



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

June 13, 2011

The Honorable Harry Reid
Majority Leader
United States Senate
S-212 The Capitol
Washington, D.C. 20510

Dear Senator Reid:

Enclosed is the *Fiscal Year 2010 Accounting of Drug Control Funds* report, as well as the *Fiscal Year 2010 Performance Summary Report*. These reports were prepared by the Office of National Drug Control Policy (ONDCP) with the close cooperation of Executive Department financial officials, pursuant to Section 705(d) of the ONDCP Reauthorization Act of 1998 (Act) and Section 704(b)(14) of the Act, as amended, respectively.

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ONDCP is committed to maintaining the accuracy and reliability of all financial data supporting the drug control program 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 you have any further questions, please do not hesitate to contact me directly at 202-395-6700 or have your staff contact Christine Leonard, Director of ONDCP's Office of Legislative Affairs, at 202-395-7225.

Respectfully,

R. Gil Kerlikowske
Director

Enclosures: *Fiscal Year 2010 Accounting of Drug Control Funds Report*
Fiscal Year 2010 Performance Summary Report



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

June 13, 2011

The Honorable Mitch McConnell
Minority Leader
United States Senate
S-231 The Capitol
Washington, D.C. 20510

Dear Senator McConnell:

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Respectfully,

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R. Gil Kerlikowske
Director

Enclosures: *Fiscal Year 2010 Accounting of Drug Control Funds Report*
Fiscal Year 2010 Performance Summary Report



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

June 13, 2011

The Honorable Nancy Pelosi
Minority Leader
United States House of Representatives
H-204 The Capitol
Washington, D.C. 20515

Dear Leader Pelosi:

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R. Gil Kerlikowske
Director

Enclosures: *Fiscal Year 2010 Accounting of Drug Control Funds Report*
Fiscal Year 2010 Performance Summary Report



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

June 13, 2011

The Honorable John A. Boehner
Speaker of the House
United States House of Representatives
H-232 The Capitol
Washington, D.C. 20515

Dear Mr. Speaker:

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R. Gil Kerlikowske
Director

Enclosures: *Fiscal Year 2010 Accounting of Drug Control Funds Report*
Fiscal Year 2010 Performance Summary Report



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

June 13, 2011

The Honorable Patrick J. Leahy
Chairman
Committee on the Judiciary
United States Senate
224 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

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Enclosures: *Fiscal Year 2010 Accounting of Drug Control Funds Report*
Fiscal Year 2010 Performance Summary Report



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

June 13, 2011

The Honorable Charles E. Grassley
Ranking Member
Committee on the Judiciary
United States Senate
152 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Grassley:

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Fiscal Year 2010 Performance Summary Report



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

June 13, 2011

The Honorable Daniel K. Inouye
Chairman
Committee on Appropriations
United States Senate
S-131 The Capitol
Washington, D.C. 20510

Dear Mr. Chairman:

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Fiscal Year 2010 Performance Summary Report



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

June 13, 2011

The Honorable Thad Cochran
Ranking Member
Committee on Appropriations
United States Senate
S-146 The Capitol
Washington, D.C. 20510

Dear Senator Cochran:

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R. Gil Kerlikowske
Director

Enclosures: *Fiscal Year 2010 Accounting of Drug Control Funds Report*
Fiscal Year 2010 Performance Summary Report



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

June 13, 2011

The Honorable Charles E. Grassley
Co-Chairman
Senate Caucus on International Narcotics Control
United States Senate
135 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Grassley:

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R. Gil Kerlikowske
Director

Enclosures: *Fiscal Year 2010 Accounting of Drug Control Funds Report*
Fiscal Year 2010 Performance Summary Report



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

June 13, 2011

The Honorable Dianne Feinstein
Chairwoman
Senate Caucus on International Narcotics Control
United States Senate
818C Hart Senate Office Building
Washington, D.C. 20510

Dear Madam Chairman:

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

June 13, 2011

The Honorable Lamar S. Smith
Chairman
Committee on the Judiciary
United States House of Representatives
2138 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

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Director

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Fiscal Year 2010 Performance Summary Report



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

June 13, 2011

The Honorable John Conyers, Jr.
Ranking Member
Committee on the Judiciary
United States House of Representatives
B-351 Rayburn House Office Building
Washington, D.C. 20515

Dear Representative Conyers:

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R. Gil Kerlikowske
Director

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Fiscal Year 2010 Performance Summary Report



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

June 13, 2011

The Honorable Harold Rogers
Chairman
Committee on Appropriations
United States House of Representatives
H-307 The Capitol
Washington, D.C. 20515

Dear Mr. Chairman:

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Director

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Fiscal Year 2010 Performance Summary Report



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

June 13, 2011

The Honorable Norm Dicks
Ranking Member
Committee on Appropriations
United States House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515

Dear Representative Dicks:

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R. Gil Kerlikowske
Director

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

June 13, 2011

The Honorable Darrell E. Issa
Chairman
Committee on Oversight and Government Reform
United States House of Representatives
2157 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

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

June 13, 2011

The Honorable Elijah Cummings
Ranking Member
Committee on Oversight and Government Reform
United States House of Representatives
2471 Rayburn House Office Building
Washington, D.C. 20515

Dear Representative Cummings:

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

June 13, 2011

The Honorable Danny Davis
Ranking Member
Subcommittee on Health Care, District of Columbia, Census and the National Archives
Committee on Oversight and Government Reform
United States House of Representatives
2471 Rayburn House Office Building
Washington, D.C. 20515

Dear Representative Davis:

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

June 13, 2011

The Honorable Sheldon Whitehouse
Chairman
Subcommittee on Crime and Terrorism
Committee on the Judiciary
United States Senate
224 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

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A handwritten signature in black ink, reading "R. Gil Kerlikowske".

R. Gil Kerlikowske
Director

Enclosures: *Fiscal Year 2010 Accounting of Drug Control Funds Report*
Fiscal Year 2010 Performance Summary Report



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

June 13, 2011

The Honorable Jon Kyl
Ranking Member
Subcommittee on Crime and Terrorism
Committee on the Judiciary
United States Senate
152 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Kyl:

Enclosed is the *Fiscal Year 2010 Accounting of Drug Control Funds* report, as well as the *Fiscal Year 2010 Performance Summary Report*. These reports were prepared by the Office of National Drug Control Policy (ONDCP) with the close cooperation of Executive Department financial officials, pursuant to Section 705(d) of the ONDCP Reauthorization Act of 1998 (Act) and Section 704(b)(14) of the Act, as amended, respectively.

For each National Drug Control Program agency, the accompanying reports provide a detailed accounting of funds expended for drug control activities during Fiscal Year 2010 and the performance-related information for the agency's drug control activities and management assertions regarding the appropriateness and soundness of the performance system. 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.

ONDCP is committed to maintaining the accuracy and reliability of all financial data supporting the drug control program 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.

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

June 13, 2011

The Honorable Richard J. Durbin
Chairman
Subcommittee on Financial Services and General Government
Committee on Appropriations
United States Senate
133 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

Enclosed is the *Fiscal Year 2010 Accounting of Drug Control Funds* report, as well as the *Fiscal Year 2010 Performance Summary Report*. These reports were prepared by the Office of National Drug Control Policy (ONDCP) with the close cooperation of Executive Department financial officials, pursuant to Section 705(d) of the ONDCP Reauthorization Act of 1998 (Act) and Section 704(b)(14) of the Act, as amended, respectively.

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R. Gil Kerlikowske
Director

Enclosures: *Fiscal Year 2010 Accounting of Drug Control Funds Report*
Fiscal Year 2010 Performance Summary Report



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

June 13, 2011

The Honorable Jerry Moran
Ranking Member
Subcommittee on Financial Services and General Government
Committee on Appropriations
United States Senate
125 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Moran:

Enclosed is the *Fiscal Year 2010 Accounting of Drug Control Funds* report, as well as the *Fiscal Year 2010 Performance Summary Report*. These reports were prepared by the Office of National Drug Control Policy (ONDCP) with the close cooperation of Executive Department financial officials, pursuant to Section 705(d) of the ONDCP Reauthorization Act of 1998 (Act) and Section 704(b)(14) of the Act, as amended, respectively.

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R. Gil Kerlikowske
Director

Enclosures: *Fiscal Year 2010 Accounting of Drug Control Funds Report*
Fiscal Year 2010 Performance Summary Report



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

June 13, 2011

The Honorable Jim Sensenbrenner
Chairman
Subcommittee on Crime, Terrorism and Homeland Security
Committee on the Judiciary
United States House of Representatives
B-370B Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

Enclosed is the *Fiscal Year 2010 Accounting of Drug Control Funds* report, as well as the *Fiscal Year 2010 Performance Summary Report*. These reports were prepared by the Office of National Drug Control Policy (ONDCP) with the close cooperation of Executive Department financial officials, pursuant to Section 705(d) of the ONDCP Reauthorization Act of 1998 (Act) and Section 704(b)(14) of the Act, as amended, respectively.

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R. Gil Kerlikowske
Director

Enclosures: *Fiscal Year 2010 Accounting of Drug Control Funds Report*
Fiscal Year 2010 Performance Summary Report



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

June 13, 2011

The Honorable Robert (Bobby) C. Scott
Ranking Member
Subcommittee on Crime, Terrorism and Homeland Security
Committee on the Judiciary
United States House of Representatives
B-336 Rayburn House Office Building
Washington, D.C. 20515

Dear Representative Scott:

Enclosed is the *Fiscal Year 2010 Accounting of Drug Control Funds* report, as well as the *Fiscal Year 2010 Performance Summary Report*. These reports were prepared by the Office of National Drug Control Policy (ONDCP) with the close cooperation of Executive Department financial officials, pursuant to Section 705(d) of the ONDCP Reauthorization Act of 1998 (Act) and Section 704(b)(14) of the Act, as amended, respectively.

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R. Gil Kerlikowske
Director

Enclosures: *Fiscal Year 2010 Accounting of Drug Control Funds Report*
Fiscal Year 2010 Performance Summary Report



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

June 13, 2011

The Honorable Jo Ann Emerson
Chairman
Subcommittee on Financial Services and General Government
Committee on Appropriations
United States House of Representatives
B-300 Rayburn House Office Building
Washington, D.C. 20515

Dear Madam Chairman:

Enclosed is the *Fiscal Year 2010 Accounting of Drug Control Funds* report, as well as the *Fiscal Year 2010 Performance Summary Report*. These reports were prepared by the Office of National Drug Control Policy (ONDCP) with the close cooperation of Executive Department financial officials, pursuant to Section 705(d) of the ONDCP Reauthorization Act of 1998 (Act) and Section 704(b)(14) of the Act, as amended, respectively.

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Respectfully,

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R. Gil Kerlikowske
Director

Enclosures: *Fiscal Year 2010 Accounting of Drug Control Funds Report*
Fiscal Year 2010 Performance Summary Report



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

June 13, 2011

The Honorable José E. Serrano
Ranking Member
Subcommittee on Financial Services and General Government
Committee on Appropriations
United States House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515

Dear Representative Serrano:

Enclosed is the *Fiscal Year 2010 Accounting of Drug Control Funds* report, as well as the *Fiscal Year 2010 Performance Summary Report*. These reports were prepared by the Office of National Drug Control Policy (ONDCP) with the close cooperation of Executive Department financial officials, pursuant to Section 705(d) of the ONDCP Reauthorization Act of 1998 (Act) and Section 704(b)(14) of the Act, as amended, respectively.

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Respectfully,

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R. Gil Kerlikowske
Director

Enclosures: *Fiscal Year 2010 Accounting of Drug Control Funds Report*
Fiscal Year 2010 Performance Summary Report



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

June 13, 2011

The Honorable Trey Gowdy
Chairman
Subcommittee on Health Care, District of Columbia, Census and the National Archives
Committee on Oversight and Government Reform
United States House of Representatives
2157 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

Enclosed is the *Fiscal Year 2010 Accounting of Drug Control Funds* report, as well as the *Fiscal Year 2010 Performance Summary Report*. These reports were prepared by the Office of National Drug Control Policy (ONDCP) with the close cooperation of Executive Department financial officials, pursuant to Section 705(d) of the ONDCP Reauthorization Act of 1998 (Act) and Section 704(b)(14) of the Act, as amended, respectively.

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Respectfully,

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R. Gil Kerlikowske
Director

Enclosures: *Fiscal Year 2010 Accounting of Drug Control Funds Report*
Fiscal Year 2010 Performance Summary Report

FY 2010 Accounting of Drug Control Funds

Office of National Drug Control Policy

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Executive Summary

Background

This presents for Congress the *Fiscal Year 2010 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 L), to all National Drug Control Program agencies defining the requirements for annual accounting submissions. The Circular specifies, “Each report...shall be provided to the agency’s Inspector General for the purpose of expressing a conclusion about the reliability of each assertion made in the report.” In assessing reliability, ONDCP anticipates each Office of Inspector General (OIG) will conduct an attestation review consistent with the *Statements for Standards of Attestation Engagements*, promulgated by the American Institute of Certified Public Accountants. An attestation review is more limited in scope than a standard financial audit, the purpose of which is to express an opinion on management’s assertions. The objective of an attestation review is to evaluate an entity’s financial reporting and to provide negative assurance. Negative assurance, based on the criteria established by the ONDCP Circular, indicates that nothing came to the attention of the OIG that would cause them to believe an agency’s submission was presented other than fairly in all material respects.

FY 2010 Accounting of Drug Control Funds

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 2010 drug control obligations were not reviewable. The Department of Homeland Security’s United States Coast Guard (USCG) failed. Details on each agency’s report are provided below.

Table: Compliance and Attestation Review Summary

Department/Bureau	Compliance with ONDCP Circular (Yes/No)	OIG/Independent Auditor Attestation Review (Pass/Fail)	Material Weakness Identified (Yes/No)
Defense	Yes	Pass	No
Education			
Office of Safe and Drug-Free Schools	Yes	Pass	No
Health and Human Services			
Indian Health Services (IHS)	Yes	Pass	No
National Institute on Drug Abuse	Yes	Pass	No
Substance Abuse and Mental Health Services Administration	Yes	Pass	Yes
Homeland Security			
United States Coast Guard	Yes	Fail	Yes
Immigration and Customs Enforcement	Yes	Pass	Yes
Customs and Border Protection	No	Pass	Yes
Department of Interior	Yes	N.A. ¹	N.A. ¹
Justice			
Bureau of Prisons	Yes	Pass	No
Drug Enforcement Administration	Yes	Pass	No
National Drug Intelligence Center	Yes	Pass	No
Organized Crime Drug Enforcement Task Force	Yes	Pass	No
Office of Justice Programs	Yes	Pass	No
State			
Bureau of International Narcotics and Law Enforcement Affairs	Yes	Pass	No
United States Agency for International Development	Yes	Pass	No
Transportation			
National Highway Traffic Safety Administration	Yes	N.A. ¹	N.A. ¹
Department of the Treasury			
Internal Revenue Service	Yes	Pass	No
Veterans Affairs			
Veterans Health Administration	Yes	Pass	Yes
Small Business Administration	Yes	N.A. ¹	N.A. ¹

¹In compliance with the ONDCP Circular, the Agency submitted an alternative report because the requirements created an unreasonable burden. The alternative reports for the Department of the Interior and the Small Business Administration were not subject to an attestation review, however, the Department of Transportation report was subject to such a review.

Summary of Agency Reports

Department of Defense

The Department of Defense's (DOD) accounting of FY 2010 drug control obligations (Tab A) satisfies all requirements established by ONDCP's Circular. No material weaknesses were found, and DOD was assessed a rating of "pass", as nothing came to the attention of the DOD OIG which would cause them to believe the submission was presented other than accurately in all material respects.

Department of Education

The Department of Education's accounting of FY 2010 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. No material weaknesses were found. Given this, Education was assessed a rating of "pass".

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 & Medicare Services (CMS) Grants to States for Medicaid program featured in the Drug Budget is not included; CMS reports actuarial outlay estimates for this mandatory spending program 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: OIG attested that the IHS submission and management assertion complied with the ONDCP Drug Control Accounting Circular. No material weaknesses were found. IHS was assessed a rating of "pass".

NIDA: OIG attested that the NIH-NIDA submission and management assertion complied with the ONDCP Drug Control Accounting Circular. No material weaknesses were found. NIH-NIDA was assessed a rating of "pass".

SAMHSA: OIG attested that the SAMHSA submission and management assertions complied with the ONDCP Drug Control Accounting Circular. The OIG reviewed the four reportable conditions identified by SAMHSA. Two of these conditions are material weaknesses and two are significant deficiencies. Specifically SAMHSA reported and the OIG reviewed the following:

- (1) the HHS Program Support Center for which SAMHSA relies upon for reporting has inadequate documentation and controls over its data systems (Material Weakness),
- (2) The Program Support Center has material weaknesses in its IT systems which resulted in two major privacy incidents. In the first, SAMHSA staff and contractors

FY 2010 Accounting of Drug Control Funds

- were allowed access to sensitive information. In the second, exposure of personally identifiable information occurred (Material Weakness),
- (3) SAMHSA financial systems and related controls are not fully implemented and as a result, SAMHSA relies on a manual system for producing financial reporting (Significant Deficiency), and
 - (4) SAMHSA has acquisitions control weaknesses found in 76% of a small sample of the SAMHSA contracts reviewed. An agency wide review of acquisitions found that there was a widespread misunderstanding of appropriations law, and that SAMHSA may have violated the time statute when issuing certain contracts which were later protested (Significant Deficiency).

Despite SAMHSA's Material Weaknesses and Significant Deficiencies, the OIG found nothing to indicate the assertions and the accompanying table were not fairly stated in all material respects. As such, SAMHSA was assessed a rating of "pass".

Department of Homeland Security

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

USCG: While the Independent Auditors' Report stated that the USCG has made progress implementing its Financial Strategy for Transformation and Audit Readiness (FSTAR) in FY 2010, various weaknesses still exist that may impact the USCG's ability to maintain the timeline for implementation of FSTAR's corrective actions. One major audit finding states that the USCG general ledgers do not comply with the Federal Financial Management Improvement Act of 1996, which resulted in USCG management being unable to provide an assurance to the DHS OIG regarding the integrity of the financial data within the detailed accounting submission. This resulted in the independent auditor's inability to complete its review of the USCG's financial data. As a result, the USCG was assessed a rating of "fail". ONDCP has taken note of the progress the USCG has made and anticipates an improvement in the status in its next FSTAR report.

ICE: ICE's FY 2010 drug control obligations report satisfies all requirements established by ONDCP's Circular. In the report, ICE identified material weaknesses in its budgetary resources management processes. ICE implemented corrective actions to address these weaknesses: developing a Status of Funds reporting capability, aligning obligation-tracking responsibilities and requiring detailed spend plans. As part of its remediation plan, ICE plans to address these weaknesses by improving documentation, guidance, and training. ICE was assessed a rating of "pass", given the component's compliance with ONDCP's circular and its implementation of corrective actions.

CBP: While CBP was able to provide management's assertions pursuant to ONDCP's Drug Control Accounting Circular regarding drug control obligations, CBP could not assert that any reprogrammings or transfers affecting drug-related resources in excess of \$1 million were

FY 2010 Accounting of Drug Control Funds

approved by ONDCP. Management acknowledged that a reprogramming was submitted to Congress without receipt of ONDCP approval. CBP had the following material weaknesses/reportable conditions documented in its FY 2010 Internal Control Assurance Statement: insufficient oversight and review of both contractor accounting and general ledger journal entry adjustments. Additionally, CBP's financial system had system security issues. CBP has a corrective action plan, which it is implementing for FY 2011. As a result of the independent auditor's evaluation of CBP's drug control obligations, CBP was assessed a rating of "pass".

Department of the Interior

The Department of the Interior (DOI) submitted a limited report (Tab E) to ONDCP because their drug-related activities are below the reporting threshold of \$50 million. The report includes a table of FY 2010 obligations for their Drug Initiative. The DOI submission satisfies all requirements established by the ONDCP Circular, including concurrence from the OIG that an alternative report submission is appropriate.

Department of Justice

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

BOP: The FY 2010 accounting report satisfies all requirements established by ONDCP's Circular, including the rendering of a negative assurance by the DOJ OIG. No material weaknesses were identified in the Independent Auditors' Report on Internal Control over Financial Reporting or on the Report on Compliance and other Matters. Therefore, BOP was assessed a rating of "pass".

DEA: The FY 2010 accounting report satisfies all requirements established by ONDCP's Circular, including the rendering of a negative assurance by the DOJ OIG. No material weaknesses were noted in the DEA audit report on internal controls over financial reporting. However, three reportable conditions in the areas of procurement and sensitive payments (a failure to reconcile purchases, invalid Undelivered Orders, and controls concerning transit subsidies) were found. DEA is taking corrective action measures by training, monitoring, and tracking related issues to reduce the deficiencies identified. DEA was assessed a rating of "pass".

NDIC: The FY 2010 accounting report satisfies all requirements established by ONDCP's Circular, including the rendering of a negative assurance by the DOJ OIG. NDIC assessed its internal controls and provided reasonable assurance that there are no reportable conditions or material weaknesses in the design or operation of the internal controls. Given this, NDIC was assessed a rating of "pass".

FY 2010 Accounting of Drug Control Funds

OCDEF: The FY 2010 accounting report satisfies all requirements established by ONDCP's Circular, including the rendering of a negative assurance by the DOJ OIG. The Independent Auditors' Report on Internal Control over Financial Reporting revealed no material weaknesses. Therefore, OCDEF was assessed a rating of pass.

OJP: The FY 2010 accounting report satisfies all requirements established by ONDCP's Circular, including the rendering of a negative assurance by the DOJ OIG. Neither OJP nor the financial statement auditors found any material weaknesses in financial reporting. As a result, OJP was assessed a rating of "pass".

Department of State and Other International Programs

The Department of State's (State) accounting of FY 2010 drug control obligations (Tab G) satisfies all requirements established by ONDCP's Circular.

INL: In the independent auditor's report, State's accounting and business processes for recording, monitoring, and reporting budgetary transactions were listed as a significant deficiency. State will work with the independent auditor and State's OIG to address this deficiency. No material weaknesses were found. Based upon State OIG's review and the independent auditor's unqualified opinion, State INL was assessed a rating of "pass".

USAID: The U.S. Agency for International Development (USAID) OIG attested that USAID's submission and management assertion in compliance with the ONDCP Drug Control Accounting Circular. No material weaknesses were found. USAID was assessed a rating of "pass".

Department of Transportation

The Department of Transportation (DOT) submitted a limited report (Tab H) because its drug-related activities fall below the reporting threshold of \$50 million. The report includes a table of FY 2010 obligations for the National Highway Traffic Safety Administration's Drug Impaired Driving Program and an explanation of drug methodology. DOT's OIG determined that the accounting report submission conforms to all requirements established by ONDCP's Circular, including an attestation that the alternative report submission is accurate and appropriate.

Department of the Treasury

The FY 2010 accounting report of drug control obligations (Tab I) is presented in accordance with all requirements established by ONDCP's Circular, including the rendering of a negative assurance by the Treasury Inspector General for Tax Administration (TIGTA). No material weaknesses were identified. Therefore, the 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 2010 drug control obligations (Tab J) satisfies all requirements established by ONDCP's Circular, including the rendering of a negative assurance by the Department's OIG. However,

FY 2010 Accounting of Drug Control Funds

the IG noted one material weaknesses in VA's Financial Management System concerning Information Technology Security Controls. The IG's opinion is unqualified. Given this, VHA was assessed a rating of "pass".

Small Business Administration

The Small Business Administration (SBA) submitted a limited report (Tab K) because its drug-related activities fall below the reporting threshold of \$50 million. The report includes a table of FY 2010 obligations for the Drug-Free Workplace Grants. SBA's submission satisfies all requirements established by the ONDCP Circular, including concurrence from the SBA OIG that the alternative report submitted is appropriate. SBA was assessed a rating of "pass".



Tab A

Department of Defense



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

January 31, 2011

MEMORANDUM FOR DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR
COUNTERNARCOTICS AND GLOBAL THREATS

SUBJECT: Independent Auditor's Report on the DoD FY 2010 Detailed Accounting
Report of the Funds Obligated for National Drug Control Program Activities
(Report No. D-2011-035)

Public Law 105-277, title VII, "The Office of National Drug Control Policy Reauthorization Act of 1998" (the Act), October 21, 1999, requires that DoD annually submit a detailed report (the Report) to the Director, Office of National Drug Control Policy (ONDCP), accounting for all funds DoD expended for National Drug Control Program activities during the previous fiscal year. The Act requires that the DoD Inspector General authenticate the Report before its submission to the ONDCP Director (section 1704(d), title 21, United States Code).

The "ONDCP Circular: Drug Control Accounting," May 1, 2007, (the "Drug Control Accounting" Circular) 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 "Drug Control Accounting" 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 for Counternarcotics and Global Threats (DASD [CN & GT]) was responsible for the detailed accounting of funds obligated and expended by DoD for the National Drug Control Program for FY 2010. We have reviewed the DASD (CN & 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 three DoD reprogramming actions that allocated \$1.56 billion among the Military Departments, National Guard, and Defense agencies. We reviewed the year-end obligation report and determined that DASD (CN & GT) allocated the funds to appropriations and project codes intended for the DoD Counterdrug Program.

In a letter dated January 3, 2011, DASD (CN & GT) provided us the Report, which we reviewed to determine compliance with the "Drug Control Accounting" Circular. The detailed accounting indicated that during FY 2010, DoD obligated \$1.41 billion to the Counterdrug Program functional areas. DASD (CN & GT) compiled the Report from data the Military Departments and other DoD Components submitted.

DASD (CN & GT) initially reprogrammed the funds from the Central Transfer Account to the DoD Components using project codes. The DoD Components provided year-end obligation data to DASD (CN & GT) through the DASD CN database, which compiled the data into one obligation report. In order to present the obligations by functional area as required by the "Drug Control Accounting" Circular, DASD (CN & 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 & 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 2010 is not presented fairly, in all material respects, in conformity with the "Drug Control Accounting" Circular.



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



SPECIAL OPERATIONS/
LOW-INTENSITY CONFLICT
& INTERDEPENDENT CAPABILITIES

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

2500 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-2500

JAN 09 2011

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 2010 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 Notices.

Performance Reporting will be addressed under separate correspondence. My point of contact for this action is Mr. Eric Vazquez, 703-614-8849, e-mail eric.vazquez@osd.mil.

William F. Wechsler
Deputy Assistant Secretary of Defense
Counternarcotics and Global Threats

Enclosures:
As stated

CF:
DODIG

UNCLASSIFIED

Counternarcotics Central Transfer Account Obligations
(\$ 000)

ONDCP Resource Categories	FY-10
Intelligence: Dom Law Enforcement	43,545
Intelligence: Interdiction	31,106
Intelligence: International	127,130
Interdiction	310,914
International	529,980
Investigative	52,748
Prevention	126,861
Prosecution	0
R&D: Interdiction	17,427
R&D: International	1,442
State and Local Assistance	157,405
Treatment	7,454
TOTAL	1,406,010 *

* This amount includes a 0.98% obligation rate for MILPERS and a 0.98% obligation rate for O&M. Investment appropriations, which are multi-year, are currently obligated at 0.46%.

DRUG RESOURCES PERSONNEL SUMMARY

Total FTEs	1.708
------------	-------

UNCLASSIFIED

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 been 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.



Tab B

Department of Education



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

FEB - 1 2011

Gil Kerlikowske
Director
Office of National Drug Control Policy
Executive Office of the President
Washington, D.C. 20500

Dear Mr. Kerlikowske:

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 2010 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
Director, Budget Service

Enclosure # 1: *Department of Education Detailed Accounting of Fiscal Year 2010 Drug Control Funds*, dated January 19, 2011

Enclosure # 2: Authentication letter from Keith West, Assistant Inspector General for Audit, dated January 31, 2011

cc: Keith West

DEPARTMENT OF EDUCATION



DETAILED ACCOUNTING OF FISCAL YEAR 2010 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 19, 2011

DEPARTMENT OF EDUCATION
DETAILED ACCOUNTING OF FISCAL YEAR 2010 DRUG CONTROL FUNDS

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

JAN 19 2011

Ms. Kathleen Tighe
Inspector General
U.S. Department of Education
400 Maryland Avenue, S.W.
Washington, DC 20202-1510

Dear Ms. Tighe:

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 2010 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, 2011, if possible. Please do not hesitate to contact me if you have any questions about the enclosed information.

Sincerely,

Thomas P. Skelly
Director, Budget Service

TABLE OF PRIOR-YEAR DRUG CONTROL OBLIGATIONS

Fiscal Year 2010 Obligations
(in \$ millions)

Drug Resources by Function

Prevention	\$179.632
Total	179.632

Drug Resources by Decision Unit

Safe and Drug-Free Schools and Communities Program

SDFSC State Grants	3.791
SDFSC National Programs	<u>175.841</u>
Total	179.632

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 in fiscal year 2010. The SDFSC program provides funding for drug prevention programs and activities that support the *National Drug Control Strategy*, in addition to efforts designed to prevent school violence. Under the SDFSC Act, funds are appropriated for State Grants and for National Programs.

SDFSC State Grants

Under the program statute 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). Governors receive 20 percent, and State educational agencies (SEAs) 80 percent, of each State's allocation (unless a Governor elects to delegate administrative responsibility to the SEA for some or all of the 20 percent). 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.

Note: Funding for SDFSC State Grants was last appropriated in fiscal year 2009. The Department's 2009 appropriations act provided that the 2009 funds may remain available for obligation at the Federal level through September 30, 2010. All but \$3.8 million of the 2009 appropriation for SDFSC State Grants was obligated by the Department in 2009 and reported in the Department's 2009 detailed accounting of drug control funds. The \$3.8 million included in

the resource summary table of this report reflects the obligations incurred in fiscal year 2010 of the remaining 2009 appropriation of funds.

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); and an Alcohol Abuse Reduction Program to assist school districts in implementing innovative and effective programs to reduce alcohol abuse in secondary schools. Within Federal Activities SDFSC National Programs also authorizes: (1) 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), and (2) School Emergency Preparedness initiatives. Although the Department obligated funds for both of these activities in fiscal year 2010, 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 2010 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) Project SERV (School Emergency Response to Violence), (2) School Emergency Preparedness Initiatives, and (3) Character Education.

The explanation for excluding (3) Character Education is as follows. The Department's fiscal year 2010 appropriations act included language requiring the Department to use \$8.2 million of the 2010 appropriation for SDFSC National Programs to support Character Education activities. The Department used those funds to award continuation grants to Character Education grantees that were funded originally under the Character Education program. The Character Education program is separate from SDFSC National Programs and is not included among the Department's drug control programs.

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 2010 budgetary resources for the Department of Education are displayed by ONDCP in the *FY 2011 Budget Summary* that accompanied the 2011 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 2010 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

On three occasions in 2010 the Department reprogrammed small amounts of funds within SDFSC National Programs. However, these reprogrammings had no impact on (i.e., neither increased nor decreased) the amount of Education's 2010 drug-related obligations. There were no transfers that changed the amount of drug-related budgetary resources in the Department in fiscal year 2010.

Other Disclosures

The Department acknowledges the following limitations in the methodology described above for deriving the obligations of fiscal year 2010 drug control funds attributable to the SDFSC program:

- Although the budgetary resources in this report include 100 percent of obligations for SDFSC State Grants and Federal Activities (exclusive of Project SERV, School Emergency Preparedness Initiatives, and continuation awards to Character Education program grantees), not all obligations of funds included in the resource summary of this report support drug prevention activities — some of these funds support violence prevention and school safety activities that have no drug control-related nexus.
- Approximately \$7.8 million of the SDFSC National Programs funds included in the resource summary of this report (4.4 percent of total fiscal year 2010 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 2010 obligations of drug control funds shown in this report for the SDFSC drug budget decision unit are the actual 2010 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 2010 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 2010 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 2010 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 2010 SDFSC funds. On three occasions in 2010 (April 16, September 14, and September 29) the Department reprogrammed a small amount of funds within the SDFSC National Programs: the April 16 and September 14 reprogrammings exceeded \$1 million and were approved in advance by ONDCP, as required by law. The other 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

AUDIT SERVICES

JAN 31 2011

Office of Inspector General's Independent Report on the U.S. Department of Education's
Detailed Accounting of Fiscal Year 2010 Drug Control Funds, dated January 19, 2011

We have reviewed management's assertions contained in the accompanying *Detailed Accounting of Fiscal Year 2010 Drug Control Funds*, dated January 19, 2011 (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



Tab C

Department of Health and Human Services

Indian Health Services

National Institute on Drug Abuse

Substance Abuse and Mental Health Services
Administration



JAN 10 2011

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

FROM: George M. Reeb *De Suen for*
Acting Deputy Inspector General for Audit Services

SUBJECT: Independent Attestation Review: Indian Health Service Assertions Concerning Drug Control Accounting for Fiscal Year 2010 (A-03-11-00355)

The purpose of this report is to provide the results of our attestation review of the Indian Health Service (IHS) fiscal year (FY) 2010 assertions concerning drug control accounting and the accompanying table of FY 2010 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 - Revised,” dated December 7, 2010. We conducted our attestation review 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 2010 Drug Control Obligations, which reported obligations totaling \$91,671,000, and a related funding table.

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Distribution is limited to authorized officials.*

We performed review procedures on IHS's assertions and the accompanying table of FY 2010 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 the accompanying FY 2010 Drug Control Obligations table were not fairly stated, in all material respects, based on the ONDCP Circular.

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 any questions or comments about this report, please do not hesitate to call me, or your staff may contact Lori S. Pilcher, Assistant Inspector General for Grants, Internal Activities, and Information Technology Audits, at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. Please refer to report number A-03-11-00355 in all correspondence.

Attachment

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Distribution is limited to authorized officials.***



DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

Indian Health Service
Rockville MD 20852

December 7, 2010

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 - Revised

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 Treatment and Prevention 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.

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Page 2 – Director, Office of National Drug Control Policy

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

IHS did not reprogram or transfer any funds included in its drug control budget.

Funds Control Notices

IHS was not issued any Fund Control Notices 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:¹

1. Table – Alcoholism and Substance Abuse Prevention Treatment Program authorized under P.L. 102-573
2. Table – FY 2010 Drug Control Obligations

¹ The first table attached to this report is necessary for understanding the IHS drug control budget methodology. The table titled "Alcoholism and Substance Abuse Treatment and Prevention Program authorized under P.L. 102-573" shows the Alcohol and Substance Abuse budget line item broken out by the activities authorized originally in P.L. 100-690 and later included under P.L. 102-573. This table also includes the funding within the Urban Indian Health budget line item that supports alcohol and substance abuse treatment services. However, funds are not appropriated or accounted for by these specific categories, but rather as the lump sum funds of Alcohol and Substance Abuse and Urban Health. The second table shows the obligations of these funds as required by the Office of National Drug Control Policy Circular *Drug Control Accounting*.

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Indian Health Service
Alcoholism and Substance Abuse Prevention
Treatment Program
Authorized under P.L. 102-573
(Dollars in Thousands)

Amount of Funds	FY 2006 Approp	FY 2007 Approp	FY 2008 Enacted	FY 2009 Approp	FY 2010 Approp	Drug Control & Moyer Reports
ALCOHOL & SUBSTANCE ABUSE						
Adult Treatment.....	\$81,099	\$83,947	\$89,161	\$96,607	\$102,748	Excluded*
Regional Treatment Centers	\$19,442	\$20,125	\$23,403	\$19,957 ^{2/}	\$21,226	Treatment
Community Education & Training.....	\$7,533	\$7,798	\$8,282	\$8,974	\$9,544	Prevention
Community Rehabilitation/ Aftercare.....	\$24,471	\$25,330	\$26,903	\$29,150	\$31,003	Treatment
Gila River.....	\$187	\$194	\$206	\$223	\$237	Treatment
Contract Health Service.....	\$8,614	\$8,917	\$9,471	\$10,262	\$10,914	Treatment
Navajo Rehab. Program....	\$332	\$343	\$365	\$395	\$420	Treatment
Urban Clinical Services.....	\$706	\$731	\$776	\$841	\$895	Treatment
Wellness Beyond Abstinence.....	\$813	\$842	\$894	\$969	\$1,031	Prevention
Meth Prev & Treatment.....	--	--	\$13,782	\$16,391	\$16,391	50/50 Tx & Prev
Total.....	\$143,197	\$148,227	\$173,243	\$183,769	\$194,409	
URBAN HEALTH PROGRAM ^{1/}						
Amount of Funds	FY 2006 Approp	FY 2007 Approp	FY 2008 Approp	FY 2009 Approp	FY 2010 Approp	
Expand Urban Programs....	\$3,869	\$3,981	\$3,407	\$4,356	\$4,239 ^{3/}	Treatment
Alcohol/Substance Abuse	\$143,197	\$148,227	\$173,243	\$183,769	\$194,409	
Urban Health Program	3,869	3,981	3,407	4,356	4,239	
GRAND TOTAL.....	\$147,066	\$152,208	\$176,650	\$188,125	\$198,648	

^{1/} The Urban Program was funded under P.L. 100-690, and is now funded under P.L. 102-573.

^{2/} The FY 2009 funding for the Regional Treatment Centers was adjusted based on Area Office reports of funding levels.

^{3/} Urban Program amount adjusted from FY 2010 estimate of \$4,356,000 as reported in FY 2011 Congressional Justification to reflect actual oblig

*Adult Treatment funds 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.

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INDIAN HEALTH SERVICE
FY 2010 Drug Control Obligations

	(\$000)	
	<u>Appropriated</u>	<u>Obligated</u>
Drug Resources by Function		
Prevention	\$18,771	\$16,661
Treatment	\$77,246	\$75,010
	<u>\$96,017</u>	<u>\$91,671</u>
Drug Resources by Decision Unit		
Alcohol and Substance Abuse	\$91,661	\$87,432
Urban Indian Health Program ¹	\$4,356	\$4,239
	<u>\$96,017</u>	<u>\$91,671</u>

¹ The appropriated amount for Urban Indian Health Programs was an estimate. The Obligated amount reflects actual funding for the designated programs in FY 2010.

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JAN 10 2011

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

FROM: George M. Reeb *George M. Reeb*
Acting Deputy Inspector General for Audit Services

SUBJECT: Independent Attestation Review: National Institute on Drug Abuse Assertions Concerning Drug Control Accounting for Fiscal Year 2010 (A-03-11-00353)

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) 2010 assertions concerning drug control accounting, the table of FY 2010 Actual Obligations (Table 1) and the table of American Recovery and Reinvestment Act FY 2010 Actual Obligations (Table 2).

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 9, 2010. We conducted our attestation review 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.

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NATIONAL INSTITUTE ON DRUG ABUSE REPORT

NIDA's report consisted of Table 1 and Table 2, which reported obligations totaling \$1,066,909,000 and \$125,101,000, respectively.

We performed review procedures on NIDA's assertions and the accompanying tables. 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 Tables were not fairly stated, in all material respects, based on the ONDCP Circular.

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 any questions or comments about this report, please do not hesitate to call me, or your staff may contact Lori S. Pilcher, Assistant Inspector General for Grants, Internal Activities, and Information Technology Audits, at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. Please refer to report number A-03-11-00353 in all correspondence.

Attachment

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DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

NOV - 9 2010

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 *Donna M Jones*
Chief Financial Officer
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 2010 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

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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 of NIDA's regular appropriation for 2010 was \$1,066,911,000. NIDA obligated \$1,066,908,657 and \$2,343 lapsed. The actual amount obligated reconciles to the NIDA Database system. The total of \$1,066,908,657 does not reconcile to the FY 2010 column of the FY 2011 Congressional Justification (CJ). This is because the FY 2009 column of the FY 2010 CJ includes 2 comparable transfers totaling \$402,000 and excludes a transfer of \$7,221,000 from the Office of the Director of NIH to NIDA for the Genes, Environment and Health Initiative (GEI) and a transfer of \$158,000 to the Office of the Secretary for the Secretary's 1% transfer. The adjustments to the FY 2010 column are determined by the NIH, DHHS and OMB.

In addition, NIDA received a total allotment of \$261,156,000 for the American Recovery and Reinvestment Act (ARRA) which is to be expended over two years. In 2009 NIDA obligated a total of \$136,054,373. In 2010 NIDA obligated \$125,101,276 and \$351 lapsed.

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 2010 are for the same reasons described above for the FY 2010 column of the FY 2011 CJ.

Reprogrammings or Transfers

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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 \$1 million that occurred during the fiscal year. As described above, NIDA had the following adjustments to its appropriation for FY 2010: (1) two comparable transfers totaling \$402,000, (2) a transfer of \$7,221,000 from the Office of the Director NIH for the Genes, Environment and Health Initiative, and (3) a transfer of \$158,000 to the Office of the Secretary.

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 with ONDCP Circular *Budget Execution*, dated May 1, 2007.

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NATIONAL INSTITUTES OF HEALTH
NATIONAL INSTITUTE ON DRUG ABUSE
FY 2010 Actual Obligations
(Dollars in Thousands)

I. RESOURCE SUMMARY

	FY 2010 Actual
Drug Resources by Function:	
Prevention	396,597
Treatment	670,312
Total	1,066,909
Drug Resources by Decision Unit:	
Demand Reduction	1,066,909
Total	1,066,909
HIDTA Transfer	
ICDE Resources	

Differences Between (1) Actual Obligations and (2) the FY 10 Column of the
FY 11 CJ and the National Drug Control Strategy Budget Summary
(Dollars in Thousands)

Total 2010 Col. of the FY 2011 CJ; National Drug Control Strategy	1,059,446
2 Comparable Transfers	402
GEI Transfer	7,221
Secretary's Transfer	-158
Lapse of Funds	-2
Total Obligations	1,066,909

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**NATIONAL INSTITUTES OF HEALTH
NATIONAL INSTITUTE ON DRUG ABUSE
FY 2010 Actual Obligations - ARRA
(Dollars in Thousands)**

I. RESOURCE SUMMARY

	FY 2010 Actual
Drug Resources by Function:	
Prevention	46,503
Treatment	78,598
Total	125,101
Drug Resources by Decision Unit:	
Demand Reduction	125,101
Total	125,101
HIDTA Transfer	
ICDE Resources	

**Differences Between (1) Actual Obligations and (2) the total amount
Provided for FY 2010 ARRA National Drug Control Strategy Budget
(Dollars in Thousands)**

Total NIDA Arra Funds - 2 Years	261,156
Amount obligated in 2009	-136,054
Lapse of Funds	-1
	<hr/>
Amount Obligated in 2010	125,101

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JAN 10 2011

TO: Daryl Kade
Director
Office of Financial Resources
Substance Abuse and Mental Health Services Administration

FROM: George M. Reeb *George M. Reeb*
Acting 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 2010 (A-03-11-00351)

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) 2010 assertions concerning drug control accounting and accompanying Table of Prior Year Drug Control Obligations: FY 2010 (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 12, 2010. We conducted our attestation review 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.

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

SAMHSA's report consisted of the Table, which reported obligations totaling \$2,649,200,000, and related exhibits.

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

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 any questions or comments about this report, please do not hesitate to call me, or your staff may contact Lori S. Pilcher, Assistant Inspector General for Grants, Internal Activities, and Information Technology Audits, at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. Please refer to report number A-03-11-00351 in all correspondence.

Attachment

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NOV 12 2010

TO: R. Gill Kerlikowske
Director, Office of National Drug Control Policy

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

FROM: Daryl Kade
Director, Office of Financial Resources

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. (Exhibit A)

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. (Exhibit B)

Application of Drug Methodology

I assert that the drug methodology disclosed in Exhibit B 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

Behavioral Health is Essential To Health • Prevention Works • Treatment is Effective • People Recover

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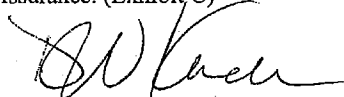
Page 2 - Director, Office of National Drug Control Policy

Free Communities Program. SAMHSA received a total of \$92,518,116 from ONDCP via Interagency Agreements to fund activities of the Drug Free Communities Program in FY 2010. SAMHSA had no other reportable reprogrammings or transfers in FY 2010.

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.

Finally, based on the *Drug Control Accounting* Section 6a (3), I have attached SAMHSA's FY 2010 OMB Circular A-123 Management Assurance. (Exhibit C)



Daryl W. Kade

Attachments:

Exhibit A - Table of Prior Year Drug Control Obligations, FY 2010

Exhibit B - Drug Control Methodology

Exhibit C - SAMHSA Management Assurance Letter, Oct 19, 2010

**SUBSTANCE ABUSE AND MENTAL HEALTH
SERVICES ADMINISTRATION**

Table of Prior Year Drug Control Obligations

FY 2010

(Dollars in millions)

Obligations by Drug Control Function

Prevention	674.5
Treatment	<u>1,974.7</u>
Total	\$2,649.2

Obligations by Budget Decision Unit

Programs of Regional and National Significance ^{1/}	654.3
<i>Substance Abuse Prevention (Non-add)</i>	(201.9)
<i>Substance Abuse Treatment (Non-add)</i>	(452.4)
Drug Free Communities Program ^{2/}	92.5
National All Schedules Prescription Electronic Reporting (NASPER) Program	2.0
Substance Abuse Block Grant ^{3/}	<u>1,798.5</u>
Program Management ^{4/}	<u>101.9</u>
Total	\$2,649.2

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 Agreements.

^{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

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(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 Agreements 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;
- CSAT's NASPER program (National All Schedules Prescription Electronic Reporting);
- 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.

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(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);
- Program Management (PM) program - SAMHSA;
- In addition to the above, the Drug Free Communities Program funds provided by ONDCP through Interagency Agreements with SAMHSA are included in the Obligations by Budget Decision Unit display (CSAP); and,
- Funding appropriated in FY 2010 for CSAT's National All Schedules Prescription Electronic Reporting program (NASPER) has been included in this year's report.

Included in this Drug Control Accounting report for FY 2010 are 100% of the actual obligations for these six 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 has been no change in the SAMHSA accounting methodology from that used in the FY 2009 Drug Control Accounting Report.
- (3) **Material Weaknesses or Other Findings** – See Exhibit B.
- (4) **Reprogrammings or Transfers** – SAMHSA entered into Interagency Agreements with ONDCP in the amount of \$92,518,116 to fund activities of the Drug Free Communities Program in FY 2010. SAMHSA had no other reportable reprogrammings or transfers in FY 2010.
- (5) **Other Disclosures** – None.



DEPARTMENT OF HEALTH & HUMAN SERVICES

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

OCT 19 2010

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

FROM: Administrator
Chief Financial Officer

SUBJECT: FY 2010 A-123 SAMHSA 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 following reportable conditions described below, SAMHSA's internal controls and financial management systems meet the objectives of FMFIA.

I. PSC Information System Controls and Security (Material Weakness)

The HHS Program Support Center (PSC) serves as SAMHSA's service provider for information systems, human resources, accounting, financial reporting and other support. PSC evaluated its internal controls and financial systems, and qualified its Management Assurance Statement for Internal Controls over Operations and Compliance and its Management Assurance Statement for Internal Controls over Financial Reporting due to one material weakness in its internal controls over the effectiveness and efficiency of operations under Section 2 of FMFIA relating to the oversight and management of the Department's information system controls, which also constitutes a non-conformance under Section 4 of FMFIA as of September 30, 2010. PSC weaknesses in the information system controls and security of key financial management systems include internal control weaknesses in system security and general and application controls in financial management systems. The primary findings, also reported in prior years by PSC, include weaknesses in 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 the Department's data may be inappropriately used or disclosed. PSC's financial management systems are not in conformance with legal and regulatory guidelines as established by the appropriate governing bodies with respect to overall system security. Because SAMHSA relies on PSC systems and processes, SAMHSA views PSC's material weakness as a similar weakness in SAMHSA's controls.

II. IT Controls-Security Management (Material Weakness)

PSC's Office of Information Technology and Infrastructure Operations (ITIO) provides SAMHSA information system support. During the ITIO/HHS active directory migration of SAMHSA, sensitive information was compromised in two major privacy incidents. In one incident, SAMHSA federal and contractor staff were allowed access to sensitive information; in the second, exposure of personally identifiable information occurred which may violate the Confidential Information Protection and Statistical Efficiency Act of 2002. The incidents indicate weaknesses in general and application controls, and have not been fully resolved by ITIO. Understanding the severity of the incidents, SAMHSA has classified this as a material weakness. Detailed findings and corrective actions will be reported separately through governance of the Financial Information Security Management Act.

III. PSC Financial Systems and Reporting Processes (Significant Deficiency)

PSC reports that its financial management systems are not in substantial compliance with FMFIA 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*. As in prior years, PSC reported deficiencies in its financial management systems and processes for producing financial statements. The lack of final implementation of a fully integrated Federal Financial Management Improvement Act (FFMIA) compliant system and deficiencies in internal controls make the process of preparing financial statements more manual in effort. PSC reported that sufficient compensating controls exist so that "the risk of a misstatement in the Financial Statements has been mitigated." Because SAMHSA relies on PSC systems and processes, SAMHSA views PSC's deficiency as a deficiency in SAMHSA's controls.

IV. SAMHSA's Management and Oversight of the Acquisition Process (Significant Deficiency)

SAMHSA's acquisition program may not have operated in compliance with regulations, and in some instances with elements of appropriations law. An HHS-wide, multi-disciplinary review of acquisition practices, which acknowledged widespread misunderstanding of appropriations law throughout HHS when acquiring goods and services, identified acquisition funding issues in 76 percent of SAMHSA's reviewed contracts. In addition, due to a misinterpretation of a rule, SAMHSA may have violated the time statute when issuing certain protested contracts. SAMHSA is working with HHS-ASFR to address these deficiencies.

Assurance for Internal Control over Operations and Compliance

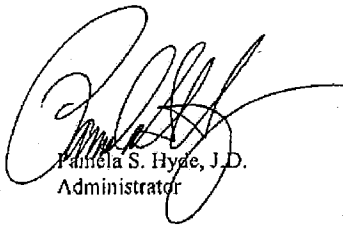
SAMHSA evaluated internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with the HHS *Guidance Manual for OMB Circular A-123 Assessments*. SAMHSA identified two material weaknesses, as of September 30, 2010, in its internal controls over the effectiveness and efficiency of operations under Section 2 of FMFIA which also constitutes a nonconformance under Section 4 of FMFIA. The weaknesses pertain to operations and compliance matters identified by PSC (SAMHSA's information systems, accounting and financial reporting service provider) and by SAMHSA relating to oversight and

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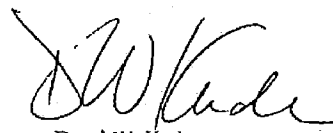
and compliance under Section 2 of FMFIA. The significant deficiency relates to misunderstanding of procurement regulations and appropriations law. Other than the exceptions described above (see Table I), the internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations were operating effectively and no other material weaknesses were found in their design or operation. Planned corrective actions are described in Table II.

Assurance for Internal Control over Financial Reporting

SAMHSA evaluated 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*. SAMHSA identified one significant deficiency which is a reportable condition in its internal control over financial reporting as of June 30, 2010. According to the PSC Assurance Statement as a Service Provider and OPDIV as of June 30, this does not constitute a nonconformance under Section 4 of FMFIA. Other than the exception described above (see Table I), the internal controls over financial reporting as of June 30, 2010, were operating effectively and no other material weaknesses were found in their design or operation.



Patricia S. Hyde, J.D.
Administrator



Daryl W. Kade
Chief Financial Officer

Table I: Summary of Material Weaknesses/Systems Non-Conformances

Control Area	FMFIA Section 2			FMFIA Section 4
	Operations (as of September 30, 2010)	Compliance (as of September 30, 2010)	Financial Reporting (as of June 30, 2010)	Non-Conformance (as of September 30, 2010)
Information System Controls and Security operated by the PSC	X	--	--	X
IT Controls-Security Management	X	X	--	--

Table II: Corrective Action Plan and Impact of Material Weakness

Material Weakness	Corrective Action Date	Impact of Material Weakness on Financial Statements
Information System Controls and Security operated by the PSC	FY 2012	According to the PSC assurance statement, sufficient compensating controls exist through manual efforts that the risk of misstating the financial statements is mitigated.
IT Controls-Security Management	See applicable FISMA reports	N/A -- Issue relates to network and data security.

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Tab D

Department of Homeland Security

United States Coast Guard

Immigration and Customs Enforcement

Customs and Border Protection



**Homeland
Security**

JAN 26 2011

MEMORANDUM FOR: Deborah J. Schilling
Chief Financial Officer
U.S. Customs and Border Protection

From: Anne L. Richards *Anne L. Richards*
Assistant Inspector General for Audits

Subject: *Independent Review of the U.S. Customs and Border Protection's
Reporting of FY 2010 Drug Control Obligations*

Attached for your information is our report, *Independent Review of the U.S. Customs and Border Protection's Reporting of FY 2010 Drug Control Obligations*. We contracted with the independent public accounting firm KPMG LLP to perform the review. This report contains no recommendations.

U.S. Customs and Border Protection's management prepared the Table of FY 2010 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. Based on the review, nothing came to KPMG's attention that caused them to believe that the Table of FY 2010 Drug Control Obligations and related disclosures for the year ended September 30, 2010, are not presented, in all material respects, in conformity with the Office of National Drug Control Policy's Circular, or that management's assertions are not fairly stated, in all material respects, based on the criteria set forth in the Office of National Drug Control Policy's Circular. However, management asserted that U.S. Customs and Border Protection did not obtain the Office of National Drug Control Policy's approval of reprogrammings or transfers affecting drug-related resources in excess of \$1 million as required by the Office of National Drug Control Policy Circular.

Should you have any questions, please call me, or your staff may contact John McCoy, Deputy 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 2010 Drug Control Obligations





**Homeland
Security**

JAN 26 2011

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 2010 Drug Control Obligations and related disclosures of the U.S. Customs and Border Protection (CBP) for the fiscal year ended September 30, 2010, for the Office of National Drug Control Policy (ONDCP). We contracted with the independent public accounting firm KPMG LLP to perform the review. CBP's management prepared the Table of FY 2010 Drug Control Obligations and related disclosures to comply with the requirements of the ONDCP Circular, *Drug Control Accounting*, dated May 1, 2007. Based on the review, nothing came to KPMG's attention that caused them to believe that the Table of FY 2010 Drug Control Obligations and related disclosures for the year ended September 30, 2010, are not presented, in all material respects, in conformity with ONDCP's Circular, or that management's assertions are not fairly stated, in all material respects, based on the criteria set forth in ONDCP's Circular. However, management asserted that CBP did not obtain ONDCP's approval of reprogrammings or transfers affecting drug-related resources in excess of \$1 million as required by the ONDCP Circular. KPMG LLP is responsible for the attached independent accountants' report dated January 20, 2011, and the conclusions expressed in the report. We do not express an opinion on the Table of FY 2010 Drug Control Obligations and related disclosures.

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

A handwritten signature in blue ink that reads "Anne L. Richards".

Anne L. Richards
Assistant Inspector General for Audits



KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Accountants' Report

Inspector General
U.S. Department of Homeland Security:

We have reviewed the accompanying Table of FY 2010 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, 2010. We have also reviewed the accompanying management's assertions for the year ended September 30, 2010. CBP's management is responsible for the preparation of the Table of FY 2010 Drug Control Obligations, 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 FY 2010 Drug Control Obligations, related disclosures, and management's assertions. Accordingly, we do not express such an opinion.

Management of CBP prepared the Table of FY 2010 Drug Control Obligations, 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 (Circular).

In the accompanying management's assertions for the year ended September 30, 2010, management asserted that CBP did not obtain ONDCP's approval of reprogrammings or transfers affecting drug-related resources in excess of \$1 million, as required by the ONDCP Circular.

Based on our review, nothing came to our attention that caused us to believe that (1) the Table of FY 2010 Drug Control Obligations and related disclosures for the year ended September 30, 2010, are 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 CBP, the DHS 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 20, 2011



**U.S. Customs and
Border Protection**

JAN 20 2011

R. Gil Kerlikowske
Director, Office of National Drug Control Policy
Executive Office of the President
Office of National Drug Control Policy
Washington, DC 20503

Dear Mr. Kerlikowske:

The attached represents U.S. Customs and Border Protection's (CBP) Fiscal Year (FY) 2010 Detailed Accounting Submission on National Drug Control Funding. In FY 2010, CBP reported an expenditure amount against direct obligations of approximately \$2,046.142 million.

If you have any questions regarding this submission, please feel free to contact me at (202) 344-2300, or a member of your staff may contact Mr. Keith Bratt at (202) 344-2472.

A handwritten signature in blue ink that reads "Deborah J. Schilling".

Deborah J. Schilling

Attachments

**DEPARTMENT OF HOMELAND SECURITY
U.S. CUSTOMS AND BORDER PROTECTION
Detailed Accounting Submission of FY 2010 Drug Control Funds**

DETAILED ACCOUNTING SUBMISSION

A. Table of FY 2010 Drug Control Obligations

(Dollars in Millions)	
FY 2010	
Drug Resources by Budget Decision Unit and Function	
Salaries & Expenses	
Intelligence	\$240.940
Interdiction	1,373.960
Total, Salaries and Expenses	1,614.900
Air & Marine Operations	
Intelligence	97.029
Interdiction	334.213
Total, Air & Marine Operations	431.242
Total Obligations	\$2,046.142
High Intensity Drug Trafficking Area (HIDTA)	
Intelligence	\$0.008
Interdiction	0.220
Total, HIDTA Transfer	\$0.228

1. Drug Methodology

U.S. Customs and Border Protection (CBP) is a multi-mission bureau that 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 (OBP), Field Operations (OFO), Information Technology (OIT), Training and Development (OTD), and Air and Marine (OAM)], were provided with guidance on preparing estimates for the Fiscal Year (FY) 2010 annual reporting of drug control obligations. OBP, OAM, OIT, OTD, and OFO were asked to estimate what portion of their activities is related to drug enforcement. The aforementioned portions are based on the expert opinions of the offices.

All five organizations identified resources in their financial plans that support the drug enforcement mission of the agency. OBP, OIT, OFO, and OAM attribute their resources to both intelligence and interdiction functions, while OTD attributes its resources solely to interdiction.

OFFICE OF BORDER PATROL

OBP 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 were 20,266 Border Patrol agents as of September 30, 2010 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. It has been determined that 15 percent of the total agent time nationwide is related to drug activities. Of the 15 percent of total agent time related to drug activities, 3.5 percent of agents' efforts are related to intelligence and 96.5 percent are related to drug interdiction. These activities include staffing 34 permanent border traffic checkpoints nationwide (including 905 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 OFO estimates that, as of September 2010, there were 5,108 CBP officer positions related to drug enforcement on Anti-Terrorism Contraband Enforcement Teams (A-TCET). CBP established these teams in 2003, uniting the former Contraband Enforcement Teams (CET), Manifest Review Units (MRU), Non-Intrusive Inspection, Canine, and Outbound teams to form a single A-TCET enforcement team. The A-TCET also works closely with the Passenger Enforcement Rover Team (PERT) and Passenger Analytical Unit (PAU) to coordinate all enforcement activities. Although a significant mission of A-TCET teams is anti-terrorism, they also focus on all types of contraband, including narcotics. CBP estimates that 69 percent of the A-TCET is devoted to drug enforcement. Of the percent of OFO's resources related to drug activities, 17 percent are related to intelligence and 83 percent are related to drug interdiction. The smuggling methodologies and their indicators are similar for both narcotics and anti-terrorism activities.

As of September 2010, there were 614 Canine Enforcement Officers with assigned dogs. Among this total of dogs paired with an officer, 181 were Narcotics Detection Teams and 289 Narcotics/Human Smuggling Detection Teams that were nearly 100 percent devoted to smuggling interdiction.

As of September 2010, there were also 14,800 other CBP officers, who, in addition to the interdiction of contraband and illegal drugs, enforce hundreds of laws and regulations of many other Federal government agencies. The other Federal agencies include the U.S. Fish and Wildlife Service; the Bureau of Alcohol, Tobacco, Firearms and Explosives; the Bureau of Export Administration; and many others. CBP subject matter experts estimate that approximately 30 percent of these officers' time is devoted to drug-related activities.

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 the Enforcement Technology Center; 25 percent of Automated Targeting Systems (Passenger, Narcotics, and Anti-Terrorism) systems software costs; 50 percent of the Enforcement Communications System (TECS); and 10 percent of data center operations costs are estimated to support the drug mission. Of the percent of OIT's resources related to drug activities, 32 percent are related to intelligence and 68 percent are related to drug interdiction.

OFFICE OF TRAINING AND DEVELOPMENT

OTD provides courses which are funded via the National Training Plan (NTP). Specific training programs involving drug control activities include the canine training programs and basic, specialized, and advanced training for CBP Officers. Other OTD resources were attributed to drug enforcement activities based on the diverse nature of OTD's programs such as anti-terrorism, development of national programs, career development, leadership, new course design/development, and succession management for the workforce. OTD's methodology evaluates the number of course hours dedicated to drug interdiction within the NTP and for each course compares drug interdiction course hours against total course hours to determine the percentage for drug interdiction.

OFFICE OF AIR & MARINE OPERATIONS

OAM's core competencies are air and marine interdiction, air and marine law enforcement, and air domain security. In this capacity, CBP OAM 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 OAM P-3 Program has dedicated a minimum of 7,200 hours a year in support of Joint Interagency Task Force (JITF) – South. Although OAM's P-3 fleet continued its Service Life Extension Program (SLEP) and wing replacement program in FY 2010, the P-3's flew over 7,700 flight hours. CBP OAM P-3 exceeded flight hour commitments to JITF-South during FY 2010 and provided additional surveillance support along the northern border. Successful completion of the SLEP program will add 15,000 flight hours to the service life of the CBP OAM 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.

90 percent of the resources that support CBP OAM are considered to be drug-related. Of the percent of OAM's resources related to drug activities, 22 percent are related to intelligence and 78 percent are related to drug interdiction. Currently, OAM is dedicating significant assets and personnel in support of Operation HALCON – a US/Mexico interdiction initiative, and support to OBP in Southwest Border illegal alien intervention.

2. Methodology Modifications

The drug control methodology for obligations for FY 2010 remained the same as FY 2009.

3. Material Weaknesses or Other Findings

Pursuant to CBP's FY 2010 Internal Control Assurance Statement, the following financial weaknesses, reportable conditions, or non-conformance could affect the reporting of drug control budget obligations.

Reporting Pursuant to the Department of Homeland Security (DHS) Financial Accountability Act. P.L 108-330:

a. Financial Reporting – Reportable Condition

CBP had deficiencies in the area of contractor oversight and coordination with program offices regarding the proper accounting for specific activities. In addition, CBP had deficiencies regarding the review of adjusting journal entries in the general ledger. CBP has corrective action plans in place to improve contractor oversight and coordination and adjusting journal entry review in FY 2011.

b. Budgetary Accounting – Reportable Condition

CBP is implementing policies and procedures requiring the timely review and deobligation of funds when the contracts have expired or are complete. While improvements occurred in FY 2010, the results of testing indicated that this condition requires additional oversight before full compliance with these policies and procedures can be achieved. CBP has a corrective action plan to improve compliance in FY 2011.

Reporting Pursuant to Federal Managers' Financial Integrity Act Section 4. 31 U.S.C. 3512 (d)(2)(B):

a. Financial Systems Security – Non-Conformance of Applicable Laws/DHS Directives

For FY 2010, CBP assessed the application user access and configuration management controls over the Chief Financial Officer (CFO)-Designated Financial Systems and external third party systems that process data for the budgetary management, payment management, and human resources/payroll management systems. As a result of this assessment, it was noted that one CFO designated system had several weaknesses with user access controls and user management policies and procedures, thereby resulting in a reportable condition. CBP continues to implement corrective actions to improve financial systems security issues.

4. Reprogrammings or Transfers

Within Fiscal Year (FY) 2010, there was one reprogramming request that affected the drug budget, specifically, the Salaries and Expense drug budget decision unit. This reprogramming addressed the shortfalls in user fee collections and the journeyman pay increase. This reprogramming action to the Inspections, Trade, and Travel Facilitation at the Ports of Entry Programs, Projects, and Activities (PPA) from the International Cargo Screening; Air and Marine Operations, Personnel Compensation and Benefits; Customs-Trade Partnership Against Terrorism; Training at the Ports; and Headquarters Management and Administration PPAs, resulted in a \$6.9 million increase to the FY 2010 drug control budget.

5. Other Disclosures

There are no other disclosures we feel are necessary to clarify any issues regarding the data reported under the Office of National Drug Control Policy (ONDCP) Circular, *Drug Control Accounting*, dated May 1, 2007, Section (6)(b)(1).

B. Assertions

1. Obligations by Budget Decision Unit

Not Applicable - noted in the ONDCP Circular, *Drug Control Accounting*, dated May 1, 2007, Section (6)(b)(1).

2. Drug Methodology

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

a. Data

The estimate of drug enforcement related obligations 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 were 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.

3. Application of Drug Methodology

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

4. Reprogrammings or Transfers

Pursuant to 21 U.S.C. 1703 (c)(4)(A), the 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 without obtaining prior approval from the Director of National Drug Control Policy. However, CBP submitted a reprogramming request to Congress on June 30, 2010, prior to obtaining ONDCP approval. CBP sent a letter to ONDCP dated July 19, 2010 concerning the reprogramming actions affecting the drug control budget. The reprogramming to address the user fee shortfall was approved by the House of Representatives on July 30, 2010 and approved by the Senate on July 29, 2010. Within the July 19th letter to ONDCP, CBP acknowledged that it must obtain ONDCP approval prior to obtaining Congressional approval for such transfer requests. CBP did not meet the requirement to obtain ONDCP approval prior to this submission to Congress due to exigent circumstances, but intends to be in full compliance when preparing all future reprogramming or transfer requests. The CBP Budget Office has implemented corrective actions to assure that future notifications will take place in a timely manner. No other reprogramming or transfer requests of \$1 million or more affecting the drug control budget occurred in FY 2010.

5. Fund Control Notices


The Director of National Drug Control Policy did not issue a Fund Control Notice for CBP for FY 2010.



Homeland
Security

JAN 26 2011

MEMORANDUM FOR: Radha C. Sekar
Chief Financial Officer
U.S. Immigration and Customs Enforcement

From: Anne L. Richards 
Assistant Inspector General for Audits

Subject: *Independent Review of the U.S. Immigration and Customs
Enforcement's Reporting of FY 2010 Drug Control Obligations*

Attached for your information is our report, *Independent Review of the U.S. Immigration and Customs Enforcement's Reporting of FY 2010 Drug Control Obligations*. We contracted with the independent public accounting firm KPMG LLP to perform the review. This report contains no recommendations.

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. Based on the review, nothing came to KPMG's attention that caused them to believe that the Table of Prior Year Drug Control Obligations and related disclosures for the year ended September 30, 2010, are not presented, in all material respects, in conformity with the Office of National Drug Control Policy's Circular, or that management's assertions are not fairly stated, in all material respects, based on the criteria set forth in the Office of National Drug Control Policy's Circular.

Should you have any questions, please call me, or your staff may contact John McCoy, Deputy 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 2010 Drug Control Obligations





**Homeland
Security**

JAN 26 2011

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 of the U.S. Immigration and Customs Enforcement (ICE) for the fiscal year ended September 30, 2010, for the Office of National Drug Control Policy (ONDCP). We contracted with the independent public accounting firm KPMG LLP to perform the review. ICE prepared the Table of Prior Year Drug Control Obligations to comply with requirements of the ONDCP Circular, *Drug Control Accounting*, dated May 1, 2007. Based on the review, nothing came to KPMG's attention that caused them to believe that the Table of Prior Year Drug Control Obligations and related disclosures for the year ended September 30, 2010, are not presented, in all material respects, in conformity with ONDCP's Circular, or that management's assertions are not fairly stated, in all material respects, based on the criteria set forth in ONDCP's Circular. KPMG LLP is responsible for the attached independent accountants' report dated January 20, 2011, and the conclusions expressed in it. We do not express an opinion on the Table of Prior Year Drug Control Obligations and related disclosures.

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

A handwritten signature in blue ink that reads "Anne L. Richards".

Anne L. Richards
Assistant Inspector General for Audits



KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

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, 2010. We have also reviewed the accompanying management's assertions for the year ended September 30, 2010. ICE's management is responsible for the Table of Prior Year Drug Control Obligations, 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, 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, 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, 2010, are 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 DHS 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 20, 2011

Office of Chief Financial Officer

U.S. Department of Homeland Security
500 12th Street, SW
Washington, D.C. 20536



U.S. Immigration
and Customs
Enforcement

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

Dear Mr. Shiffer,

In Accordance with the Office of National Drug Control Policy circular, *Drug Control Accounting*, dated May 1, 2007, enclosed is Immigration and Customs Enforcement's report of FY 2010 drug control obligations, drug control, methodology and assertions.

If you require further assistance on this information, please contact Joseph Grosodonia at (202)-732-6244.

Sincerely,

A handwritten signature in black ink that reads "Lisa Macecevic". The signature is written in a cursive style.

Lisa Macecevic
Immigration and Customs Enforcement
Director, Office of Budget and Program Performance

**Department of Homeland Security
U.S. Immigration and Customs Enforcement
Detailed Accounting Submission of Drug Control Funds during FY 2010**

A. Table of Prior Year Drug Control Obligations

	(In Millions) FY 2010 Final
Drug Resources by Budget Decision Unit and Function:	
Salaries and Expense	
Investigations	\$453.949
International	\$5.482
Intelligence: Domestic	\$10.577
Intelligence: International	<u>\$0.648</u>
Total Salaries and Expense	<u>\$470.656</u>
Total Funding	<u>\$470.656</u>
High Intensity Drug Trafficking Area (HIDTA) Transfer	\$1.173

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 (OI), Office of International Affairs (OIA) and the Office of Intelligence.

Domestic Investigations Program

- The methodology for the OI 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, which interfaces with the Treasury Enforcement Communications System (TECS). Following the close of the fiscal year, a report in TECS is run showing investigative case hours that are coded as general narcotics cases and money laundering narcotics cases. A second report is run showing all investigative case hours logged. A percentage is derived by dividing the number of investigative case hours linked to drug control activities by the total number of investigative case hours. This percentage may fluctuate from year to year. For FY 2010, the actual percentage for OI was 27.66%. To calculate a dollar amount, this percentage is applied to actual obligations incurred by OI against budget authority gained in FY 2010 and excludes reimbursable authority. The Federal Financial Management System (FFMS) is the system used to generate the actual obligations incurred.

International Affairs Programs

- The methodology for the OIA 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, which interfaces with TECS. Following the close of the fiscal year, a report in TECS 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. For OIA, the actual percentage of hours that were counter-narcotics related was 4.9 % in FY 2010. To calculate a dollar amount, this percentage was applied to actual obligations incurred by OIA, excluding reimbursable authority, against budget authority gained in FY 2010 of \$110.9 million resulting in \$5.48 million of counter-narcotics obligations. The FFMS is the system used to generate the actual obligations incurred.

Intelligence Program

- The methodology for the Office of Intelligence 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, which interfaces with TECS. Following the close of the fiscal year, a report in TECS 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. For FY 2010, 17.48% 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 incurred against budget authority gained in FY 2010 by the Office of Intelligence for all activities of \$64.2 million; therefore, the narcotics share was \$11.2 million. The FFMS is the system used to generate the actual obligations incurred.
- Intelligence Information Management System (IIMS) tracks requests for intelligence work by customer. Requests made by the OIA are classified as inherently international and all other customers are classified as inherently domestic. In FY 2010, 5.77% of IIMS requests were international in nature.

Disclosure No. 2: Methodology Modifications

The methodology described above is consistent with the previous year.

Disclosure No. 3: Material Weaknesses or Other Findings

In the FY 2010 Internal Controls Assurance Statement, ICE noted weaknesses in its Budgetary Resource Management Processes. ICE noted that further improvements needed to be made to the monitoring and oversight of the budget management processes within the agency. ICE needs to

improve documentation and guidance, standardize policies and procedures for funds control and budgetary resource management, and continue to improve oversight at the Program execution level. In addition to the efforts implemented in FY 2010, the ICE Office of the Chief Financial Officer (OCFO) is looking at other long term solutions. Specifically, 1) OCFO is developing a real-time Status of Funds reporting functionality that will be used across ICE; 2) aligning obligation tracking responsibilities within OCFO; and 3) developing detailed Spend Plans at the Program Project Activity (PPA) level to improve fiscal management. ICE will continue to build upon its comprehensive approach towards mitigating weaknesses for budgetary resource management through improved documentations, guidance, and training.

Additionally, a material weakness related to Financial Systems Security was reported in the FY 2010 Internal Controls Assurance Statement. This material weakness is due to the aggregate of the significant deficiencies existing in FFMS and its subsidiary systems. ICE continues efforts to implement corrective actions to address this weakness.

Disclosure No. 4: Reprogrammings or Transfers

No Reprogrammings or Transfers of drug-related budget resources occurred during FY 2010.

Disclosure No. 5: Other Disclosures

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 - As a multi-mission agency, ICE is exempt from reporting under this section as noted in the Office of National Drug Control Policy (ONDCP) *Drug Control Accounting, Section 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 IIMS systems discussed in the methodology section above and are based on work performed between October 1, 2009 and September 30, 2010. 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 2010. The data presented are associated with obligations against a financial plan that was sent to ONDCP in FY 2010.

Assertion No. 5: Fund Control Notices


No Fund Control Notice was issued by the ONDCP Director under 21 U.S.C. section 1703(f) and Section 8 of the ONDCP Circular, *Budget Execution*, to ICE in FY 2010.



Homeland
Security

JAN 26 2011

MEMORANDUM FOR: Rear Admiral Keith A. Taylor
Assistant Commandant for Resources and
Chief Financial Officer
United States Coast Guard

From: Anne L. Richards 
Assistant Inspector General for Audits

Subject: *Independent Review of the U.S. Coast Guard's Reporting of FY 2010
Drug Control Obligations*

Attached for your information is our report, *Independent Review of the U.S. Coast Guard's Reporting of FY 2010 Drug Control Obligations*. This report contains no recommendations.

We contracted with the independent public accounting firm KPMG LLP (KPMG) 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 assurances as to the integrity of the financial data contained within the detailed accounting submission, KPMG was unable to complete the review. As a result, KPMG was unable to report 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 John McCoy, Deputy 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 2010 Drug Control Obligations





Homeland
Security

JAN 26 2011

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, 2010, for the Office of National Drug Control Policy. We contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the review. U.S. Coast Guard management prepared the Table of Prior Year Drug Control Obligations and related disclosures to comply with requirements of the Office of National Drug Control Policy Circular, *Drug Control Accounting*, dated May 1, 2007. Due to the U.S. Coast Guard's inability to provide assurance as to the integrity of the financial data in the detailed accounting submissions, KPMG was unable to complete its review and report on the Table of Prior Year Drug Control Obligations and related disclosures.

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

A handwritten signature in blue ink that reads "Anne L. Richards".

Anne L. Richards
Assistant Inspector General for Audits



KPMG LLP
2001 M Street, NW
Washington, DC 20036

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

January 18, 2011

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, 2010. USCG management is responsible for the Table of Prior Year Drug Control Obligations, related disclosures, and the assertions.

The Office of National Drug Control Policy (ONDCP) Circular, *Drug Control Accounting*, dated May 1, 2007, requires management to disclose any material weaknesses or other findings affecting the presentation of data reported and to make certain assertions related to the financial systems supporting the drug methodology used in compilation of the Table of Prior Year Drug Control Obligations and related disclosures. 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; and management has not provided an assertion that the financial systems supporting the drug methodology yield data that fairly present, in all material respects, aggregate drug-related obligation estimates.

In accordance with applicable professional standards, without certain representations made by management, including the integrity of the financial data and its systems, we are unable to complete our review of USCG's Table of Prior Year Drug Control Obligations, related disclosures, and management's assertions. Accordingly, we are unable to provide an Independent Accountants' Report on the USCG's Table of Prior Year Drug Control Obligations, related disclosures, and management's assertions for the year ended September 30, 2010, pursuant to the requirements of ONDCP Circular, *Drug Control Accounting* (May 1, 2007).

Sincerely,

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) 372-3512
Fax: (202)372-2311
Email:Rebecca.E.Ore@uscg.mil

7110

Mr. John D. Shiffer
Department of Homeland Security
Financial Management Division
Office of the Inspector General
1120 Vermont Avenue, 11th Floor, NW
Washington, D.C. 20005

JAN 18 2011

Dear Mr. Shiffer,

In accordance with the Office of National Drug Control Policy Circular: *Annual Accounting of Drug Control Funds* dated May 1, 2007, enclosed is the Coast Guard's report of FY 2010 drug control obligations, drug control, methodology and assertions. Per your KPMG auditor's guidance received on January 11th, 2011, my staff addressed this request for additional supporting documentation and changes to the FY 2010 Annual Accounting of Drug Control Funds, dated December 2nd, 2010.

If you require further assistance on this information, please contact LCDR Rebecca Ore at (202) 372-3512.

Sincerely,

A handwritten signature in blue ink, appearing to read "T.A. Sokalzuk".

T.A. SOKALZUK
Captain, U.S. Coast Guard
Chief, Office of Budget and Programs

Copy: DHS Budget Office

Enclosures:

- (1) USCG FY 2010 Detailed Accounting Submission
- (2) Independent Auditors' Report Exhibit I – Material Weaknesses in Internal Control – U.S. Coast Guard
- (3) 2010 USCG Assurance Statement

**DEPARTMENT OF HOMELAND SECURITY
UNITED STATES COAST GUARD
Detailed Accounting Submission of FY 2010 Drug Control Funds**

DETAILED ACCOUNTING SUBMISSION

A. Table of FY 2010 Drug Control Obligations

RESOURCE SUMMARY	2010 Actual
Drug Resources by Drug Control Function:	Obligations
• Interdiction	\$836.395
• Research and Development	\$1.737
Total Resources by Function	\$838.132
Drug Resources by Budget Decision Unit:	
• Operating Expenses (OE)	\$692.493
• Reserve Training (RT)	\$13.545
• Acquisition, Construction, and Improvements (AC&I)	\$130.357
• Research, Development, Test and Evaluation (RDT&E)	\$1.737
Total Drug Control Obligations	\$838.132
<i>Interagency Crime and Drug Enforcement [non-add]</i>	<i>[\$0.871]</i>

1. Drug Methodology

In FY 2000, a methodology known as the Mission Cost Model (MCM) was developed to present United States Coast Guard (Coast Guard) missions using activity based cost accounting principles. The MCM is an estimate of mission costs allocated across Coast Guard's 11 mission/programs. The information reported is timely and is derived from an allocation process involving the Coast Guard's financial statement information. Further, the Coast Guard has developed an operating hour baseline as a method to approximate the future allocation of resource hours for each asset class to multiple Coast Guard missions. This is the basis for funding allocations in budget projections. The operating hour allocation, or baseline, is developed and modified based upon budget line item requests and national priorities. Coast Guard is required to report its drug control funding to ONDCP in four appropriations, categorically called decision units. The Coast Guard's drug control funding estimates are computed by closely examining the decision units that are comprised of: Operating Expenses (OE); Reserve Training (RT); Acquisition, Construction, and Improvement (AC&I); and Research, Development, Test, and Evaluation (RDT&E). Each decision unit contains its own unique spending authority and methodology.

1. Drug Methodology (cont.)

For example, AC&I includes funding that remains available for obligation up to five years after appropriation and RDT&E includes funding which does not expire. Unless stipulated by law, OE and RT funding must be spent in the fiscal year it is appropriated and therefore, the methodologies for these two appropriations are referred hereafter as the OE/RT MCM. The mechanics of the MCM methodology used to derive the drug control information for each decision unit's drug control data is derived follows.

Operating Expenses and Reserve Training

The majority of the funds the Coast Guard allocates to the drug interdiction program are in the OE decision unit. OE funds are used to operate Coast Guard facilities; maintain capital equipment; improve management effectiveness; and recruit, train, sustain, and compensate, 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 percentage 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 statutory missions 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 each asset class spends conducting each Coast Guard mission. Using financial data gathered from over 3,000 cost centers around the United States along with the AOPs information, the Coast Guard is able to allocate OE costs to each of the 11 statutory missions 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.

The Coast Guard allocates a portion of RT decision unit funds to the drug interdiction program. RT funds are used for Coast Guard Selected Reserve personnel who augment Coast Guard operations. Since RT functionally assists OE funded operations, the RT funding mission attribution assumes an OE mission allocation spread. The following data sources feed the FY 2010 OE/RT MCM:

- 1) Core Accounting System (CAS) – FY 2010 actual expenses MCM uses FY 2007 financial data, adjusted to reflect changes in the Coast Guard's asset inventory from FY 2007 to FY 2010. These expenses are fed into the Standard Rates Model (SRM), along with Coast Guard's operating cost reports of the Surface Forces Logistics Center (SFLC) and the cost per flight hour report from the Aviation Logistics Center (ALC). The SRM uses an activity-based methodology to assign and allocate expenses to the Coast Guard's assets and certain non-asset intensive missions. The resulting total cost pools serve as one of the major inputs to the MCM. 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) Naval Electronics Supply Support System (NESSS) – The SFLC at Baltimore operates a stand-alone financial system. Similar to the CAS, 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.

1. Drug Methodology (cont.)

- 3) Aviation Maintenance Management Information System (AMMIS) - The ALC operates a stand-alone financial system. Similar to the CAS, 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) FY 2010 Abstract of Operations– 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), Law Enforcement Detachments (LEDET) and Special Projects. The percentage that drives the TACLET / LEDET resource areas is 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 activities and liaison costs for the Organized Crime Drug Enforcement Task Force.

Mission Cost Model Application & Results – The two chief input drivers to the MCM are:

- Financial costs of each Coast Guard asset and other expenses areas, made up of direct, support and overhead costs.
- FY 2010 AOPS hours – The support and overhead costs for each asset and other expenses element is applied to hours projected from the FY 2010 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 FY 2010. The overall affect of the computed amount from the static baseline and reality of AOPS results in a percentage to drive Coast Guard OE expenditures allocation across 11 statutory missions.

Normalize to Budget Authority or Obligations – The program percentages derived from the MCM are then applied to total OE and RT FY 2010 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 on Budget Execution (SF-133).

1. Drug Methodology (cont.)

Acquisition, Construction, and Improvements

AC&I is a multi-year appropriation where funding may be available for up to five 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 statutory missions. In most cases, the driver used in scoring drug control funding requests within the zero-based AC&I decision unit is assigned based on professional judgment characterized by asset and/or mission percentages produced in the OE/RT 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 2010 AC&I MCM, the total bottom-line mission percentage is applied directly to the AC&I total direct obligations. For FY 2010 AC&I program and mission area spreads, the following data sources and methods were used:

AC&I Mission Cost Model – Developed based on data feeds from the FY 2010 OE/RT MCM model as related in earlier OE statements. The following data sets were then required to complete the AC&I MCM:

- 1) Drug related percentage – The percentage spread for each driver was extracted from the OE/RT 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.

Mission cost results/application - Once the project drivers were extracted from the OE/RT MCM, they were applied to the total AC&I BA levels derived from the agency's enacted appropriation bill in the FY 2010 AC&I MCM. The total allocated mission percentages from the AC&I MCM were then applied to the total AC&I FY 2010 obligations as reported from the CAS as of September 30, 2010 (Attachment C).

Research, Development, Test and Evaluation

RDT&E is a no-year appropriation where funding, once appropriated and apportioned, 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 where program/mission area percentages are based upon subject matter expert review of every line item presented in the FY 2010 request. As with the other three appropriations, once the program percentage spreads are computed for each of these drivers in the FY 2010 RDT&E MCM, the total bottom-line mission percentage is applied directly to the RDT&E total direct obligations.

1. Drug Methodology (cont.)

For FY 2010 RDT&E program and mission area spreads, the following data sources and methods were used:

RDT&E Mission Cost Model – Developed based on data feeds from the FY 2010 OE/RT MCM model as in earlier OE and AC&I statements. The following data sets were then required to complete the RDT&E MCM:

- 1) Drug related percentage – The percentage spread for each driver was extracted from the OE/RT 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.
- 2) Mission cost results/application - Once the project drivers were extracted from the OE/RT MCM, they were applied to the total RDT&E BA levels derived from the agency's enacted Appropriation Bill in the FY 2010 RDT&E MCM. The total allocated mission percentages from the RDT&E MCM were then applied to the total RDT&E 2010 obligations as reported from the CAS as of September 30, 2010 (Attachment D). BA data is derived from the agencies enacted Appropriation and expenditure data is extracted from a Finance and Procurement Desktop transaction summary report by project.

2. Methodology Modifications

The methodology described above is consistent with the previous year.

3. Material Weaknesses or Other Findings

As identified in the Department of Homeland Security (DHS) Chief Financial Officers (CFO) Act of 1990 audit and feedback provided in the enclosed FY 2010 Independent Auditors' Report: Exhibit I – Material Weaknesses in Internal Control (Enclosure 2) and described in the enclosed 2010 U.S. Coast Guard Assurance Statement (Enclosure 3), 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 chartered an Audit Readiness Planning Team (ARPT) in 2008 to develop the Financial Strategy for Transformation and Audit Readiness (FSTAR). FSTAR contains the comprehensive Mission Action Plans that guide our implementation of internal controls leading to assurance over financial information. This effort seeks to attack the root causes and long term solutions of the identified material weaknesses and other financial management issues. 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 2010, the Coast Guard had no reports of transfers or reprogramming actions affecting drug related budget resources in excess of \$1 million.

5. Other Disclosures

The following provides a synopsis of the United States Coast Guard's FY 2010 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; and
2. The Coast Guard's Drug Budget Submission.

Coast Guard Mission

The Coast Guard is a military service with mandated national security and national defense responsibilities and the United States' leading maritime law enforcement agency with broad, multi-faceted jurisdictional authority. 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 missions. This crossover contributes to the challenges the Coast Guard faces when reporting costs for its mission areas.

Coast Guard's Drug Budget Submission

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. As such, there are no financial accounting lines for each of Coast Guard's 11 statutory missions. 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 OE appropriation budget request is incremental, focusing on the changes from the prior year base brought forward. The Coast Guard continues to present supplementary budget information through the use of the 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 and the process is repeatable. Similarly, this is the same methodology used to complete our annual submission to the Office of National Drug Control Policy (ONDCP) for the NDCS Budget Summary.

B. 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*, Section 6a (1) (b).
2. **Drug Methodology** – 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. In the Coast Guard’s opinion, the percentage allocation results derived from its MCM methodology are based on the most current financial and abstract of operations data available. Although we cannot provide assurances as to the integrity of the financial data contained in this report, the methodology is a repeatable mission spread process which the Coast Guard uses throughout its annual budget year presentations. These include: the Office of Management and Budget’s (OMB) MAX budget update of Coast Guard’s President’s Budget submission and the DHS CFO Statement of Net Cost report.

Other Estimation Methods: In some cases, where the MCM allocates a percentage of time/effort expended to a given AC&I project/line item, 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.

Financial Systems: Data are derived from CAS and SFLC systems. No other financial system 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 DHS CFO Act audits. 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 ONDCP Circular: *Drug Control Accounting* May 1, 2007 Section 6A. Documentation on each decision unit is provided.
4. **Reprogrammings or Transfers** - During FY 2010, Coast Guard had no transfers or reprogramming actions affecting drug-related budget resources in excess of \$1 million. The FY 2010 data presented herein is associated with drug control funding reported in Coast Guard’s FY 2010 financial plan.
5. **Fund Control Notices** –ONDCP did not issue Coast Guard a Fund Control Notice for FY 2010.

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

	(dollars in thousands)	
	FY 2010	
	Obligations	% of total
1. Search and Rescue (SAR)	807,481	11.75%
2. Marine Safety (MS)	641,398	9.33%
3. Aids to Navigation (ATON)	1,075,140	15.64%
4. Ice Operations (IO)	171,243	2.49%
5. Marine Environmental Protection (MEP)	254,321	3.70%
6. Living Marine Resources (LMR)	618,957	9.01%
7. Drug Interdiction	692,493	10.08%
8. Other Law Enforcement (OTH-LE)	96,802	1.41%
9. Migrant Interdiction	516,245	7.51%
10. Ports, Waterways & Coastal Security (PWCS)	1,308,551	19.04%
11. Defense Readiness	689,833	10.04%
Total OE Obligations	\$ 6,872,464	100%

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

	(dollars in thousands)	
	FY 2010	
	Obligations	% of total
1. Search and Rescue (SAR)	15,600	12.22%
2. Marine Safety (MS)	12,545	9.82%
3. Aids to Navigation (ATON)	21,030	16.47%
4. Ice Operations (IO)	2,299	1.80%
5. Marine Environmental Protection (MEP)	4,975	3.90%
6. Living Marine Resources (LMR)	12,106	9.48%
7. Drug Interdiction	13,545	10.61%
8. Other Law Enforcement (OTH-LE)	1,893	1.48%
9. Migrant Interdiction	9,319	7.30%
10. Ports, Waterways & Coastal Security (PWCS)	25,595	20.04%
11. Defense Readiness	8,794	6.89%
Total RT Obligations	\$ 127,701	100%

**ACQUISITION, CONSTRUCTION and IMPROVEMENTS
(AC&I) MISSION COST MODEL OUTPUT:**

	(dollars in thousands)	
	FY 2010	
	Obligations	% of total
1. Search and Rescue (SAR)	161,016	11.75%
2. Marine Safety (MS)	40,661	2.97%
3. Aids to Navigation (ATON)	34,120	2.49%
4. Ice Operations (IO)	29,537	2.16%
5. Marine Environmental Protection (MEP)	75,390	5.50%
6. Living Marine Resources (LMR)	110,600	8.07%
7. Drug Interdiction	130,357	9.51%
8. Other Law Enforcement (OTH-LE)	11,381	0.83%
9. Migrant Interdiction	178,026	12.99%
10. Ports, Waterways & Coastal Security (PWCS)	180,311	13.16%
11. Defense Readiness	419,198	30.59%
Total AC&I Obligations	\$ 1,370,597	100%

Note: Includes -\$68.732 million recoveries of prior year obligations.

**RESEARCH, DEVELOPMENT, TEST and EVALUATION
(RDT&E) MISSION COST MODEL OUTPUT:**

	(dollars in thousands)	
	FY 2010	
	Obligations	% of total
1. Search and Rescue (SAR)	3,504	14.29%
2. Marine Safety (MS)	4,994	20.36%
3. Aids to Navigation (ATON)	1,099	4.48%
4. Ice Operations (IO)	164	0.67%
5. Marine Environmental Protection (MEP)	3,760	15.33%
6. Living Marine Resources (LMR)	896	3.65%
7. Drug Interdiction	1,737	7.08%
8. Other Law Enforcement (OTH-LE)	173	0.71%
9. Migrant Interdiction	1,065	4.34%
10. Ports, Waterways & Coastal Security (PWCS)	1,281	5.22%
11. Defense Readiness	5,852	23.86%
Total RDT&E Obligations	\$ 24,525	100%

Note: Includes -\$417 thousand recoveries from prior year obligations.

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

I-A Financial Management and Reporting

Background: In fiscal year (FY) 2010, we were engaged to perform an examination of internal controls over financial reporting. The auditors' objective in an examination of internal control is to form an opinion on the effectiveness of internal control. When planning our examination, we gave appropriate emphasis to testing entity-level controls, such as management's risk assessment and monitoring processes, and other control environment elements that exist throughout the Department. Four Department-wide control environment conditions were identified through our examination procedures that have a pervasive influence on the control environment and effectiveness of control activities at the United States Coast Guard (Coast Guard). This Exhibit should be read in conjunction with the Department-wide conditions and recommendations described in Comment **II-A**, *Financial Management and Reporting*.

In previous years, we reported that the Coast Guard had several internal control deficiencies that led to a material weakness in financial reporting. In response, the Coast Guard developed its *Financial Strategy for Transformation and Audit Readiness* (FSTAR), which is a comprehensive plan to identify and correct conditions that are causing control deficiencies, and in some cases preventing the Coast Guard from preparing auditable financial statements.

The Coast Guard made progress in FY 2010, by completing its planned corrective actions over selected internal control deficiencies. Specifically, remediation efforts associated with accrued payroll, pension, and medical liabilities allowed management to make assertions on the completeness and accuracy of more than \$43 billion of accrued liabilities, which represents more than 50 percent of DHS' total liabilities. The FSTAR calls for continued remediation of control deficiencies and reconciliation of balances in FY 2011. Consequently many of the financial reporting deficiencies we reported in the past remain uncorrected at September 30, 2010.

Conditions:

- 1 In FY 2010, certain entity-level control weaknesses, that may interfere with the timely completion of corrective actions planned for FY 2011 and beyond, continued to exist. While progress has been made, the Coast Guard has not completed the:
 - Development and implementation of effective policies, procedures, internal controls, and information and communication processes to ensure that data supporting financial statement assertions are complete and accurate, that transactions are accounted for consistent with generally accepted accounting principles (GAAP), and that technical accounting issues are identified, analyzed and resolved in a timely manner. For example, the development and implementation of an accounting position over post-employment travel benefits, totaling less than one percent of liabilities took several months to complete. This condition is a potentially serious impediment to the Coast Guard's objective of producing an auditable balance sheet next year:
 - Adoption of an on-going Coast Guard-wide risk assessment by financial, IT, and program personnel that addresses all significant financial statement line items; and
 - Implementation of adequate monitoring controls over headquarters, units, and areas/districts with significant financial activity, including those controls associated with management override.
- 2 The Coast Guard does not have properly designed, implemented, and effective policies, procedures, processes, and controls surrounding its financial reporting process, as necessary to:
 - Support beginning balances, year-end close-out, and the cumulative results of operations analysis in its general ledgers individually and/or in the aggregate;
 - Ensure that transactions and accounting events at Coast Guard headquarters, units, and areas/districts are appropriately supported and accounted for in its general ledgers;
 - Ensure that accounts receivable balances exist, are complete and accurate, and properly presented in the financial statements. For example, underlying data supporting accounts receivable balances is not maintained, reimbursable related activity is not identified timely, and accounts receivable activity is not properly recorded in the financial statements on a timely basis;

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

- Ensure financial statement information and related disclosures submitted for incorporation in the DHS financial statements are accurate and complete; and
- Ascertain that intragovernmental activities and balances are identified and differences, especially with agencies outside DHS, are being resolved in a timely manner in coordination with the Department's Office of Financial Management (OFM).

Cause/Effect: The Coast Guard has thorough and highly procedural processes for identifying and resolving technical accounting issues, and/or responding to auditor inquiries. This process often results in exceptionally long time periods devoted to issue resolution, which can extend to several months or even years, to resolve a single matter. In some cases, the issues are not material to the financial statements, but still require long time periods to resolve. This approach interferes with the timely completion of financial reports, and the availability of auditable accounting positions. In addition, insufficient controls over financial reporting could create an environment where an *Anti-deficiency Act* violation could occur.

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). The general ledgers do not allow for compliance with the United States Standard General Ledger (USSGL) at the transaction level, and period-end and opening balances are not supported by transactional detail in the three general ledgers. The conditions described below in Comment **I-B**, *Information Technology Controls and Financial Systems Functionality* contribute to the financial reporting control deficiencies, and make correction more difficult.

Because of the conditions noted above, the Coast Guard was unable to provide reasonable assurance that internal controls over all financial reporting processes are operating effectively, and has acknowledged that pervasive material weaknesses continue to exist in some key financial processes. Consequently, the Coast Guard cannot be reasonably certain that its financial statements are reliable, or assert to the completeness, existence, accuracy, valuation, rights and obligations, or presentation of their financial data related to their balances of fund balance with Treasury, accounts receivable, general property, plant, and equipment, including heritage assets and stewardship land, environmental and other liabilities, and net position as reported in the Department's balance sheets as of September 30, 2010 and 2009.

Criteria: FFMIA Section 803(a) requires that each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. FFMIA is intended to ensure that agencies use financial management systems that provide reliable, timely, and consistent information.

The *Federal Managers' Financial Integrity Act of 1982* (FMFIA) requires that agencies establish internal controls according to standards prescribed by the Comptroller General. These standards are specified in the Government Accountability Office's (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 and other responsibilities. The GAO *Standards* also identify the control environment as one of the five key elements of control, which emphasizes the importance of conscientiousness in management's operating philosophy and commitment to internal control. These standards cover controls such as human capital practices, supervisory reviews, policies, procedures, monitoring, and segregation of duties.

The Treasury *Federal Intragovernmental Transactions Accounting Policies Guide*, dated August 13, 2010, states that Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, as revised, require Federal CFO Act and non-CFO Act entities identified in the Treasury

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Financial Manual (TFM) 2010, 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 recording and reconciling intragovernmental activities.

Recommendations: We recommend that the Coast Guard:

1. Continue the implementation of the FSTAR, as planned;
2. Develop and implement effective policies, procedures, and internal controls to ensure that technical accounting issues are identified, analyzed, and resolved in a timely manner. The Coast Guard should be able to discuss initial accounting positions with basic rationale and supporting facts within one week of issue identification. Final resolution, may take longer depending on the complexity of the issues and impact on the Department, however even difficult cases should be resolved in substantially less time;
3. Improve entity-level controls by fully implementing a formal risk assessment process, evaluating and updating processes used to communicate policies and ensure that all transactions are recorded completely and accurately, and improve monitoring controls over financial data supporting the general ledger and financial statements;
4. Implement accounting and financial reporting processes including an integrated general ledger system that is FFMIA compliant; and
5. Establish new or improve existing policies, procedures, and related internal controls to ensure that:
 - 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. All accounting transactions and balances are properly reflected in the financial statements and consistent with GAAP;
 - c. Accounts receivable balances exist, are complete and accurate, and properly presented in the financial statements;
 - d. Financial statement disclosures submitted for incorporation in the DHS financial statements are accurate and complete; and
 - e. All intragovernmental activity and balances are accurately reflected in the financial statements, and differences are being resolved in a timely manner in coordination with the Department's OFM.

I-B Information Technology Controls and Financial Systems Functionality

Background: Information Technology (IT) general and application controls are essential for achieving effective and reliable reporting of financial and performance data. IT general controls (ITGC) are tested using the objectives defined by the GAO's *Federal Information System Controls Audit Manual (FISCAM)*, in five key control areas: security management, access control, configuration management, segregation of duties, and business continuity. Our procedures included a review of the Coast Guard's key ITGC environments.

We also considered the effects of financial systems functionality when testing internal controls, because key Coast Guard financial systems are not compliant with FFMIA and are no longer supported by the original software provider. Functionality limitations add to the challenge of addressing systemic internal control weaknesses, and strengthening the control environment at the Coast Guard.

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In FY 2010, our IT audit work identified 28 IT findings, of which 10 were repeat findings from the prior year and 18 were new findings. In addition, we determined that Coast Guard remediated eight IT findings identified in previous years. Specifically, the Coast Guard took actions to improve aspects of its user recertification process, data center physical security, and scanning for system vulnerabilities. The Coast Guard's remediation efforts have enabled us to expand our testwork into areas that previously were not practical to test, considering management's acknowledgment of the existence of control deficiencies. Most of the new findings relate to IT systems that were added to our examination scope this year.

Conditions: Our findings related to financial systems controls and functionality are as follows:

Related to IT controls:

Condition: We noted that Coast Guard's core financial system configuration management process controls are not operating effectively, and continue to present risks to DHS financial data confidentiality, integrity, and availability. Financial data in the general ledger may be compromised by automated and manual changes that are not adequately controlled. For example, the Coast Guard uses an IT scripting process to make updates to its core general ledger software, as necessary, to process financial data. During our FY 2010 testing, we noted that some previously identified control deficiencies were remediated (particularly with the implementation of a new script change management tool in the second half of FY 2010), while other deficiencies continued to exist. The remaining control deficiencies vary in significance. However, three key areas that impact the Coast Guard IT script control environment are:

- Script testing requirements – Limited testing requirements exist to guide Coast Guard staff in the development of test plans and guidance over the functional testing that should be performed;
- Script testing environment – Not all script changes were tested in the appropriate test environments, as required; and
- Script audit logging process – The Coast Guard's core system databases are logging changes to tables as well as successful and unsuccessful logins. However, no reconciliation between the scripts run and the changes made to the database tables is being performed to monitor the script activities and ensure that all scripts run have been approved.

In addition, we noted weaknesses in the script change management process as it relates to the Internal Control over Financial Reporting (ICOFR) process (e.g., the financial statement impact of the changes to FINCEN core accounting system through the script change management process). The Coast Guard has not fully developed and implemented procedures to ensure that a script, planned to be run in production, has been through an appropriate level of review by a group of individuals thoroughly assessing if the script would have a financial statement impact. Furthermore, the rationale documenting the impact of the script, whether deemed as having financial impact or not, is not documented and retained for internal assessment or audit purposes. Internal controls that ensure the reliability of the scripting process must be effective throughout the year, but most importantly during the year-end close-out and financial reporting process.

All of our ITGC findings are described in detail in a separate *Limited Official Use* (LOU) letter provided to the Coast Guard and DHS management.

Related to financial system functionality:

We noted that certain financial system functionality limitations are contributing to control deficiencies reported elsewhere in Exhibit I, are inhibiting progress on corrective actions for Coast Guard, and are preventing the Coast Guard from improving the efficiency and reliability of its financial reporting processes. Some of the financial system limitations lead to extensive manual and redundant procedures to process transactions, to verify the accuracy of data, and to prepare financial statements. Systemic conditions related to financial system functionality include:

- As noted above, Coast Guard's core financial system configuration management process is not operating effectively due to inadequate controls over IT scripts. The IT script process was instituted as a solution primarily to compensate for system functionality and data quality issues;

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- Financial system audit logs are not readily generated and reviewed, as some of the financial systems are lacking the capability to perform this task efficiently;
- Production versions of operational financial systems are outdated and do not provide the necessary core functional capabilities (e.g., general ledger capabilities); and
- Financial systems functionality limitations are preventing the Coast Guard from establishing automated processes and application controls that would improve accuracy, reliability, and facilitate efficient processing of certain financial data such as:
 - Ensuring proper segregation of duties and access rights such as automating the procurement process to ensure that only individuals who have proper contract authority can approve transactions or setting system access rights within the fixed asset subsidiary ledger;
 - Maintaining sufficient data to support Fund Balance with Treasury related transactions, including suspense activity;
 - Maintaining adequate posting logic transaction codes to ensure that transactions are recorded in accordance with GAAP; and
 - Tracking detailed transactions associated with intragovernmental business and eliminate the need for default codes such as Trading Partner Identification Number that cannot be easily researched.

Cause/Effect: The IT system development activities did not incorporate adequate security controls during the initial implementation more than seven years ago. The current IT configurations of many Coast Guard financial systems cannot be easily reconfigured to meet new DHS security requirements. The existence of these IT weaknesses leads to 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. In addition, the Coast Guard's core financial systems are not FFMIA compliant with the Federal Government's Financial System Integration Office (FSIO) requirements. See Comment I-A, *Financial Management and Reporting*, for a discussion of the related conditions causing significant noncompliance with the requirements of FFMIA. Configuration management weaknesses are also among the principle causes of the Coast Guard's inability to support its financial statement balances for audit purposes.

Criteria: The *Federal Information Security Management Act (FISMA)* passed as part of the *E-Government Act of 2002*, provides guidance 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*, establishes policy for the management of Federal information resources.

FFMIA is intended to ensure that agencies use financial management systems that provide reliable, timely, and consistent information. The purpose of FFMIA is to (1) 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 FFMIA." 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

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for which it performs for others on a yearly basis. These controls shall be highlighted in management's assurance statement that is provided to its customers. 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 *4300A 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.

The GAO's 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), implement the recommendations in our LOU letter provided to the Coast Guard and DHS management. In that letter, we provide more detailed recommendations to effectively address the deficiencies identified in the configuration management process.

Additionally, regarding IT controls, we recommend that the Coast Guard:

1. Develop and implement policies and procedures that address open aspects of script testing, including documentation of test documents;
2. Develop training that addresses all aspects of script testing (including documentation of test documents) and provide training to appropriate CM staff;
3. Develop a resource plan with associated supporting business case(s) to address the database audit logging requirements;
4. Develop procedures and perform regular account revalidation for the script management tool to ensure privileges remain appropriate; and
5. Conduct an assessment over the ICFOR process related to identifying and evaluating scripts that have a financial statement impact. This assessment can be included in the configuration management oversight process as part of USCG's annual A-123 efforts, or performed independent of the A-123 process. We recommend that this assessment (1) be performed early in the FY 2011, in time to remediate deficiencies before the end of the third quarter, and (2) involve process documentation and sufficient testing to fully assess both design and operating effectiveness of controls. The objective being to have a reliable process and internal controls in place that allow the auditor to test, and rely on those controls, during the fourth quarter of FY 2011.

I-C Fund Balance with Treasury

Background: Fund Balance with Treasury (FBWT) at the Coast Guard totaled approximately \$6.5 billion, or approximately 10.7 percent of total DHS FBWT at September 30, 2010. The majority of these funds represented appropriated amounts that were obligated, but not yet disbursed, as of September 30, 2010. In FY 2009, we reported a material weakness in internal control over FBWT at the Coast Guard. In FY 2010, the Coast Guard corrected some FBWT control deficiencies; specifically issues associated with payroll related transactions, and revised its remediation plan to include additional corrective actions that are scheduled to occur after FY 2010. Consequently, most of the conditions stated below are repeated from our FY 2009 report.

Conditions: The Coast Guard has not developed a comprehensive process, to include effective internal controls, to ensure that all FBWT transactions are recorded in the general ledger timely, completely, and accurately. For example, the Coast Guard:

- Did not properly design and implement FBWT monthly activity reconciliations and/or could not provide detail transaction lists reconciled to the general ledger for amounts reported to Treasury for all Coast Guard Agency Location Codes;

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- Has not been able to substantiate the completeness and accuracy of all inputs to the SF 224 process;
- Recorded adjustments to the general ledger FBWT accounts or activity reports submitted to Treasury, including adjustments to agree Coast Guard balances to Treasury amounts, that were unsupported;
- Does not have an effective process for clearing suspense account transactions related to FBWT due to over-reliance on vendor-provided data. 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, certain issues persist with industrial service orders (ISOs) and credit cards that preclude a complete and accurate population of suspense detail; and
- Does not have well established procedures to perform routine analytical comparisons between accounts, particularly budgetary accounts that should have a direct relationship with FBWT accounts.

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*, as revised, and the requirements of the *Joint Financial Management Improvement Program (JFMIP)*, now administered by the FSIO, to fully support the FY 2010 FBWT activity and balance as of September 30, 2010. 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 affect DHS' ability to effectively monitor its budget status.

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 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 Treasury Financial Manual, 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 each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. FFMIA is intended to ensure that agencies use financial management systems that provide reliable, timely, and consistent information.

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

Recommendations: We recommend that the Coast Guard continue to implement remediation efforts associated with establishing policies, procedures, and internal controls to ensure that FBWT transactions are recorded accurately completely, and in a timely manner, and that all supporting documentation is

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maintained for all recorded transactions. The Coast Guard remediation efforts should include procedures to:

1. Ensure that appropriate supporting documentation is maintained and readily available to support all aspects of appropriation activity (e.g., warrants, transfers, rescissions, etc.) and opening 2011 FBWT balances;
2. Perform complete and timely FBWT reconciliations using the Treasury Government-wide Accounting tools. Adequate documentation should be maintained and readily available for all data (e.g., receipts, disbursements, journal entries, etc.) used in the reconciliation process. Documentation should be sufficient to support items at the transactional level, and enable transactions and balances to be reconciled to the general ledger, as appropriate;
3. 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;
4. Perform analytical procedures over budgetary and proprietary activity related to the FBWT process; and
5. Review any IT related application (e.g., system generated reports) or general controls (e.g., change management) associated with the FBWT process.

I-D Property, Plant, and Equipment

Background: The Coast Guard maintains approximately 51 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 2010, the Coast Guard continued to execute remediation efforts as documented in FSTAR to address the PP&E process and control deficiencies, specifically those associated with vessels, small boats, and aircraft. However, FSTAR procedures are scheduled to occur over a multi-year timeframe. Consequently, many of the conditions cited below have been repeated from our FY 2009 report.

DHS Stewardship PP&E primarily consists of Coast Guard heritage assets, which are PP&E that are unique due to historical or natural significance; cultural, educational, or artistic (e.g., aesthetic) importance; or architectural characteristics. Coast Guard heritage assets consist of both collection type heritage assets, such as artwork and display models, and non-collection type heritage assets, such as lighthouses, sunken vessels, and buildings.

Conditions: The Coast Guard has not:

Regarding PP&E:

- Established its opening PP&E balances necessary to prepare a balance sheet as of September 30, 2010. Inventory procedures were performed in 2010 to assist in the substantiation of existence and completeness of PP&E balances; however, they were not performed over all asset classes (e.g., real property). Furthermore, in cases where original acquisition documentation has not been maintained, the Coast Guard has not fully implemented methodologies and assumptions to support the value of all PP&E;
- Implemented appropriate controls and related processes to accurately, consistently, and timely record additions to PP&E and construction in process (CIP), (including all costs necessary to place the asset in service e.g., other direct costs), transfers from other agencies, disposals in its fixed asset system, and support the 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;

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- Developed and implemented a process to identify and evaluate all lease agreements to ensure that they are appropriately categorized as operating or capital, and properly reported in the financial statements and related disclosures;
- Properly accounted for improvements and impairments to buildings and structures, capital leaseholds, selected useful lives for depreciation purposes, and appropriate capitalization thresholds, consistent with GAAP; and
- Identified and tracked all instances where accounting is not in compliance with GAAP (usually due to immateriality), and prepare a non-GAAP analysis that supports managements accounting policies. This analysis should be maintained and available for audit.

Regarding Stewardship PP&E:

- Fully designed and implemented policies, procedures, and internal controls to support the completeness, existence, accuracy, and presentation assertions over data utilized in developing required financial statement disclosures and related supplementary information for Stewardship PP&E.

Cause/Effect: The Coast Guard has had difficulty establishing its opening PP&E balances primarily because of poorly designed policies, procedures, and processes implemented more than a decade ago, combined with ineffective internal controls. PP&E was not properly tracked or accounted for many years preceding the Coast Guard's transfer to DHS in 2003, and now the Coast Guard is faced with a formidable challenge of performing retroactive analysis in order to properly establish the existence, completeness, and accuracy of PP&E. Furthermore, the fixed asset module of the Coast Guard's CAS is not updated timely for effective tracking and reporting of PP&E on an ongoing basis. 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.

The Coast Guard management deferred correction of the Stewardship PP&E weaknesses reported in previous years, and acknowledged that the conditions we reported in prior years remained throughout FY 2010. The lack of comprehensive and effective policies and controls over the identification and reporting of Stewardship PP&E could result in misstatements in the required financial statement disclosures and related supplementary information for Stewardship PP&E.

Criteria: SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, provides the general requirements for recording and depreciating property, plant, and equipment. SFFAS No. 6 was recently amended by SFFAS No. 35, *Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Financial Accounting Standards 6 and 23*, which clarifies that "reasonable estimates of original transaction data historical cost may be used to value general PP&E...Reasonable estimates may be used upon initial capitalization as entities implement general PP&E accounting for the first time, as well as by those entities who previously implemented general PP&E accounting." Additionally, SFFAS No. 35 "allows the use of reasonable estimates when an entity determines it is necessary to revalue general PP&E assets previously reported." The Federal Accounting Standards Advisory Board (FASAB)'s Federal Financial Accounting 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'."

SFFAS No. 29, *Heritage Assets and Stewardship Land*, provides the requirements for the presentation and disclosure of heritage assets. In summary, this standard requires that heritage assets and stewardship land information be disclosed as basic information in the notes to the financial statements, except for condition information, which is reported as required supplementary information (RSI).

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FFMIA Section 803(a) requires that each agency shall implement and maintain financial management systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. OMB Circular No. A-127 prescribes the standards for federal agencies' financial management systems.

Recommendations: We recommend that the Coast Guard:

Regarding PP&E:

1. Continue to implement remediation efforts associated with establishing PP&E balances, including designing and implementing inventory procedures over all PP&E categories and implementing methodologies, including the use of SFFAS No. 35, to support the value of all PP&E;
2. Implement appropriate controls and related processes to accurately and timely record additions to PP&E and CIP, transfers from other agencies, improvements, impairments, capital leases, depreciable lives, disposals in its fixed asset system, and valuation and classification of repairable PP&E;
3. Implement processes and controls to record any identifying numbers in the fixed asset system at the time of asset purchase to facilitate identification and tracking; and to ensure that the status of assets is accurately tracked in the subsidiary ledger;
4. Develop and implement a process to identify and evaluate all lease agreements to ensure that they are appropriately categorized as operating or capital, and are properly reported in the financial statements and related disclosures;
5. Ensure that appropriate supporting documentation is maintained and readily available to support PP&E life-cycle events (e.g., improvements, in-service dates, disposals, etc.); and
6. Perform and document a non-GAAP analysis for all instances where accounting policies are not in compliance with GAAP.

Regarding stewardship PP&E:

7. Design and implement policies, procedures, and internal controls to support the completeness, existence, accuracy, and presentation and disclosure assertions related to the data utilized in developing disclosure and related supplementary information for Stewardship PP&E that is consistent with GAAP.

I-E Actuarial and Other Liabilities

Background: The Coast Guard maintains 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 for the relocation (i.e., travel and shipment of household goods) of uniformed service members to their home station 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.

The Coast Guard estimates accounts payable by adjusting the prior year revised accounts payable accrual estimate by the percentage change in budgetary authority for the current fiscal year. The revised prior year estimate is the mid-point of the range in which the accrual should fall based on an analysis of actual payments made subsequent to September 30 of the prior year. The calculation is based on the results of a statistical sample for a portion of the subsequent disbursement population and a judgmental sample for the other portion.

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The Coast Guard's environmental liabilities consist of environmental remediation, cleanup, and decommissioning. The environmental liabilities are categorized as relating to shore facilities or vessels. Shore facilities include any facilities or property other than ships (e.g., buildings, fuel tanks, lighthouses, small arms firing ranges, etc.).

Conditions: We noted the following internal control weaknesses related to actuarial and other liabilities.

Regarding actuarial liabilities:

The Coast Guard had not implemented sufficient internal controls to ensure that information used by the actuary to calculate the pension benefit liability was complete, accurate, and properly used in actuarial valuation calculations until later in FY 2010. In early FY 2010, adjustments to the prior year pension benefit liability were identified by both the actuarial service provider and the Coast Guard, which highlighted this control weakness. During FY 2010, management implemented new internal controls that they believe will address these deficiencies.

The Coast Guard has not:

- Developed and implemented sufficient ongoing internal controls to ensure that information used by the actuary to calculate the actuarial medical benefit liability is complete and accurate. During FY 2010, the Coast Guard implemented various mitigating internal control and substantive procedures to address these conditions, however did not design or implement a sufficient long-term internal control solution; and
- Implemented effective policies, procedures, and controls to ensure the completeness and accuracy of relocation claims provided to, and used by, the actuary for the calculation of the post-employment travel benefit liability.

Regarding accounts payable and payroll estimates:

- Designed a methodology used to estimate accounts payable that considers and uses all applicable current year data. As a result, current year data that may have a significant impact on the estimate could be overlooked;
- Fully implemented effective controls to ensure that services have been provided to qualified Coast Guard members prior or subsequent to the payment of medical related invoices. As a result, medical related year-end accounts payable amounts and data utilized in the calculation of medical incurred but not reported estimates may be misstated, and improper payments may be made to service providers. During FY 2010, the Coast Guard implemented detective procedures to review invoices paid in FY 2010, however they did not review historical invoices (i.e., invoices paid prior to FY 2010) used in the incurred but not reported calculation nor implement a sufficient long-term internal control solution to address these conditions; and
- Designed and implemented a process to properly calculate and record civilian related payroll liabilities until fiscal year-end.

Regarding environmental liabilities:

- Fully supported the completeness, existence, and accuracy assertions of the data utilized in developing the estimate for the FY 2010 environmental liability account balance; and
- Fully developed, documented, and implemented the policies and procedures in developing, preparing, and recording the environmental liability estimates related to shore facilities and vessels.

Cause/Effect: The Coast Guard did not perform a comprehensive review over information provided by actuarial service providers to ensure the completeness and accuracy of their calculation of pension benefit liabilities. Additionally, ineffective policies, procedures, and controls exist to ensure the completeness and accuracy of relocation claims provided to, and used by, the actuary for the calculation of post-employment benefit liabilities.

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The Coast Guard's methodology used to estimate accounts payable is based on the prior year estimate, validated via a subsequent payment analysis, and does not consider or use all applicable current year data. Additionally, the information provided by medical service providers is not sufficient for the Coast Guard to perform detailed reviews prior to payment, and as such, modifications may be necessary to existing service agreements.

The Coast Guard has not fully developed, documented, and implemented policies and procedures to develop, prepare, and record environmental liability estimates in accordance with applicable accounting standards.

The process to record civilian related payroll accruals was not designed or operating effectively until fiscal year-end, leading to misstatements in quarterly financial statements.

Criteria: According to SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, paragraph 79, Other Retirement Benefits (ORB) include all retirement benefits other than pension plan benefits. Per paragraph 88, the ORB liability should be reported using the aggregate entry-age normal method. The liability is the actuarial present value of all future benefits less the actuarial future present value of future cost contributions that would be made for and by the employees under the plan.

According to SFFAS No. 5, paragraph 95, the employer entity 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 entities 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 completely and accurately. SFFAS No. 1, paragraph 77 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."

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. Continue to assess the effectiveness of controls implemented during FY 2010 to ensure that information used by the actuary to calculate the pension benefit liability is complete, accurate, and properly used in actuarial valuation calculations;
2. Develop and implement sufficient internal controls to ensure that information used by the actuary to calculate the actuarial medical benefit liability is complete and accurate; and
3. Implement effective policies, procedures, and controls to ensure the completeness and accuracy of information provided to the actuary to develop the post-employment travel benefit liability.

Regarding accounts payable and payroll estimates:

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;
5. Implement effective internal controls to ensure that services have been provided to qualified Coast Guard members prior or subsequent to the payment of medical invoices; and

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

6. Continue to assess the effectiveness of internal controls implemented over payroll at fiscal year-end.

Regarding environmental liabilities:

7. Develop and implement policies, procedures, processes, and controls to ensure the identification and recording of all environmental liabilities, to define the technical approach, to establish cost estimation methodology, and to develop overall financial management oversight of its environmental remediation projects. Consider the “Due Care” requirements defined in FASAB Technical Release No. 2. The policies should include:
- 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.

Conditions: We noted the following internal control weaknesses related to budgetary accounting, many of which were repeated from our FY 2009 report. The Coast Guard has not:

- Fully implemented policies, procedures, and internal controls over the Coast Guard’s process for validation and verification of undelivered order (UDO) balances. Recorded obligations and UDO balances were not always complete, valid, or accurate, and proper approvals and supporting documentation are not always maintained;
- Finalized and implemented policies and procedures to monitor unobligated commitment activity in CAS throughout the fiscal year. Currently, the Coast Guard only performs a year-end review to reverse commitments that are no longer valid; and
- Designed and implemented effective procedures, processes, and internal controls to verify the completeness and accuracy of the year-end obligation “pipeline” which are obligations executed on or before September 30 but not recorded in the Coast Guard’s CAS, and to record all executed obligations. These deficiencies affected the completeness, existence, and accuracy of the year-end “pipeline” adjustment that was made to record obligations executed before year end.

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. Reliable accounting processes surrounding obligations, UDOs, and disbursements are essential for the accurate reporting of accounts payable in the DHS consolidated financial statements. The untimely release of commitments may prevent funds from being used for other purposes.

Criteria: According to the Office of Federal Financial Management’s *Core Financial System Requirements*, dated January 2006, an agency is responsible for establishing a system for ensuring that it 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

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

responsibilities granted to contracting officers. Treasury's USSGL guidance at TFM S2 10-02 (dated August 2010) specifies the accounting entries related to budgetary transactions.

FFMIA Section 803(a) requires that each agency shall implement and maintain financial management systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. OMB Circular No. A-127, as revised, prescribes the standards for federal financial management systems.

Recommendations: We recommend that the Coast Guard:

1. Continue to 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. Finalize policies and procedures to periodically review commitments, and make appropriate adjustments in the financial system; and
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.

Dear Secretary Napolitano:

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, 2010 (FY 2010). 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 USCG provides the following assurance statements.

In FY 2010, the USCG's response to the Deepwater Horizon Oil Spill incident has been historic in nature and of national significance. The USCG has taken steps to develop and complete tests of design for accounts receivable (AR) and accounts payable (AP) relating to the Deepwater Horizon Oil Spill incident. Results of tests of design indicated that 39 out of 41 key controls around Deepwater Horizon AR and AP are designed appropriately to prevent and/or detect material misstatements from occurring in the USCG financial statements ending September 30, 2010. The USCG has implemented compensating controls and corrective action to fix the two controls that were not designed effectively, and will test the operational effectiveness of the internal controls in October. The USCG has billed and collected from the responsible party for all Deepwater Horizon Oil Spill expenditures from the Oil Spill Liability Trust Fund.

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 weaknesses:

- **Compliance with Laws and Regulations:** The USCG has identified and reported Anti-Deficiency Act (ADA) violations in FY 2010 that occurred during prior fiscal years. The USCG has continued to collaborate with DHS and has adhered to DHS policy with regards to resolving these issues. In FY 2010, the USCG developed enterprise-wide policies and procedures for assessing risk, testing effectiveness of controls, and monitoring laws and regulations to align with the DHS' internal control program. The USCG will continue to improve controls over manual overrides, the tracking of funds, and budget execution. In addition, USCG will continue to improve monitoring policies and procedures that will assist in the prevention and detection of potential future ADA violations.
- **Internal Controls Over Financial Reporting (ICOFR):** As detailed under the DHS Financial Accountability Act (FAA) below.
- **Financial Management Systems:** As detailed under the FMFIA Section 4 below.

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

As outlined in the DHS guidance, the scope of the United States Coast Guard's assessment of ICOFR included performing tests of operational effectiveness throughout FY 2010 for areas that are ready for audit, and focused on corrective actions for areas with material weaknesses.

Tests of Operational Effectiveness (TOEs):

- **Fund Balance with Treasury (FBWT) – Military Payroll:** In FY 2010, the USCG performed tests of design (TODs) and tests of effectiveness (TOEs) over significant Military Payroll processes. While the results of testing enabled the USCG to reduce the significance of noted deficiencies from a Material Weakness, a number of controls continue to operate ineffectively and will require additional remediation activity before they can be relied upon.

The United States Coast Guard is unable to provide reasonable assurance that ICOFR are operating effectively. The following material weaknesses and significant deficiencies were found:

Material Weaknesses:

- **Fund Balance with Treasury (FBWT):** The USCG is unable to fully reconcile non-payroll related FBWT accounts, produce complete and accurate populations of suspense account transactions, and distinguish postings from clearing transactions in suspense. In FY 2010, the USCG successfully reconciled FBWT for military payroll, clearing the prior year's material weakness condition for three of the Coast Guard's six agency location codes.
- **Property Management:** The USCG is unable to assert to internal controls over the Acquisition, Construction, and Improvement (AC&I) Construction in Progress (CIP) and Real Property processes. In FY 2010, the USCG supported the accuracy of the Personal Property balance, executed a second annual physical inventory, and performed physical inventory observation procedures. The USCG capitalized \$2.2 Billion in operational assets and cleared all zero balance AC&I legacy projects. Finally, the USCG cleared the material weakness for Operating Materials and Supplies (OM&S) by changing the accounting treatment of field-held OM&S to the purchases method, evaluating inventory procedures and results, evaluating valuation support for OM&S, and asserting to the completeness, existence, and valuation of the OM&S balance.
- **General Ledger (GL) Management Function:** The three primary USCG general ledgers are not fully compliant with the United States Standard General Ledger (USSGL) at the transaction level and contain improper posting logic codes. Two of the three systems do not interface with the Core Accounting System (CAS), except for Treasury Information Executive Repository (TIER) reporting at the summary GL level. 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 require the USCG to post a significant number of on-top adjustments at month's end.
- **Budgetary Resources Management:** 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 a risk for unidentified ADA violations.
- **Receivables Management:** The USCG 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). In spite of the significant systems limitations, USCG will re-engineer several key sub-process areas related to accounts receivable and develop compensating controls to support this balance in FY 2011.
- **Revenue Management:** The USCG does not record certain balances in the general ledger in accordance with GAAP as promulgated by FASAB. In spite of the significant systems limitations, USCG will re-engineer several key sub-process areas related to revenue management and develop compensating controls to support this balance in FY 2011.
- **Accounts Payable (AP):** The USCG does not record certain balances in the general ledger in accordance with GAAP as promulgated by the FASAB. In spite of the significant systems limitations, USCG will re-engineer several key sub-process areas related to accounts payable and develop compensating controls to support this balance in FY 2011. FY 2010 remediation activities over the AP Trust Fund processes included: documenting process flows; documenting the design of the control activities and operating environment; development of process cycle memos; and limited controls and substantive testing over the Oil Spill Liability Trust Fund (OSLTF) and the Sport Fish Restoration and Boating Trust Fund (SFRBTF). In FY 2010, USCG successfully executed enhanced statistical sampling procedures and business processes for the AP accrual estimate.
- **Environmental Liabilities:** The USCG lacks sufficient documented policies and procedures for Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) cases. The

USCG does not have sufficient support related to environmental liabilities resulting in potentially unrecorded and unidentified liabilities.

- **Financial Systems:** The USCG does not have an adequate comprehensive, integrated accounting system to comply with the Federal Financial Management Improvement Act (FFMIA) system requirements and the USSGL at the transaction level. In FY 2010, the USCG assessed and performed internal control testing on general controls. However, consistent with the prior year, the lack of testing on application controls does not provide assurance that internal controls over financial systems are adequate to detect or prevent material errors in the financial statements. A number of non-conformances 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.

Resolution of prior year Material Weaknesses:

- **Actuarial Liabilities:** The USCG has fully remediated the Actuarial Medical and Pension Liabilities amounts one year ahead of schedule. This was the result of an extraordinary effort that included implementing internal controls, increasing data integrity, conducting substantive testing, and improving the quality of medical billings from the Department of Defense.

In addition, the USCG has remediated and tested key components of Entity Level Controls and Military Payroll, and, as a result, has reduced these areas from Material Weaknesses in FY 2009 to Significant Deficiencies in FY 2010:

- **Entity Level Controls (ELC):** USCG has not implemented a Management Control Program (MCP) that includes an integrated monitoring function for internal controls across the entity. Ongoing remediation efforts, including the assessment and implementation of the MCP, will address remaining ELC deficiencies. In FY 2010, the USCG conducted an assessment of internal controls at the entity level using the Government Accountability Office (GAO) Internal Control Management and Evaluation Tool. The USCG also established a Comptroller/Director of Financial Operations position and an Internal Controls Working Group (ICWG). In addition, the USCG implemented a risk assessment strategy, completed a follow-up Financial Transformation Change Management Survey, and continued to track external audit recommendations from the Office of Inspector General (OIG) and GAO. The USCG also established 83 new financial management positions across the enterprise as provided in the FY2010 Appropriations.
- **Military Payroll:** As a result of TODs and TOEs conducted over military human resources processes, 138 out of 161 key controls were found to be designed and operating effectively. A Decision Memo, signed by CG-1, CG-6, and CG-8 on June 21, 2010, identified 9 critical internal control enhancements that will remediate a number of the remaining control deficiencies. Ongoing remediation efforts included the implementation of required segregation of duties and enhanced training for personnel that manage HR Data.
- **Contingent Legal Liabilities (CLL):** Consistent with prior year, the USCG continues to remediate identified internal control deficiencies in CLL.

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. USCG is continuing to execute and update, as appropriate, mission action plans (MAPs) to remediate the following:

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

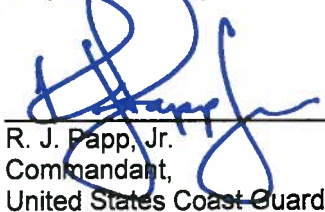
- **Integration of Financial and Mixed Systems:** The lack of integration of the USCG's financial and mixed systems precludes the use of common data elements to meet reporting requirements, and to collect, store, and retrieve financial information. Similar kinds of transactions are not processed throughout 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 the OMB, the U.S. Department of Treasury, and/or the FASAB.
- **Laws and Regulations:** The USCG's financial and mixed systems do not include a system of internal controls that ensures: 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 GAAP.
- **System Adaptability:** The USCG does not evaluate how effectively and efficiently the financial and mixed systems support USCG's changing business practices and make appropriate modifications to its information systems.
- **Risk Assessment and Security:** The USCG has legacy financial and mixed systems that were developed without the benefit of today's security practice requirements. Because USCG lacks modern security evaluation software, intensive manual intervention is required to ensure proper security controls, oversight, and auditing occurs to meet OMB and DHS security policies. 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.
- **Documentation and Support:** Adequate systems maintenance, technical systems documentation, training, and user support is not consistently available to enable 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.

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

The United States Coast Guard provides reasonable assurance that the performance data used in the s Annual Financial Report is complete and reliable, except for the following material weaknesses that were found:

- **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.

Very Respectfully,



R. J. Papp, Jr.
Commandant,
United States Coast Guard



ADDITIONAL INFORMATION AND COPIES

To obtain additional copies of this report, please call the Office of Inspector General (OIG) at (202) 254-4100, fax your request to (202) 254-4305, or visit the OIG web site at www.dhs.gov/oig.

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To report alleged fraud, waste, abuse or mismanagement, or any other kind of criminal or noncriminal misconduct relative to department programs or operations:

- Call our Hotline at 1-800-323-8603;
- Fax the complaint directly to us at (202) 254-4292;
- Email us at DHSOIGHOTLINE@dhs.gov; or
- Write to us at:
DHS Office of Inspector General/MAIL STOP 2600,
Attention: Office of Investigations - Hotline,
245 Murray Drive, SW, Building 410,
Washington, DC 20528.

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



Tab E
Department of
the Interior




United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, DC 20240

MAR 23 2011

Memorandum

To: Kimberly Elmore
Assistant Inspector General for Audits, Inspections and Evaluations

From: Deputy Assistant Secretary - Management 

Subject: Office of Inspector General's Independent Report on the Office of National Drug Control Policy (ONDCP) 2010 Accounting Report – Indian Affairs

Attached for your review and response is the ONDCP 2010 Accounting Report for Indian Affairs. As required by the ONDCP Circular: Drug Control Accounting dated May 1, 2007, the report show that Indian Affairs prior-year drug control obligations are less than \$50 million and is in full compliance with the requirements of the Circular and constitutes an unreasonable burden.

If you have any questions, please contact the Office of Justice Services, David Johnson - Acting Deputy Associate Director, Drug Enforcement at 405-247-1665 or 202-208-5787.

Attachment

ONDCP 2010 Accounting Report – Indian Affairs

Resource Summary

Prior Year Drug Control Obligations		FY 2010
Function: Prevention		
J33	Special Initiatives	10,000,000
	Substance Abuse - Meth Initiative	10,000,000
	Total ALL Functions	10,000,000
	Total FTE (Direct ONLY)	35

Full compliance with this Circular constitutes an unreasonable reporting burden. Obligations reported under this section constitute the statutorily required detailed accounting.


Deputy Assistant Secretary - Management

3-23-11



Tab F

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

Washington, D.C. 20530

January 27, 2011

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

Dear Mr. Rice:

This letter transmits the fiscal year 2010 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 the performance summaries are 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 at (202) 514-3435 or Mark L. Hayes, Director, Financial Statement Audit Office, at (202) 616-4660.

Sincerely,

A handwritten signature in blue ink that reads "Glenn A. Fine".

Glenn A. Fine
Inspector General

Enclosure

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

Mikki Atsatt
Deputy Director of Programs
and Performance
Budget Staff
Justice Management Division

Jeffrey Sutton
Assistant Director, Budget Staff
Law Enforcement and 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 2010

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

Audit Report 11-15
January 2011

ANNUAL ACCOUNTING AND AUTHENTICATION OF DRUG CONTROL FUNDS AND RELATED PERFORMANCE FISCAL YEAR 2010

OFFICE OF THE INSPECTOR GENERAL COMMENTARY AND SUMMARY

This report contains the attestation review reports of the U.S. Department of Justice's Drug Enforcement Administration, Federal Bureau of Prisons, National Drug Intelligence Center, Office of Justice Programs, and Organized Crime Drug Enforcement Task Forces Program's annual accounting and authentication of drug control funds and related performance for the fiscal year ended September 30, 2010. The Office of the Inspector General (OIG) 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's Circular, *Drug Control Accounting*, dated May 1, 2007.

The OIG prepared the reports in accordance with attestation 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 and, therefore, does not result in the expression of an opinion. We reported that nothing came to our attention that caused us to believe the submissions were not presented, in all material respects, in accordance with the requirements of the Office of National Drug Control Policy's Circular.

**ANNUAL ACCOUNTING AND AUTHENTICATION OF
DRUG CONTROL FUNDS AND RELATED PERFORMANCE
FISCAL YEAR 2010**

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**DRUG ENFORCEMENT
ADMINISTRATION**



**Office of the Inspector General's Report on
Annual Accounting and Authentication of
Drug Control Funds and Related Performance**

Administrator
Drug Enforcement Administration
U.S. Department of Justice

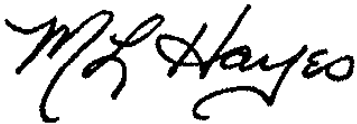
We have reviewed the accompanying Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission, which includes Management's Assertion Statement, Table of Drug Control Obligations, and the related disclosures; and the Performance Summary Report, which includes Management's Assertion Statement and the related performance information, of the U.S. Department of Justice's Drug Enforcement Administration (DEA) for the fiscal year ended September 30, 2010. The DEA's management is responsible for the Detailed Accounting Submission and the Performance Summary Report.

Our review was conducted in accordance with attestation 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 ONDCP Detailed Accounting Submission and the Performance Summary Report. Accordingly, we do not express such an opinion.

Management of the DEA prepared the Detailed Accounting Submission and the Performance Summary Report to comply with the requirements of the ONDCP Circular, *Drug Control Accounting*, dated May 1, 2007.

Based on our review, nothing came to our attention that caused us to believe that the Detailed Accounting Submission and the Performance Summary Report for the fiscal year ended September 30, 2010, are not presented, in all material respects, in conformity with 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 DEA, 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.

A handwritten signature in black ink that reads "Mark L. Hayes". The signature is written in a cursive, flowing style.

Mark L. Hayes, CPA, CFE
Director, Financial Statement Audit Office
Office of the Inspector General
U.S. Department of Justice

January 18, 2011

**Drug Enforcement Administration
Detailed Accounting Submission**



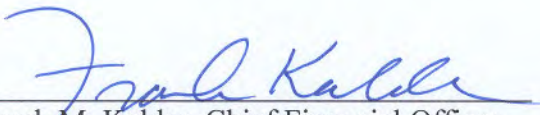
U. S. Department of Justice
Drug Enforcement Administration

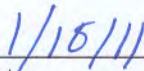
U.S. Department of Justice
Drug Enforcement Administration
Detailed Accounting Submission
Management's Assertion Statement
For Fiscal Year Ended September 30, 2010

On the basis of the Drug Enforcement Administration's (DEA) 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 2010.

We have documented the methodology used by the DEA to identify and accumulate FY 2010 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, Chief Financial Officer


Date

U.S. Department of Justice
Drug Enforcement Administration
Detailed Accounting Submission
Table of Drug Control Obligations
For Fiscal Year Ended September 30, 2010
(Dollars in Millions)

	FY 2010 Actual Obligations
Drug Obligations by Function:	
Intelligence	\$ 199.771
International	492.002
Investigations	1,816.311
Prevention	1.599
State and Local Assistance	6.957
Total Drug Obligations by Function	\$ 2,516.640
 Drug Obligations by Account/Decision Unit:	
Diversion Control Fee Account	\$ 267.997
Construction	0.028
Salaries & Expenses	
Domestic Enforcement	1,732.369
International Enforcement	509.289
State and Local Assistance	6.957
Total Drug Obligations by Decision Unit/Account:	\$ 2,516.640 *
High-Intensity Drug Trafficking Area (HIDTA) obligations	\$16.034

* Includes obligations of carryover unobligated balances

U.S. Department of Justice
Drug Enforcement Administration
Detailed Accounting Submission
Related Disclosures
For Fiscal Year Ended September 30, 2010

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 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 and a September 3, 2008 updated memo 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, Unified Financial Management System (UFMS), 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 account/decision units to ONDCP’s drug functions.

Data: All accounting data for the DEA are maintained in UFMS. UFMS 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: UFMS 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 three 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 Account/Decision Unit	Allocation	ONDCP Function
Diversion Control Fee Account	95.9%	Investigations
	3.1%	Intelligence
	1.0%	International
Construction Account	100.0%	Investigations
Salaries & Expenses		
Domestic Enforcement	90.0%	Investigations
	9.8%	Intelligence
	0.1%	International
	0.1%	Prevention
International Enforcement	95.9%	International
	4.1%	Intelligence
State and Local Assistance	100.00%	State and Local Assistance

The DEA's financial system began recording obligations in the appropriated three decision units and the Diversion Control Fee Account 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 UFMS.

Full Time Equivalents (FTE): One hundred percent of the DEA FTEs are dedicated to drug enforcement efforts. The DEA's Direct FTE total for FY 2010, including Salaries & Expenses (S&E) and Diversion Control Fee Account (DCFA) appropriations, was 8,378 through pay period 19, ending September 25, 2010.

Transfers and Reimbursements: High Intensity Drug Trafficking Area (HIDTA) transfers and 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 2010 obligations from three decision units to ONDCP's drug functions.

Disclosure 3: Material Weaknesses or Other Findings

No material weaknesses or significant deficiencies were noted in the FY 2010 DEA audit report on internal controls over financial reporting.

Management of the DEA is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the FMFIA. For FY 2010, DEA assessed its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Internal Control, as required by Section 2 of the FMFIA. Based on the results of this assessment, DEA can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and its compliance with applicable laws and regulations as of June 30, 2010, was operating effectively, except for one reportable condition – DEA's ability to obtain reliable estimates of drug availability in the United States. DEA also assessed whether its financial management systems conform to government-wide requirements. Based on the results of this assessment, DEA can provide reasonable assurance that there are no non-conformances that are required to be reported by Section 4 of the FMFIA.

Management of the DEA is also responsible for identifying, designing, operating, maintaining, and monitoring the existence of an appropriate system of internal control that enables DEA to report its financial information accurately to the Department of Justice and that meets the requirements of OMB Circular A-123, Appendix A. In accordance with OMB Circular A-123 Implementation Plan, the Department of Justice's Senior Assessment Team identified the business processes significant at the Departmental level and at the component level, which comprises a significant share of those processes. As required by the Department of Justice's FY 2010 Guidance for Implementation of OMB Circular A-123, DEA has documented the significant business processes and tested key

controls for those processes. The results of testing identified no material weaknesses in DEA's internal control over financial reporting as of June 30, 2010; however, the results identified three reportable conditions in the areas of procurement and sensitive payments. DEA is committed to complying with corrective action measures by training, monitoring, and tracking the related issues. The ultimate goal is the reduction of deficiencies identified.

Disclosure 4: Reprogramming and Transfers

There was no reprogramming in FY 2010.

However, the DEA had several transfers during FY 2010 (see the attached Table of FY 2010 Reprogramming and Transfers). The DEA had 14 transfers into its S&E account - one transfer from the Spectrum Relocation Fund, Executive Office of the President in the amount of \$40,976,000, five transfers from ONDCP's High Intensity Drug Trafficking Area (HIDTA) program totaling \$16,005,483, one transfer from Department of State (DOS) in the amount of \$8,500,000, one transfer from the Department of Justice (DOJ), Community Oriented Policing Services in the amount of \$10,000,000, and six internal transfers from expired FY 2005, FY 2006, FY 2007, FY 2008, and FY 2009 S&E funds to DEA's S&E No-Year fund totaling \$56,356,467. Also, the DEA had 5 transfers out of its S&E account - one transfer to the Department of Justice's Wire Management Office totaling \$2,620,120, two transfers to DOJ's Working Capital Fund totaling \$28,746, one transfer to DOS in the amount of \$33,000,000, and one return transfer to ONDCP in the amount of \$74,803.

Transfers under the Drug Resources by Function section in the Table of FY 2010 Reprogramming 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 2010.

**U.S. Department of Justice
Drug Enforcement Administration
Detailed Accounting Submission
Table of Reprogramming and Transfers
For Fiscal Year Ended September 30, 2010
(Dollars in Millions)**

Drug Resources by Function:	Reprogramming	Transfers In	Transfers Out	Total
Intelligence	\$ -	\$ 10.906	\$ (7.179)	\$ 3.727
International	-	8.224	(31.673)	(23.449)
Investigations	-	96.603	(53.176)	43.427
Prevention	-	0.099	(0.055)	0.044
State & Local Assistance	-	-	-	-
Total	\$ -	\$ 115.832	\$ (92.083)	\$ 23.749

Drug Resources by Account/Decision Unit:

Diversion Control Fee Account	\$ -	\$ -	\$ -	\$ -
Construction	-	-	-	-
Salaries & Expenses				
Domestic Enforcement	-	107.332	(59.083)	48.249
International Enforcement	-	8.500	(33.000)	(24.500)
State & Local Assistance	-	-	-	-
Total	\$ -	\$ 115.832	\$ (92.083)	\$ 23.749
HIDTA Transfers	\$ -	\$ 16.005	\$ -	\$ 16.005

FEDERAL BUREAU OF PRISONS



**Office of the Inspector General's Report on
Annual Accounting and Authentication of
Drug Control Funds and Related Performance**

Director
Federal Bureau of Prisons
U.S. Department of Justice

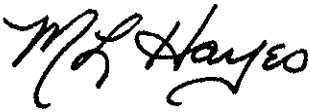
We have reviewed the accompanying Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission, which includes Management's Assertion Statement, Table of Drug Control Obligations, and the related disclosures; and the Performance Summary Report, which includes Management's Assertion Statement and the related performance information, of the U.S. Department of Justice's Federal Bureau of Prisons (BOP) for the fiscal year ended September 30, 2010. The BOP's management is responsible for the Detailed Accounting Submission and the Performance Summary Report.

Our review was conducted in accordance with attestation 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 ONDCP Detailed Accounting Submission and the Performance Summary Report. Accordingly, we do not express such an opinion.

Management of the BOP prepared the Detailed Accounting Submission and the Performance Summary Report to comply with the requirements of the ONDCP Circular, *Drug Control Accounting*, dated May 1, 2007.

Based on our review, nothing came to our attention that caused us to believe that the Detailed Accounting Submission and the Performance Summary Report for the fiscal year ended September 30, 2010, are not presented, in all material respects, in conformity with ONDCP's Circular, *Drug Control Accounting*, dated May 1, 2007.

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

A handwritten signature in black ink that reads "Mark L. Hayes". The signature is written in a cursive, flowing style.

Mark L. Hayes, CPA, CFE
Director, Financial Statement Audit Office
Office of the Inspector General
U.S. Department of Justice

January 18, 2011

**Federal Bureau of Prisons
Detailed Accounting Submission**



U.S. Department of Justice

Federal Bureau of Prisons

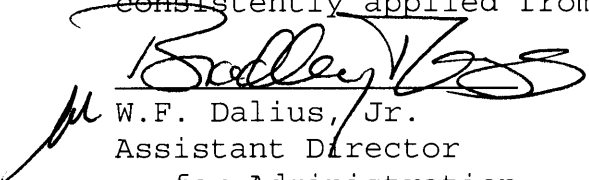
Washington, DC 20534

**U.S. Department of Justice
Bureau of Prisons
Detailed Accounting Submission
Management's Assertion Statement
For Fiscal Year Ended September 30, 2010**

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 2010.

We have documented the methodology used by BOP to identify and accumulate FY 2010 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

1/18/2011
Date

U.S. Department of Justice
Bureau of Prisons
Detailed Accounting Submission
Table of Drug Control Obligations
For Fiscal Year Ended September 30, 2010
(Dollars in millions)

FY 2010 Actual Obligations

Drug Obligations by Budget Decision Unit and Function:

Decision Unit: Inmate Care and Programs

Treatment	<u>\$87.931</u>
Total, Inmate Care and Programs	<u>\$87.931</u>
Total Obligations	<u>\$87.931</u>

U.S. Department of Justice
Bureau of Prisons
Detailed Accounting Submission
Related Disclosures
For Fiscal Year Ended September 30, 2010

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.

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. 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 2010 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 2009). 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

There were no significant deficiencies or material weaknesses identified in the Independent Auditors' Report on Internal Control over Financial Reporting and no findings in the Independent Auditors' Report on Compliance and other Matters.

Disclosure No 4. Reprogrammings or Transfers

There were no drug related reprogrammings or transfers during FY 2010.

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 2010, \$693,000 was allocated from the BOP to PHS, and was designated and expended for current year obligations of PHS staff salaries, benefits, and applicable relocation expenses relating to six PHS FTEs related to drug treatment during FY 2010. Therefore, the allocated obligations 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 2010.

**NATIONAL DRUG
INTELLIGENCE CENTER**



**Office of the Inspector General's Report on
Annual Accounting and Authentication of
Drug Control Funds and Related Performance**

Director
National Drug Intelligence Center
U.S. Department of Justice

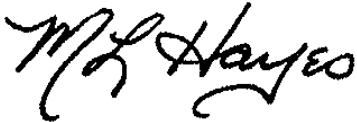
We have reviewed the accompanying Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission, which includes Management's Assertion Statement, Table of Drug Control Obligations, and the related disclosures; and the Performance Summary Report, which includes Management's Assertion Statement and the related performance information, of the U.S. Department of Justice's National Drug Intelligence Center (NDIC) for the fiscal year ended September 30, 2010. The NDIC's management is responsible for the Detailed Accounting Submission and the Performance Summary Report.

Our review was conducted in accordance with attestation 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 ONDCP Detailed Accounting Submission and the Performance Summary Report. Accordingly, we do not express such an opinion.

Management of the NDIC prepared the Detailed Accounting Submission and the Performance Summary Report to comply with the requirements of the ONDCP Circular, *Drug Control Accounting*, dated May 1, 2007.

Based on our review, nothing came to our attention that caused us to believe that the Detailed Accounting Submission and the Performance Summary Report for the fiscal year ended September 30, 2010, are not presented, in all material respects, in conformity with 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 NDIC, 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.

A handwritten signature in black ink that reads "Mark L. Hayes". The signature is written in a cursive, flowing style.

Mark L. Hayes, CPA, CFE
Director, Financial Statement Audit Office
Office of the Inspector General
U.S. Department of Justice

January 18, 2011

**National Drug Intelligence Center
Detailed Accounting Submission**

**U.S. Department of Justice
National Drug Intelligence Center
Detailed Accounting Submission
Management's Assertion Statement
For Fiscal Year Ended September 30, 2010**

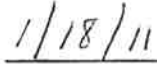
On the basis of the National Drug Intelligence Center (NDIC) management control program, we assert that the NDIC system of accounting, use of estimates, and system of internal controls provide reasonable assurance that:

1. Obligations reported by budget decision unit are NDIC's actual obligations from the Department of Justice's (DOJ) Financial Management Information System (FMIS) which is NDIC's accounting system of record for the budget decision unit.
2. The methodology used by the NDIC 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 is associated with obligations against a financial operating plan that did not require revision for reprogramming or transfers during the fiscal year.
5. NDIC did not have any Office of National Drug Control Policy (ONDCP) Fund Control Notices issued in FY 2010.

NDIC has documented the methodology used to identify and accumulate FY 2010 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.



David J. Mrozowski
Assistant Director, Intelligence Support Division



Date

**U.S. Department of Justice
National Drug Intelligence Center
Detailed Accounting Submission
Table of Drug Control Obligations
For Fiscal Year Ended September 30, 2010
(Dollars in Millions)**

FY 2010 Actual Obligations and Expenditures

Drug Obligations by Budget Decision Unit (NDIC Salaries and Expenses) and Function (Intelligence):

Decision Unit: (NDIC Salaries and Expenses)

Intelligence	<u>\$43.635</u>
Total, NDIC Salaries and Expenses	<u>\$43.635</u>
Total Obligations by Decision Unit and Function:	<u>\$43.635</u>

**U.S. Department of Justice
National Drug Intelligence Center
Detailed Accounting Submission
Related Disclosures
For Fiscal Year Ended September 30, 2010**

Disclosure No 1. Drug Control Methodology

NDIC's mission is to provide domestic strategic drug-related intelligence support to the drug control, public health, law enforcement, and intelligence communities of the United States in order to reduce the adverse effects of drug trafficking, drug abuse, and other drug-related criminal activity.

NDIC's drug resources are dedicated to the Intelligence function. This includes strategic intelligence, document and media exploitation, external training and the Field Intelligence Officers.

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. The table represents obligations incurred by NDIC for drug control purposes. The amounts are net all reimbursable agreements. NDIC receives drug control funds solely for the purpose of Intelligence.

Data – All accounting information for the NDIC is derived from DOJ's FMIS. FY 2010 actual obligations for Intelligence function are reported as Drug Control Obligations since the entire focus is drug related.

Financial Systems – FMIS is DOJ's financial system that provides NDIC with obligation data. Obligations in this system can also be reconciled with the enacted appropriation.

Disclosure No. 2 Modifications to Drug Control Methodology

All NDIC's obligations are associated with the Intelligence function in the Table of Drug Control Obligations are reported. FY 2010 is NDIC's first year that NDIC is subject to reporting, thus there is no "prior" methodology.

Disclosure No. 3 Material Weaknesses and Other Findings

NDIC assessed its internal control over the effectiveness and efficiency of operations. Based on the results of this assessment, NDIC can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations operated effectively, and no reportable conditions or material weaknesses were found in the design or operation of the controls.

NDIC based this assertion on management's knowledge and experience gained from daily operation of NDIC programs and systems of accounting and administrative

controls, various performance reports, and the internal control review conducted during FY 2010 by the Justice Management Division Quality Control and Compliance Group (QCCG).

The results of testing did not identify any material weaknesses or reportable conditions in the NDIC internal control over financial reporting. QCCG identified isolated deficiencies in the following areas, none of which was significant enough to be considered a material weakness or reportable condition:

- Ensuring supervisors certify the accuracy of Time and Attendance Reports
- Ensuring the appropriateness of transit subsidy payments

NDIC personnel have reviewed the QCCG-identified deficiencies and taken appropriate corrective actions. Other than the deficiencies noted, the NDIC internal control was operating effectively, and the NDIC management is not aware of any material weaknesses or reportable conditions in the design or operation of the internal control over financial reporting in the business processes tested or in the processes for which the Department did not require testing.

Disclosure No. 4 Reprogramming or Transfers

NDIC did not have any reprogramming or transfer of drug related funding.

Disclosure No. 5 Other Disclosures

NDIC did not have any ONDCP Fund Control Notices in FY 2010.

OFFICE OF JUSTICE PROGRAMS



**Office of the Inspector General's Report on
Annual Accounting and Authentication of
Drug Control Funds and Related Performance**

Assistant Attorney General
Office of Justice Programs
U.S. Department of Justice

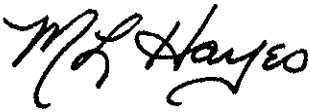
We have reviewed the accompanying Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission, which includes Management's Assertion Statement, Table of Drug Control Obligations, and the related disclosures; and the Performance Summary Report, which includes Management's Assertion Statement and the related performance information, of the U.S. Department of Justice's Office of Justice Programs (OJP) for the fiscal year ended September 30, 2010. OJP's management is responsible for the Detailed Accounting Submission and the Performance Summary Report.

Our review was conducted in accordance with attestation 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 ONDCP Detailed Accounting Submission and the Performance Summary Report. Accordingly, we do not express such an opinion.

Management of OJP prepared the Detailed Accounting Submission and the Performance Summary Report to comply with the requirements of the ONDCP Circular, *Drug Control Accounting*, dated May 1, 2007.

Based on our review, nothing came to our attention that caused us to believe that the Detailed Accounting Submission and the Performance Summary Report for the fiscal year ended September 30, 2010, are not presented, in all material respects, in conformity with ONDCP's Circular, *Drug Control Accounting*, dated May 1, 2007.

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

A handwritten signature in black ink that reads "Mark L. Hayes". The signature is written in a cursive, flowing style.

Mark L. Hayes, CPA, CFE
Director, Financial Statement Audit Office
Office of the Inspector General
U.S. Department of Justice

January 18, 2011

**Office of Justice Programs
Detailed Accounting Submission**

**U.S. Department of Justice
Office of Justice Programs
Detailed Accounting Submission
Management's Assertion Statement
For Fiscal Year Ended September 30, 2010**

On the basis of the Office of Justice Programs (OJP) 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 OJP's accounting system of record for these budget decision units.
2. The methodology used by OJP to calculate obligations of budgetary resources by function is reasonable and accurate in all material aspects.
3. The methodology disclosed in this statement was the actual methodology used to generate the Table of Drug Control Obligations.
4. The data presented are associated with obligations against a financial plan that was revised during the fiscal year (FY) to properly reflect transfers which affected drug-related resources.
5. OJP did not have any Office of National Drug Control Policy (ONDCP) Fund Control Notices issued in FY 2010.

We have documented the methodology used by OJP to identify and accumulate FY 2010 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. OJP's drug control methodology has been consistently applied from the previous year.



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

18 Jan 2011
Date

**U.S. Department of Justice
Office of Justice Programs
Detailed Accounting Submission
Table of Drug Control Obligations
By Budget Decision Unit and Function
For Fiscal Year Ended September 30, 2010
(Dollars in Millions)**

	FY 2010 Actual Obligations^{1/}
Drug Obligations by Budget Decision Unit and Function:	
Regional Information Sharing System	
State and Local Assistance	\$44.827
Weed and Seed Program	
State and Local Assistance	21.951
Prevention	<u>2.439</u>
Total Weed and Seed Program	24.390
Enforcing Underage Drinking Laws	
Prevention	25.334
Drug Court Program	
Treatment	46.442
Residential Substance Abuse Treatment Program	
Treatment	30.265
Prescription Drug Monitoring Program	
State and Local Assistance	7.046
Southwest Border Prosecution Initiative	
State and Local Assistance	38.038
Northern Border Prosecution Initiative	
State and Local Assistance	3.038
Second Chance Act Program^{2/}	
State and Local Assistance	<u>27.865</u>
Total	<u>\$247.245</u>
Methamphetamine Enforcement and Lab Cleanup ^{3/}	10.000

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

^{2/} Actual obligations reported for the Second Chance Act Program reflect only 30% of total obligations for this decision unit, as directed by the Office of Management and Budget and Office of National Drug Control Policy.

^{3/} Funding for the Methamphetamine Enforcement and Lab Cleanup Program is transferred from the Office of Community Oriented Policing Services (COPS) to the Drug Enforcement Administration for program administration; therefore, obligations are not tracked by the Office of Justice Programs (OJP). FY 2010 total obligations for the program were reported to OJP by the COPS budget office. See Disclosure 1 for additional information.

**U.S. Department of Justice
Office of Justice Programs
Detailed Accounting Submission
Related Disclosures
For Fiscal Year Ended September 30, 2010**

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, OJP's resources are primarily targeted to providing assistance to state, local, and tribal governments. In executing its mission, OJP dedicates a significant level of resources to drug-related program activities, which focus on breaking the cycle of drug abuse and crime including: drug testing and treatment, provision of graduated sanctions, drug prevention and education, and research and statistics.

The Table of Drug Control Obligations was prepared in accordance with the Office of National Drug Control (ONDCP) Circular, *Drug Control Accounting*, dated May 1, 2007 and ONDCP's memorandum, *Current Budget Issues*, dated September 3, 2008.

OJP's Office of the Chief Financial Officer, Budget Formulation, Liaison, Planning and Performance Division is responsible for the development and presentation of the annual OJP ONDCP Budget. OJP's fiscal year (FY) 2010 Table of Drug Control Obligations includes total obligations associated with 10 budget decision units identified for the National Drug Control Budget. However, funds for nine of these decision units are directly appropriated to OJP. Funding for the Methamphetamine Enforcement and Lab Cleanup Program is appropriated to the Office of Community Oriented Policing Services (COPS), an office within the Department 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 2010 actual obligations total on OJP's 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
- Second Chance Act Program

- Drug Prevention Demonstration Program¹
- Methamphetamine Enforcement and Lab Cleanup (COPS Program)

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

Drug Program Obligations by Decision Unit: Data on obligations, as of September 30, 2010, were gathered from OJP's Financial Management Information System 2 (FMIS2). The total obligations presented for OJP are net of funds obligated under the Crime Victims Fund and Public Safety Officers' Benefit Program.

Salaries and Expenses Data. Salaries and Expenses (S&E) 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 S&E obligations for OJP. There were no S&E obligations associated with the Drug Prevention Demonstration Program, as this program did not have any actual obligations; and the Methamphetamine Enforcement and Lab Cleanup, as this program is not administered by OJP.

Overall, OJP program activities support all four goals of the National Drug Control Strategy: (1) Substance Abuse Prevention, (2) Substance Abuse Treatment, (3) Domestic Law Enforcement; and (4) Interdiction and International Counterdrug Support. Functionally, OJP program activities fall under the following functions: prevention, state and local assistance, and treatment. To determine the function amount, OJP used an allocation method that was derived from an analysis of each program's mission and by surveying program officials. OJP then applied that allocation percentage to each program/decision unit line item. A deliberate effort was made to accurately account for program activities, which resulted in one program's (Weed and Seed) obligations falling under multiple functions. The Table of Drug Control Obligations shows FY 2010 obligations for nine programs, categorized by function and decision unit, which are reported by OJP. One program, the Drug Prevention Demonstration Program, did not have any actual obligations in FY 2010, and is therefore, not included in the Table of Drug Control Obligations.

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.
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¹In FY 2010, while there were prior year unobligated balances, there were no actual obligations for the Drug Prevention Demonstration Program. As such, the Drug Prevention Demonstration Program is not listed on OJP's Table of Drug Control Obligations.

Decision Unit: In accordance with the ONDCP circulars, 100 percent of the actual obligations for eight of the nine budget decision units are included, with the exception of the Second Chance Act Program. Thirty percent of the actual obligations for the Second Chance Act Program are reflected for this decision unit.

Full-Time Equivalent: FTE data originates from the U.S. Department of Agriculture's National Finance Center, and is obtained by OJP through the DOJ, Justice Management Division Data Center. The same percentage that is applied to calculate FTE, was also applied to the S&E obligations.

Disclosure 2: Modifications to Drug Control Methodology

As specified in the ONDCP Circular, *Budget Formulation*, dated May 1, 2007, in FY 2010, OJP is reporting 100 percent of the actual obligations related to nine of the 10 budget decision units included in the National Drug Control Budget, with the exception of the Second Chance Act. In April 2009, it was determined after discussions between ONDCP and the Office of Management and Budget (OMB) that some of the activities under the Second Chance Act Program were deemed drug-related in nature; therefore, beginning in FY 2009, OJP would report 30 percent of the obligations associated with this decision unit in the Table of Drug Control Obligations.

Disclosure 3: Material Weaknesses and Other Findings

Neither OJP nor the financial statement auditors found material weaknesses, significant deficiencies, or matters of non-compliance for financial reporting in FY 2010.

Disclosure 4: Reprogrammings or Transfers

In accordance with the ONDCP's Circular, *Drug Control Accounting*, dated May 1, 2007, see the attached Reprogrammings and Transfers Schedule. In FY 2010, OJP made \$1.2 million in reprogrammings, and \$9.9 million in drug-related transfers-in. The reprogramming amount reflects reallocations of funding from the decision units to the Salaries and Expenses account. The transfers-in amount reflects OJP FY 2010 recoveries associated with the reported decision units.

Disclosure 5: Other Disclosures

- In FY 2010, OJP received no ONDCP Fund Control Notices.
- Of the total FY 2010 actual obligations amount, \$17.3 million are a result of carryover unobligated resources. See the attached Reprogrammings and Transfers Schedule.

U.S. Department of Justice
Office of Justice Programs
Detailed Accounting Submission
Reprogrammings and Transfers Schedule
For Fiscal Year Ended September 30, 2010
(Dollars in Millions)

Table Line Item	Unobligated Balances	Enacted	Rescission	Reprogrammings ^{1/}	Transfers ^{2/}		Total Availability
	Forward	BA			In	Out	
Drug Obligations by Function:							
Regional Information Sharing System							
State and Local Assistance	0.115	45.000	0.000	(0.469)	0.000	0.000	44.646
Weed and Seed Program							
State and Local Assistance	0.815	18.000	(0.408)	(0.565)	1.393	0.000	19.235
Prevention	<u>0.091</u>	<u>2.000</u>	<u>(0.045)</u>	<u>(0.063)</u>	<u>0.155</u>	<u>0.000</u>	<u>2.138</u>
Total Weed and Seed Program	0.906	20.000	(0.453)	(0.628)	1.548	0.000	21.373
Enforcing Underage Drinking Laws							
Prevention	0.191	25.000	(0.940)	(0.260)	1.356	0.000	25.347
Drug Court Program							
Treatment	0.581	45.000	(0.959)	0.927	0.959	0.000	46.508
Residential Substance Abuse Treatment Program							
Treatment	0.114	30.000	(0.338)	(0.312)	0.338	0.000	29.802
Prescription Drug Monitoring Program							
State and Local Assistance	0.288	7.000	(0.274)	(0.073)	0.387	0.000	7.328
Southwest Border Prosecution Initiative							
State and Local Assistance	14.688	31.000	(8.011)	(0.673)	5.352	0.000	42.356
Northern Border Prosecution Initiative							
State and Local Assistance	0.205	3.000	0.000	(0.081)	0.000	0.000	3.124
Second Chance Act ^{3/}							
State and Local Assistance	0.195	30.000	0.000	0.325	0.000	0.000	30.519
Drug Prevention Demonstration Program ^{4/}							
Prevention	<u>0.027</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.027</u>
Total.....	17.310	236.000	(10.975)	(1.244)	9.940	0.000	251.030
Methamphetamine Enforcement and Lab Cleanup ^{5/}	—	10.000	—	—	—	—	10.000

^{1/} Reprogrammings reflect transfer amounts to the Salaries and Expenses account.

^{2/} Transfers In reflect FY 2010 recoveries.

^{3/} Amounts reported for the Second Chance Act reflect only 30% of total Budget Authority for this decision unit, as directed by the Office of Management and Budget and Office of National Drug Control Policy.

^{4/} The Drug Prevention Demonstration Program had \$27k in prior year unobligated balances, however, there were no obligation activities associated for this program in FY 2010.

^{5/} Funding for the Methamphetamine Lab Cleanup Program is transferred from COPS to DEA for program administration, therefore, obligations are not tracked by OJP. FY 2010 total obligations for the program were reported to OJP by the COPS budget office.

**ORGANIZED CRIME DRUG ENFORCEMENT
TASK FORCES PROGRAM**



**Office of the Inspector General's Report on
Annual Accounting and Authentication of
Drug Control Funds and Related Performance**

Director
Executive Office for the Organized Crime
Drug Enforcement Task Forces
U.S. Department of Justice

We have reviewed the accompanying Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission, which includes Management's Assertion Statement, Table of Drug Control Obligations, and the related disclosures; and the Performance Summary Report, which includes Management's Assertion Statement and the related performance information, of the U.S. Department of Justice's Organized Crime Drug Enforcement Task Forces (OCDETF) Program for the fiscal year ended September 30, 2010. The OCDETF Program's management is responsible for the Detailed Accounting Submission and the Performance Summary Report.

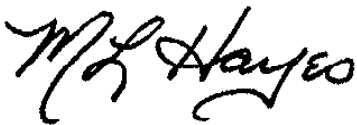
Our review was conducted in accordance with attestation standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. An attestation review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the ONDCP Detailed Accounting Submission and the Performance Summary Report. Accordingly, we do not express such an opinion.

Management of the OCDETF Program prepared the Detailed Accounting Submission and the Performance Summary Report to comply with the requirements of the ONDCP Circular, *Drug Control Accounting*, dated May 1, 2007.

Based on our review, nothing came to our attention that caused us to believe that the Detailed Accounting Submission and the Performance Summary Report for the fiscal year ended September 30, 2010, are not

presented, in all material respects, in conformity with ONDCP's Circular,
Drug Control Accounting, dated May 1, 2007.

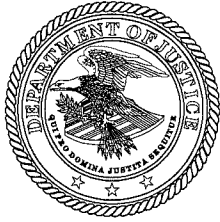
This report is intended solely for the information and use of the
management of the OCDETF Program, the ONDCP, and the U.S. Congress,
and is not intended to be and should not be used by anyone other than
these specified parties.

A handwritten signature in black ink, appearing to read "M L Hayes". The signature is written in a cursive, flowing style.

Mark L. Hayes, CPA, CFE
Director, Financial Statement Audit Office
Office of the Inspector General
U.S. Department of Justice

January 18, 2011

**Organized Crime Drug Enforcement
Task Forces Program
Detailed Accounting Submission**



U.S. Department of Justice

*Executive Office for the Organized Crime Drug
Enforcement Task Forces*

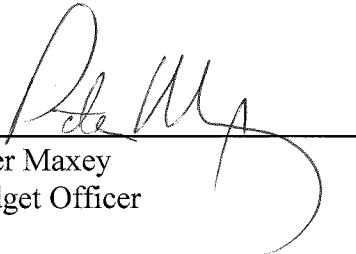
Washington, DC 20530

**U.S. Department of Justice
Organized Crime Drug Enforcement Task Forces (OCDETF) Program
Detailed Accounting Submission
Management's Assertion Statement
For Fiscal Year Ended September 30, 2010**

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 provides reasonable assurance that:

1. Obligations reported by budget decision units are the actual obligations from the OCDETF Program's accounting system of record;
2. The methodology used by the OCDETF Program 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 the Office of National Drug Control Policy's (ONDCP) approval of reprogramming and transfers in excess of \$1 million affecting drug-related resources; and
5. The OCDETF Program did not have any ONDCP Fund Control Notices issued in FY 2010.

We have documented the methodology used by OCDETF to identify and accumulate FY 2010 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

January 18, 2011
Date

U.S. Department of Justice
Organized Crime Drug Enforcement Task Forces (OCDETF) Program
Detailed Accounting Submission
Table of Drug Control Obligations
For Fiscal Year Ended September 30, 2010

Actual 2010 Obligations
Dollars in Millions

Decision Unit Crosswalk

	Appropriated Funds	OCDETF Executive Office	Subtotal	No-Year Reallowed Funds 2/	Total FY 2010 Actual Obligations
Drug Obligations by Decision Unit and Function					
Investigations:					
Drug Enforcement Administration (DEA)	\$199 455	\$2 327	\$201 782	\$2 474	\$204 256
Federal Bureau of Investigation (FBI)	119 539	1 345	120 884	1 129	122 013
U S Marshals Service (USMS)	8 685	0 098	8 783	0 508	9 291
Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF)	12 627	0 139	12 766	0 512	13 278
U S Immigration and Customs Enforcement (ICE)	0 000	0 000	0 000	0 044	0 044
Subtotal Investigations	<u>340 306</u>	<u>3 909</u>	<u>344 215</u>	<u>4 667</u>	<u>348 882</u>
Drug Intelligence:					
DEA ^{1/}	11 593 3/	0 050	11 643	0 000	11 643
FBI	20 993	0 236	21 229	0 000	21 229
OCDETF Fusion Center (OFC)	11 776	0 000	11 776	0 000	11 776
Subtotal Drug Intelligence	<u>44 362</u>	<u>0 286</u>	<u>44 648</u>	<u>0 000</u>	<u>44 648</u>
TOTAL INVESTIGATIVE DECISION UNIT	<u>384.668</u>	<u>4.195</u>	<u>388 863</u>	<u>4.667</u>	<u>393.530</u>
Prosecutions:					
U S Attorneys (USAs)	155 058	1 744	156 802	2 496	159 298
Criminal Division	3 157	0 036	3 193	0 000	3 193
TOTAL PROSECUTORIAL DECISION UNIT	<u>158.215</u>	<u>1.780</u>	<u>159 995</u>	<u>2.496</u>	<u>162.491</u>
Administrative Support:					
OCDETF Executive Office	5 975 4/	(5 975)	0 000	0 000	0 000
Totals	<u>\$548 858</u>	<u>\$0 000</u>	<u>\$548 858</u>	<u>\$7 163</u>	<u>\$556 021</u>
					<u>556 021</u>
				Recoveries	<u>0 103 5/</u>
Total Agency Obligations/Resources	<u>\$548 858</u>		<u>\$548 858</u>		<u>\$556 124</u>
Drug Percentage	100%		100%		100%

1/Includes four intelligence analysts from Financial Crimes Enforcement, Internal Revenue Service, Bureau of Alcohol, Tobacco, Firearms and Explosives, and the United States Marshals Service

2/Total obligated balance available includes reprogrammed/reallowances of carryover funds in the amount of \$7 163 million

3/Represents collections received from the Justice Management Division to compensate OCDETF for ancillary costs associated with the International Organized Crime (IOC 2)

4/Amount includes the National Drug Intelligence Center detail, totaling \$0 076 million

5/Represents prior year recoveries

No-Year (15X0323):	Amount	DEA	FBI	USMS	ATF	ICE	USA
Boston Strike Force	\$0 044	\$0 000	0 000	\$0 000	0 000	\$0 044	\$0 000
OCDETF Executive Office Financial Investigative Training	0 500	0 205	0 129	0 008	0 012	0 000	0 146
USAs Finacial Analyst	0 350	0 000	0 000	0 000	0 000	0 000	0 350
DEA Law Enforcement	0 022	0 022	0 000	0 000	0 000	0 000	0 000
EOUSA Litigation	2 000	0 000	0 000	0 000	0 000	0 000	2 000
DEA--TIII and Operation Deliverance	2 000	2 000	0 000	0 000	0 000	0 000	0 000
FBI Law Enforcement--Individual Case Support	1 000	0 000	1 000	0 000	0 000	0 000	0 000
USMS--Operation Deliverance/Other Needs	0 500	0 000	0 000	0 500	0 000	0 000	0 000
ATF--Operation Deliverance	0 500	0 000	0 000	0 000	0 500	0 000	0 000
DEA--Revolutionary Armed Forces of Colombia (FARC)	0 247	0 247	0 000	0 000	0 000	0 000	0 000
Total	<u>\$7 163</u>	<u>\$2 474</u>	<u>\$1 129</u>	<u>\$0 508</u>	<u>\$0 512</u>	<u>\$0 044</u>	<u>\$2 496</u>



U.S. Department of Justice

*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
Related Disclosures
For Fiscal Year Ended September 30, 2010**

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.)

During FY 2004 and FY 2005, the DOJ's Interagency Crime and Drug Enforcement (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 the OCDETF Program'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 has not submitted a consolidated budget for the program since FY 2007. Instead, funding for the OCDETF Program's non-DOJ partners was requested through direct appropriations for Treasury and DHS. Currently, only DOJ OCDETF appropriated funding comes from the ICDE account.

The OCDETF Program 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, the OCDETF Program requires that in *each* OCDETF case investigators identify and target the financial infrastructure that permits the drug organization to operate.

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 the OCDETF Program 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.

The OCDETF Program's Decision Units are divided according to the four major activities of the Task Force -- Investigations, Drug Intelligence, Prosecutions, and Administration Support -- and reflect the amount of reimbursable ICDE resources appropriated for each participating agency. With respect to the Table of Drug Control Obligations, the calculated amounts were derived from the FMIS2 system as follows:

- a. Investigations Function - This 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 the OCDETF Program's investigative activities.
- b. Drug Intelligence Function - 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 the OCDETF Program's intelligence activities.
- c. Prosecution Function - This decision unit includes the reimbursable prosecution resources for the following participating DOJ agencies: the U.S. Attorneys and the Criminal Division. The methodology applies the total of 100 percent of the OCDETF Program's Prosecution resources to the Prosecution Decision Unit.
- d. Administrative Support Function - 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. The methodology applies 100 percent of the resources that support the OCDETF Program's administrative support activities.

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 request for the OCDETF Program reflects a restructuring that collapses the OCDETF Program's four areas - Investigations, Drug Intelligence, Prosecution, and Administrative Support- into two decision units- Investigations and Prosecutions. Under this methodology, 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 2010 Independent Auditors' Report on Internal Control over Financial Reporting revealed no material weaknesses or significant deficiencies. In addition, the annual assurance statement required by the Federal Managers' Financial Integrity Act (FMFIA) concludes that the OBDs can provide reasonable assurance that its systems of management, accounting, and administrative controls, taken as a whole substantially comply with the FMFIA and with the component requirements of the Federal Financial Management Improvement Act.

Disclosure No 4. - Reprogrammings/Reallowances or Transfers

Total availability consists of enacted budget authority for FY 2010, plus unobligated balances and recoveries brought forward from prior years. The OCDETF Program's FY 2010 obligations include all re-allowed carryover funds and transfers. In FY 2010, the OCDETF Program re-allowed \$7,163,000 from its no-year account (15X0323) as follows: \$44,000 for the Boston Strike Force; \$500,000 for OCDETF Investigative Financial Training; \$350,000 for USA Financial Analysts; \$22,000 for DEA Law Enforcement; \$2,000,000 for the EOUSA law litigation costs; \$2,000,000 for DEA Title III and 'Operation Deliverance' costs; \$1,000,000 for FBI Individual case support; \$500,000 for the USMS 'Operation Deliverance' costs, as well as other needs; \$500,000 for ATF 'Operation Deliverance' costs; and \$247,000 for DEA costs associated with an ongoing FARC investigation. Finally, the OCDETF Program also transferred radio resources amounting to \$602,000 to the DOJ Wireless Law Enforcement Communications Account as required by P.L. 111-117. See the attached Reprogramming and Transfers Schedule.

Disclosure No 5. - Obligations From Carryover Funds

In FY 2010, \$8,846,000 in unobligated balances and prior year recoveries was brought forward from FY 2009 and available for new obligations. Of this amount, \$7,163,000, as reported under Disclosure No 4., was established as new obligations during FY 2010.

Disclosure No 6. - Other Disclosures

The OCDETF Program asserts that the information presented in the Table of Drug Control Obligations fairly presents the drug control obligations for the OCDETF Program. The OCDETF Program did not have any ONDCP Fund Control Notices in FY 2010.

**U.S. Department of Justice
Organized Crime Drug Enforcement Task Forces (OCDEF) Program
Detailed Accounting Submission
Reprogrammings and Transfers
For the Fiscal Year Ended September 30, 2010
(Dollars in Millions)**

Line Item	Unobligated Balances and Recoveries	Enacted Budget Authority	Reprogramming Reallowances 1/	Offsetting Collections	Transfer 2/	Total Availability
Drug Resources by Decision Unit and Function						
Investigations:						
Drug Enforcement Administration (DEA)	\$0.000	\$202.440	\$2.474	\$0.000	(\$0.527)	\$204.387
Federal Bureau of Investigation (FBI)	0.000	120.885	1.129	0.000	0.000	122.014
U.S. Marshals Service (USMS)	0.000	8.783	0.508	0.000	0.000	9.291
Alcohol, Tobacco, Firearms and Explosives (ATF)	0.000	12.766	0.512	0.000	0.000	13.278
U.S. Immigration and Customs Enforcement (ICE)	0.000	0.000	0.044	0.000	0.000	0.044
Subtotal Investigations	0.000	344.874	4.667	0.000	(0.527)	349.014
Drug Intelligence:						
Drug Enforcement Administration (DEA)	0.000	11.643	0.000	0.599	(0.023)	12.219
Federal Bureau of Investigation (FBI)	0.000	21.281	0.000	0.000	(0.052)	21.229
OCDEF Fusion Center Support (OFC)	0.000	11.776	0.000	0.000	0.000	11.776
Subtotal Intelligence	0.000	44.700	0.000	0.599	(0.075)	45.224
TOTAL INVESTIGATIONS DECISION UNIT	0.000	389.574	4.667	0.599	(0.602)	394.238
Prosecutions:						
U.S. Attorneys (USAs)	0.000	156.802	2.496	0.000	0.000	159.298
Criminal Division (CRM)	0.000	3.193	0.000	0.000	0.000	3.193
TOTAL PROSECUTIONS DECISION UNIT	0.000	159.995	2.496	0.000	0.000	162.491
Total Distributed	0.000	549.569	7.163	0.599	(0.602)	556.729
Undistributed	8.846	0.000	(7.163)	0.000	0.000	1.683
Total Resources	\$8.846	\$549.569	\$0.000	\$0.599	(\$0.602)	\$558.412

^{1/}Includes realigned carryover and prior year recovery funds as follows: No-year funding of \$7.163 M (\$0.044 M for the Boston Strike Force; \$0.500 M for OCDEF Investigative Financial Training; \$0.350 M for USA Financial Analyst; \$0.022 M for DEA Law Enforcement; \$2 M for the EOUSA law litigation costs; \$2 M for DEA Title III and 'Operation Deliverance' costs; \$1 M for FBI Individual case support; \$0.500 M for the USMS 'Operation Deliverance' costs, as well as other needs; \$0.500 M for ATF 'Operation Deliverance' costs; and \$0.247 M for DEA costs associated with an ongoing FARC investigation.

^{2/}Represents radio resources transferred to the DOJ Wireless Law Enforcement Communications Account as required by the FY 2010 DOJ Appropriations Act (P.L. 111-117)



Tab G
Department of State



United States Department of State

Washington, D.C. 20520

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 2010 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 me on (202) 776-8750.

Sincerely,


Robert S. Byrnes

Enclosures:

- 1) Accounting and Authentication of FY 2010 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



United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

Independent Review of the U.S. Department of State
Accounting and Authentication of FY 2010 Drug
Control Funds and Related Performance Report
(AUD/FM-11-15)

The Office of Inspector General (OIG) has reviewed the accompanying management assertions included in the U.S. Department of State (Department) *Accounting and Authentication of FY 2010 Drug Control Funds and Related Performance Report*. This report was prepared by the Bureau of International Narcotics and Law Enforcement Affairs in accordance with the Office of National Drug Control Policy's (ONDCP) *Drug Control Accounting* circular, dated May 1, 2007. Department management is responsible for the assertions included in the report.

OIG's 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.

Based on OIG's review, nothing came to OIG's attention that caused it to believe that the management assertions included in the report were not fairly stated, in all material respects, based upon the ONDCP *Drug Control Accounting* circular.

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

A handwritten signature in black ink, appearing to read "H. W. Geisel", written in a cursive style.

Harold W. Geisel
Deputy Inspector General

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

**Accounting and Authentication of FY 2010 Drug Control Funds and Related
Performance Report**

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

SECTION 6 Reporting – Detailed Accounting Submission

The Department is providing a Detailed Accounting Submission on the drug control program obligations of the Bureau for International Narcotics and Law Enforcement Affairs (INL) in accordance with Section 6(a) of the ONDCP Circular, *Drug Control Accounting*. The Detailed Accounting Submission consists of this report which includes (a) a table highlighting prior year drug control obligations data, and (b) a narrative section making assertions regarding the prior year obligations data.

Section 6(a). Table of Prior Year Drug Control Obligations

The following table presents the obligations of the drug control budgetary resources appropriated and available in FY 2010 by Drug Control Function and Budget Decision Unit.

Bureau for International Narcotics and Law Enforcement Affairs

Drug Control Obligations (\$ in Millions):

	FY 2010 <u>Actual</u>
Drug Resources by Drug Control Function	
Interdiction	114.779
International	386.424
Total	<u>501.203</u>
 Drug Resources by Decision Unit *	
International Narcotics Control and Law Enforcement (INCLE)	501.203
Andean Counterdrug Program (ACP)	0.000
Total	<u>501.203</u>
 Drug Resources by Function and Decision Unit	
Interdiction: INCLE	114.779
Interdiction: ACP	0.000
International: INCLE	386.424
International: ACP	0.000
Total	<u>501.203</u>
 Information	
Total Agency Budget	<u>2,778.660</u>

* Prior to FY 2010, INL reported drug control obligations under the Andean Counterdrug Program (ACP) and International Narcotics Control and Law Enforcement (INCLE) decision units. In FY 2010, the ACP appropriation was merged into the INCLE appropriation. This has resulted in only one decision unit (INCLE) in FY 2010.

Section 6(a)(1). Drug Methodology

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.

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. With the exception of Mexico, Central America, Afghanistan, and Pakistan (see *Section 6(a)(2) Methodology Modifications* below), only obligations recorded under the drug control point limitations and allotments are included in the drug control obligation figures in this report.

- (a) - Obligations by Drug Control Function** - 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.

- (b) - Obligations by Budget Decision Unit** - Prior to FY 2010, INL reported drug control obligations under the Andean Counterdrug Program (ACP) and International Narcotics Control and Law Enforcement (INCLE) decision units. In FY 2010, the ACP appropriation was merged into the INCLE appropriation. This has resulted in only one decision unit (INCLE) in FY 2010.

Section 6(a)(2). Methodology Modifications

In FY 2010, INL modified the drug control obligation methodology for Mexico, Central America, Afghanistan, and Pakistan. Since these programs now have a significant portion of their funding allocated to non-drug control programs (e.g. rule of law and anti-crime), using the financial data from the Department's accounting system by each program's appropriation point limitation and allotment does not distinguish how much is for drug control and how much is for non-drug control. For these programs, we reported only the obligations for the drug control projects using our project accounting ledgers and other supporting documentation as the primary data source. These obligations were reconciled with the obligation data in the accounting system.

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

The Department's Independent Auditor (IA) issued an unqualified opinion for FY 2010 for all of the Department's principal financial statements, and cited no material weaknesses in internal controls. The Secretary issued an unqualified statement of assurance for internal control for the Department as a whole in the annual report submitted to OMB on November 15, 2010.

In relation to internal control over obligations, in their Report on Internal Control, the IA reported the Department's accounting and business processes to ensure budgetary transactions are properly recorded, monitored and reported as a significant deficiency. Several individual deficiencies contributed to this significant deficiency including the Department's management of unliquidated obligations (ULO), the timeliness and accuracy of recording obligations, and the existence of adequate supporting documentation for obligations. The IA found that regarding the significant deficiency over obligations, the conditions noted were not indicative of misuse or loss of funds but rather was indicative of 1) the timely deobligation of funds that will either remain available to the Department or will expire and be returned to Treasury at no loss to taxpayers, 2) the timely obligation of funds within the fiscal year, and 3) the lack of supporting documentation for low-value obligations. These conditions do not have any bearing on the classification of obligations as drug-related.

The Department will continue to work with the IA and the Office of the Inspector General to resolve these issues in FY 2011 and beyond.

Section 6(a)(4). Reprogrammings or Transfers

There were no reprogramming or transfers that affected FY 2010 drug-related budgetary resources.

Section 6(a)(5). Other Disclosures

There are no other disclosures to report.

Section 6(b) Assertions**Section 6(b)(1). 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.

Section 6(b)(2). Drug Methodology

I assert that the drug methodology used to calculate obligations of prior year budgetary resources is 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.

Section 6(b)(3). 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 6(a), that the calculations are sufficiently documented to independently reproduce these data, and the calculation provide a means to ensure consistency of data between reporting years.

Section 6(b)(4). Reprogrammings or Transfers

I assert that the data presented are associated with obligations against a financial plan that was approved by ONDCP and that there were no reprogrammings or transfers affecting drug-related resources.

Section 6(b)(5). Fund Control Notices

I assert that the data presented are associated with obligations against a financial plan that was approved by ONDCP. ONDCP did not issue any Fund Control Notices to the Department in FY 2010.

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, Executive Director

Bureau for International Narcotics and Law Enforcement Affairs



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 2010**

April 5, 2011

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, 2010. 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 Certified 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 2010 obligation and performance targets and results for fiscal year ended September 30, 2010 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
Assistant Inspector General for Audit



USAID
FROM THE AMERICAN PEOPLE

APR 5 2011

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

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 2010 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 me on (202) 567-5133.

Sincerely,

Cathy Collins
Acting 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 for 2010

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

6. Detailed Accounting Submission

6. a. Table of Prior Year Drug Control Obligations

Table 1 2010						
Agency for International Development						
Drug Control Obligations:						
						\$ In Millions
						FY 2010
						Actual
Drug Resources by Drug Control Function						
International						246.9
				Total		246.9
Drug Resources by Decision Unit						
Alternative Development and Alternative Livelihoods-Afghanistan						107.0
Alternative Development and Alternative Livelihoods-Andean Region						139.9
				Total		246.9
Drug Resources by Function and Decision Unit						
International-Alternative Development and Alternative Livelihoods-Afghanistan						107.0
International-Alternative Development and Alternative Livelihoods-Andean Region						139.9
				Total		246.9
Information						
Total Agency Budget*						15,855.0
Drug Related Percentage**						2%
* USAID 2010 Agency-wide Appropriations per 2010 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 2010 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 2010.

At the request of ONDCP we also report herein that during FY 2010 USAID obligated \$18.6 Million in the Andean Region from funds appropriated prior to FY 2010. This amount is not included in Table 1, above.

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

The drug methodology for 2010 has not been modified from the previous year, 2009.

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 2010

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 2010 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 2010.

The financial plan against which the obligations in Table 1, above, are associated is USAID's FY 2010 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 2010.

7. Performance Summary Report

Decision Unit: The Andean Region

ANDEAN PERFORMANCE SECTION OF THE FY 2010 ACCOUNTING REPORT

Measure I: Hectares devoted to licit agricultural, forestry plantation and/or natural forest management activities that are developed or expanded in areas receiving USAID assistance (Measured cumulatively).

Table 1: Measure I



Tab H
Department of
Transportation

**INSPECTOR GENERAL REVIEW OF
FISCAL YEAR 2010 DRUG CONTROL
FUNDS AND PERFORMANCE SUMMARY
REPORTING**

National Highway Traffic Safety Administration

Report Number: FI-2011-037

Date Issued: February 1, 2011



**U.S. Department of
Transportation**

Office of the Secretary
of Transportation

Office of Inspector General
Washington, DC 20590

February 1, 2011

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

Dear Mr. Rice:

This report presents the results of our independent review of the U.S. Department of Transportation, National Highway Traffic Safety Administration's (NHTSA) Fiscal Year 2010 Drug Control Obligation Summary and Performance Summary reports to the Office of National Drug Control Policy (ONDCP). Both reports are dated January 26, 2011. The reports and our review are required by 21 U.S.C. §1704 (d).

The objective of our review is to provide assurance that no information came to our attention that would reverse management's assertions that the reports complied with ONDCP Circular, Drug Control Accounting, requirements, dated May 1, 2007, in all material respects. 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. A review is substantially more limited in scope than an examination. The objective of an examination is to express an opinion on the accuracy of NHTSA's Drug Control Obligation Summary and Performance Summary reports to ONDCP. As this was a review, we do not express such an opinion.

Drug Control Obligations Summary

We performed review procedures on the accompanying report (Enclosure 1), NHTSA's Fiscal Year 2010 Drug Control Obligation Summary. In general, our work was limited to inquiries and analytical procedures appropriate for an attestation review based upon criteria specified in the ONDCP Circular. Specifically, we tested the procedures described in the Internal Control Questionnaire to ensure drug control funds are properly identified in the accounting system. We traced obligations totaling approximately \$2.7 million identified in the report to the Department's accounting system. We also verified

that five major drug control obligations in the accounting system, totaling more than \$2.1 million, were supported by contracts.

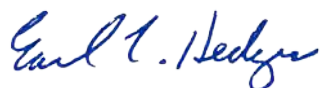
During our review, no information came to our attention that the accompanying NHTSA Fiscal Year 2010 Drug Control Obligation Summary to ONDCP was not presented in conformity with the ONDCP Circular. Since NHTSA is reporting approximately \$2.7 million in drug control obligations, which is below the \$50 million threshold for full reporting required by the ONDCP Circular, we attest that full compliance with this Circular would constitute an unreasonable reporting burden.

Performance Reporting Summary and Assertions

We performed review procedures on the accompanying report (Enclosure 2), NHTSA's Fiscal Year 2010 Performance Summary Report, and management's assertions. NHTSA's fiscal year 2010 performance target was to design and develop procedures for a Case Control Study of the Crash Risk of Drug-Impaired Drivers. NHTSA reported that this performance target was achieved and the study implemented. For fiscal year 2011, NHTSA anticipates completing at least the first half of the study by collecting data from 1,250 crash-involved drivers and control data from another 2,500 non-crash-drivers at the same location one week later.

In general, our review processes were limited to inquiries and analytical procedures appropriate for an attestation review based upon the criteria specified in the ONDCP Circular. Specifically, we reviewed the study plan, including the participant recruitment procedures and survey questionnaires; and data collection, handling, and processing procedures. In addition, we reviewed management's assertions and the contract supporting the fiscal year 2010 performance measures. During our review, no information came to our attention that the accompanying NHTSA Fiscal Year 2010 Performance Summary Report was not presented in conformity with the ONDCP Circular.

Sincerely,



Earl C. Hedges
Acting 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, 2011

Mr. 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 2010 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 yours,

A handwritten signature in black ink, appearing to read "Greg Walter".

Greg Walter
Senior Associate Administrator,
Policy and Operations

Enclosure

DEPARTMENT OF TRANSPORTATION

National Highway Traffic Safety Administration

Resource Summary

	Budget Authority (in Millions)		
	FY2010 Final	FY2011 Request	FY2012 Request
Drug Resources by Function			
Prevention	2.688	2.688	2.837
Total Drug Resources by Function	\$2.688	\$2.688	\$2.837
Drug Resources by Decision Unit			
Drug Impaired Driving ^{/1}	2.688	\$2.688	\$2.837
Total Drug Resources by Decision Unit	\$2.688	\$2.688	\$2.837

Drug Resources Personnel Summary			
Total FTEs (direct only)	2	2	2
Drug Resources as a Percent of Budget			
Total Agency Budget	\$872.777	\$872.777	\$860.000
Drug Resources Percentage	0.31%	0.31%	0.33%

^{/1} Includes \$1.2 million dedicated to drug impaired driving research and \$1.6 million to support the agency's drug impaired driving program.



Tab I
Department of
the Treasury



*Attestation Review of the Internal
Revenue Service's Fiscal Year 2010
Annual Accounting of Drug Control Funds
and Related Performance*

January 31, 2011

Reference Number: 2011-10-021

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



HIGHLIGHTS

ATTESTATION REVIEW OF THE INTERNAL REVENUE SERVICE'S FISCAL YEAR 2010 ANNUAL ACCOUNTING OF DRUG CONTROL FUNDS AND RELATED PERFORMANCE

Highlights

Final Report issued on January 31, 2011

Highlights of Reference Number: 2011-10-021 to the Internal Revenue Service Chief Financial Officer and Chief, Criminal Investigation.

IMPACT ON TAXPAYERS

The Internal Revenue Service (IRS) reported that it expended \$61.3 million on Office of National Drug Control Policy (ONDCP)-related activities and participated in 405 ONDCP-related cases that resulted in convictions in Fiscal Year 2010. Based on our review, nothing came to our attention that caused us to believe that the assertions in the Detailed Accounting Submission and Performance Summary Report are not appropriately presented in all material respects in accordance with ONDCP-established criteria. Complete and reliable financial and performance information is critical to the IRS's ability to accurately report on the results of its operations to both internal and external stakeholders, including taxpayers.

WHY TIGTA DID THE AUDIT

This review was conducted as required by the ONDCP and the ONDCP Circular: *Drug Control Accounting*, dated May 1, 2007. The National Drug Control Program agencies are required to submit to the Director of the ONDCP, not later than February 1 of each year, a detailed accounting of all funds expended (the 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 the ONDCP. 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.

WHAT TIGTA FOUND

Based on our review, nothing came to our attention that caused us to believe that the assertions in the Detailed Accounting Submission and Performance Summary Report are not appropriately presented in all material respects in accordance with ONDCP-established criteria. The IRS reported that it expended \$61.3 million on ONDCP-related activities and completed 788 ONDCP-related investigations in Fiscal Year 2010. The IRS also reported it participated in 405 ONDCP-related cases that resulted in convictions, with an 82.3 percent conviction rate.

WHAT TIGTA RECOMMENDED

TIGTA made no recommendations in the report. However, key IRS officials reviewed this report prior to its issuance and agreed with the facts and conclusions presented.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

January 31, 2011

MEMORANDUM FOR CHIEF FINANCIAL OFFICER
CHIEF, CRIMINAL INVESTIGATION

Michael R. Phillips

FROM:

Michael R. Phillips

Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – Attestation Review of the Internal Revenue Service’s Fiscal Year 2010 Annual Accounting of Drug Control Funds and Related Performance (Audit # 201010021)

This report presents the results of our attestation review of the Internal Revenue Service’s Fiscal Year 2010 Office of National Drug Control Policy 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. This review was included in our Fiscal Year 2011 Annual Audit Plan and addresses the major management challenge of Leveraging Data to Improve Program Effectiveness and Reduce Costs. The Treasury Inspector General for Tax Administration made no recommendations as a result of the work performed during this review. However, key Internal Revenue Service officials reviewed this report prior to its issuance and agreed with the facts and conclusions presented.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report results. 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.



*Attestation Review of the Internal Revenue Service's
Fiscal Year 2010 Annual Accounting of
Drug Control Funds and Related Performance*

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 Accounting Submission and Related Performance Summary ReportPage 8



*Attestation Review of the Internal Revenue Service's
Fiscal Year 2010 Annual Accounting of
Drug Control Funds and Related Performance*

Background

The Anti-Drug Abuse Act of 1988¹ 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 its continued support of the Organized Crime Drug Enforcement Task Force. The mission of Criminal Investigation 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 ONDCP² and the ONDCP Circular: *Drug Control Accounting*, dated May 1, 2007. The National Drug Control Program agencies³ 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 the ONDCP. 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 were reimbursed by the Department of Justice.

This review was performed at the IRS Headquarters offices of the Chief Financial Officer and Chief, Criminal Investigation, in Washington, D.C., during the period August 2010 through January 2011. Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. In general, our review procedures were limited to inquiries and analytical procedures appropriate for an attestation review based upon

¹ Pub. L. No. 100-690, 102 Stat. 4181 (1988).

² 21 U.S.C. Section 1704(d) (1998).

³ A National Drug Control Program agency is defined as any agency that is responsible for implementing any aspect of the National Drug Control Strategy.



*Attestation Review of the Internal Revenue Service's
Fiscal Year 2010 Annual Accounting of
Drug Control Funds and Related Performance*

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



*Attestation Review of the Internal Revenue Service's
Fiscal Year 2010 Annual Accounting of
Drug Control Funds and Related Performance*

Results of Review

Summary of the Attestation Review of the Fiscal Year 2010 Office of National Drug Control Policy Detailed Accounting Submission and Performance Summary Report

We reviewed the assertions in the IRS's ONDCP Detailed Accounting Submission and Performance Summary Report (the Report) for FY 2010, which ended September 30, 2010, (see Appendix IV). This Report was prepared pursuant to 21 U.S.C. Section 1704 (d) and the ONDCP Circular: *Drug Control Accounting*, dated May 1, 2007. The IRS is responsible for preparing the report. The IRS reported that it expended \$61.3 million on ONDCP-related activities and completed 788 ONDCP-related investigations in FY 2010. For FY 2010, the IRS also reported it participated in 405 ONDCP-related cases that resulted in convictions, with an 82.3 percent conviction rate.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. An attestation review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the ONDCP Detailed Accounting Submission and Performance Summary Report. Accordingly, we do not express such an opinion.

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 any 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, also include statements that the performance reporting system is appropriate and applied, explanations for not meeting any performance targets are reasonable, and the methodology used to establish performance targets is reasonable and applied. ONDCP-established criteria require well-documented sources of data, documented and explained calculations, and complete and fair presentation of data from financial systems.

Based on our review, nothing came to our attention that caused us to believe that the assertions in the Report are not appropriately presented in all material respects in accordance with ONDCP-established criteria.

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



*Attestation Review of the Internal Revenue Service's
Fiscal Year 2010 Annual Accounting of
Drug Control Funds and Related Performance*

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to perform an attestation review of the IRS's reporting of FY 2010 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 2010 Detailed Accounting Submission and Performance Summary Report.
 - A. Discussed the process used to record ONDCP expenditures and performance information with responsible IRS personnel.
 - B. Obtained documents such as written procedures and supporting worksheets that evidence the methodology used.
- II. Evaluated the reasonableness of the drug methodology process for detailed accounting submissions.
 - A. Reviewed data supporting the Detailed Accounting Submission to establish its relationship to the amounts being reported.
 - B. Verified whether all drug-related activities are reflected in the drug methodology.
- III. Performed sufficient verifications of reported obligations for detailed accounting submissions 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: *Drug Control Accounting*.
 - B. Verified the mathematical accuracy of the obligations presented in the Table of FY 2010 Drug Control Obligations.
 - C. Traced the information contained in the Table of FY 2010 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.
 - B. Verified whether all drug-related activities are reflected in the performance information.



*Attestation Review of the Internal Revenue Service's
Fiscal Year 2010 Annual Accounting of
Drug Control Funds and Related Performance*

- V. Performed sufficient verifications of reported performance information to support our conclusion on the reliability of the assertions.
 - A. Verified that the Performance Summary Report included all of the elements specified in Section 7 of the ONDCP Circular: *Drug Control Accounting*.
 - 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.



*Attestation Review of the Internal Revenue Service's
Fiscal Year 2010 Annual Accounting of
Drug Control Funds and Related Performance*

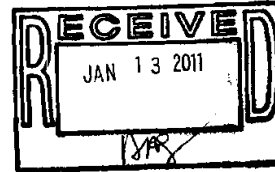
Appendix IV

*Internal Revenue Service's Fiscal Year 2010
Detailed Accounting Submission and
Related Performance Summary Report*

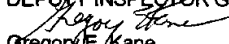


CHIEF FINANCIAL OFFICER

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



January 12, 2011

MEMORANDUM FOR MICHAEL PHILLIPS,
DEPUTY INSPECTOR GENERAL FOR AUDIT
FROM: 
Gregory E. Kane
Acting, Chief Financial Officer
SUBJECT: Annual Accounting and Authentication of Fiscal Year (FY) 2010
Drug Control Funds, Related Performance and Assertion of
Performance Information

The IRS is resubmitting its Detailed Accounting Submission of Drug Control Funds 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 before the IRS submits this document to the ONDCP. This resubmission reflects the changes to the report agreed upon at the January 5, 2011, conference call with the IRS Chief Financial Officer, Criminal Investigation, and TIGTA staff. After the IRS receives TIGTA's conclusion as to the reliability of each assertion, 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 Ursula Gillis, Acting Associate Chief Financial Officer for Corporate Budget, at (202) 622-8770.

Attachments



*Attestation Review of the Internal Revenue Service's
Fiscal Year 2010 Annual Accounting of
Drug Control Funds and Related Performance*

Attachment 1
January 7, 2011 (UPDATE)

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

DETAILED ACCOUNTING SUBMISSION

A. Table of Fiscal Year (FY) 2010 Drug Control Obligations

Drug Resources by Function	(\$000)
Investigations	<u>\$61,305</u>
Total	\$61,305
Drug Resources by Decision Unit	
Narcotics Crimes	<u>\$61,305</u>
Total	\$61,305

1) Drug Methodology

- a) All Drug Control Obligations (the resources appropriated and available for these activities) are reported under one Drug Control Function and one Budget Decision Unit, as shown in the above chart.
- b) The Internal Revenue Service (IRS) Drug Control Budget encompasses the Criminal Investigation (CI) Narcotics-related program. The Office of National Drug Control Policy (ONDCP) requires CI to report only on the Organized Crime and Drug Enforcement Task Force (OCDETF) portion of the Narcotics program. CI's overall Direct Investigative Time (DIT) applied to narcotics cases for FY 2010 was 11.2 percent of total DIT. The OCDETF sub-component of this program was 10.4 percent of total DIT or 93 percent 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 and applying the DIT percentage to the total realized 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 determined to be the amount of resources expended on OCDETF cases. This methodology has been approved by CI, the IRS Chief Financial Officer, and the Treasury Inspector General for Tax Administration (TIGTA) during the FY 2006 ONDCP attestation review.

Fiscal Year 2006 was the first year OCDETF funding became a permanent part of the CI's budget. In the past, OCDETF was a reimbursable program administered by the Department of Justice (DOJ).



*Attestation Review of the Internal Revenue Service's
Fiscal Year 2010 Annual Accounting of
Drug Control Funds and Related Performance*

Attachment 1
January 7, 2011 (UPDATE)

2) Methodology Modifications

None

3) Material Weaknesses or Other Findings

None

4) Reprogramming or Transfers

None

5) Other Disclosures

None

B. Assertions

1) Obligations by Budget Decision Unit

Obligations reported by the Budget Decision Unit are a result of applying DIT data derived from the Criminal Investigation Management Information System (CIMIS) to the actual obligations from the CI realized Financial Plan, 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 is derived from CIMIS to determine the DIT applied to the OCDETF activities. Each special agent submits 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 a final annual percentage determined after the close of the fiscal year. The annual percentage of DIT relating to OCDETF sub-program area items is applied to the total resources expended for FY 2010 in the CI budget (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.



*Attestation Review of the Internal Revenue Service's
Fiscal Year 2010 Annual Accounting of
Drug Control Funds and Related Performance*

Attachment 1
January 7, 2011 (UPDATE)

b) Other Estimation Methods

None

c) Financial Systems

The IRS Integrated Financial System (IFS) is the final authority for the IRS resource obligations and yields data which fairly presents drug related obligation estimates.

3) Application of Drug Methodology

The methodology disclosed in this section was the actual methodology used to generate the required table and meets all requirements described in section 6 of the ONDCP Circular: Drug Control Accounting. Calculations made using this methodology are sufficiently documented to independently reproduce all data and ensure consistency between reporting years.

4) Reprogramming or Transfers

The data presented is associated with obligations against a financial plan and properly reflects any revisions occurring during the fiscal year.

5) Fund Control Notices

CI asserts the data presented is associated with obligations against a financial plan that fully complied with all fund control notices issued by the Director under 21 U.S.C. section 1703(f) and Section 8 of the ONDCP Circular: Budget Execution, as applicable.

C. Performance Summary Report

1) Performance Reporting

a) Performance Measures

The IRS reviewed performance measures used by other agencies that support the National Drug Control Strategy as well as budget-level performance measures that are already used to address the effectiveness of CI activities. As a result of the review, the IRS determined that, in addition to the number of subject criminal investigations completed, the most appropriate performance measures to evaluate its contribution to the National Drug Control Strategy were number of convictions and conviction rate. These are both budget-level performance measures already used by CI to evaluate its performance as a whole. Criminal investigations completed for the OCDEF



Tab K
Small Business
Administration



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

April 7, 2011

Mr. Jon Rice
Associate Director for Performance and Budget
Office of National Drug Control Policy
750 17th St., NW
5th Floor
Washington, DC 20503

Dear Mr. Rice:

As requested, the U.S. Small Business Administration's (SBA) is providing the following response.

Drug Methodology Fiscal Year 2010

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

If you have any questions concerning this report, please contact Rachel Karton in SBA's Office of Small Business Development Centers at 202-619-1816.

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

Antonio Doss
Associate Administrator
Small Business Development Centers

Jon Carver
Chief Financial Officer

Peg Gustafson
Inspector General

II. RESOURCE SUMMARY

FY 2010 Drug Methodology	FY 2010 Final BA
Prevention and Education DFWP Grants	\$1M
Drug Resources Personnel	
Total FTEs (direct only)	0
Information	
Total Agency Budget*	\$729.4M
Drug Percentage	0.001371%

**Does not include Office of Disaster Assistance Program or the Office of the Inspector General.*

GRANTEE NAME	DATE	PO AMOUNT
Houston Council on Alcohol and Drug	9/16/10	\$250,000.00
Figment Group, Inc.	9/21/10	\$163,006.00
Advanced Behavioral Health, Inc.	9/23/10	\$176,511.00
Arkansas Occupational Health Clinic	9/16/10	\$160,000.00
Drug Free America Foundation	9/20/10	\$250,000.00
Total		\$999,517.00

III. MANAGEMENT'S ASSERTIONS

- (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** – The goal for the number of Small Businesses Educated was not reached in FY 2010. It is difficult to predict the number of small businesses that will want education on a DFWP since there is no legally binding rule requiring them to do so.
- (3) **Methodology to establish performance targets is reasonable and applied** – The methodology described above to establish performance targets for the current year is reasonable given past performance and available resources.
- (4) **Adequate performance measures exist for all significant drug control activities** - The Agency has established at least one acceptable performance



Tab J
Department of
Veterans Affairs

VA Office of Inspector General

OFFICE OF AUDITS AND EVALUATIONS



Department of Veterans Affairs

*Independent Review of
VA's FY 2010 Detailed
Accounting Submission to
the Office of National
Drug Control Policy*

March 22, 2011
11-00315-126

To Report Suspected Wrongdoing in VA Programs and Operations:
Telephone: 1-800-488-8244
E-Mail: vaoighotline@va.gov
(Hotline Information: <http://www.va.gov/oig/contacts/hotline.asp>)

**Department of
Veterans Affairs**

Memorandum

Date: March 15, 2011

From: Assistant Inspector General for Audits and Evaluations (52)

Subj: Final Report - Independent Review of the VA's FY 2010 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 9 of this report.
3. We conducted our review 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 an examination 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 Year 2010* (Report No. 10-01406-20, dated November 10, 2010), identified one material weakness, information technology security controls, which is a repeat condition. 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 weakness discussed in paragraph four, 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 comment.
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.

(original signed by:)
BELINDA J. FINN

Attachments

Attachment A

Statement of Disclosures and Assertions for FY 2010 Drug Control Expenditures Submitted to Office of National Drug Control Policy (ONDCP) for FY Ending September 30, 2010

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.

Attachment A

DEPARTMENT OF VETERANS AFFAIRS
 VETERANS HEALTH ADMINISTRATION
 Annual Reporting of FY 2010 Drug Control Funds

DETAILED ACCOUNTING SUBMISSION

A. Table of FY 2010 Drug Control Obligation

Description	FY 2010 Final <i>(in Millions)</i>
Drug Resources by Drug Control Function:	
Treatment	\$548.007
Research & Development	\$15.775
Total	\$563.782
Drug Resources by Budget Decision Unit:	
Medical Care	\$548.007
Research & Development	\$15.775
Total	\$563.782

1. Drug Control Methodology

The Table of FY 2010 Drug Control Obligations shown above and Resource Summary (page 7) showing obligations and FTE (Full-Time Equivalent) for Substance Abuse treatment in VHA are based on specific patient encounters. This is for all inpatient and outpatient episodes of care whether provided by VHA staff or purchased in the community. The source data for VHA inpatient care is the Patient Treatment File (PTF). For Outpatient Care it is the National Patient Care Database Encounter file (SEFILE). For contract care it is either the PTF or the hospital payment file. For outpatient FEE Care it is the Provider Payment file.

All of these data sources have a diagnosis associated with the encounter. The primary diagnosis is considered the reason the patient is being treated and is used to determine whether the treatment provided is substance abuse treatment and which type of substance abuse. Below is a list of Diagnosis groups used.

Attachment A

Diagnosis Code	Description
292.xx	Drug-Induced Mental Disorders
304.xx	Drug Dependence
305.xx	Nondependent Abuse of Drugs (excluding 305.0 – Alcohol Abuse and 305.1 – Tobacco Use Disorder)

It should be noted that Prescriptions and Lab tests do not have linkages to a specific diagnosis and are not included in the report.

The cost of the VHA provided services is assigned through the Decision Support System (DSS) management cost accounting system and is based on the products consumed by producing departments. Every product is valued and assigned a cost. All the cost of all the products a patient uses are rolled up. A national data extract of patients at the encounter level is created and is the source of the cost. An additional extract at the encounter level also splits out the DSS intermediate product department, (NDE IPD). The cost of the contracted care comes from the Inpatient (Hospital) and Outpatient (FEE) payment systems. The DSS costs and payments are expenditures.

These expenditure costs are modified to reflect full VHA obligations. The FTE calculation is based on the DSS staff mapping to DSS Departments which are the production units. As we noted above, all the products are accumulated to an encounter. The DSS NDE IPD extracts show the cost of the encounter by department and the cost by three cost categories; Variable Direct, Fixed Direct and Fixed Indirect. All the costs, including the fixed costs, from all the departments are included in the cost calculation; however, there are no FTE numbers in the extract.

The Monthly Program Cost Report (MPCR) is a secondary DSS cost report which allows for the calculation of FTE at a detailed level. The DSS Department costs and FTE are aggregated to the service level, the clinic stop and the treating specialty. The portion of the DSS Department's costs and FTE can be assigned to these levels based on the DSS IPD extract. The FTE calculation assumes that a proportionate amount of each DSS Department's FTE is associated with each dollar assigned. The FTE calculation only uses the Direct Care Departments costs. The average Direct FTE/Cost is calculated for each Clinic stop and Treating specialty at each medical center/CBOC. The service specific FTE/dollars are multiplied by the cost of the service providing substance abuse care. The result is the FTE.

Attachment A

Methodology Modifications Since the 2011 ONDCP Budget

In accordance with ONDCP guidance (see ONDCP letters dated July 23, 2010 and November 24, 2010), the methodology was modified to account for the fact that substance abuse treatment for Veterans is increasingly provided in a mental health setting. Below is a comparison of costs between the old and new methodologies:

Description	Old Methodology <i>(in Millions)</i>	New Methodology <i>(in Millions)</i>	Difference <i>(in Millions)</i>
Inpatient	\$18.340	\$131.937	\$113.597
Outpatient	\$240.874	\$242.397	\$1.523
Residential	\$148.143	\$173.673	\$25.530
Total	\$407.357	\$548.007	\$140.650

Major differences between the old (DSS) and new methodology (ARC) are described below:

1. DSS method is full cost and includes Headquarters, VISN, National Program Overheads, and Depreciations, ARC does not include these.
2. DSS method does not include Purchased Care Non VA Provided, the ARC includes these costs using the FEE file as a proxy.
3. The DSS uses encounters at specific Treating Specialties for Inpatient and Clinic Stop for Outpatient. The ARC the primary diagnosis of patients regardless of where (treating specialty/ clinic stop) they received treatment.
4. The DSS costs are expenditures (true cost). The ARC cost is turned into an obligation which includes obligations for capital purchases.

VHA has in place a national system of performance monitoring that uses social, professional, and financial incentives to encourage facilities to provide the highest quality health care. This system incorporates performance measures related to substance use disorder treatment.

Efforts to assist programs experiencing difficulty in achieving their performance goals continue through the Centers of Excellence in Substance Abuse Treatment and Education, the Program Evaluation and Research Center and the Office of the National Mental Health Program Director, Addictive Disorders.

According to the 2010 *Drug and Alcohol Program Survey* (DAPS), at the start of FY2010, the Department of Veterans Affairs offered specialty SUD treatment programs

Attachment A

at 136 of 139 medical facilities, located in the Department's medical centers, mental health residential rehabilitation treatment programs and outpatient clinics. Seventy-one of 139 VA facilities offer specialty SUD treatment including 24-hour care programs. Of the remainder, 60 facilities offer intensive outpatient programs, and 5 provide standard outpatient programs. Three VA facilities currently do not provide SUD services within a specialty setting, although all provide SUD services in general mental health settings and all are in the process of developing specialty programming.

VA provides two types of 24-hour-a-day care to patients having particularly severe substance use disorders. VA offers 24-hour care in residential rehabilitation treatment programs for substance use disorders. Additionally, 24-hour care is provided for detoxification in numerous inpatient medical and general mental health units throughout the VA system. Most Veterans with substance use disorders are treated in outpatient programs. Intensive substance use disorder outpatient programs provide at least 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 one or two days a week.

VA is in the process of implementing initiatives to expand access to intensive outpatient services and to include substance use disorder specialists in large community-based outpatient clinics, mental health residential rehabilitation programs, and services for homeless Veterans.

VA is steadily expanding the availability of opioid agonist treatment for opioid-dependent Veterans. It operates licensed opioid agonist treatment programs at 31 of its 139 facilities and has contracts for services at licensed opioid agonist treatment programs operated by community providers at 23 VA facilities. Additionally, VA has implemented a major initiative to create primary care-oriented buprenorphine clinics to increase access to care for opiate-dependent Veterans. In FY 2010, 118 of 139 VA facilities prescribed buprenorphine to patients. Considered together, 121 of the 139 VA facilities (87%) provided opiate agonist treatment either via an in-house/contracted licensed opioid agonist treatment program or office-based buprenorphine treatment.

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.

Attachment A

In FY 2010, VHA provided services in a specialty SUD setting to 108,210 patients with a drug diagnosis, of whom, 46 percent used cocaine, 26 percent used opioids, 36 percent used cannabis. Seventy-five percent had co-existing psychiatric diagnoses (These categories are not mutually exclusive.)

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.

Specialized Treatment	Obligations (in Millions)	FTE
Inpatient	\$131.937	620
Residential Rehabilitation and Treatment	\$173.673	871
Outpatient	\$242.397	1,089
Total	\$548.007	2,580

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.

Specialized Function	Obligations (in Millions)	Drug Control Related Percent	FTE
Research and Development	\$15.775	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.

Attachment A

3. **Material Weaknesses or Other Findings** – Clifton Gunderson LLP provided an unqualified opinion on VA's fiscal year 2010 consolidated financial statements. They also identified one material weakness. The material weakness is a repeat condition from the prior year audit identified as Information Technology Security Controls. 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 were 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 2010 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



Mark Yow
Associate Chief Financial Officer
Resource Management Office (172)

2/17/2011

Date



Calvin L. Seay, Jr.
Director of Budget Services
Resource Management Office (172)

2/17/2011

Date

Attachment A

Department of Veterans Affairs Resource Summary Obligations <i>(in Millions)</i>	
	2010 Final
Medical Care:	
Specialized Treatment	
Inpatient	\$131.937
Residential Rehabilitation and Treatment	\$173.673
Outpatient	\$242.397
Specialized Treatment	\$548.007
Research and Development	\$15.775
Drug Control Resources by Function and Decision Unit, Total	\$563.782
Drug Control Resources Personnel Summary	
Total FTE	2,580
Total Enacted Appropriations	\$127,207.412
Drug Control Percentage	0.44%

Attachment B

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 policies and procedures to be used by National Drug Control Program agencies in conducting a detailed accounting and authentication of all funds expended on National Drug Control Program activities 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.

Attachment B

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 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.)

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 (IIDTA) and (2) DOJ – Organized Crime Drug Enforcement Task Force Program. Obligations against these resources shall be excluded from 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.

Attachment B

- (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.

Attachment B

- (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:

Attachment B

- (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.

Attachment B

- (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 amount 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 s hall 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.

Attachment B

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.

Attachment C

Report Distribution

VA Distribution

Office of the Secretary
Veterans Health Administration
Office of General Counsel
Chief Financial Officer, 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
Office of National Drug Control Policy



Tab L
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

¹Consistent 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:

²For 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 amount 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