

# Department of Homeland Security **Office of Inspector General**

Independent Review of U.S. Coast Guard's Reporting  
of FY 2012 Drug Control Obligations





**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

Washington, DC 20528 / [www.oig.dhs.gov](http://www.oig.dhs.gov)

**JAN 29 2013**

**MEMORANDUM FOR:** Rear Admiral Stephen P. Metruck  
Chief Financial Officer  
U.S. Coast Guard

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

**SUBJECT:** *Independent Review of U.S. Coast Guard's Reporting of  
FY 2012 Drug Control Obligations*

Attached for your information is our final report, *Independent Review of U.S. Coast Guard's Reporting of FY 2012 Drug Control Obligations*. U.S. Coast Guard's management prepared the Table of FY 2012 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.

We contracted with the independent public accounting firm KPMG LLP to perform the review. KPMG LLP is responsible for the attached Independent Accountants' Report, dated January 22, 2013, and the conclusions expressed in it. We do not express an opinion on the Table of FY 2012 Drug Control Obligations and related disclosures. This report contains no recommendations.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Please call me with any questions, or your staff may contact Mark Bell, Deputy Assistant Inspector General for Audits, at (202) 254-4100.

Attachment



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Independent Accountants' Report

Deputy Inspector General  
U.S. Department of Homeland Security:

We have reviewed the accompanying Table of FY 2012 Drug Control Obligations and related disclosures of the U.S. Department of Homeland Security's (DHS) United States Coast Guard (USCG) for the year ended September 30, 2012. We have also reviewed the accompanying management's assertions for the year ended September 30, 2012. USCG's management is responsible for the Table of FY 2012 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 USCG prepared the Table of FY 2012 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 (the Circular).

Based on our review, nothing came to our attention that caused us to believe that (1) the Table of FY 2012 Drug Control Obligations and related disclosures for the year ended September 30, 2012 are not presented, in all material respects, in conformity with the Circular, or that (2) management's assertions referred to above 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 the management of DHS and USCG, 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 22, 2013

U.S. Department of  
Homeland Security

United States  
Coast Guard



Commandant  
United States Coast Guard

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JAN 22 2013

Ms. Sandra John  
Department of Homeland Security  
Director of Financial Management  
Office of the Inspector General

Dear Ms. John,

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 FY 2012 Detailed Accounting Submission.

If you require further assistance on this information, please contact LCDR John McCarthy at (202) 372-3513.

Sincerely,

A handwritten signature in blue ink that reads "Andrew J. Frongson" with "CAPT USCG" written in smaller letters to the right.

A. J. FRONGSON  
Captain, U.S. Coast Guard  
Chief, Office of Budget and Programs

Enclosures:

(1) USCG FY 2012 Detailed Accounting Submission

Copy: DHS Budget Office

**DEPARTMENT OF HOMELAND SECURITY  
UNITED STATES COAST GUARD  
Detailed Accounting Submission of FY 2012 Drug Control Funds**

**DETAILED ACCOUNTING SUBMISSION**

**A. Table of FY 2012 Drug Control Obligations**

<b>RESOURCE SUMMARY (Dollars in Millions)</b>	<b>2012 Actual Obligations</b>
<b>Drug Resources by Drug Control Function:</b>	
• Interdiction	\$1,296.14
• Research and Development	\$5.579
<b>Total Resources by Function</b>	<b>\$1,301.719</b>
<b>Drug Resources by Budget Decision Unit:</b>	
• Operating Expenses (OE)	\$852.850
• Reserve Training (RT)	\$16.007
• Acquisition, Construction, and Improvements (AC&I)	\$427.283
• Research, Development, Test and Evaluation (RDT&E)	\$5.579
<b>Total Drug Control Obligations</b>	<b>\$1,301.719</b>

**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 operational mission costs allocated across the 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 and operational employment data.

The Coast Guard is required to report its drug control funding to the Office of National Drug Control Policy (ONDCP) in four appropriations, categorically called decision units. The Coast Guard's drug control funding estimates are computed by 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.)

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. The mechanics of the MCM methodology used to derive the drug control information for each decision unit's drug control data is derived as follows.

### **Mission Cost Allocations**

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. Within the OE and RT decision units the direct, support, and overhead costs of Coast Guard assets are coupled with the employment of these assets across the Coast Guard's 11 statutory missions. Obligations within the drug interdiction program are derived by allocating a share of the actual obligations of assets and activities based upon the percent of time aircraft, cutters, and boats spent conducting drug interdiction activities (as reported in web-based data collection systems).

The two chief input drivers to the MCM are:

- *The Coast Guard's Standard Rate and User Fee (SRUF)* - The SRUF model calculates the total cost, including direct, support and overhead, of operating the Coast Guard's assets, as well as missions or services that the Coast Guard performs but does not have related standard rates or user fees.
- *Abstract of Operations (AOPS) and Aviation Logistics Management Information System (ALMIS)* - Cutter and boat activities (i.e. underway hours) are captured by AOPS system while aircraft operational hours (flight time) are entered into ALMIS. Expenses allocated to missions or services, and not assets, are driven to each of the employment categories by percentages. Those percentages are determined by surveys of those activities (e.g. Marine Safety units).

The Coast Guard tracks the resource hours spent on each of the 11 Coast Guard statutory missions using AOPS and ALMIS. This data is then used to determine the amount of time each asset class spends conducting each Coast Guard mission as a ratio of the total resource hours spent on all missions. In addition, using financial data gathered from over 3,000 cost centers around the United States along with the AOPS and ALMIS 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.

By design, the MCM is based on the OE decision unit. While mission-program spreads derived from MCM can be directly applied to OE and RT decision units, AC&I and RDT&E decision units must be calculated separately. This is due to the structure of the AC&I and RDT&E decision units, which are presented as individual projects in the Coast Guard's budget submission. Within AC&I and RDT&E, individual projects are allocated to missions based on an established profile (largely based on utilization). The drug interdiction attributions of each of these projects are then combined to determine the total contribution to the drug interdiction mission.

The program percentages derived from the MCM are applied to OE, RT, AC&I and RDT&E decision units per the above methodology (see Attachments A, B, C and D, respectively). Obligation data is derived from the final financial accounting Report on Budget Execution (SF-133).

## **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 FY 2012 Independent Auditors' Report, the Coast Guard contributed to Departmental material weaknesses in the following internal control areas: financial reporting, property management, and environmental and other liabilities. Despite these internal controls material weaknesses, the Coast Guard can provide reasonable assurance that obligations data presented is fairly reported.

The Coast Guard's Financial Strategy for Transformation and Audit Readiness (FSTAR) continues to guide the Mission Action Plans that strengthen the internal controls leading to assurance over financial information. This effort seeks to attack the root causes and implement long term solutions of the identified material weaknesses and other financial management issues. As of November 15, 2012, the Coast Guard has helped the Department of Homeland Security achieve a qualified audit opinion on all the FY 2012 DHS financial statements.

Per the DHS FY 2012 Annual Financial Report, the Coast Guard made significant improvements to previously reported material weaknesses contributing to the progress of strengthening Department-wide internal controls over financial reporting. Specifically, Coast Guard corrective actions significantly reduced risk related to financial scripts and Fund Balance with Treasury reconciliations resulting in reducing the severity of IT Controls and System Functionality and fully remediating weaknesses related to Fund Balance with Treasury. In addition, the U.S. Coast Guard implemented the Audit Command Language as a mitigating control and reduced the severity of weaknesses related to Budgetary Accounting.

## **4) Reprogrammings or Transfers**

During FY 2012, 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 2012 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 cross-over 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 this reporting requirement.

### **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. However, the methodology used to produce the drug interdiction funding in this report is repeatable and is based on the attribution of direct, support and overhead costs proportionally allocated to reflect historical mission employment data presented in AOPS. This methodology is consistently used by the Coast Guard to develop annual budget year submissions and mission related reports. These submissions include: Resource Allocation Proposal (RAP), Resource Allocation Decision (RAD) and the Office of Management and Budget’s (OMB) MAX budget update of Coast Guard’s Congressional Budget submissions and the DHS CFO Statement of Net Cost report. The criteria associated to this assertion are as follows:



- a) **Data** – The percentage allocation results derived from its MCM methodology are based on the most current financial and AOPS data available.
- b) **Other Estimation Methods** – No other estimation methods are used.
- c) **Financial Systems** – Financial data used in this methodology are derived from the Core Accounting system (CAS) and Surface Forces Logistics Center (SFLC) systems. No other financial system or information is used in developing program or mission area allocations. Although the Coast Guard has not fully implemented corrective actions to remediate weaknesses identified by the independent auditors during the annual DHS CFO Act audits, the Coast Guard can provide reasonable assurances to the effectiveness of internal controls over budgetary resource management. To mitigate the risk of inaccurate or incomplete accounting records, compensating controls including transactional level ACL tie points analytics, substantive testing over budget authority and reimbursable agreements, fund controls enacted in field-level financial systems, and quarterly reviews over open transactions significantly minimize the risk of potential misstatements.

### 3) **Application of Drug Methodology**

The methodology disclosed in this section was the actual methodology used to generate the drug control obligation funding 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 2012, Coast Guard had no transfers or reprogramming actions affecting drug-related budget resources in excess of \$1 million.

### 5) **Fund Control Notices**

ONDCP did not issue the Coast Guard a Fund Control Notice for FY 2012.

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

	(dollars in thousands)	
	FY 2012	
	Obligations	% of total
<b>1. Search and Rescue (SAR)</b>	<b>812,482</b>	<b>11.53%</b>
<b>2. Marine Safety (MS)</b>	<b>654,840</b>	<b>9.29%</b>
<b>3. Aids to Navigation (ATON)</b>	<b>1,355,514</b>	<b>19.23%</b>
<b>4. Ice Operations (IO)</b>	<b>95,824</b>	<b>1.36%</b>
<b>5. Marine Environmental Protection (MEP)</b>	<b>169,543</b>	<b>2.41%</b>
<b>6. Living Marine Resources (LMR)</b>	<b>633,288</b>	<b>8.98%</b>
<b>7. Drug Interdiction</b>	<b>852,850</b>	<b>12.10%</b>
<b>8. Other Law Enforcement (OTH-LE)</b>	<b>99,508</b>	<b>1.41%</b>
<b>9. Migrant Interdiction</b>	<b>488,870</b>	<b>6.94%</b>
<b>10. Ports, Waterways &amp; Coastal Security (PWCS)</b>	<b>1,531,624</b>	<b>21.73%</b>
<b>11. Defense Readiness</b>	<b>354,291</b>	<b>5.03%</b>
<b>Total OE Obligations</b>	<b>\$ 7,048,634</b>	<b>100%</b>

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

	(dollars in thousands)	
	FY 2012	
	Obligations	% of total
1. Search and Rescue (SAR)	15,249	11.53%
2. Marine Safety (MS)	12,291	9.29%
3. Aids to Navigation (ATON)	25,441	19.23%
4. Ice Operations (IO)	1,799	1.36%
5. Marine Environmental Protection (MEP)	3,182	2.41%
6. Living Marine Resources (LMR)	11,886	8.98%
7. Drug Interdiction	16,007	12.10%
8. Other Law Enforcement (OTH-LE)	1,868	1.41%
9. Migrant Interdiction	9,176	6.94%
10. Ports, Waterways & Coastal Security (PWCS)	28,747	21.73%
11. Defense Readiness	6,650	5.03%
<b>Total RT Obligations</b>	<b>\$ 132,295</b>	<b>100%</b>

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

	(dollars in thousands)	
	FY 2012	
	Obligations	% of total
1. Search and Rescue (SAR)	99,652	8.08%
2. Marine Safety (MS)	7,280	0.59%
3. Aids to Navigation (ATON)	35,522	2.88%
4. Ice Operations (IO)	16,862	1.37%
5. Marine Environmental Protection (MEP)	9,510	0.77%
6. Living Marine Resources (LMR)	241,155	19.55%
7. Drug Interdiction	427,283	34.64%
8. Other Law Enforcement (OTH-LE)	66,980	5.43%
9. Migrant Interdiction	102,194	8.28%
10. Ports, Waterways & Coastal Security (PWCS)	105,978	8.59%
11. Defense Readiness	121,252	9.83%
<b>Total AC&amp;I Obligations</b>	<b>\$ 1,233,669</b>	<b>100%</b>

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

	(dollars in thousands)	
	FY 2012	
	Obligations	% of total
1. Search and Rescue (SAR)	8,094	21.15%
2. Marine Safety (MS)	3,400	8.88%
3. Aids to Navigation (ATON)	2,007	5.24%
4. Ice Operations (IO)	650	1.70%
5. Marine Environmental Protection (MEP)	6,640	17.35%
6. Living Marine Resources (LMR)	2,531	6.61%
7. Drug Interdiction	5,579	14.58%
8. Other Law Enforcement (OTH-LE)	683	1.78%
9. Migrant Interdiction	2,554	6.67%
10. Ports, Waterways & Coastal Security (PWCS)	4,744	12.40%
11. Defense Readiness	1,384	3.62%
<b>Total RDT&amp;E Obligations</b>	<b>\$ 38,267</b>	<b>100%</b>



**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

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**Appendix A**  
**Report Distribution**

**Department of Homeland Security**

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