

DEPARTMENT OF HOMELAND SECURITY
Office of Inspector General

Letter Report:

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



Office of Audits

OIG-06-27


March 2006



Homeland
Security

March 20, 2006

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

FROM: 
Richard L. Skinner
Inspector General

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

The Office of National Drug Control Policy (ONDCP) requires the U.S. Coast Guard (Coast Guard) to submit an annual Detailed Accounting Submission (Submission), as authorized by 21 U.S.C. § 1704(d) and ONDCP Circular, *Drug Control Accounting* (Circular), April 18, 2003, to ONDCP. The Submission is included in this report as Appendix A, and the Circular is included as Appendix B. The Submission is the responsibility of Coast Guard's management.

We have reviewed the reasonableness and accuracy of the drug methodology used to calculate obligations of prior year budgetary resources by function and by budget decision unit according to the criteria specified in Section 6(b) of the Circular; and whether the drug methodology disclosed in the Submission was the actual methodology used to generate the table required by Section 6(a) of the Circular. Drug methodology means the process by which the Coast Guard calculates its drug-related financial statistics according to ONDCP requirements.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the reasonableness and accuracy of the drug methodology used to calculate obligations of prior year budgetary resources by function and by budget decision unit according to the criteria specified in Section 6(b) of the Circular; and whether the drug methodology disclosed in the Submission was the actual methodology used to generate the table required by Section 6(a) of the Circular. Accordingly, we do not express such an opinion.

Our review disclosed that the *Independent Auditors' Report*¹ for the Department of Homeland Security's (DHS) balance sheet as of September 30, 2005, identified several material weaknesses to which the Coast Guard directly contributed. Those material weaknesses were identified in the areas of financial management oversight; financial reporting; financial systems security; undelivered orders, accounts payable, and disbursements; budgetary accounting; actuarial liabilities; fund balance with Treasury; intragovernmental and intradepartmental balances; property, plant, and equipment; and operating materials and supplies. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Reportable conditions are matters coming to the auditors' attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in the auditors' judgment, could adversely affect DHS' ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. The material weaknesses cited in this paragraph deviate from the criteria that financial systems supporting the drug methodology should yield data that fairly present, in all material respects, aggregate obligations from which drug-related obligation estimates are derived.

We did not review, as required by the Circular, whether data presented are associated with obligations against a financial plan that, if revised during the fiscal year, properly reflects those changes, including ONDCP's approval of reprogrammings or transfers affecting drug-related resources in excess of \$5 million. Further, we did not review whether the data presented are associated with obligations against a financial plan that fully complied with all Fund Control Notices issued by the ONDCP Director under 21 U.S.C. § 1703(f) and Section 8 of the ONDCP Circular, *Budget Execution*. We did not review these matters because of incomplete criteria against which to evaluate the subject matter, in terms of measurability and applicability for multi-mission bureaus, of which the Coast Guard is one. We recommend that the Coast Guard, in conjunction with DHS, obtain formal guidance from ONDCP and legal counsel, as appropriate, on appropriate and suitable criteria to evaluate these matters for multi-mission bureaus.

Based on our review, except for the effects, if any, of the material weaknesses discussed in paragraph four of this report, nothing came to our attention that caused us to believe that the drug methodology used to calculate obligations of prior year budgetary resources by function and by budget decision unit is not reasonable and accurate, in all material respects, in conformity with criteria specified in the Circular, and that the drug methodology disclosed in the Submission was not the actual methodology used to generate the table required by the Circular, in all material respects.

We provided a copy of this report in draft to the Coast Guard. The Coast Guard responded that it generally agreed with the findings.

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

¹ See DHS Office of Inspector General Report Number OIG-06-09, November 2005. KPMG LLP, an independent public accounting firm, performed the audit of DHS' balance sheet as of September 30, 2005.

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

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Appendix A



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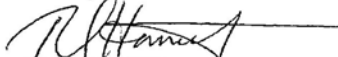
Ms. Sue Schwendiman
Department of Homeland Security
Director of Financial Management
Office of the Inspector General
1120 Vermont Avenue, 10th Floor, NW
Washington, D.C. 20005

Dear Ms. Schwendiman,

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

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

Sincerely,



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

Enclosure

Copy: Chief Financial Officer, DHS

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

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

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

(1) Drug Methodology

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

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

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6A. DETAILED OBLIGATION SUBMISSION**

(1) Drug Methodology (Continued)

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

Operating Expenses

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

Acquisition, Construction, and Improvements

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

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(1) Drug Methodology (Continued)

Reserve Training

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

Research, Development, Test and Evaluation

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

(2) Methodology Modifications

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

(3) Material Weaknesses or Other Findings

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

(4) Reprogrammings or Transfers

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

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(5) Other Disclosures

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

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

Coast Guard Mission

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

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

Coast Guard's Drug Budget

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

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(5) Other Disclosures (Cont.)

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

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6B. ASSERTIONS**

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

(2) Drug Methodology

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

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

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

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

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

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(2) Drug Methodology (cont.)

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

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(2) Drug Methodology (cont.)

- **Acquisition, Construction & Improvements (AC&I)** - is a multi-year appropriation where funding is available for up to 5 years depending on the nature of the project. The methodology used to develop the drug funding estimate is systematically different than that of OE and RT. AC&I drug funding levels, for either BA or obligations, is developed through an analysis of each project/line item. For each line item, a discrete driver is selected that best approximates the contribution that asset or project, when delivered, will contribute to each of the Coast Guard's 11 programs. The total program/mission area spreads for these drivers are based on the FY 2005 AC&I MCM output. To ensure consistency, the extract used for the analysis of enacted FY 2005 BA is used for the end of year analysis of obligations as well. For FY 2005 AC&I program and mission area spreads, the following data sources and methods were used:
 1. **AC&I Mission Cost Model** – was developed based on data feeds from the FY 2005 OE/RT MCM model as related in earlier OE and AC&I statements. The following data sets were then required to complete the AC&I MCM:
 2. **Drug related percentage** – The percentage spread for each driver was extracted from the OE MCM. This information was further analyzed to:
 - (a) Ensure a discrete driver representing either a particular asset, series of assets or mission was applied to each project or;
 - (b) A general OE percentage driver was used when the project's outcome was expected to benefit all inventory and/or agency needs.
 3. **Mission cost results/application** - Once the project drivers were extracted from the OE MCM, they were applied to the total AC&I BA levels derived from the agency's enacted Appropriation Bill in the FY 2005 AC&I MCM. The total allocated mission percentages from the AC&I MCM were then applied to the total AC&I 2005 obligations as reported from the CAS as of September 30, 2005 (See Attachment C).

- **Research, Development, Test & Evaluation (RDT&E)** - is a no-year appropriation where funding, once appropriated, may be obligated indefinitely in the future until all balances are expended. The methodology used to develop the drug-funding estimate is similar to AC&I in that drug-funding costs are based on an analysis of each project. The program/mission area percentages are based upon subject matter expert review.
 1. **RDT&E Mission Cost Model** – was developed based on data feeds from the FY 2005 OE/RT MCM model as related in earlier OE and AC&I statements. The following data sets were then required to complete the RDT&E MCM:
 2. **Drug related percentage** – The percentage spread for each driver was extracted from the OE MCM. This information was further analyzed to:

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(2) Drug Methodology – RDT&E (cont.)

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

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- (4) **Reprogrammings or Transfers** -- No reprogrammings or transfers of drug related budget resources in excess of the ONDCP's \$5 million threshold occurred during FY 2005.

- (5) **Fund Control Notices** – The FY 2005 data presented herein is associated with obligations reported in Coast Guard's FY 2005 financial plan that fully complies with all Fund Control Notices issued by the Director under 21 U.S.C. Section 1703(f) and Section 8 of ONDCP Circular, *Budget Execution*, dated April 18, 2003.

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

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

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

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

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

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

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

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

Appendix B

ONDCP Circular: Drug Control Accounting

April 18, 2003

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Annual Accounting and Authentication of Drug Control Funds

1. **Purpose.** This circular provides the polices and procedures to be used by National Drug Control Program agencies in conducting a detailed accounting and authentication of all funds expended on National Drug Control Program activities.
2. **Rescission.** This circular rescinds and replaces the ONDCP Circular, *Annual Accounting of Drug Control Funds*, dated May 30, 2002.
3. **Authority.**
 - a. 21 U.S.C. § 1704(d) provides: "The Director [ONDCP] shall –
 - (A) require the National Drug Control Program agencies to submit to the Director not later than February 1 of each year a detailed accounting of all funds expended by the agencies for National Drug Control Program activities during the previous fiscal year, and require such accounting to be authenticated by the Inspector General of each agency prior to submission to the Director; and
 - (B) submit to Congress not later than April 1 of each year the information submitted to the Director under subparagraph (A)."
 - b. 21 U.S.C. § 1703(d)(7) authorizes the Director of ONDCP to "... monitor implementation of the National Drug Control Program, including – (A) conducting program performance audits and evaluations; and (B) requesting assistance from the Inspector General of the relevant agency in such audits and evaluations ..."
4. **Definitions.** As used in this circular, key terms related to the National Drug Control Program and budget are defined in Section 4 of the ONDCP Circular, *Budget Formulation*, dated April 18, 2003. These terms include: *National Drug Control Program*, *National Drug Control Program Agency*, *Bureau*, *Drug Methodology*, *Drug Control Functions*, and *Budget Decision Units*. Further,

Reprogrammings and Fund Control Notices referenced in Section 6 of this circular are defined in Section 6 and Section 8 of the ONDCP Circular, *Budget Execution*, dated April 18, 2003.

5. **Coverage.** The provisions of this circular apply to all National Drug Control Program agencies.

6. **Detailed Accounting Submission.** The Chief Financial Officer (CFO) of each agency, or other accountable senior level senior executive, shall prepare a Detailed Accounting Submission to the Director, ONDCP. For agencies with no bureaus, this submission shall be a single report, as defined by this section. For agencies with bureaus, the Detailed Accounting Submission shall consist of reports, as defined by this section, from the agency's bureaus. The CFO of each bureau, or accountable senior level executive, shall prepare reports. Each report must include (a) a table highlighting prior year drug control obligations data, and (b) a narrative section making assertions regarding the prior year obligations data. Report elements are further detailed below:

a. **Table of Prior Year Drug Control Obligations** – For the most recently completed fiscal year, each report shall include a table of obligations of drug control budgetary resources appropriated and available during the year being reported.¹ Such table shall present obligations by Drug Control Function and Budget Decision Unit, as these categories are displayed for the agency or bureau in the *National Drug Control Strategy Budget Summary*. Further, this table shall be accompanied by the following disclosures:

(1) **Drug Methodology** – The drug methodology shall be specified in a separate exhibit. For obligations calculated pursuant to a drug methodology, this presentation shall include sufficient detail to explain fully the derivation of all obligations data presented in the table.

(a) **Obligations by Drug Control Function** – All bureaus employ a drug methodology to report obligations by Drug Control Function.

(b) **Obligations by Budget Decision Unit** – For certain multi-mission bureaus –Bureau of Customs and Border Protection, Coast Guard, Bureau of Immigration and Customs Enforcement, and the Veterans Health Administration (VHA) – obligations reported by Budget Decision Unit shall be calculated pursuant to an approved drug methodology. For all other bureaus, drug control obligations reported by Budget Decision Unit shall represent 100 percent of the actual obligations of the bureau for those Budget Decision

¹Consistent with reporting requirements of the ONDCP Circular, *Budget Formulation*, dated April 18, 2003, resources received from the following accounts are excluded from obligation estimates: (1) ONDCP – High Intensity Drug Trafficking Areas (HIDTA) and (2) the Organized Crime Drug Enforcement Task Forces Program. Obligations against these resources shall be excluded from the table required by this section but shall be reported on a consolidated basis by these bureaus. Generally, to prevent double-counting agencies should not report obligations against budget resources received as a reimbursement. An agency that is the source of the budget authority for such reimbursements shall be the reporting entity under this circular.

Units, as they are defined for the National Drug Control Budget. (See Attachment B of the ONDCP Circular, *Budget Formulation*, dated April 18, 2003.)

- (2) **Methodology Modifications** – Consistent with ONDCP’s prior approval, if the drug methodology has been modified from the previous year, then the changes, their purpose, and the quantitative differences in the amount(s) reported using the new method versus the amount(s) that would have been reported under the old method shall be disclosed.²
 - (3) **Material Weaknesses or Other Findings** – Any material weakness or other findings by independent sources, or other known weaknesses, including those identified in the Agency’s Annual Statement of Assurance, which may affect the presentation of prior year drug-related obligations data, shall be highlighted. This may be accomplished by either providing a brief written summary, or by referencing and attaching relevant portions of existing assurance reports. For each material weakness or other finding, corrective actions currently underway or contemplated shall be identified.
 - (4) **Reprogrammings or Transfers** – All prior year reprogrammings or transfers that affected drug-related budgetary resources shall be identified; for each such reprogramming or transfer, the effect on drug-related obligations reported in the table required by this section also shall be identified.
 - (5) **Other Disclosures** – Agencies may make such other disclosures as they feel are necessary to clarify any issues regarding the data reported under this circular.
- b. **Assertions** – At a minimum, each report shall include a narrative section where the following assertions are made regarding the obligation data presented in the table required by Section 6a:
- (1) **Obligations by Budget Decision Unit** – With the exception of the multi-mission bureaus noted in Section 6a(1)(b), reports under this section shall include an assertion that obligations reported by budget decision unit are the actual obligations from the bureau’s accounting system of record for these budget decision units.
 - (2) **Drug Methodology** – An assertion shall be made regarding the reasonableness and accuracy of the drug methodology used to calculate obligations of prior year budgetary resources by function for all bureaus and by budget decision unit for the Bureau of Customs and Immigration Enforcement, Coast Guard, the Bureau of Immigration and Customs Enforcement, and VHA. The criteria associated with this assertion are as follows:

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 \$5 million.
 - (5) **Fund Control Notices** – Each report shall also include an assertion that the data presented are associated with obligations against a financial plan that fully complied with all Fund Control Notices issued by the Director under 21 U.S.C. § 1703(f) and Section 8 of the ONDCP Circular, *Budget Execution*.

7. **Inspector General Authentication.** Each report defined in Section 6 shall be provided to the agency's Inspector General (IG) for the purpose of expressing a conclusion about the reliability of each assertion made in the report. ONDCP anticipates that this engagement will be an attestation review, consistent with the *Statements for Standards of Attestation Engagements*, promulgated by the American Institute of Certified Public Accountants.

8. **Unreasonable Burden.** Unless a detailed report, as specified in Section 6, is specifically requested by ONDCP, an agency or bureau included in the National Drug Control Budget with prior year drug-related obligations of less than \$50 million may submit through its CFO, or its accountable senior level executive, an alternative report to ONDCP, consisting of only the table highlighted in

Section 6a., omitting all other disclosures. Such report will be accompanied by statements from the CFO, or accountable senior level executive, and the agency Inspector General attesting that full compliance with this Circular would constitute an unreasonable reporting burden. In those instances, obligations reported under this section will be considered as constituting the statutorily required detailed accounting, unless ONDCP notifies the agency that greater detail is required.

9. Point of Contact and Due Dates. Each agency CFO, or accountable senior level executive, shall transmit a Detailed Accounting Submission, consisting of the report(s) defined in Section 6, along with the IG's authentication(s) defined in Section 7, to the attention of the Associate Director for Planning and Budget, Office of National Drug Control Policy, Washington, DC 20503. Detailed Accounting Submissions, with the accompanying IG authentication(s), are due to ONDCP by February 1 of each year. Agency management must submit reports to their Office of Inspector General (OIG) in sufficient time to allow for review and IG authentication under Section 7 of this circular. ONDCP recommends a 31 December due date for agencies to provide their respective OIG with the required reports and information.

John P. Walters
Director

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