

**DEPARTMENT OF HOMELAND SECURITY**  
**Office of Inspector General**

**Independent Review of the U.S. Immigration  
and Customs Enforcement (ICE) Reporting of  
FY 2004 Drug Control Funds**



**Office of Audits**

**OIG-05-15**

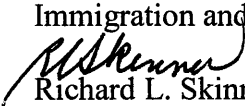
**March 2005**



# Homeland Security

March 21, 2005

MEMORANDUM FOR: The Honorable Michael J. Garcia  
Assistant Secretary for  
Immigration and Customs Enforcement

FROM:   
Richard L. Skinner  
Acting Inspector General

SUBJECT: *Independent Review of the U.S. Immigration and Customs  
Enforcement's Reporting of FY 2004 Drug Control Funds – Audit  
Report No. OIG-05-15*

We have reviewed management's assertions in Section B of the accompanying U.S. Immigration and Customs Enforcement's (ICE) annual report of FY 2004 drug control funds (Submission). The Submission, including the assertions made is required by 21 U.S.C § 1704(d) and Office of National Drug Control Policy (ONDCP) Circular, *Drug Control Accounting* (Circular), and is the responsibility of ICE's management.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the assertions in Section B of the Submission. Accordingly, we do not express such an opinion.

The *Independent Auditor's Report* for the FY 2004 financial statements of the Department of Homeland Security (DHS), of which ICE is a part, identified serious accounting problems at ICE. The report said that ICE fell seriously behind in the performance of basic accounting functions such as account reconciliations, analysis of material abnormal balances, and proper budgetary accounting, which prevented ICE from submitting timely and accurate financial reports to DHS during FY 2004. During this review we noted that obligation data submitted to us in support of drug control obligations contained material abnormal balances. The *Independent Auditor's Report* also identified a material weakness related to financial systems functionality and technology that applied to all DHS bureaus including ICE.

Reportable conditions are matters coming to the auditors' attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in the auditors' judgment, could adversely affect DHS' ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be

detected within a timely period by employees in the normal course of performing their assigned functions.

Because of matters discussed in the third paragraph, we are unable to provide an opinion or other type of assurance with respect to the Circular's criteria that financial systems supporting the drug methodology yield data that fairly present, in all material respects, aggregate obligations from which drug-related obligation estimates are derived. Except for this matter, and the material weaknesses discussed in the third paragraph, nothing came to our attention that caused us to believe that management's assertions included in Section B of the accompanying Submission, and as required by the Circular, are not fairly stated in all material respects based on the criteria set forth in the Circular.

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

Should you have any questions concerning this review, please call me, or your staff may contact J. Richard Berman, Assistant Inspector General for Audits, at (202) 254-4100.

Attachment

cc: General Counsel  
Under Secretary, Border and Transportation Security  
DHS Chief Financial Officer  
Immigration and Customs Enforcement, Chief Financial Officer  
DHS OIG Liaison  
ICE Audit Liaison  
Office of Security

Office of Resource Management  
425 1 Street, NW  
Washington, DC 20536



**U.S. Immigration  
and Customs  
Enforcement**

MAR 18 2005

John P. Walters  
Executive Office of the President  
Office of National Drug Control Policy  
Washington, D.C. 20503

Dear Mr. Walters:

As required by 21 U.S.C. § 1704(d), and the Office of National Drug Control Policy Circular on Drug Control Accounting, enclosed is the annual accounting of U.S. Immigration and Customs Enforcement (ICE) drug control funds for FY 2004. This submission replaces the version transmitted on February 17, 2005.

If you have any questions regarding these matters, please feel free to contact me, or have a member of your staff contact Lee Heffelfinger, Interim Budget Director, on 202-514-3206.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul Ladd".

Paul Ladd

Enclosure

**Department of Homeland Security  
U.S. Immigration and Customs Enforcement  
Detailed Accounting of Drug Control Funds During FY 2004**

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

	(in Millions) <b>FY 2004 Final</b>
<b>Drug Resources by Drug Control Function</b>	
Intelligence	\$7.158
Interdiction	\$199.091
Investigations	\$367.015
Prevention/Outreach/Training	\$1.100
<b>Total</b>	<b>\$574.364</b>
 <b>Drug Resources by Budget Decisions Unit</b>	
Salaries and Expenses	\$390.996
Operation and Maintenance	\$183.368
<b>Total</b>	<b>\$574.364</b>
 <b>Information</b>	
Total Agency Budget	\$3,594.439
Drug Control Percentage	16%

**Disclosure No. 1: Drug Methodology**

Immigration and Customs Enforcement (ICE) is a multi-mission bureau, and obligations are reported pursuant to an approved drug methodology. Separate calculations are made for the Office of Investigations, the Office of Intelligence, and the Office of Air and Marine Operations.

**1) Office of Investigations**

The methodology for the Office of Investigations is based on investigative case hours recorded in ICE's automated Case Management System. ICE officers record the type of work they perform in this system. Following the close of the fiscal year, a report is run showing investigative case hours that are coded as general narcotics cases and money laundering narcotics cases. A second report is run showing all investigative case hours logged. A percentage is derived by dividing the total number of investigative case hours by the number of investigative case linked to drug control activities. This percentage may fluctuate from year to year. For FY 2004, the percentage was 33.7%. To calculate a dollar amount, this percentage was applied to actual obligations incurred by the Office of Investigations against budget authority gained in FY 2004, excluding reimbursable authority.

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

## 2) Office of Intelligence

ICE employs the same methodological approach to the Field Operations portion of the Office of Intelligence's budget. For FY 2004, 24.8% of the total case hours for Field Operations were found to be in support of drug control activities through an examination of data recorded in the Case Management System. This percentage was applied to actual obligations against budget authority gained in FY 2004, excluding reimbursable authority, incurred by the Office of Intelligence for Field Operations activities.

Because tactical intelligence activities are not recorded in the Case Management System, ICE relies on the professional judgment of subject matter experts who estimate that 75% of the resources devoted to tactical intelligence activities contribute towards the ICE drug enforcement mission and the support of the National Drug Control Strategy.

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

## 3) Office of Air and Marine Operations

Effective October 1, 2004, Air and Marine Operations (AMO), including the Air and Marine Operations, Maintenance, and Procurement account, was transferred from ICE to U.S. Customs and Border Protection (CBP). However, since AMO was a part of ICE during FY 2004, its drug control contribution is being reported here.

The drug control level of effort for ICE's Air and Marine Operations, Investigations and Intelligence programs was originally established at the U.S. Customs Service under the Department of Treasury in consultation with program experts and analysts assigned to the programs. The basis for the percentage estimates was the expertise of the individuals surveyed by the U.S. Customs Office of Budget at that time, based on an analysis of data captured in the Aviation Operations Reporting System. The percentage used is 90% of actual obligations against budget authority gained in FY 2004, excluding reimbursable authority.

AMO resources reported within the "Salaries and Expenses" Budget Decision Unit are divided 67% "Interdiction" and 33% "Investigations." AMO resources reported within the "Operations and Maintenance" Budget Decision Unit are divided 66.4% "Interdiction," 33% "Investigations," and 0.6% "Prevention."

### Disclosure No. 2: Methodology Modifications

The methodology for Investigations and Air and Marine Operations has not changed. The methodology for Intelligence has changed this year. Previously, the same percentage used for the Office of Investigations was used for the Office of Intelligence. The change in methodology more accurately presents that Office's unique contribution

to national drug control. If the old methodology were employed, \$10.831 million would be reported, rather than \$7.158 million.

**Disclosure No. 3: Material Weakness or Other Findings**

The Independent Auditor's Report for the FY 2004 financial statements of the Department of Homeland Security, of which ICE is a part, identified serious accounting problems at ICE. The Independent Auditor's Report also identified a material weakness related to financial systems functionality and technology that applied to all DHS bureaus including ICE. ICE has implemented Clean Action Plans on each material weakness, is meeting with DHS on a routine basis to monitor progress on each plan. The OFM has made steady progress in each of the areas, is working closely with the KPMG auditors to address each area. OFM is still hampered with staff vacancies but has leveraged resources toward the best use of contract employees to address the material weakness areas and specific accounting functions. A re-engineering of the OFM has been completed to address the financial statement and analysis activities and transactional processing which includes a specific hiring plan to resolve long-term issues.

**Disclosure No. 4: Reprogrammings or Transfers**

	(in Millions)			
	FY 2004 Base	FY 2004 Recission	FY 2004 Transfers	FY 2004 Final
<b>Drug Resources by Drug Control Function</b>				
Intelligence	\$7.198	-\$0.040		\$7.158
Interdiction	\$200.259	-\$1.168		\$199.091
Investigations	\$336.741	-\$2.061	\$32.334	\$367.015
Prevention/Outreach/Training	\$1.107	-\$0.007		\$1.100
<b>Total</b>	<b>\$545.304</b>	<b>-\$3.275</b>	<b>\$32.334</b>	<b>\$574.364</b>
<b>Drug Resources by Budget Decisions Unit</b>				
Salaries and Expenses	\$360.821	-\$2.159	\$32.334	\$390.996
Operation and Maintenance	\$184.484	-\$1.116		\$183.368
<b>Total</b>	<b>\$545.305</b>	<b>-\$3.275</b>	<b>\$32.334</b>	<b>\$574.364</b>

**Disclosure No. 5: Other Disclosures**

None.

**B. Assertions**

**Assertion No. 1: Obligations by Budget Decision Unit**

Not applicable.

**Assertion No. 2: Drug Methodology**

The methodology used to calculate obligations of prior year budgetary resources by function and by budget decision unit is reasonable and accurate in regard to the workload data employed and the estimation methods used. As noted in Disclosure No. 3, the financial statement auditors identified weaknesses related to ICE's accounting processes; therefore, we do not make an assertion with respect to financial systems in which obligations are recorded.

**Assertion No. 3 Application of Drug Methodology**

The methodology disclosed in this statement was the actual methodology used to generate the Table.

**Assertion No. 4: Reprogrammings or Transfers**

The data presented are associated with obligations against a financial plan that properly reflects changes from the rescission and from transfers.

**Assertion No. 5: Fund Control Notices**

The data presented are associated with obligations against a financial plan that fully complied with the Fund Control Notice issued by the Director of the Office of National Drug Control Policy on September 19, 2003.



### **Additional Information and Copies**

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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 the OIG Hotline at 1-800-323-8603; write to DHS Office of Inspector General/MAIL STOP 2600, Attention: Office of Investigations - Hotline, 245 Murray Drive, SW, Building 410, Washington, DC 20528, or email [DHSOIGHOTLINE@dhs.gov](mailto:DHSOIGHOTLINE@dhs.gov). The OIG seeks to protect the identity of each writer and caller.