

(Dollars in Millions)	FY 2008 Final
Drug Resources by Budget Decision Unit and Function	
Salaries & Expenses	
Intelligence	215.459
Interdiction	1,033.217
Total, Salaries and Expenses	1,248.676
Air & Marine Operations	
Intelligence	$62.169
Interdiction	$233.875
Total, Air & Marine Operations	$296.044
Total Obligations	$1,544.720

1. Drug Methodology

Customs and Border Protection (CBP) is a multi-mission bureau, and calculates obligations, by budget decision unit and function, pursuant to an approved drug methodology. On the basis of past practice, five organizations within CBP, the Offices of: Border Patrol; Field Operations; Information Technology; Training and Development; and Air and Marine were provided with guidance on preparing estimates for the FY 2008 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.

All five organizations identified resources in their financial plans that support the drug enforcement mission of the agency. The Office of Information Technology, the Office of Field Operations and the Office of Air and Marine attribute their resources to both intelligence and interdiction functions; while the Office of Training and Development and the Office of Border Patrol attribute their resources solely to interdiction.

OFFICE OF BORDER PATROL

The Office of Border Patrol is responsible for controlling almost 6,000 miles of land borders between ports of entry with Canada and Mexico and nearly 2,700 miles of coastal waters surrounding the Florida Peninsula and Puerto Rico. There are almost 17,500 Border Patrol agents as of September 27, 2008, assigned to the mission of detecting and apprehending illegal entrants between the ports-of-entry. 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. Of the 15% related to drug interdiction, 15% of these efforts are related to intelligence. These activities include staffing 34 permanent border traffic checkpoints nationwide including 625 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 September 2008, there were 3,941 CBP Officer positions that were 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 were 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, A-TCETs also focus on all types of contraband, including narcotics. It is estimated that 69 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 September 2008, CBP had a total of 626 Canine Enforcement Officers on-board. Included in the total were 228 Narcotics Detection Teams, 15 Currency Detection Teams and 238 Narcotics/Concealed Human Detection Teams that were nearly 100 percent devoted to smuggling interdiction. Also included in the total, but not scored for narcotics enforcement is 115 Agricultural Teams, and 23 Explosive Detection Teams. Seven dog handlers did not have dogs at the time that this data was collected. This was due to recent canine retirements.

As of September 2008, the Office of Field Operations (OFO) also had oversight for 14,951 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, 30 percent of base of the Enforcement Technology Center; 25 percent of Automated Targeting Systems (Passenger, Narcotics, and Anti-Terrorism) systems software costs, 50 percent of the Treasury Enforcement Communications System (TECS); 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 in FY 2008 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.

OFFICE OF AIR & MARINE OPERATIONS

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. However, due to aging aircraft structural, fatigue, and stress issues over the service life of the fleet, three P-3s have reached the Total Life Index (TLI) limit and one other is nearing TLI. Several other P-3s are undergoing or are nearing completion of depot level sustainment inspection and repair. Therefore, A&M has not been able to meet this 7,200 minimum. However, CBP A&M flew in excess of 5900 hours with dramatically reduced fleet availability in FY 2007. As sustainment inspections are completed, fleet availability is expected to increase throughout FY 2008. An extensive SLEP program is underway. CBP A&M conducted a full and open competition to acquire new wing assembly kits for the P-3s. In FY 2008, a contract for new wing kits was awarded. This effort will be followed by a wing installation initiative commencing in FY 2009. The completion of special depot inspections in FY 2008 will stage CBP A&M to meet or exceed flight hour commitments by the end of FY 2009. Successful completion of the SLEP program will add 15,000 flight hours to the service life of the CBP A&M P-3 fleet. The P-3 fleet will continue to play a significant role in interdiction, law enforcement, and air domain security in Source, Transit and Arrival Zones through FY 2027.

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 Marine 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. As mentioned above the percentages are, in large part, based on expert opinion.

3. Material Weaknesses or Other Findings

Pursuant to CBP's FY 2008 Internal Control Assurance Statement, CBP reported an IT material weakness with respect to IT general and application controls. The Assurance Statement cited that the weakness limits CBP's ability to ensure that critical and operational data is maintained in such a manner to ensure confidentiality, integrity, and availability. SAP is the primary system CBP utilizes to support drug control obligation expenditures. The latest estimated completion date for correcting the material weakness is December 30, 2009.

4. Reprogrammings or Transfers

A reprogramming action dated September 9, 2008 from Border Security and Control Between ($5.25 million) and At the Ports of Entry ($2.1 million) Program Project and Activities (PPAs) to the Border Security Fencing Infrastructure and Technology (PPA) resulted in a ($7.35) million dollar decrease to the Drug Control Budget for FY 2008. A June 25, 2008 reprogramming action from the Border Security and Control Between the Ports of Entry PPA to the Air and Marine Salaries PPA resulted in a $13.26 million increase to the drug control budget. The reprogramming actions in September and June cumulatively increased the FY 2008 drug control budget by approximately $5.91 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 Full Time Equivalent (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 Estimation Methods

As referenced in Section A.1, program offices used expert opinion to determine drug budget methodologies. Intelligence and interdiction levels were established and computed based upon the professional judgment of the programs. The drug control budget program totals and the percentage of resources related to drug enforcement activities was calculated by expert opinion.

c. Financial Systems

CBP's financial systems (SAP) 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 sections A.1 and B.1 above was used to prepare the estimates contained in this report.

3. Reprogrammings or Transfers

Pursuant to 21 U.S.C. 1703 (c)(4)(A), the Office of National Drug Control Policy (ONDCP) Circular on Budget Execution (revised May 1, 2007) prohibits agencies from submitting to Congress reprogramming or transfer requests that would result in a decrease or increase of $1 million or more in funding included in the National Drug Control Program budget. CBP failed to notify ONDCP for approval before submitting FY 2008 reprogramming and transfer requests exceeding the threshold amount to the Congress on June 25, 2008 and September 9, 2008 per the ONDCP Circular dated May 1, 2007. Budget will implement corrective actions to assure that future notifications will take place.

4. Fund Control Notices

The Director of National Drug Control Policy did not issue a Fund Control Notice for CBP for FY 2008. The data presented is associated with obligations against a financial plan that fully complies 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*.

Report Distribution

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

Tab E

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

January 28, 2009

Mr. Jon Rice
Associate Director
Office of Planning and Budget
Office of National Drug Control Policy
Washington, D.C. 20503

Dear Mr. Rice:

This letter transmits the fiscal year 2008 attestation review reports from the U.S. Department of Justice. The attestation review reports, the annual detailed accounting of funds expended by each drug control program agency, and performance summary is required by 21 U.S.C. § 1704(d), as implemented by the Office of National Drug Control Policy Circular, *Drug Control Accounting*, dated May 1, 2007.

If you have any questions, please contact me on (202) 514-3435 or Mark L. Hayes, Director, Financial Statement Audit Office, on (202) 616-4660.

Sincerely,

Glenn A. Fine
Inspector General

Enclosure

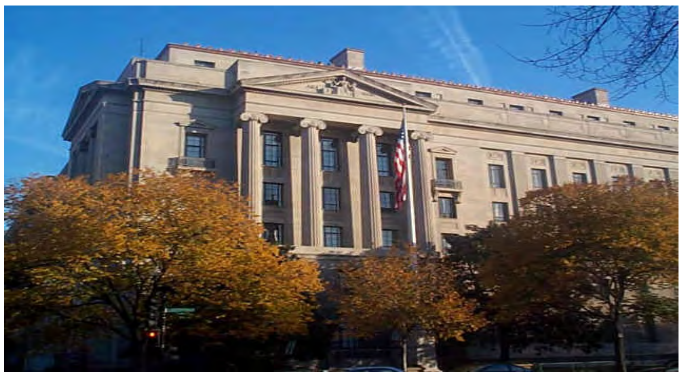
cc: Lee J. Lofthus
Assistant Attorney General
for Administration
Chief Financial Officer
Justice Management Division

Mikki Atsatt
Senior Budget Policy Advisor
Budget Staff
Justice Management Division

Jeffrey Sutton
Assistant Director, Budget Staff
Law Enforcement & Corrections Group
Justice Management Division

Jill R. Meldon
Assistant Director, Budget Staff
Planning and Performance Group
Justice Management Division

Melinda B. Morgan
Director, Finance Staff
Justice Management Division



ANNUAL ACCOUNTING AND AUTHENTICATION OF DRUG CONTROL FUNDS AND RELATED PERFORMANCE FISCAL YEAR 2008

U.S. Department of Justice
Office of the Inspector General
Audit Division

Audit Report 09-09
January 2009

ANNUAL ACCOUNTING AND AUTHENTICATION OF DRUG CONTROL FUNDS AND RELATED PERFORMANCE FISCAL YEAR 2008

OFFICE OF THE INSPECTOR GENERAL COMMENTARY AND SUMMARY

This report contains the fiscal year 2008 attestation review reports of the Federal Bureau of Prisons (BOP), Drug Enforcement Administration (DEA), Organized Crime Drug Enforcement Task Forces (OCDETF) Program, and Office of Justice Programs (OJP) annual accounting and authentication of drug control funds and related performance. Under the direction of the Office of the Inspector General (OIG), KPMG LLP performed the attestation reviews. The report and annual detailed accounting of funds expended by each drug control program agency is required by 21 U.S.C. § 1704(d), as implemented by the Office of National Drug Control Policy (ONDCP) Circular, *Drug Control Accounting*, dated May 1, 2007.

KPMG LLP prepared the reports in accordance with the Attestation Standards issued by the American Institute of Certified Public Accountants (AICPA). Each of the reports was properly addressed, titled, and contained the elements required by the AICPA Statements on Standards for Attestation Engagements, AT Section 100.45. An attestation review is less in scope than an examination and, therefore, does not result in the expression of an opinion. However, KPMG LLP reported that nothing came to their attention that caused them to believe the submissions were not presented in all material respects in accordance with the requirements of the ONDCP circular.

The OIG reviewed KPMG LLP's reports and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an attestation engagement in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion or conclusions on the annual accounting and authentication of drug control funds and related performance. KPMG LLP is responsible for the attached accountants' reports dated January 22, 2009, and January 23, 2009, and the conclusions expressed in the reports. However, our oversight disclosed no instances where KPMG LLP did not comply, in all material respects, with U.S. generally accepted government auditing standards.

ANNUAL ACCOUNTING AND AUTHENTICATION OF DRUG CONTROL FUNDS AND RELATED PERFORMANCE
FISCAL YEAR 2008

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Independent Accountants' Reports and Component Detailed Accounting Submissions

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Accountants' Report

Inspector General
U.S. Department of Justice

Assistant Attorney General for Administration
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 Federal Bureau of Prisons (BOP) for the year ended September 30, 2008. We have also reviewed the accompanying Management's Assertion Statement for the year ended September 30, 2008. The BOP's management is responsible for the Table of Drug Control Obligations, related disclosures, and the assertion statement.

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 statement. 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 statement to comply with the requirements of the Office of National Drug Control Policy (ONDCP) Circular, *Drug Control Accounting*, dated May 1, 2007.

Based on our review, nothing came to our attention that caused us to believe that: (1) the Table of Drug Control Obligations and related disclosures for the year ended September 30, 2008 are not presented, in all material respects, in conformity with ONDCP's Circular, *Drug Control Accounting*, dated May 1, 2007, or that (2) the Management's Assertion Statement 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 May 1, 2007.

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

January 22, 2009

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U.S. Department of Justice

Federal Bureau of Prisons

Washington, DC 20534

U.S. Department of Justice
Bureau of Prisons
Detailed Accounting Submission
Management's Assertion Statement
For Fiscal Year Ended September 30, 2008

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 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 2008.

We have documented the methodology used by BOP to identify and accumulate FY 2008 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 May 1, 2007. The BOP drug control methodology has been consistently applied from the previous year.

W.F. Dalius, Jr.
Assistant Director
for Administration

01/22/09
Date

U.S. Department of Justice
Bureau of Prisons
Table of Drug Control Obligations
For Fiscal Year Ended September 30, 2008
(Dollars in millions)

	FY 2008 Actual Obligations
Drug Obligations by Budget Decision Unit and Function:	
Decision Unit: Inmate Care and Programs	
Treatment	$76.192
Total, Inmate Care and Programs	$76.192
Total Obligations	$76.192

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 May 1, 2007 and ONDCP's memorandum, Current Budget Issues, dated September 3, 2008. The table represents obligations incurred by the BOP for drug control purposes. The amounts are net of all reimbursable agreements. The BOP receives drug control funds solely for the purpose of drug treatment.

Data - All accounting information for the BOP is derived from the Department of Justice (DOJ) Financial Management Information System (FMIS). FY 2008 actual obligations for Drug Treatment Programs are reported as Drug Control Obligations since the entire focus is drug related.

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

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 2007). 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 independent audit of BOP's FY 2008 financial statements resulted in an unqualified or "clean" audit opinion with no material weaknesses. In the Independent Auditors' Report on Internal Control Over Financial Reporting, there was one significant deficiency related to Information Systems Controls and no findings in the Compliance Report.

During the FY 2008 audit, auditors evaluated the general control environment and selected application controls. General controls are the structure, policies, and procedures that apply to the BOP's overall computer operations. Application controls are the structure, policies, and procedures that apply to the BOP's separate application systems. The evaluation was performed using the U.S. Government Accountability Office's (GAO) Federal Information System Controls Audit Manual (FISCAM) and National Institute of Standards and Technology (NIST), Special Publication (SP) 800-53, Recommended Security Controls for Federal Information Systems. The auditors noted weaknesses in the following FISCAM general control areas: access controls and system software. The BOP has implemented corrective action plans to specifically address each recommendation found in the Independent Auditors' Report on Internal Control Over Financial Reporting. 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 2008 Independent Auditors' Report on Financial Statements, Independent Auditors' Report on Internal Control Over Financial Reporting, and the Independent Auditors' Report 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 2008.

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 2008, $931,000 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 eight PHS FTEs related to drug treatment during FY 2008. Therefore, the transferred obligations and PHS FTEs were included in BOP's Table of Drug Control Obligations.

Disclosure No 6. Other Disclosures

The BOP did not have any ONDCP fund control notices issued in FY 2008.

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Accountants' Report

Inspector General
U.S. Department of Justice

Assistant Attorney General for Administration
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, 2008. We have also reviewed the accompanying Management's Assertion Statement for the year ended September 30, 2008. The DEA's management is responsible for the Table of Drug Control Obligations, related disclosures, and the assertion statement.

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 statement. 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 statement to comply with the requirements of the Office of National Drug Control Policy (ONDCP) Circular, *Drug Control Accounting*, dated May 1, 2007.

Based on our review, nothing came to our attention that caused us to believe that: (1) the Table of Drug Control Obligations and related disclosures for the year ended September 30, 2008 are not presented, in all material respects, in conformity with ONDCP's Circular, *Drug Control Accounting,* dated May 1, 2007, or that (2) the Management's Assertion Statement 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 May 1, 2007.

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

January 23, 2009

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U.S. Department of Justice
Drug Enforcement Administration
Detailed Accounting Submission
Management's Assertion Statement
For Fiscal Year Ended September 30, 2008

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 Office of National Drug Control Policy's (ONDCP) approval of reprogrammings and transfers in excess of $1 million affecting drug-related resources.

5. DEA did not have any ONDCP Fund Control Notices issued in FY 2008.

We have documented the methodology used by the DEA to identify and accumulate FY 2008 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 May 1, 2007. The DEA drug control methodology has been consistently applied from the previous year.

Frank M. Kalder

Frank M. Kalder, Chief Financial Officer

1/23/09

Date

U.S. Department of Justice
Drug Enforcement Administration
Table of Drug Control Obligations
For Fiscal Year Ended September 30, 2008
(Dollars in Millions)

		FY 2008 Actual Obligations	
Drug Obligations by Budget Decision Unit and Function:			
Diversion Control Fee Account			
Investigations	$	219.797	
Intelligence: Domestic Law Enforcement		8.271	
State and Local Assistance		0.086	
Total Diversion Control Fee Account	**$**	**228.154**	
Domestic Enforcement			
Investigations	$	1,379.362	
Intelligence: Domestic Law Enforcement		144.544	
State and Local Assistance		109.423	
Prevention		1.236	
Total Domestic Enforcement	**$**	**1,634.565**	
International Enforcement			
International	$	343.394	
Intelligence: International		25.149	
State and Local Assistance		0.413	
Prevention		0.005	
Total International Enforcement	**$**	**368.961**	
State and Local Assistance			
State and Local Assistance	$	2.124	
Total State and Local Assistance	**$**	**2.124**	
Total Obligations	**$**	**2,233.804**	*
HIDTA Transfer		$15.859	

* 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, the DEA is the lead agency responsible for the development of the overall Federal drug enforcement strategy, programs, planning, and evaluation. The 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;

- Liaison with the United Nations, Interpol, and other organizations on matters relating to international drug control programs; and

- Supporting and augmenting U.S. efforts against terrorism by denying drug trafficking and/or money laundering routes to foreign terrorist organizations, as well as against the use of illicit drugs as barter for munitions to support terrorism.

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 May 1, 2007 as revised by a September 3, 2008 memo from ONDCP showing function and decision unit. The table represents obligations incurred by the DEA for drug control purposes and reflects 100 percent of the DEA's mission.

Since the DEA's accounting system, the Federal Financial System (FFS), does not track obligation and expenditure data by ONDCP's drug functions, the 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.

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

Other Estimation Methods: None.

Financial Systems: FFS is the information system the DEA uses to track obligations and expenditures. Obligations derived from this system can also be reconciled against enacted appropriations and carryover balances.

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

The DEA Decision Unit	Allocation	ONDCP Function
Diversion Control Fee Account	96.34%	**Investigations**
Domestic Enforcement	84.39%	
Diversion Control Fee Account	3.63%	**Intelligence: Domestic Law Enforcement**
Domestic Enforcement	8.84%	**Intelligence: Domestic Law Enforcement**
International Enforcement	6.82%	**Intelligence: International**
State and Local Assistance	0.00%	**Intelligence: Domestic Law Enforcement**
International Enforcement	93.07%	**International**
Diversion Control Fee Account	0.03%	**State and Local Assistance**
Domestic Enforcement	6.69%	
International Enforcement	0.11%	
State and Local Assistance	100.00%	
Domestic Enforcement	0.08%	**Prevention**
International Enforcement	0.00%	

The DEA's financial system began recording obligations in the appropriated four decision units in FY 2008.

Decision Units: One hundred percent of the DEA's total obligations by decision unit were associated with drug enforcement. This total is reported and tracked in FFS.

Transfers and Reimbursements: High Intensity Drug Trafficking Area (HIDTA) transfers are shown on a single line below the Total Obligations line from the DEA's Table of Drug Control Obligations. Reimbursable obligations are excluded from the DEA's Table of Drug Control Obligations since they are reported by other sources.

Disclosure 2: Methodology Modification of Drug Enforcement Accounting Method

The DEA's method for tracking drug enforcement resources has not been modified from the method approved in FY 2005. The DEA uses current MCA data to allocate FY 2008 obligations from four decision units to ONDCP's drug functions.

Disclosure 3: Material Weaknesses and Other Findings

The results of the DEA's FY 2008 financial statement audit revealed no material weaknesses that affect the presentation of drug related obligations data.

Disclosure 4: Reprogrammings and Transfers

There was one reprogramming in FY 2008 when the DEA submitted an allocation request in FY 2008 as part of the DEA's FY 2008 spending plan. In compliance with the FY 2008 Joint Resolution, the DEA, through the Department of Justice, submitted its FY 2008 spending plan to Congress for approval. This one-time action reprogrammed $3 million from the DEA's FY 2008 annual, direct Aviation Operation Salaries & Expenses (S&E) funding and $1 million from the DEA's FY 2007/2008 Global War On Terror (GWOT) supplemental funding to purchase one $4 million ATR aircraft for use in Afghanistan. The reprogramming occurred within the International Enforcement's International drug control function and is not identified on Table of FY 2008 Reprogrammings and Transfers. The DEA received approval on its FY 2008 operating plan from the Senate and the House on April 22, 2008.

In addition, the DEA had several transfers during FY 2008 (see the attached Table of FY 2008 Reprogrammings and Transfers). The DEA had 14 transfers into its S&E account - one transfer from Department of Justice totaling $14,075,000, four transfers from ONDCP's High Intensity Drug Trafficking Area (HIDTA) program totaling $15,680,552, and nine internal transfers from expired FY 2005/FY 2006/FY 2007 S&E funds of $70,383,633. Also, the DEA had 20 transfers out of its S&E account - one transfer to the Department of Justice's Wire Management Office totaling $317,366, nine transfers to DOJ's Working Capital Fund totaling $13,692,876, one transfer to ONDCP's (HIDTA) program totaling $443,745, and nine internal transfers from expired FY 2005/FY 2006/FY 2007 S&E funds of $70,383,633 to the DEA's S&E No-Year funds.

Transfers under the Drug Resources by Function section in the Table of FY 2008 Reprogrammings and Transfers are based on the same MCA allocation percentages as the Table of Drug Control Obligations.

Disclosure 5: Other Disclosures

The DEA did not have any ONDCP Fund Control Notices issued in FY 2008.

Department of Justice
Drug Enforcement Administration
Table of FY 2008 Reprogrammings and Transfers
(Dollars in Millions)

	Reprogrammings	Transfers In	Transfers Out	Total
Drug Resources by Budget Decision Units and Function:				
Drug Diversion Control Fee Account				
Investigations	-	-	-	-
Intelligence: Domestic Law Enforcement	-	-	-	-
State and Local Assistance	-	-	-	-
Diversion Control Fee Account Total	-	-	-	-
Domestic Enforcement				
Investigations	$ -	$ 71.272	$ (68.764)	$ 2.508
Intelligence: Domestic Law Enforcement	-	7.469	(7.206)	0.263
State and Local Assistance	-	5.654	(5.455)	0.199
Prevention	-	0.064	(0.062)	0.002
Domestic Enforcement Total	**-**	**84.459**	**(81.487)**	**2.972**
International Enforcement				
International	-	-	(2.706)	(2.706)
Intelligence: International	-	-	(0.198)	(0.198)
State and Local Assistance	-	-	(0.003)	(0.003)
Prevention	-	-	(0.000)	(0.000)
International Enforcement Total	**-**	**-**	**(2.907)**	**(2.907)**
State and Local Assistance				
Intelligence: Domestic Law Enforcement	-	-	-	-
State and Local Assistance	-	-	-	-
State and Local Assistance Total	-	-	-	-
Total	**$ -**	**$ 84.459**	**$ (84.394)**	**$ 0.065**
HIDTA Transfers		$15.681	($0.444)	$15.237

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Accountants' Report

Inspector General
U.S. Department of Justice

Assistant Attorney General for Administration
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, 2008. We have also reviewed the accompanying Management's Assertion Statement for the year ended September 30, 2008. The OCDETF Program's management is responsible for the Table of Drug Control Obligations, related disclosures, and the assertion statement.

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 statement. 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 statement to comply with the requirements of the Office of National Drug Control Policy (ONDCP) Circular, *Drug Control Accounting*, dated May 1, 2007.

Based on our review, nothing came to our attention that caused us to believe that: (1) the Table of Drug Control Obligations and related disclosures for the year ended September 30, 2008 are not presented, in all material respects, in conformity with ONDCP's Circular, *Drug Control Accounting*, dated May 1, 2007, or that (2) the Management's Assertion Statement 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 May 1, 2007.

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

January 23, 2009

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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 Program
Detailed Accounting Submission
Management's Assertion Statement
For Fiscal Year Ended September 30, 2008

On the basis of OCDETF's management control program, we assert that the Organized Crime Drug Enforcement Task Forces (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 $1 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 2008.

We have documented the methodology used by OCDETF to identify and accumulate FY 2008 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 May 1, 2007. The OCDETF Program's drug control methodology has been consistently applied from the previous year.

Peter Maxey
Budget Officer

1/23/2009
Date

U.S. Department of Justice
Organized Crime Drug Enforcement Task Forces (OCDETF) Program
Table of Drug Control Obligations
For the Fiscal Year Ended September 30, 2008

Actual 2008 Obligations
Dollars in Millions
Decision Unit Crosswalk

	Annual Appropriated Funds	OCDETF Executive Office	Revised	No-Year Reprogram Reallowed Funds 2/	Total FY 2008 Actual Obligations
Drug Obligations by Decision Unit and Function1/					
Investigations:					
Drug Enforcement Administration (DEA)	$183.339	$1.923	$185.262	$0.391	$185.653
Federal Bureau of Investigation (FBI)	113.944	1.195	115.139	2.418	117.557
U.S. Marshals Service (USMS)	8.272	0.087	8.359	0.009	8.368
Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF)	11.151	0.117	11.268	0.112	11.380
Subtotal Investigations	316.706	3.322	320.028	2.930	322.958
Drug Intelligence:					
DEA	9.036	0.095	9.131	0.009	9.140
FBI	20.085	0.211	20.296	0.021	20.317
OCDETF Fusion Center (OFC)	11.469	0.000	11.469	0.000	11.469
Subtotal Intelligence	40.590	0.306	40.896	0.030	40.926
TOTAL INVESTIGATIONS DECISION UNIT	**357.296**	**3.628**	**360.924**	**2.960**	**363.884**
Prosecutions:					
U.S. Attorneys (USA)	131.526	1.380	132.906	3.640	136.546
Criminal Division	2.653	0.028	2.681	0.000	2.681
Tax Division	0.232	0.002	0.234	0.000	0.234
TOTAL PROSECUTIONS DECISION UNIT	**134.411**	**1.410**	**135.821**	**3.640**	**139.461**
Administrative Support:					
OCDETF Executive Office	5.038	(5.038)	0.000	0.000	0.000
Total Obligations	$496.745	$0.000	$496.745	$6.600	$503.345
				Expired Oblig	0.000
					503.345

1/ The first column represents the OCDETF Program's four internal decision units: Investigations, Drug Intelligence, Prosecution, and Administrative Support. In conformance with the Administration's proposed restructuring for FY 2008 and to reflect obligations by the prescribed ONDCP drug function, these four decision units have been collapsed into two Decision Units: Investigations and Prosecutions, with Administrative Support pro-rated between decision units based on the percentage of appropriated Interagency Crime and Drug Enforcement (ICDE) Program funding.

2/ Total obligated balances include reprogrammed/reallowances of carryover funds in the amount of $6.600 M. (Dollars in Millions)

No-Year (15X0323):	Amount	DEA	FBI	USMS	ATF	DEA. Intell.	FBI Intell.	USA
Phoenix Task Force	$0.200	$0.200	0.000	0.000	0.000	0.000	0.000	0.000
FBI Strike Forces/Operations	2.300	0.000	$2.300	0.000	0.000	0.000	0.000	0.000
USA Reprogramming	3.500	0.000	0.000	0.000	0.000	0.000	0.000	$3.500
Financial Training 3/	0.500	0.191	0.118	$0.009	$0.012	$0.009	$0.021	0.140
ATF Operational Support	0.100	0.000	0.000	0.000	0.100	0.000	0.000	0.000
Total	$6.600	$0.391	$2.418	$0.009	$0.112	$0.009	$0.021	$3.640

3/ Financial Training is pro-rated between decision units based on the percentage of appropriated ICDE Program funding.

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 Program
Management's Disclosure Statement
For Fiscal Year Ended September 30, 2008

Disclosure No 1. - Drug Control Methodology

The Organized Crime Drug Enforcement Task Forces (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 DOJ OCDETF appropriated funding comes from DOJ's Interagency Crime and Drug Enforcement (ICDE) account.

During FY 2004 and FY 2005, the ICDE appropriation included funding to reimburse agencies in the DOJ, Treasury and DHS 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 FY 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 2007 and FY 2008. Instead, funding for OCDETF's non-DOJ partners was requested through direct appropriations for Treasury and DHS.

OCDETF is directly charged with carrying out the DOJ 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 Table of Drug Control Obligations was prepared in accordance with the Office of National Drug Control Policy (ONDCP) Circular, *Drug Control Accounting*, dated May 1, 2007 and ONDCP's memorandum, *Current Budget Issues*, dated September 3, 2008. 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 drug control.

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 activities of the Task Force -- Investigations, Intelligence, Prosecutions, 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 Decision Unit - This decision unit 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. Intelligence Decision Unit - This decision unit includes the reimbursable resources that support intelligence activities of the following participating agencies: the Drug Enforcement Administration and the Federal Bureau of Investigation including the operational costs associated with the OCDETF Fusion Center. The methodology applies 100 percent of the resources that support OCDETF intelligence activities.

c. Prosecution Decision Unit - This decision unit 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 resources to the Prosecution Decision Unit.

d. Administrative Support Decision Unit- This decision unit 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.

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 2008 request for OCDETF reflected a restructuring that collapses the OCDETF Program's four decision units- Investigations, Drug Intelligence, Prosecution, and Administrative Support- into two decision units- Investigations and Prosecutions. Under this new methodology, Law Enforcement activities formerly included in Investigations and Drug Intelligence are now 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 or Other Findings

The DOJ Offices, Boards and Divisions (OBDs) FY 2008 Independent Auditors' Report on Internal Control Over Financial Reporting revealed no material weaknesses.

Although no material weaknesses were noted in the FY 2008 OBDs audit report on internal controls, one significant deficiency was reported. The deficiency was identified in the design of controls over Journal Entries related to preparation, review, and approval of Journal Entries recorded in the OBDs' financial management system as "on-top" adjustments within its financial statement preparation database. This finding, while not a material weakness nor specifically directed to OCDETF, is being reported by OCDETF as "other findings" because of their undetermined impact on the presentation of drug-related obligations.

The DOJ Justice Management Division (JMD) Finance Director, Quality Control and Compliance Group (QCCG) and component program managers as well as their respective Budget Officers who are affected, will develop a proactive corrective action plan to address the significant deficiency. The DOJ JMD Finance Director will validate this plan. In addition, the DOJ's JMD Finance Director and program managers will ensure that all weaknesses identified in prior year audits are addressed and that enhancements in policies, processes, and workflow are implemented to provide the best possible support for financial reporting.

Disclosure No 4. - Reprogrammings/Reallowances or Transfers

Total availability consists of enacted budget authority for FY 2008, plus unobligated balances and recoveries brought forward from prior years. OCDETF's FY 2008 obligations include all reallowed carryover funds and transfers. In FY 2008, OCDETF reallowed $6,600,000 from its no-year account (15X0323) as follows: $200,000 to establish the Phoenix Strike Force; $2,300,000 to provide for Federal Bureau of Investigation operational support of the OCDETF Strike Forces; $3,500,000 for United States Attorneys Reprogramming; $500,000 for Financial Investigative Training; and $100,000 to provide operational costs for the Bureau of Alcohol, Tobacco, Firearms and Explosives. Finally, OCDETF also transferred radio resources amounting to $709,495 to the DOJ Wireless Law Enforcement Communications Account as required by P.L. 110-161 121 Stat. 1898. See the attached Reprogramming and Transfers Schedule.

Disclosure No 5. - Obligations From Carryover Funds

In FY 2008, $13,058,717 in unobligated balances and prior year recoveries was brought forward from FY 2007 and available for new obligations. Of this amount, $6,600,000, as reported under Disclosure No 4., was established as new obligations during FY 2008.

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 ONDCP Fund Control Notices issued in FY 2008.

U.S. Department of Justice
Organized Crime Drug Enforcement Task Forces (OCDETF) Program
Reprogrammings and Transfers
For the Fiscal Year Ended September 30, 2008
(Dollars in Millions)

Line Item	Unobligated Balances and Recoveries	Enacted Budget Authority	Reprogramming Reallowances 2/	Rescission	Transfer 3/	Total Availability
Drug Resources by Decision Unit and Function 1/						
Investigations:						
Drug Enforcement Administration (DEA)	0.000	186.131	0.391	0.000	-0.664	185.858
Federal Bureau of Investigation (FBI)	0.000	115.159	2.418	0.000	-0.022	117.555
U.S. Marshals Service (USMS)	0.000	8.359	0.009	0.000	0.000	8.368
Alcohol, Tobacco, Firearms and Explosives (ATF)	0.000	11.268	0.112	0.000	0.000	11.380
Subtotal Investigations	0.000	320.917	2.930	0.000	(0.686)	323.161
Drug Intelligence:						
Drug Enforcement Administration (DEA)	0.000	9.155	0.009	0.000	-0.024	9.140
Federal Bureau of Investigation (FBI)	0.000	20.295	0.021	0.000	0.000	20.316
OCDETF Fusion Center Support (OFC)	0.000	11.469	0.000	0.000	0.000	11.469
Subtotal Intelligence	0.000	40.919	0.030	0.000	(0.024)	40.925
TOTAL INVESTIGATIONS DECISION UNIT	**0.000**	**361.836**	**2.960**	**0.000**	**-0.710**	**364.086**
Prosecutions:						
U.S. Attorneys USAs)	0.000	132.902	3.640	0.000	0.000	136.542
Criminal Division (CRM)	0.000	2.681	0.000	0.000	0.000	2.681
Tax Division (TAX)	0.000	0.516	0.000	0.000	0.000	0.516
TOTAL PROSECUTIONS DECISION UNIT	**0.000**	**136.099**	**3.640**	**0.000**	**0.000**	**139.739**
Total Distributed	0.000	497.935	6.600	0.000	(0.710)	503.825
Undistributed	13.059	0.000	-6.600	0.000	0.000	6.459
Total Obligations	**$13.059**	**$497.935**	**$0.000**	**$0.000**	**($0.710)**	**$510.284**

1/ Decision Units in this table reflect the Administration's restructuring for FY 2008. Under that restructuring, the OCDETF program's four decision units: Investigations, Drug Intelligence, Prosecution, and Administrative Support, have been collapsed into two Decision Units: Investigations and Prosecutions, with Administrative Support pro-rated between decision units based on the percentage of appropriated Interagency Crime and Drug Enforcement (ICDE) Program funding. In order to reflect obligations by the prescribed ONDCP drug function, the administrative support has also been prorated in this table (reflected in the "OCDETF Executive Office" column in the Table of Drug Control Obligations).

2/ Includes realigned carryover funds as follows: No-year funding of $6.600 M ($0.200 M for the Phoenix Strike Force; $2.300 M for FBI Strike Forces/Operations; $3.500 M for USA Reprogramming; $.500 M for Financial Investigative Training; and $.100 M reprogrammed for ATF Operational Support.

3/ Represents radio resources transferred to the DOJ Wireless Law Enforcement Communications Account as required by the FY 2008 DOJ Appropriations Act (P.L. 110-161 121 STAT.1898 signed 12/26/07)

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Accountants' Report

Inspector General
U.S. Department of Justice

Assistant Attorney General for Administration
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, 2008. We have also reviewed the accompanying Management's Assertion Statement for the year ended September 30, 2008. OJP's management is responsible for the Table of Drug Control Obligations, related disclosures, and the assertion statement.

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 statement. 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 statement to comply with the requirements of the Office of National Drug Control Policy (ONDCP) Circular, *Drug Control Accounting*, dated May 1, 2007.

Based on our review, nothing came to our attention that caused us to believe that: (1) the Table of Drug Control Obligations and related disclosures for the year ended September 30, 2008 are not presented, in all material respects, in conformity with ONDCP's Circular, *Drug Control Accounting*, dated May 1, 2007, or that (2) the Management's Assertion Statement referred to above is not fairly stated, in all material respects.

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

January 22, 2009

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U.S. Department of Justice
Office of Justice Programs
Detailed Accounting Submission
Management's Assertion Statement
For the Fiscal Year Ended September 30, 2008

On the basis of the Office of Justice Programs' (OJP's) management control program, we assert that the 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 the OJP's accounting system of record for these budget decision units and also include estimated direct costs and management and administration (M&A) costs.

2. The methodology used by the 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. The OJP did not have any Office of National Drug Control Policy (ONDCP) Fund Control Notices issued in FY 2008.

We have documented the methodology used by the OJP to identify and accumulate FY 2008 drug control obligations in the Table of Drug Control Obligations and accompanying disclosures, in accordance with the guidance of the ONDCP Circular, *Drug Control Accounting*, dated May 1, 2007.

1/22/09
Date

Ralph E. Martin, Associate Chief Financial Officer
Office of the Chief Financial Officer
Budget, Planning and Performance Division
OJP Official Responsible for Assertion

U.S. Department of Justice
Office of Justice Programs
Table of Drug Control Obligations
By Budget Decision Unit and Function
For the Fiscal Year Ended September 30, 2008
(in millions of dollars)

	FY 2008 Actual Obligations[1/]
Drug Obligations by Budget Decision Unit and Function:	
Regional Information Sharing System	
State and Local Assistance	$38.290
Weed and Seed Program	
State and Local Assistance	33.834
Prevention	3.759
Total Weed and Seed Program	37.593
Enforcing Underage Drinking Laws	
Prevention	25.231
Drug Court Program	
Treatment	18.176
Residential Substance Abuse Treatment Program	
Treatment	10.086
Prescription Drug Monitoring Program	
State and Local Assistance	6.537
Southwest Border Prosecution Initiative	
State and Local Assistance	28.357
Northern Border Prosecution Initiative	
State and Local Assistance	0.161
Drug Prevention Demonstration Program	
Prevention	0.263
Total	**$164.694**
Methamphetamine Enforcement and Lab Cleanup[2/]	19.900

[1/] Program obligations reflect direct program obligations plus estimated direct and support management and administrative costs. Therefore, obligations reflected above may exceed the budget authority shown on the Reprogramming and Transfers Schedule.

[2/] Funding for the Methamphetamine Enforcement and Lab Cleanup Program is transferred from the Office of Community Oriented Policing Services (COPS) to the Drug Enforcement Adminstration for program administration; therefore, obligations are not tracked by the Office of Justice Programs (OJP). FY 2008 total obligations for the program were reported to OJP by the COPS budget office.

Disclosure 1: Drug Control Methodology

The mission of the Office of Justice Programs (OJP) is to provide federal leadership in developing the Nation's capacity to prevent and control crime, administer justice, and assist crime victims. As such, the OJP resources are primarily targeted to providing assistance to state, local, and tribal governments. In executing its mission, the 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 Office of National Drug Control Policy (ONDCP) Circular, *Drug Control Accounting*, dated May 1, 2007, and ONDCP's memorandum, *Current Budget Issues*, dated September 3, 2008.

The OJP's Office of the Chief Financial Officer, Budget Planning and Performance Division is responsible for the development and presentation of the annual OJP ONDCP Budget. Consistent with the FY 2008 ONDCP budget formulation guidance, the OJP FY 2008 accounting of drug control obligations include total obligations associated with ten budget decision units identified for the National Drug Control Budget. However, funds for nine of these decision units are directly appropriated to the 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 of Justice's (DOJ'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 2008 actual obligations total on the OJP Table of Drug Control Obligations. Decision units include the following:

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

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

Drug Program Obligations by Decision Unit: For nine of the budget decision units, data on obligations, as of September 30, 2008, were gathered from OJP's Financial Management Information System (FMIS2). The total obligations presented for the OJP are net of reimbursements and funds obligated under the Crime Victims Fund, Public Safety Officers Benefit Program, and the Office on Violence Against Women.

Management and Administration (M&A) Data. M&A obligations were gathered from OJP's FMIS2. The obligation amounts were allocated by applying the relative percentage of Full-Time Equivalent (FTE) assigned to nine drug-related decision units to total M&A obligations for the OJP. There were no M&A obligations associated with the Methamphetamine Enforcement and Lab Cleanup program, as this program is not administered by the OJP.

Overall, the OJP decision units' activities support all three goals of the National Drug Control Strategy: (1) Stopping Use Before it Starts; (2) Intervening and Healing America's Drug Users; and (3) Disrupting the Market. Functionally, the OJP decision units' activities fall under the following categories: prevention, state and local assistance, and treatment. The method used to allocate the OJP funds to ONDCP functions was derived through an analysis of individual decision unit missions and by surveying its staff. A deliberate effort was made to accurately account for decision unit activities, which resulted in Weed and Seed obligations falling under multiple functions. The Table of Drug Control Obligations shows FY 2008 obligations for the nine decision units, categorized by function.

For the Table of Drug Control Obligations, amounts were calculated as follows:

Function:	The appropriate drug-related percentage was applied to each program/decision unit line item and totaled by function.
Decision Unit:	In accordance with the ONDCP circulars, 100 percent of the actual obligations for each of the budget decision units was included.
Full-Time Equivalent:	FTE data originates from the U.S. Department of Agriculture's National Finance Center, and is obtained by the OJP through the DOJ, 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 2008, the 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 1, 2007.

The methodology used to determine the total FY 2008 obligations related to the nine decision units appropriated to the OJP is the same used in the FY 2007 Table of Drug Control Obligations. To calculate M&A obligations related to these decision units, the OJP is continuing to use the method it employed in FY 2007, 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 decision units 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 decision unit activities. This methodology first assigns FTE by decision unit based on a survey of its 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 2008 Independent Auditors' Report on Internal Control Over Financial Reporting found no material weaknesses. However, two significant deficiencies were identified during the audit and are noted below, along with recommendations and OJP management responses.

1) Weaknesses Exist in the Information System Controls Environment

During the fiscal year 2008 financial statement audit, the general control environment and selected application controls were evaluated. General controls are the structure, policies and procedures that apply to OJP's overall computer operations. Application controls are the structure, policies and procedures that apply to OJP's separate application systems. In addition, a review of the DOJ consolidated IS general controls environment that provides general control support for several DOJ components' financial applications, one of which is OJP, was also performed.

Weaknesses were noted in the following FISCAM general control areas: program change and access controls.

Program Change Control

System change request process did not adequately address potential risks

OJP's Office of the Chief Information Officer executed System Change Request (SCR) No. 15911 in July 2008, which was designed to improve the performance of a screen within the Grant Management System (GMS). As a result of the change, certain grant data was calculated incorrectly and subsequently uploaded into the general ledger. We reviewed SCR No. 15911 and determined that the scope of the approved test plan did not properly capture the potential adverse effects of the changes to OJP's financial systems and data. The Standard Operating Procedures (SOP) version 4.0 for change control does not have a procedure for considering the potential impact to financial system(s) and data.

NIST SP 800-53, Configuration Change Control states: "The organization authorizes, documents, and controls changes to the information system. Supplemental Guidance: The organization manages configuration changes to the information system using an organizationally approved process (e.g., a chartered Configuration Control Board). Configuration change control involves the systematic proposal, justification, implementation, test/evaluation, review, and disposition of changes to the information system, including upgrades and modifications."

Inadequate or inconsistent change control implementation procedures may lead to wasted resources, unauthorized changes, data integrity issues, and contribute to system security weakness.

We recommend that OJP:

Develop and implement a process to ensure personnel responsible for developing and testing of all system change requests also consider the potential impact to financial system(s) and data.

Management Response:

OJP concurs with the recommendation. The OCIO will review their current change management process, procedures, and policies and make appropriate revisions to ensure that personnel responsible for developing and testing change requests consider the impact on the financial system(s) and data.

Emergency system change request procedures have not been developed

OJP did not establish emergency system change request process in its SOP "OJP Change Control version 4.0."

Department of Justice (DOJ) ITS Standard, *Configuration Management (CM) Control Family*, Version 1, December 2006, CM-3, states: "The component documents and controls changes to the information system. Appropriate component officials approve information system changes in accordance with component policies and procedures. The component assigns responsibility to specific parties and defines specific actions to ensure that configuration change control is implemented. The change control process involves the systematic proposal, justification, implementation, test/evaluation, review, and disposition of changes to the information system, including upgrades and modifications. The component includes emergency changes in the configuration change control process, including changes resulting from the remediation of flaws.

The approvals to implement a change to the information system include successful results from a security analysis of the change."

The lack of documented emergency SCR procedures could lead to emergency changes that negatively affect OJP's data and operations.

We recommend that OJP:

Formally document its emergency system change request process in its SOP OJP Change Control.

Management Response:

OJP concurs with the recommendation. The OCIO will update its current change management process, procedures, and policies to formally document its emergency system change request process.

Access Control

During our review of the change history related to SCR No. 15911, we noted a lack of separation of duties. Specifically, we noted that one of the team members performed four of the critical stages for the SCR testing. OJP does not have a policy that defines roles and responsibilities and identifies the conflicts of interest for each group that participates in the system and data change request process.

DOJ ITS Standard, – *Access Control (AC) Control Family,* Version 2.2, June 2008, AC-05 "Separation of Duties" states: "The information system enforces separation of duties through assigned access authorization. No user has access authorizations or privileges that may allow the user to perform multiple security functions for which the duties should be performed by separate people."

Defining individual roles and responsibilities and identifying their conflicts of interests reduces the risk of users performing fraudulent activities and/or implementing inaccurate system changes that may not be prevented, detected, and corrected.

We recommend that OJP:

Document the roles and responsibilities for groups involved with responding to system and data change requests and define conflicts between the groups.

Management Response:

OJP concurs with the recommendation. The OCIO will review their current change management process, procedures, and policies and make appropriate revisions to include clear roles and responsibilities for groups involved with responding to system and data change requests, as well as define conflicts between groups.

2) Improvements are Needed in Certain Grant Processes

During our testing of grants, we noted that improvements are needed in the grant de-obligation and grant advance estimation processes.

Improvements are Needed in the Grant De-obligation Process

During our testing of undelivered orders (UDO) at March 31, 2008, and June 30, 2008, we noted that although improvements have been made to OJP's grant close out process, additional progress is needed in the timely de-obligations and closeout of grants. Specifically, we identified approximately 1,200 out of 17,800 grants as of March 31, 2008, and 1,000 out of 18,300 grants as of June 30, 2008, had not been fiscally closed out and/or de-obligated within 180 days after the grant end date.

Office of the Chief Financial Officer Policy Statement (OCFOPS) 4031.1D, *Financial Closeout of OJP Grants,* which was implemented on March 31, 2008, describes OJP's policies on the grant closeout process. The purpose of a grant closeout is to finalize programmatic and financial activities on grants and to comply with Federal government requirements on grant administration. OCFOPS 4031.1D states, "Grantees are required to submit all closeout documents and complete all closeout requirements within 90 days after the end date of the grant. Program offices must submit closeout packages to the OCFO Control Desk within 120 days after the end date of the grant. The OCFO must complete closeouts within 180 days after the end date of the grant (30 to 60 days for processing)." The policy goes on to state that "If a grantee fails to provide the program office with the information necessary to complete a standard closeout for submission to the OCFO Control Desk within 120 days of the end date of the grant, an administrative closeout is required. An administrative closeout is generated by the Grants Management System (GMS) on the 91st day following the end date of the grant." An administrative closeout is similar to a standard closeout in that the grant agreement is both programmatically and fiscally closed, however, in the case of administrative closeouts the grantee does not submit all of the required documentation.

Since September 30, 2007 OJP has made progress by reducing the number of open grants pending closeout from approximately 1,600 to approximately 770 as of September 30, 2008. However, grants pending closeout continues to be an issue due to the backlog of open grants with expired end dates. While OJP has decreased the backlog of open grants with expired end dates, additional grants are expiring throughout the year, which also need to be closed and/or de-obligated. The current grants that are expiring are delayed in getting closed out because OJP is focused on eliminating the earlier backlog.

Based on our analysis of grants that had expired, but for which an unliquidated obligation remained in the accounting records, the UDO balance in OJP's financial statements at March 31, 2008, and June 30, 2008, were overstated by approximately $73.3 million and $63.3 million, respectively. We noted during fiscal year 2008 that OJP implemented a Phase IV adjustment to its quarterly grant accrual process, which also addresses the unliquidated obligations for expired grants. Based on historical data, OJP estimates the amount of UDOs that needs to be liquidated or de-obligated. At March 31, 2008 and June 30, 2008, the Phase IV adjustment recorded by OJP was approximately $62.4 million and $40.6 million, respectively. After the adjustment, OJP's financial statements at March 31, 2008, and June 30, 2008, were overstated by approximately $11.0 million and $22.7 million, respectively. OJP's March 31, 2008 and June 30, 2008 total UDO balances were approximately $2.9 billion and $3.1 billion, respectively.

At September 30, 2008, there were approximately $53.4 million of outstanding award balances related to grants that had been expired for 6 months or more. Of this $53.4 million, OJP recorded an accrued expenditure for $11.6 million and de-obligated $29.7 million. The remaining balance of expired grant UDOs was approximately $12.1 million.

We recommend that OJP:

1. Develop reasonable benchmarks for the quantity and dollar value of expired grants that are 180 days or more past the grant end date. The benchmarks should be based on what management believes is an acceptable and appropriate volume of grants to remain open that are 180 days or more past their end date taking into account OJP's business operations.

Management Response:

OJP concurs with the recommendation. OJP will research and evaluate benchmarks to determine an acceptable volume of grants to remain open that are 180 days or more past their end date taking into account OJP's business operations.

2. Use the set benchmarks to implement performance metrics that measure the inflow, status, and outflow of open expired grants on a monthly basis. These performance metrics should be used to target, prevent, and resolve processing bottlenecks by grant program.

Management Response:

OJP concurs with the recommendation. Based on the benchmarks developed, OJP will review expired grants on a monthly basis.

3. Continue its efforts to reduce the backlog of grants that are 180 days or more past their end dates and are pending close out. OJP management should also continue enforcing the revised grant closeout policy and continue to consistently utilize the grant closeout process to facilitate a more timely review of grants that are beyond the end date or for which a final SF-269 was submitted.

Management Response:

OJP concurs with the recommendation. It should be noted in April 2006, new emphasis was placed on closeouts. From the beginning of that new effort through the end of FY 2008, OCFO worked with the OJP and OVW program offices to close over 19,000 grants. As of September 30, 2008, OJP had a remaining backlog of approximately 770 grants (down from 1,600 one year ago). OJP fully expects to complete the remaining backlog in early FY 2009.

As of September 30, 2008, OJP reflected a $12.1 million overstatement of UDOs, out of a total UDO balance of approximately $4.4 billion. OJP will continue its diligent efforts to ensure grants are closed out timely.

Improvements Needed in Controls Over Grant Advance Estimation

During our testing of OJP's fiscal year 2008 grant accrual methodology, we noted certain variances relating to OJP's advances estimation at March 31, 2008. Specifically, we noted that OJP's grant accrual methodology was overstating the estimated advance amount. In addition, during our review of OJP's look back analysis, we noted that the variance between the estimated advance and the actual advance (based on the subsequently submitted SF-269s, *Financial Status Reports*) increased significantly from September 30, 2007, to March 31, 2008. For the quarters ending September 30, 2007, December 31, 2007, and March 31, 2008, the variances were 4%, 14%, and 22%, respectively.

The OJP Office of the Chief Financial Officer Policy Statement 1210.12C, *Policy and Procedure for Validating the Estimated Grant Accrual*, provides guidance for periodically reviewing, analyzing and validating the OJP grant accrual amounts posted to the general ledger accounts. The policy states that "For accurate reporting on its quarterly financial statements, OJP calculates and posts a quarterly estimated accrual for grants. To ensure that the grant accrual methodology remains reasonable and appropriate, OJP management will validate the approach each quarter based on receipt of additional SF269 data, and if appropriate, will revise the methodology. It is critical that the methodology incorporates management's current judgment about the adequacy of the accrual for grants." The policy also states that the results of the accrual should be reviewed by the OCFO and that documentation should be maintained by the Accounting Reports Branch. The policy is required to ensure that OJP is in compliance with *SFFAS 1, Accounting for Selected Assets and Liabilities*; *SFFAS 5, Accounting for Liabilities of the Federal Government*; *OMB Circular A-123*; and *Public Law 31 US Code 3513*.

OJP's portfolio of block grants has changed significantly over the past few years. In previous years, block grants consisted primarily of Local Law Enforcement Block Grants (LLEBG) and Juvenile Accountability Incentive Block Grants (JAIBG). Both LLEBG and JAIBG allowed grantees to draw down funds in advance, but they had to draw down all of the money at one time. Beginning in fiscal year 2005, OJP discontinued LLEBG and replaced it with the Justice Assistance Grants (JAG). JAG operates differently from LLEBG and JAIBG in that grantees are allowed to make multiple draw downs or draw down all funds at once in advance of expenditure. OJP's grant accrual methodology for advances was originally designed to account for LLEBG and JAIBG, but it does not adequately estimate the JAG grants, which have a different expenditure pattern. Currently, JAG makes up approximately 87% of the outstanding award balance for block grants. OJP did make certain revisions to its grant accrual methodology at the beginning of the fiscal year to address the changes in the grant portfolio. However, the grant accrual methodology was still unable to reasonably estimate the grant advance amount.

As a result, the advance balance was overstated by a likely amount of $40 million as of March 31, 2008. The issues noted above were also outstanding as of June 30, 2008. However, OJP modified its methodology for calculating the grant advance balance to address this issue for the period ended September 30, 2008.

We recommend that OJP:

4. Strengthen its review and analysis of the grant advance estimate and grant portfolio to better identify significant trends and fluctuations in order to timely modify its grant accrual methodology.

Management Response:

OJP concurs with the recommendation. It should be noted that at the beginning of the fiscal year, OJP revised its grant accrual process to take into account the change in the grant portfolio mix. While the changes were effective for estimating the grant expense accrual, the advance balance estimate was overstated by a likely amount of $40 million, out of a total asset balance of approximately $6.6 billion.

OJP's process of reviewing the grant accrual balances on a quarterly basis will continue throughout FY 2009. In addition, OJP will determine if additional changes to the grant accrual are warranted.

Disclosure 4: Reprogrammings or Transfers

In accordance with the ONDCP's Circular, *Drug Control Accounting* dated May 1, 2007, the OJP made drug-related transfers-out of $6.5 million in FY 2008. See the attached Reprogrammings and Transfers Schedule.

Disclosure 5: Other Disclosures

- In FY 2008, the OJP received no ONDCP Fund Control Notices.

- Of the total FY 2008 actual obligations amount, $48 million are a result of carryover unobligated resources. See the attached Reprogrammings and Transfers Schedule.

U.S. Department of Justice
Office of Justice Programs
Reprogrammings and Transfers Schedule
For the Fiscal Year Ended September 30, 2008
(Dollars in Millions)

Table Line Item	Unobligated Balances Forward & Recoveries	Enacted BA	Rescission	Reprogrammings	Transfers[1/] In	Transfers[1/] Out	Total Availability
Drug Obligations by Function:							
Regional Information Sharing System							
State and Local Assistance	0.026	40.000	0.024	---	---	(2.117)	37.885
Weed and Seed Program							
State and Local Assistance	3.401	28.890	---	---	---	---	32.291
Prevention	0.378	3.210	---	---	---	---	3.588
Total Weed and Seed Program	3.779	32.100	---	---	---	---	35.879
Enforcing Underage Drinking Laws							
Prevention	1.901	25.000	1.093	---	---	(1.214)	24.594
Drug Court Program							
Treatment	8.198	15.200	2.689	---	---	(0.738)	19.971
Residential Substance Abuse Treatment Program							
Treatment	2.792	9.400	2.299	---	---	(0.457)	9.436
Prescription Drug Monitoring Program							
State and Local Assistance	2.636	7.050	0.408	---	---	(0.342)	8.936
Southwest Border Prosecution Initiative							
State and Local Assistance	28.148	30.080	0.966	---	---	(1.461)	55.801
Northern Border Prosecution Initiative							
State and Local Assistance	---	2.820	---	---	---	(0.137)	2.683
Drug Prevention Demonstration Program							
Prevention	0.516	0.000	---	---	---	---	0.516
Total.................	**47.996**	**161.650**	**7.479**	**0.000**	**0.000**	**(6.466)**	**195.701**
Methamphetamine Enforcement and Lab Cleanup[2/]	---	19.900		---	---	---	19.900

[1/] Per Congressional transfer authority, Transfers Out reflect management and adminstrative requirements, as well as Sec. 3712 program requirements, except for the Weed and Seed Program which has no transfer authority. Actual obligations for the Weed and Seed Program include $1.859 million for management and administrative and Sec. 3712 requirements.

[2/] Funding for the Methamphetamine Enforcement and Lab Cleanup Program is transferred from COPS to DEA for program administration, therefore, obligations are neither tracked by, nor calculated in OJP obligations. FY 2008 budget authority for the program was reported to OJP by the COPS budget office.

Tab F
Department of State

United States Department of State

Assistant Secretary of State
for International Narcotics and
Law Enforcement Affairs

Washington, D.C. 20520

February 11, 2009

Dear Mr. Rice:

In accordance with the Office of National Drug Control Policy Circular, *Drug Control Accounting*, dated May 1, 2007, the Department of State is submitting its Accounting and Authentication of FY 2008 Drug Control Funds and Related Performance Report. The Inspector General's attestation report is enclosed.

If you would like to address any questions associated with our submission, please call Bob Byrnes on (202) 776-8720.

Sincerely,

David T. Johnson

Enclosures:

1) Accounting and Authentication of FY 2008 Drug Control Funds and Related Performance Report

2) Department of State Office of Inspector General Attestation Report

Mr. Jon E. Rice
Associate Director for Performance and Budget,
Office of National Drug Control Policy,
750 17th Street, N.W.,
Washington, D.C. 20503

[redacted]

U.S. Department of State
Bureau for International Narcotics and Law Enforcement Affairs

Accounting and Authentication of FY 2008 Drug Control Funds and Related Performance Report

Reference: ONDCP Circular: Drug Control Accounting (May 1, 2007)

SECTION 6a Reporting – Drug Control Obligations

DISCLOSURES

Obligations, Reprogramming, and Transfers

The Department is providing detailed financial information on the drug control program obligations of the Bureau for International Narcotics and Law Enforcement Affairs (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's performance on the INL drug control program for FY 2007 and FY 2008. The reprogramming and direct apportionment information for FY 2008, which immediately follows the table of drug control obligations, is complete. ONDCP approved all drug-related reprogramming.

Table 1:

Bureau for International Narcotics and Law Enforcement Affairs

Drug Control Obligations ($ in Millions):

		FY 2007 Actual	FY 2008 Actual
Drug Resources by Drug Control Function			
Interdiction		47.153	12.053
International		692.474	501.150
	Total	739.627	513.203
Drug Resources by Decision Unit			
International Narcotics Control and Law Enforcement (INCLE)		292.754	299.315
Andean Counterdrug Program (ACP) * **		446.873	213.888
	Total	739.627	513.203
Drug Resources by Function and Decision Unit			
Interdiction: INCLE		43.969	11.197
Interdiction: ACP		3.184	0.856
International: INCLE		248.785	288.117
International: ACP		443.689	213.033
	Total	739.627	513.203
Drug Resources Personnel Summary			
Drug-Related FTEs (Direct Only)		172	161
Total FTEs (Direct Only)		246	258
Information			
Total Agency Budget ***		1,446.116	1,276.553

* In FY 2008, the ACP appropriation did not include funding for alternative development programs administered by USAID. In FY 2008, narcotics-related alternative development programs were appropriated under the Economic Support Fund (ESF) and Developmental Assistance (DA) account. In FY 2007 and prior years, funding for USAID alternative development programs in the Andean region was appropriated under the ACP account and directly apportioned to USAID. The FY 2007 INL Drug Control Obligations Report included a total of $226,484,280 of ACP obligations from the USAID alternative development programs in the Andean region. As a result of the alternative development funding being appropriated under ESF and DA in FY 2008, INL's drug control program obligations are significantly lower from the FY 2007 level.

** In FY 2007 a total of $52.55M of appropriated ACI funding for Colombia remains subject to Congressional information hold and is not available for obligation. In FY 2008, $19.5438M ACP funding for Colombia remains subject to Congressional informational hold and is not available for obligation. In addition, in FY 2008 $25.423M of Bolivia funds were subject to a statutory certification requirement, which was met November 26, 2008. An intent to obligate notification must still be sent and cleared by Congress before the funds are available for obligation.

*** Total Agency Budget includes all funding appropriated for INCLE and ACP programs in FY 2007 and FY 2008, including FY 2007 Supplemental INCLE funding of $42M for Afghanistan, $150M for Iraq, and $60M for Lebanon, and FY 2008 Supplemental INCLE funding of $215.5M for Mexico (Merida Initiative), $24.8M for Central America (Merida Initiative), $2.5M for the Dominican Republic, $2.5M for Haiti, $85M for Iraq, $35M for Afgahnistan, $25M for West Bank/Gaza, and $10M for Sudan.

Transfers, Reprogramming, and Direct Apportionment

The transfer and reprogramming actions listed below are included in the FY 2008 drug-related obligations reported in the preceding table. In addition, beginning in FY 2008, the ACP appropriation no longer included alternative development funding that had been previously appropriated under ACP and directly apportioned to USAID. The impact on INL's obligation report in FY 2008 is discussed below and in the preceding table.

1. Transferred $2,479,750 of FY 2008 ACP funds to the INCLE account for assistance for the Colombian National Police to provide security for manual eradication programs.

2. Reprogrammed $7,000,000 of FY 2008 INCLE funds from the Drug Demand Reduction program to support the training needs of the Palestinian Authority National Security Forces. The Department subsequently replenished the Drug Demand Reduction funds with FY 2008 Supplemental INCLE funds.

3. In FY 2008, the Andean Counterdrug Program appropriation did not include funding for alternative development programs administered by USAID. In FY 2008, narcotics-related alternative development programs were appropriated under the Economic Support Fund (ESF) and Developmental Assistance (DA) account. In FY 2007 and prior years, funding for USAID alternative development programs in the Andean region was appropriated under the ACP account and directly apportioned to USAID. The FY 2007 INL Drug Control Obligations Report included a total of $226,484,280 of ACP obligations from the USAID alternative development programs in the Andean region. As a result of the alternative development funding being appropriated under ESF and DA in FY 2008, INL's drug control program obligations are significantly lower than the FY 2007 level.

Drug Methodology and Other Disclosures

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

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

All obligations presented in the INL table of drug control obligations are 100 percent drug-related. Obligations for program funding for the Caribbean, Central America, and Mexico directed at interdiction, intelligence and law enforcement activities are reported under the Interdiction drug control function. All other drug control obligations are reported under the International drug control function. Funding under the Andean Counterdrug Program (ACP) appropriation started in FY 2002. This addition resulted in INL funding being divided between the ACP and International Narcotics Control and Law Enforcement (INCLE) decision units. There were no changes in the drug methodology between FY 2007 and FY 2008.

ASSERTIONS

Drug Control Obligations

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 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 2008 CFO Audit

I believe the information for the Department of State in this submission is reliable and accurate. The Department has received unqualified audit opinions on its annual financial statements for most of the past decade. On December 12, 2008, the Department's Independent Auditor (IA) issued an unqualified opinion for FY 2008, and cited no material weaknesses in internal controls. During FY 2007, the Department implemented a new financial management system, and as a result of implementation challenges, the Department submitted its financial statements and supporting schedules to the IA one week past the deadline. Because of the delay, the IA could not complete their audit procedures, or perform other auditing procedures to satisfy themselves as to the accuracy of the FY 2007 financial statements in time to meet the November 15, 2007 deadline imposed by OMB for issuing the report. Therefore, the IA issued a disclaimer of opinion on the annual financial statements as of, and for the year ended, September 30, 2007. The disclaimer of opinion indicated that the IA could not reach a conclusion as to the amounts presented, not that the amounts presented were necessarily inaccurate. Our Department accounting staff did complete review procedures over the financial statements and supporting schedules and believe they were materially correct.

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. The obligation data presented in the report for INL are associated with the INL financial plan.

United States Department of State
and the Broadcasting Board of Governors

Inspector General

FEB - 4 2009

MEMORANDUM

TO: INL – David T. Johnson

FROM: OIG – Harold W. Geisel, Acting

SUBJECT: *OIG Attestation Review of Accounting and Authentication of FY 2008 Drug Control Funds and Related Performance Report of the Department of State* (AUD/PP-09-09)

Attached is the Office of Inspector General's (OIG) *Attestation Review of Accounting and Authentication of FY 2008 Drug Control Funds and Related Performance Report of the Department of State* (AUD/PP-09-09). OIG could not attest to two of the assertions and the certification relating to obligations, as described in the review. Therefore, OIG cannot attest to the reliability of these statements. No other matters came to OIG's attention that caused OIG to believe that the Department's submission did not meet the reporting requirements of the Office of National Drug Control Policy.

If you have any questions or need additional information, please call me at (202) 663-0361 or Mark W. Duda, Assistant Inspector General for Audits, at (202) 663-0372.

Attachment: As stated.

cc: INL/RM – Robert S. Byrnes
INL/RM/AS – Anthony J. Gresko

United States Department of State
and the Broadcasting Board of Governors

Inspector General

OIG Attestation Review of
Accounting and Authentication of FY 2008 Drug Control Funds
and Performance Report of the Department of State
(AUD/PP-09-09)

The Office of Inspector General (OIG) reviewed the accompanying assertions from the Bureau of International Narcotics and Law Enforcement Affairs (INL) fiscal year 2008 detailed accounting and performance submission to the Director of the Office of National Drug Control Policy (ONDCP). The report was prepared in compliance with ONDCP Circular *Drug Control Accounting*, dated May 1, 2007. The submission is the responsibility of the Department of State.

OIG's review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, as specified in section 8 of the ONDCP Circular. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the submission. Accordingly, we do not express such an opinion.

OIG cannot attest to the following two assertions made by INL 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.

- . . . 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. The obligation data presented in the report for INL are associated with the INL financial plan.

In addition, OIG cannot attest to the certification made by INL 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.

The obligations for FYs 2007[1] and 2008, as reported, are based solely on data produced by the Department's financial management system. However, during its audit of the Department's FY 2008 financial statements, an independent external auditor found that the Department's financial management system as of September 30, 2008, was inadequate. As reported by the independent external auditor, there is a risk of materially misstating financial information under the current system. Furthermore, the independent external auditor also noted that the Department's internal control process related to undelivered orders was inadequate and identified it as a significant deficiency. Although the independent external auditor found that the Department had made improvements in this area over the past several years, the auditor identified excess obligations of approximately $200 million as of September 30, 2008.

In addition, a recently issued OIG draft audit report (AUD/FM-09-07) found that INL (and two other bureaus audited) did not have a systematic process for monitoring domestic undelivered orders, which resulted in inaccurate reporting by the Department on its annual financial statements and in budgetary reports submitted to the Office of Management and Budget. By the end of OIG's fieldwork, although INL had taken action to reduce its invalid undelivered orders, OIG noted that additional controls were still needed. INL agreed with OIG's reported findings and recommendations.

Notwithstanding the statements made in this INL submission regarding the FY 2008 financial statement audit and the obligation amounts presented, as of the date of this attestation, nothing has come to OIG's attention to provide any assurance that the problems identified by the independent auditor and OIG's own auditors have been corrected. Consequently, OIG cannot attest to the reliability of the obligation data or the assertions and certification that refer to the reliability of that data.

Based on our review, with the previously noted qualifications, nothing came to OIG's attention that caused it to believe that the remainder of the accompanying assertions do not, in all material respects, reliably represent the Accounting and Authorization of FY 2008 Drug Control Funds and Related Performance data for all years presented in the submission and comply with ONDCP criteria.

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

Harold W. Geisel
Acting Inspector General

[1] OIG could not previously attest to INL assertions regarding FY 2007 obligation data (Report No. AUD/PP-08-17).

USAID
FROM THE AMERICAN PEOPLE

Jon E. Rice
Associate Director for Performance and Budget
Office of National Drug Control Policy
Washington, D.C. 20503

February 6, 2009

Dear Mr. Rice:

In accordance with the Office of National Drug Control Policy Circular, Drug Control Accounting, dated May 1, 2007, the United States Agency for International Development (USAID) is submitting its Accounting and Authentication of FY 2008 Drug Control Funds and Related Performance Report. The Inspector General's attestation report is enclosed.

For the purposes of Section 6 financial disclosures and assertions in the attached report, I certify that all the information presented for the USAID is true and correct and I concur with all assertions associated with USAID in Section 6. For the purposes of Section 7 program performance disclosures and assertions, I cannot certify to them, but they seem reasonable to me and I have no reason to object to the certifications given by others.

If you would like to address any questions associated with our submission, please call Tom Clarkson on (202) 712-5951.

Sincerely,

David Ostermeyer
Chief Financial Officer

Enclosures:

1) Accounting and Authentication of Drug Control Funds and Related Performance Report
2) USAID Inspector General Attestation Report

Agency for International Development

Accounting and Authentication of Drug Control Funds and Related Performance Report

Reference: ONDCP Circular: Drug Control Accounting (May 1, 2007)

6. Detailed Accounting Submission

6. a. Table of Prior Year Drug Control Obligations

Table 1
Agency for International Development

		$ In Millions FY 2008 Actual
Drug Control Obligations:		
Drug Resources by Drug Control Function		
International		327.2
	Total	327.2
Drug Resources by Decision Unit		
Alternative Development and Alternative Livelihoods-Afghanistan		173.2
Alternative Development and Alternative Livelihoods-Andean Region		154.0
	Total	327.2
Drug Resources by Function and Decision Unit		
International-Alternative Development and Alternative Livelihoods-Afghanistan		173.2
International-Alternative Development and Alternative Livelihoods-Andean Region		154.0
	Total	327.2
Information		
Total Agency Budget*		9,478.6
Drug Related Percentage**		3%

* USAID 2008 Agency-wide Appropriations per 2008 Statement of Budgetary Resources
** Total Drug Control Obligations divided by Total Agency Budget

6. a. (1) Drug Methodology

All obligations provided in Table 1 were made from funds appropriated in FY 2008 and are classified in USAID's accounting system of record in program area 1.4.2 - Alternative Development and Alternative Livelihood". USAID incurred these obligations during FY 2008.

6. a. (1) (a) Obligations by Drug Control Function

Table 1 shows Obligations by Drug Control Function. All of the reported obligations supported programs whose function is best described as "International" as defined in the

2008 version of Attachment D of the ONDCP Circular: Budget Formulation, May 1, 2007.

6. a. (1) (b) Obligations by Budget Decision Unit

Table 1 shows Obligations by Decision Unit. All of the reported obligations supported programs in the decision units as defined for USAID in the 2008 version of Attachment B of the ONDCP Circular: Budget Formulation, May 1, 2007.

6. a. (2) Methodology Modifications

In last year's (2007) annual accounting report to ONDCP we showed a decision unit in Table 1 called "Development Assistance - Drug Related Only". In the 2008 report we omit that decision unit because it is not included in the "Alternative Development and Alternative Livelihood" (ADAL) program area. This change has no significant impact on the amount of obligations that we report for 2008 because there were only $400,000 "Drug Related Only" obligations in 2008, compared to $327,200,000 of ADAL obligations. There were $9,000,000 of "Drug Related Only" obligations in 2007, compared to 219,800,000 of ADAL obligations.

6. a. (3) Material Weaknesses or Other Findings

CFO does not know of any material weakness or other finding by independent sources or other known weaknesses, including those identified in the Agency's Annual Statement of Assurance, which affects the presentation of prior year drug related obligations data.

6. a. (4) Reprogrammings or Transfers

USAID did not submit any reprogrammings or transfers to ONDCP in FY 2008

6. a. (5) Other Disclosures

None.

6. b. Assertions

6. b. (1) Obligations by Budget Decision Unit

The Obligations reported by budget decision unit are the actual obligations from USAID's accounting system of record for the stated Budget Decision Units.

6. b. (2) Drug Methodology

The drug methodology used to calculate obligations of prior year budgetary resources by function and by budget decision unit is reasonable and accurate based on criterion (c) Financial Systems. The financial systems at USAID that support the drug methodology yield data that fairly presents, in all material respects, aggregate obligations from which the drug-related obligation amounts were derived.

6. b. (3) Application of Drug Methodology

The drug methodology disclosed in section 6 a. (1) Drug Methodology, above, was the actual methodology used to generate Table 1, above.

6. b. (4) Reprogrammings or Transfers

The data presented in Table 1, above, are associated with 2008 obligations against a financial plan. Also, as stated above in section **6. a. (4) Reprogrammings or Transfers** USAID did not submit any reprogrammings or transfers to ONDCP in FY 2008.

The financial plan against which the obligations in Table 1, above, are associated is USAID's FY 2008 Operational Plan. USAID Drug Related activities in that plan are identified as part of Strategic Objective 1.4.2 (Alternative Development and Alternative Livelihoods). Funds in Program Area 1.4.2 are posted in USAID's accounting system at the Activity level using Program Element A016 (Alternative Development and Alternative Livelihoods).

6. b. (5) Fund Control Notices

Not applicable. ONDCP did not issue any Fund Control Notices to USAID in FY 2008.

8. Inspector General Authentication

See OIG Report, attached.

9. Unreasonable Burden

Not applicable. USAID's obligations exceed the $50 million threshold level for simplified reporting.

Office of Inspector General

Attestation Review of
Annual Accounting of Drug Control Funds
and Performance Summary by
U.S. Agency for International Development
for FY 2008

February 18, 2009

The Office of Inspector General (OIG) reviewed the accompanying Accounting and Authentication of Drug Control Funds and Related Performance Report (the submission) of the U.S. Agency for International Development (USAID) for the fiscal year ended September 30, 2008. This submission is the responsibility of USAID. Management of USAID prepared the submission and management's assertions to comply with the requirements of the Office of National Drug Control Program (ONDCP) Circular, Drug Control Accounting, dated May 1, 2007.

OIG's review was conducted in accordance with attestation standards established by the American Institute of Certificated Public Accountant, as specified in section 8 of the ONDCP Circular. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the submission. Accordingly, we do not express such an opinion.

Based on our review, nothing came to our attention that caused us to believe that USAID's submission did not, in all material respects, reliably represent its FY 2008 obligation and performance targets and results for fiscal year ended September 30, 2008 and comply with ONDCP criteria.

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

Joseph Farinella

Joseph Farinella
Assistant Inspector General for Audit

U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523
http://www.usaid.gov

Tab G
Department of Transportation

INSPECTOR GENERAL REVIEW OF FY 2008 DRUG CONTROL FUNDS AND PERFORMANCE SUMMARY REPORTING

National Highway Traffic Safety Administration

Report Number: FI-2009-032

Date Issued: February 4, 2009

U.S. Department of Transportation

Office of the Secretary of Transportation

Office of Inspector General
Washington, DC 20590

February 4, 2009

Mr. Jon E. Rice
Associate Director for Performance and Budget
Office of National Drug Control Policy
Washington, D.C. 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 (NHTSA) reporting of fiscal year 2008 Drug Control Funds dated January 26, 2009, and Performance Summary Report dated January 26, 2009, to the Office of National Drug Control Policy (ONDCP). The reports and our review are required by 21 U.S.C. § 1704 (d).

This review was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and Generally Accepted Government Auditing Standards prescribed by the Comptroller General of the United States. The objective of our review is to provide negative assurance as to whether any information came to our attention on the basis of the work performed to indicate that management's assertions are not presented in all material respects, based on the ONDCP Circular, *Drug Control Accounting,* May 1, 2007, requirements. A review is substantially more limited in scope than an examination; the objective of an examination is the expression of an opinion on the accuracy of the *National Highway Traffic Safety Administration's Drug Control Obligation Summary and Performance Summary Reports* to ONDCP. Accordingly, we do not express such an opinion.

Drug Control Obligations Summary

We performed review procedures on the accompanying report (Enclosure 1), NHTSA'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. We traced the amounts in Table 6(a) to the Department's accounting system. We also verified that three drug control obligations in the accounting system were supported by contracts.

No information came to our attention during our review that the accompanying *National Highway Traffic Safety Administration's FY 2008 Drug Control Obligations Summary* to ONDCP was not presented in conformity with the ONDCP Circular, *Drug Control Accounting*, dated May 1, 2007.

NHTSA is reporting $2.7 million in drug control obligations, which is below the $50 million threshold for full reporting in accordance with the ONDCP circular. The Office of Inspector General 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, ONDCP, and the Department of Transportation. It is not intended to be used and should not be used by anyone other than these specified parties.

Sincerely,

Rebecca Leng

Rebecca C. Leng
Assistant Inspector General for
Financial and Information Technology Audits

Enclosure(s)

cc: Senior Associate Administrator for Policy and Operations, NHTSA

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

1200 New Jersey Avenue SE.
Washington, DC 20590

January 26, 2009

Jon E. Rice
Associate Director for Performance and Budget
Office of the National Drug Control Policy
Washington, DC 20503

Dear Mr. Rice:

In accordance with the Office of National Drug Control Policy Circular: Drug Control Accounting issued May 1, 2007, the National Highway Traffic Safety Administration's (NHTSA) Fiscal Year 2008 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 Melanie O'Donnell. She can be reached at (202) 366-0498, if further assistance is required

Sincerely,

Gregory A. Walter
Senior Associate Administrator
Office of Policy and Operations

Enclosure

NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION
FISCAL YEAR 2008 DRUG CONTROL OBLIGATIONS SUMMARY
($MILLIONS)
FY 2008
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. This program also currently supports drug impaired driving research as required under SAFETEA-LU.

Drug Resources by Drug Control Function:	
Research & Development	$2.7
Total	$2.7
Drug Resources by Budget Unit:	
Highway Safety Program-Drug Recognition Expert Program	$1.5
SAFETEA-LU	$1.2
Total	$2.7

Note:

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

Tab H
Department of the Treasury

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

CHIEF FINANCIAL OFFICER

February 2, 2009

MEMORANDUM FOR JON RICE
ASSOCIATE DIRECTOR
OFFICE OF NATIONAL DRUG CONTROL POLICY

FROM: Alison L. Doone
Chief Financial Officer

SUBJECT: Internal Revenue Service (IRS) Fiscal Year (FY) 2008 Detailed Accounting Submission of Drug Control Funds

The Internal Revenue Service (IRS) is submitting its Detailed Accounting Submission of Drug Controls in compliance with Section 8, *Inspector General Authentication*, of the Office of National Drug Control Policy (ONDCP) Circular: Drug Control Accounting, dated May 1, 2007.

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

Attachment

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Attestation Review of the Internal Revenue Service's Fiscal Year 2008 Annual Accounting of Drug Control Funds and Related Performance

January 30, 2009

Reference Number: 2009-10-040

Phone Number | **202-622-6500**
Email Address | **inquiries@tigta.treas.gov**
Web Site | **http://www.tigta.gov**

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

January 30, 2009

MEMORANDUM FOR CHIEF FINANCIAL OFFICER

Nancy A. Nakamura

FROM: *(for)* Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Attestation Review of the Internal Revenue Service's Fiscal Year 2008 Annual Accounting of Drug Control Funds and Related Performance (Audit # 200810034)

This report presents the results of our attestation review of the Internal Revenue Service's (IRS) Fiscal Year (FY) 2008 Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission and Performance Summary Report (the Report). The purpose of this review was to express a conclusion about the reliability of each assertion made in the Report.

Impact on the Taxpayer

The IRS reported that it expended $64.2 million on ONDCP-related activities and participated in 478 ONDCP-related cases that resulted in convictions in FY 2008. Overall, the methodology used to prepare the IRS' FY 2008 Report was clearly explained and adequately documented. However, we determined that the performance information reported by the IRS includes a small number of cases from fiscal years prior to FY 2008. For example, 18 of the 478 convictions reported actually occurred prior to FY 2008 and, therefore, should not be included in the FY 2008 measure. Complete and reliable financial and performance information is critical to the IRS' ability to accurately report on the results of its operations to both internal and external stakeholders, including taxpayers.

Attestation Review of the Internal Revenue Service's Fiscal Year 2008 Annual Accounting of Drug Control Funds and Related Performance

Synopsis

Overall, we found that the methodology used to prepare the IRS' FY 2008 Report was clearly explained and adequately documented. In response to our FY 2007 attestation report,[1] and to better represent program effectiveness, the IRS began reporting the number of convictions and conviction rate related to its participation in ONDCP-related cases. For FY 2008, the IRS reported 478 cases that resulted in convictions and an overall conviction rate of 87.9 percent.

While this additional reporting is a positive step in improving the reporting of performance measures, our testing indicated that 18 of the 478 convictions actually occurred prior to FY 2008 and, therefore, should not be included in the FY 2008 measure. We similarly found that 3 of the 827 ONDCP-related investigations reported as completed in FY 2008 were actually completed prior to FY 2008.

We also identified 18 cases among the cases the IRS reported as recommended for prosecution, but ultimately resulted in acquittal or dismissal, that occurred prior to FY 2008. The IRS informed us that it does not adjust its reporting to account for timing differences resulting from the sometimes delayed posting of case results. Not accounting for these timing differences adversely impacts the reliability of IRS performance information. Specifically, the IRS' conviction rate would be 90.6 percent by omitting these 36 cases that resulted in a conviction, acquittal, or dismissal prior to FY 2008 instead of the 87.9 percent reported. Notably, these timing differences may also be present and result in the reporting of FY 2008 cases as occurring during FY 2009, further obscuring the correct calculation of the FY 2008 performance measures including the conviction rate. Because of the limited-scope nature of our review, we did not perform indepth testing of IRS records necessary to identify potential errors of this type, nor did we analyze in detail the specific causes for the delayed postings we identified.

Based on our review, with the exception of the matters discussed above, nothing came to our attention 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, in coordination with the Chief, Criminal Investigation Division, evaluate the cause of the delayed case postings we identified and based on this analysis, evaluate the feasibility of either improving the timeliness of its case postings and/or adjusting its yearend performance information to reflect timing differences caused by late postings of case information.

---

[1] *Attestation Review of the Internal Revenue Service's Fiscal Year 2007 Annual Accounting of Drug Control Funds and Related Performance* (Reference Number 2008-10-058, dated January 31, 2008).

Response

IRS management agreed with our recommendation. For its FY 2009 report on accounting of drug control funds, the IRS will include only those investigations completed within the fiscal year in the performance results. In addition, the IRS adjusted its reporting of FY 2008 performance information to reflect timing differences caused by late postings of case information and included this revised reporting in its response. Management's complete response to the draft report is included as Appendix VI.

Office of Audit Comment

In responding to our report, the IRS provided a revised reporting of its FY 2008 performance information to reflect timing differences. Because of the time limitations imposed by the mandatory reporting deadline of this review, we did not evaluate or perform any testing relating to the IRS' revised reporting.

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 A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations), at (202) 622-8500.

Table of Contents

Abbreviations

FY	Fiscal Year
IRS	Internal Revenue Service
ONDCP	Office of National Drug Control Policy

Background

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 (IRS) supports the National Drug Control Strategy through continued support of the Organized Crime and Drug Enforcement Task Force. The mission of the Criminal Investigation Division in Federal law enforcement's anti-drug efforts is to reduce or eliminate the financial gains (profits) of major narcotics trafficking and money laundering organizations through the use of its unique financial investigative expertise and statutory jurisdiction.

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 during the previous fiscal year.

This review was conducted as required by the National Drug Control Policy (21 U.S.C. Section 1704(d)) and ONDCP Circular, *Annual Accounting of Drug Control Funds*, dated May 1, 2007. 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. Agencies also need to identify and document performance measure(s) that justify the results associated with these expenditures. The Chief Financial Officer, or another accountable senior level executive, of each agency for which a Detailed Accounting Submission is required, shall provide a Performance Summary Report to the Director of National Drug Control Policy. Further, the Circular requires that each report 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 prior to its submission. Beginning in Fiscal Year (FY) 2006, ONDCP funding became a part of the IRS budget. In prior years, IRS-related ONDCP funds expended were reimbursed by the Department of Justice.

We conducted our fieldwork in the IRS Headquarters offices of the Chief Financial Officer and Chief, Criminal Investigation Division, during the period of October 2008 through January 2009. 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

[1] P.L. 105-277 (Division C-Title VII), Section 707(d).

[2] A National Drug Control Program agency is defined as any agency that is responsible for implementing any aspect of the National Drug Control Strategy.

than an examination, the objective of which is the expression of an opinion on the ONDCP Detailed Accounting Submission and Performance Summary Report. 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.

Results of Review

The Methodology Used to Prepare the Fiscal Year 2008 Annual Accounting of Drug Control Funds and Related Performance Summary Report Was Clearly Explained and Adequately Documented, but Improvements Are Needed to Ensure Data Accuracy

We reviewed the IRS' ONDCP Detailed Accounting Submission and Performance Summary Report (the Report) for FY 2008, which ended September 30, 2008 (see Appendix V). This Report was prepared pursuant to 21 U.S.C. § 1704(d) and the ONDCP Circular *Annual Accounting of Drug Control Funds*. The IRS is responsible for preparing the report.

The Report assertions, as required by Section 6.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 assertions, as required by Section 7.b. of the ONDCP Circular, include statements that the performance reporting system is appropriate and applied, explanations for not meeting any performance targets are reasonable, and methodology used to establish performance targets is reasonable and correctly applied. ONDCP-established criteria include well-documented sources of data, documented and explained calculations, and complete and fair presentation of data from financial systems.

Overall, we found that the methodology used to prepare the IRS' FY 2008 Report was clearly explained and adequately documented. The IRS reported that it expended $64.2 million on ONDCP-related activities and completed 827 ONDCP-related investigations in FY 2008. In response to our FY 2007 attestation report,[3] and to better represent program effectiveness, the IRS began reporting the number of convictions and conviction rate related to its participation in ONDCP-related cases. For FY 2008, the IRS reported 478 cases that resulted in convictions and an overall conviction rate of 87.9 percent.

While this additional reporting is a positive step in improving the reporting of performance measures, our testing indicated that 18 of the 478 convictions actually occurred prior to FY 2008 and, therefore, should not be included in the FY 2008 measure. We similarly found that 3 of the 827 ONDCP-related investigations reported as completed in FY 2008 were actually completed prior to FY 2008. These 18 convictions and 3 completed investigations were included in the

[3] *Attestation Review of the Internal Revenue Service's Fiscal Year 2007 Annual Accounting of Drug Control Funds and Related Performance* (Reference Number 2008-10-058, dated January 31, 2008).

FY 2008 performance measure because the IRS calculates its performance measures based strictly on the date the case results are input into its management information system. We also identified 18 cases among the cases the IRS reported as recommended for prosecution but ultimately resulted in acquittal or dismissal that occurred prior to FY 2008. The IRS informed us that it does not adjust its reporting to account for timing differences resulting from the sometimes delayed posting of case results. The 39 total cases (18 convictions, 3 completed investigations, and 18 acquittals or dismissals) we identified as completed or occurring prior to FY 2008 included 28 FY 2007 cases and 11 FY 2006 and prior cases.

Not accounting for these timing differences adversely affects the reliability of IRS performance information. Specifically, the IRS' conviction rate would be 90.6 percent by omitting these 36 cases that resulted in a conviction, acquittal, or dismissal prior to FY 2008 instead of the 87.9 percent reported. Notably, these timing differences may also be present and result in the reporting of FY 2008 cases as occurring during FY 2009, further obscuring the correct calculation of the FY 2008 performance measures including the conviction rate. Because of the limited-scope nature of our review, we did not perform indepth testing of IRS records necessary to identify potential errors of this type, nor did we analyze in detail the specific causes for the delayed postings we identified.

Based on our review, with the exception of the matters discussed above, nothing came to our attention 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, in coordination with the Chief, Criminal Investigation Division, should evaluate the cause of the delayed case postings we identified and based on this analysis, evaluate the feasibility of either improving the timeliness of its case postings and/or adjusting its yearend performance information to reflect timing differences caused by late postings of case information.

> ***Management's Response:*** IRS management agreed with our recommendation. For its FY 2009 report on accounting of drug control funds, the IRS will include only those investigations completed within the fiscal year in the performance results. In addition, the IRS adjusted its reporting of FY 2008 performance information to reflect timing differences caused by late postings of case information.
>
> ***Office of Audit Comment:*** In responding to our report, the IRS provided a revised reporting of its FY 2008 performance information to reflect timing differences. Because of the time limitations imposed by the mandatory reporting deadline of this review, we did not evaluate or perform any testing relating to the IRS' revised reporting.

* * * * *

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.

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to perform an attestation review of the IRS' reporting of FY 2008 ONDCP expenditures and related performance for the purpose of expressing a conclusion about the reliability of each assertion made in the Detailed Accounting Submission and Performance Summary Report. To accomplish our objective, we:

I. Obtained an understanding of the process used to prepare the FY 2008 Detailed Accounting Submission and Performance Summary Report.

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

  B. Obtained documents such as 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 for consistency with reported amounts.

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

  A. Verified that the Detailed Accounting Submission included all of the elements specified in Section 6 of the ONDCP Circular: *Annual Accounting of Drug Control Funds*.

  B. Verified that the drug control budget submitted to the ONDCP was consistent with the Detailed Accounting Submission.

  C. Verified the mathematical accuracy of the obligations presented in the Table of the FY 2008 Drug Control Obligations.

  D. Traced the information contained in the Table of the FY 2008 Drug Control Obligations to the supporting documentation.

IV. Evaluated the reasonableness of the methodology used to report performance information for National Drug Control Program activities.

  A. Reviewed data supporting the Performance Summary Report to establish its relationship to the National Drug Control program activities being reported.

B. Reviewed the estimation methods for consistency with reported performance information.

V. Performed sufficient verifications of reported performance information to support our conclusion of the reliability of the assertions.

A. Verified that the Performance Summary Report includes all of the elements specified in Section 7 of the ONDCP Circular: *Annual Accounting of Drug Control Funds*.

B. Verified the mathematical accuracy of the performance information presented.

C. Traced the performance information presented to the supporting documentation.

D. Reviewed the supporting documentation for reasonableness.

Appendix II

Major Contributors to This Report

Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations)
Jeffrey M. Jones, Director
Anthony J. Choma, Audit Manager
Angela Garner, Lead Auditor
Seth A. Siegel, Senior Auditor
Melvin Lindsey, Auditor

Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Operations Support OS
Deputy Commissioner for Services and Enforcement SE
Chief, Criminal Investigation Division SE:CI
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaisons:
    Chief, Criminal Investigation Division SE:CI
    Chief Financial Officer OS:CFO

Appendix IV

Outcome Measure

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. This benefit will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Reliability of Information – Actual; 39 Cases (see page 3).

Methodology Used to Measure the Reported Benefit:

Our review found that the IRS included cases from prior years in its reporting of FY 2008 ONDCP-related investigations. Specifically, the IRS reported 827 completed investigations during FY 2008. The IRS also reported that 478 cases resulted in convictions during FY 2008 corresponding to a conviction rate of 87.9 percent.

Our testing indicated that 18 of the 478 reported convictions and 18 cases that had been recommended for prosecution but resulted in acquittals or dismissals occurred prior to FY 2008 but were used to compute the IRS' FY 2008 conviction rate. We similarly found that 3 of the 827 ONDCP-related investigations reported as completed in FY 2008 were actually completed prior to FY 2008. The IRS calculates its performance measures based strictly on the date the case results are input into its management information system and it does not adjust its reporting to account for timing differences resulting from the sometimes delayed posting of case results.

Appendix V

Internal Revenue Service Fiscal Year 2008 Detailed Accounting Submission and Related Performance Summary Report

CHIEF FINANCIAL OFFICER

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

RECEIVED
JAN 16 2009

January 15, 2009

MEMORANDUM FOR MICHAEL PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Alison L. Doone
Alison L. Doone
Chief Financial Officer

SUBJECT: Internal Revenue Service's (IRS) Fiscal Year (FY) 2008 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) in compliance with Section 8, *Inspector General Authentication*, of the Office of National Drug Control Policy (ONDCP) Circular: Drug Control Accounting, dated May 1, 2007. This circular requires TIGTA to perform an attestation review of this report before the IRS submits it to the ONDCP. After the IRS receives TIGTA's conclusion as to the reliability of each assertion made in the report, I will forward the document to the ONDCP.

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

Attachment

Attachment 1/15/2009

INTERNAL REVENUE SERVICE
Annual Accounting and Authentication of Drug Control Funds and Related Performance

DETAILED ACCOUNTING SUBMISSION

A. Table of FY 2008 Drug Control Obligations

Drug Control Resources by Function	**($000)**
Investigations	$64,247
Total	$64,247
Drug Control Resources by Decision Unit	
Narcotics Crimes	$64,247
Total	$64,247

1) Drug Methodology

- The Organized Crime and Drug Enforcement Task Force (OCDETF) program is carried out by the Internal Revenue Service (IRS) Criminal Investigation (CI) Narcotics Crimes decision unit. All Drug Control obligations (the resources appropriated and available for these activities) are reported under one Drug Control function and the Narcotics Crimes budget decision unit, as shown in the above chart.

- The Office of National Drug Control Policy (ONDCP) requires CI to report only on the OCDETF portion of the narcotics program. CI's Direct Investigative Time (DIT) applied to narcotics cases for FY 2008 was 12.3% of total DIT. The OCDETF portion of this program was 11.5% of total DIT or 93% of the total narcotics DIT.

- The methodology for computing the resources appropriated and realized for the OCDETF program is the application of the DIT attributable to OCDETF cases to the total realized CI appropriated resources, reduced by reimbursable funds and Earned Income Tax Credit (EITC) resources, for the year for which the resources are being reported. The result is the amount of resources expended on OCDETF cases. This methodology was approved by CI, the IRS Chief Financial Officer, and the Treasury Inspector General for Tax Administration (TIGTA) during the FY 2006 ONDCP attestation review.

Attachment 1/15/2009

- FY 2006 was the first year OCDETF funding became a permanent part of the CI budget. Before FY 2006, OCDETF was a reimbursable program administered by the Department of Justice.

2) Methodology Modifications

The methodology to calculate drug control obligations has not been modified. The IRS added the number of convictions and conviction rate to the performance measures used to assess its contribution to the National Drug Control Strategy.

3) Material Weaknesses or Other Findings

None

4) Reprogramming or Transfers

None

5) Other Disclosures

None

B. Assertions

1) Obligations by Budget Decision Unit

The FY 2008 OCDETF obligations are derived from multiplying the OCDETF DIT to total CI obligations less reimbursements and EITC funds.

2) Drug Methodology

The methodology used to calculate obligations of prior-year budgetary resources is reasonable and accurate.

(a) Data

Data are derived from the Criminal Investigation Management Information System (CIMIS) to determine the OCDETF DIT applied to the OCDETF activities. Special agents submit CIMIS time reports monthly detailing their activities relating to specific investigations. Each investigation is associated with a specific program and sub-program area. The percentage of DIT applied to each program area is calculated monthly with an annual percentage determined after the close of the fiscal year. The annual percentage of OCDETF DIT is applied to the total resources expended for FY 2008 in the CI budget

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Attachment 1/15/2009

(excluding reimbursables and EITC). These OCDETF percentages include High Intensity/OCDETF, OCDETF, and Terrorism/OCDETF program areas. These OCDETF DIT percentages are used to determine the total resources expended on the OCDETF program.

(b) Other Estimation Methods

None

(c) Financial Systems

The IRS Integrated Financial System (IFS) is the source of the CI obligations.

3) Application of Drug Methodology

The methodology disclosed in this section meets all requirements described in section 6 of the ONDCP Circular: Drug Control Accounting. Calculations made using this methodology are documented to allow independent review and to ensure consistency between reporting years.

4) Reprogramming or Transfers

There were no reprogrammings or transfers in the OCDETF program in FY 2008.

5) Fund Control Notices

The OCDETF obligations were derived based on 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.

Appendix VI

Management's Response to the Draft Report

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

CHIEF FINANCIAL OFFICER

January 27, 2009

RECEIVED
JAN 27 2009

Nancy A. Nakamura
Assistant Inspector General
(Management Services and Exempt Organizations)
1125 15th St. NW
Washington, DC 20005

Dear Nancy:

We appreciate the opportunity to review TIGTA Discussion Draft Report – Attestation Review of the Internal Revenue Service's Fiscal Year 2008 Annual Accounting of Drug Control Funds and Related Performance (Audit # 200810034). Our comments on the discussion draft are provided below.

We agree with TIGTA's findings on the number of cases included from prior years and the recommendation to adjust year-end performance information. To ensure accuracy in the FY 2008 performance information we adjusted the performance to reflect timing differences caused by late postings of case information. The adjusted FY 2008 results are included in the attached "Annual Accounting and Authentication of Drug Control Funds and Related Performance."

To complete the FY 2009 report on accounting of drug control funds, the IRS will ensure that only those OCDETF investigations completed within the fiscal year are included in the performance results. The IRS also will continue to measure performance in its field offices against the requirement that 85% of status actions must be input to the CIMIS system within five days of the action being taken. In FY 2008, CI entered 91.5% of status actions within five days of the action.

At each field office, cases that are not input timely are reviewed to determine the cause of the delay. Cases that do not meet the target frequently result from delays in notification telephone calls and letters issued by the Department of Justice.

2

If you have any questions please contact Peter Rose at (202) 622-4508.

Sincerely,

Alison L. Doone

Alison L. Doone

Attachment

Attachment 1/15/2009

INTERNAL REVENUE SERVICE
Annual Accounting and Authentication of Drug Control Funds and Related Performance

DETAILED ACCOUNTING SUBMISSION

A. Table of FY 2008 Drug Control Obligations

Drug Control Resources by Function	**($000)**
Investigations	$64,247
Total	$64,247
Drug Control Resources by Decision Unit	
Narcotics Crimes	$64,247
Total	$64,247

1) Drug Methodology

- The Organized Crime and Drug Enforcement Task Force (OCDETF) program is carried out by the Internal Revenue Service (IRS) Criminal Investigation (CI) Narcotics Crimes decision unit. All Drug Control obligations (the resources appropriated and available for these activities) are reported under one Drug Control function and the Narcotics Crimes budget decision unit, as shown in the above chart.

- The Office of National Drug Control Policy (ONDCP) requires CI to report only on the OCDETF portion of the narcotics program. CI's Direct Investigative Time (DIT) applied to narcotics cases for FY 2008 was 12.3% of total DIT. The OCDETF portion of this program was 11.5% of total DIT or 93% of the total narcotics DIT.

- The methodology for computing the resources appropriated and realized for the OCDETF program is the application of the DIT attributable to OCDETF cases to the total realized CI appropriated resources, reduced by reimbursable funds and Earned Income Tax Credit (EITC) resources, for the year for which the resources are being reported. The result is the amount of resources expended on OCDETF cases. This methodology was approved by CI, the IRS Chief Financial Officer, and the Treasury Inspector General for Tax Administration (TIGTA) during the FY 2006 ONDCP attestation review.

Tab I
Department of Veterans Affairs

Department of Veterans Affairs
Office of Inspector General

Independent Review of VA's Fiscal Year 2008 Detailed Accounting Submission To the Office of National Drug Control Policy

Report No. 09-00863-87

March 6, 2009

VA Office of Inspector General
Washington, DC 20420

Department of Veterans Affairs

Memorandum

Date: March 6, 2009

From: Assistant Inspector General for Auditing (52)

Subj: Final Report – Independent Review of the VA's Fiscal Year 2008 Detailed Accounting Submission to the Office of National Drug Control Policy

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

1. The Office of National Drug Control Policy (ONDCP) requires the Department of Veterans Affairs (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 May 1, 2007, to ONDCP. The Submission, including the assertions made, is the responsibility of VA's management and it is included in this report as Attachment A.

2. We reviewed VA 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 8.

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. An attestation 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, *Audit of VA's Consolidated Financial Statements for Fiscal Years 2008 and 2007* (Report No. 08-00870-24, November 17, 2008), identified three material weaknesses related to drug control accounting. These material weaknesses were identified as "Financial Management System Functionality," "Information Technology (IT) Security Controls," and "Financial Management Oversight."

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

5. Based upon our review, except for the effects, if any, of the material weaknesses 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 of this report are not fairly stated in all material respects based on the criteria set forth in the Circular.

6. We provided you our draft report for review. You concurred with our report without further comments.

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

Belinda J. Finn

Belinda J. Finn

Attachments

Statement of Disclosures and Assertions for FY 2008 Drug Control Expenditures Submitted to Office of National Drug Control Policy (ONDCP) for FY Ending September 30, 2008

In accordance with ONDCP's Circular, Drug Control Accounting, dated May 1, 2007, 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 shown in the disclosures that follow.

Revised 2/24/2009.

DEPARTMENT OF VETERANS AFFAIRS
VETERANS HEALTH ADMINISTRATION
Annual Reporting of FY 2008 Drug Control Funds

DETAILED ACCOUNTING SUBMISSION

A. Table of FY 2008 Drug Control Obligations

(In Millions)	
Description	FY 2008 Final
Drug Control Resources by Function:	
Treatment	$408.326
Research & Development	$14.932
Total	$423.258
Drug Control Resources by Budget Decision Unit:	
Medical Care	$408.326
Research & Development	$14.932
Total Drug Control Resources by Decision Unit	$423.258

1. Drug Control Methodology

Decision Support System

The 2008 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 outpatient 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.

MEDICAL CARE

As of the end of Fiscal Year 2008, the Department of Veterans Affairs, through the Veterans Health Administration (VHA), operates a national network of 274 substance abuse treatment programs located in the Department's medical centers, domiciliaries and outpatient clinics. These programs include 7 medical inpatient programs, 75 residential rehabilitation programs, 47 "intensive" outpatient programs, and 145 standard outpatient programs.

VHA, 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. VA is also implementing a major initiative to create primary care-oriented buprenorphine clinics to increase access to care for opiate-dependent veterans.

All inpatient programs provide acute, in-hospital care and a subset also provide detoxification and stabilization services, as well. They typically treat severely impaired (e.g., those with co-occurring serious mental illness) patients on an inpatient basis followed by outpatient aftercare. Inpatient treatment for drug addiction has become rare in VA just as it has in other parts of the healthcare system; only 958 drug using veterans received such treatment in 2008. The rest of VA's 24-hour care settings are classified as residential rehabilitation. They are based in on-site VA domiciliaries and in on- and off-site residential rehabilitation centers. They are distinguished from inpatient programs in having less medical staff and services and longer lengths of stay (about 50 days).

Most drug-dependent veterans are treated in outpatient programs. Intensive outpatient programs provide more than three hours of service per day to each patient, and patients attend them three or more days per week. Standard outpatient programs typically treat patients for an hour or two per treatment day, and patients attend them one or two 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 2007, which described their staffing, structure, services and history in detail. This report showed that VA has expanded the scope, intensity and accessibility of substance abuse treatment services since the 2004 survey.

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

In FY 2008, VHA provided specialty substance abuse treatment to 103,564 veterans who had a diagnosed problem with illicit drugs, a substantial increase over FY 2007. 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 occurring as a result of military action).

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 May 1, 2007, (b) Budget Instructions and Certification Procedures, dated May 1, 2007, and (c) Budget Execution, dated May 1, 2007. 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 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 residential rehabilitation and treatment substance abuse programs, inpatient treatments in specialized substance abuse programs, and outpatient substance abuse clinics.

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

Specialized Treatment	Obligations (millions)	Drug Control Related Percent	FTE
Inpatient	$68.204	61.10%	523
Residential Rehabilitation & Treatment	$130.710	68.10%	1,039
Outpatient	$209.412	91.90%	1,568
Total	$408.326		3,130

DSS data is used 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.

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

RESEARCH & DEVELOPMENT

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 Biomedical Laboratory Research & Development/Clinical Science Research & Development administrative officer extracted all funded projects for the fiscal year from Research Analysis Forecasting Tool (RAFT) and exported the data into an Excel spreadsheet.

Specialized Function	Obligations (millions)	Drug Control Related Percent	FTE
Research & Development	$14.932	N/A	N/A

2. Methodology Modifications

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

3. Material Weaknesses of 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. Reprogrammings or Transfers

There was no reprogramming of funds or transfers that adjusted 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.

5. Other Disclosures

This budget accounts for drug control-related costs for VHA Medical Care and Research. It does not include all 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 reported costs.

B. Assertions

1. Drug Methodology

VA asserts that the methodology used to estimate FY 2008 drug control obligations by function and budget decision unit is reasonable and accurate based on the criteria set forth in the ONDCP Circular dated May 1, 2007.

2. Application of Methodology

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

3. Reprogrammings or Transfers

No changes were made to VA's Financial Plan that required ONDCP approval per the ONDCP Circular dated May 1, 2007.

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.

Attachment A

Annual Reporting of FY 2008 Drug Control Funds

James F. McGaha
VHA Deputy Chief Financial Officer

2/25/2009
Date

Calvin L. Seay, Jr.
Director of Budget Services
Resource Management Office (172)

2/24/2009
Date

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Department of Veterans Affairs
Resource Summary
Obligations (In Millions)

Description	2008 Final
Drug Control Resources by Function & Decision Unit:	
Medical Care:	
Specialized Treatment	
Residential Rehabilitation & Treatment	$130.710
Inpatient	$68.204
Outpatient	$209.412
Specialized Treatment	$408.326
Research & Development	$14.932
Drug Control Resources by Function & Decision Unit, Total	$423.258
Drug Control Resources Personnel Summary	
Total FTE	3,130
Total Enacted Appropriations	$90,984.651
Drug Control Percentage	.47%

Report Distribution

VA Distribution

Office of the Secretary
Veterans Health Administration
Office of General Counsel
Assistant Secretary for Management
Chief Financial Officer for Veterans Health Administration

Non-VA Distribution

House Committee on Veterans' Affairs
House Appropriations Subcommittee on Military Construction, Veterans Affairs, and Related Agencies
House Committee on Oversight and Government Reform
Senate Committee on Veterans' Affairs
Senate Appropriations Subcommittee on Military Construction, Veterans Affairs, and Related Agencies
Senate Committee on Homeland Security and Governmental Affairs
Government Accountability Office
Office of Management and Budget
Office of National Drug Control Policy

Tab J
Small Business Administration

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

January 26, 2009

Mr. Thomas Johnson, Budget Branch Chief

Ms. Jane Sanville, Performance Branch Chief

Office of National Drug Control Policy
Executive Office of the President
Washington, DC 20503

Dear Mr. Johnson and Ms. Sandville:

In accordance with the Office of National Drug Control Policy's Drug Control Accounting Circular, the Small Business Administration (SBA) submits its Accounting of FY 2008 Drug Control Funds and Performance Summary Report with the accompanying IG authentication.

The SBA is submitting an alternative report as indicated in the ONDCP Circular: Drug Control Accounting dated May 1, 2007 due to its prior year drug-related obligations of less than $50 million.

If you have any additional questions or comments, please call me directly.

Sincerely yours,

Antonio Doss
Director of Small Development Centers

Enclosure

U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20416

January 30, 2009

Ms. Jane Sanville
Performance Branch Chief

Mr. Thomas Johnson
Budget Branch Chief

Office of National Drug Control Policy
Executive Office of the President
Washington, DC 20503

Dear Ms. Sanville and Mr. Johnson:

In accordance with the Office of National Drug Control Policy Circular (ONDCP), *Drug Control Accounting*, we reviewed the Small Business Administration's *fiscal year (FY) 2008 Annual Accounting of Drug Control Funds and Related Performance Report* and supporting documentation. We concur with SBA's decision to provide an alternative report because, as provided under Section 9 of the ONDCP circular, SBA's annual Drug Free Workplace Program budget is below $50 million, and its full compliance with reporting requirements would constitute an unreasonable burden.

In preparing its alternative report, SBA disclosed that it relied on the honesty and integrity of grantees to ensure that performance data was accurate, complete and unbiased in presentation and substance. Therefore, we compared SBA's FY 2008 alternative report to accounting and performance data submissions from the grant recipients of SBA's Drug-Free Workplace Program grants, and determined that the information provided in SBA's report matched the data reported by grantees.

Sincerely,

Peter McClintock

Peter McClintock
Acting Inspector General

I. Prior Year Drug Control Obligations

(Budget Authority in Millions)

	FY2008 FINAL	FY2009 ENACT	FY 2010 REQUEST
Drug Resources by Budget Decision Unit and Function:			
Prevention & Education	$0.990M	$0.990M	$0.990M
Drug Free Workplace Grants			
Total Funding	$0.990M	$0.990M	$0.990M
Information			
Total Agency Budget*	$553,988	$467,267	
Drug Percentage	0.18%	0.21%	

*Does not include requested funding for the Disaster Loan Program and the Inspector General.

Tab K
ONDCP Circular: Annual Accounting of Drug Control Funds

ONDCP Circular: Drug Control Accounting

May 1, 2007

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Annual Accounting and Authentication of Drug Control Funds and Related Performance

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 and the performance measures, targets, and results associated with those activities.

2. **Rescission.** This circular rescinds and replaces the ONDCP Circular, *Annual Accounting of Drug Control Funds*, dated April 18, 2003.

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 National Drug Control Policy to "... monitor implementation of the National Drug Control Program, including – (A) conducting program and performance audits and evaluations; and (B) requesting assistance of 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 May 1, 2007. 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 May 1, 2007.

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 – Customs and Border Protection (CBP), Coast Guard, Immigration and Customs Enforcement (ICE), Indian Health Service (IHS), Bureau of Indian Affairs (BIA), and the Veterans Health Administration (VHA) – obligations reported by Budget Decision Unit shall be calculated pursuant to an approved drug methodology. For

[1]Consistent with reporting requirements of the ONDCP Circular, *Budget Formulation*, dated May 1, 2007, resources received from the following accounts are excluded from obligation estimates: (1) ONDCP – High Intensity Drug Trafficking Areas (HIDTA) and (2) DOJ – Organized Crime Drug Enforcement Task Force 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.

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 Units, as they are defined for the National Drug Control Budget. (See Attachment B of the ONDCP Circular, *Budget Formulation*, dated May 1, 2007.)

(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 CBP, Coast Guard, ICE, IHS, BIA, and VHA. The criteria associated with this assertion are as follows:

[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 $1 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. **Performance Summary Report.** The CFO, or other accountable senior level senior executive, of each agency for which a Detailed Accounting Submission is required, shall provide a Performance Summary Report to the Director of National Drug Control Policy. Each report must include performance-related information for National Drug Control Program activities, and the official is required to make certain assertions regarding that information. The required elements of the report are detailed below.

a. Performance Reporting- The agency's Performance Summary Report must include each of the following components:

(1) **Performance Measures –** The report must describe the performance measures used by the agency to assess the National Drug Control Program activities it carried out in the most recently completed fiscal year and provide a clear justification for why those measures are appropriate for the associated National Drug Control Program activities. The performance report must explain how the measures: reflect the purpose of the program; contribute to the National Drug Control Strategy; and are used in the management of the program. The description must include sufficient detail to permit non-experts to understand what is being measured and why it is relevant to those activities.

(2) **Prior Years Performance Targets and Results –** For each performance measure, the report must provide actual performance information for the previous four fiscal years and compare the results of the most recent fiscal year with the projected (target) levels of performance established in the agency's annual performance budget for that year. If any performance target for the most recently completed fiscal year was not met, the report must explain why that target was not met and describe the agency's plans and schedules for meeting future targets. Alternatively, if the agency has concluded it is not possible to achieve the established target with available resources, the report should include recommendations concerning revising or eliminating the target.

(3) **Current Year Performance Targets –** Each report must specify the performance targets established for National Drug Control Program activities in the agency's performance budget for the current fiscal year and describe the methodology used to establish those targets.

(4) **Quality of Performance Data –** The agency must state the procedures used to ensure the performance data described in this report are accurate, complete, and unbiased in presentation and substance.

(b) Assertions – Each report shall include a letter in which an accountable agency official makes the following assertions are made regarding the information presented in Section 7a:

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

(2) **Explanations for not meeting performance targets are reasonable –** An assertion shall be made regarding the reasonableness of any explanation offered for failing to meet a performance target and for any recommendations concerning plans and schedules for meeting future targets or for revising or eliminating performance targets.

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

(4) **Adequate performance measures exist for all significant drug control activities -** Each Report shall include an assertion that the agency has established at least one acceptable performance measure for each Drug Control Decision Unit identified in reports required by section 6a(1)(A) for which a significant mount of obligations ($1,000,000 or 50 percent of the agency drug budget, whichever is less) were incurred in the previous fiscal year. Each performance measure must consider the intended purpose of the National Drug Control Program activity.

The criteria associated with these assertions are as follows:

(a) **Data –** If workload, participant, or other quantitative information supports these assertions, the sources of these data should be well documented. If these data are periodically collected, the data used in the report must be clearly identified and will be the most recently available.

(b) **Other Estimation Methods –** If professional judgment or other estimation methods are used to make these assertions, the objectivity and strength of these estimation methods must be thoroughly explained and documented. These estimation methods should be subjected to periodic review to confirm their continued validity.

(c) Reporting Systems – Reporting systems supporting the assertions should be current, reliable, and an integral part of the agency's budget and management processes.

8. **Inspector General Authentication.** Each report defined in Sections 6 and 7 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.

9. 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 a report will be accompanied by statements from the CFO, or accountable senior level executive, and the agency IG 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.

10. 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 Sections 6 and 7, along with the IG's authentication(s) defined in Section 8, to the attention of the Associate Director for Performance 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 8 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