

**Review of U.S. Coast Guard's  
Fiscal Year 2017  
Detailed Accounting  
Submission for  
Drug Control Funds**





# **DHS OIG HIGHLIGHTS**

## ***Review of U.S. Coast Guard's Fiscal Year 2017 Detailed Accounting Submission for Drug Control Funds***

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**January 30, 2018**

### **Why We Did This Review**

The Office of National Drug Control Policy's (ONDCP) Circular, *Accounting of Drug Control Funding and Performance Summary*, requires National Drug Control Program agencies to submit to the ONDCP Director, not later than February 1 of each year, a detailed accounting of all funds expended for National Drug Control Program activities during the previous fiscal year (FY).

The Office of Inspector General (OIG) is required to conduct a review of the agency's submission and provide a conclusion about the reliability of each assertion in the report.

#### **For Further Information:**

Contact our Office of Public Affairs at (202) 254-4100, or email us at [DHS-OIG.OfficePublicAffairs@oig.dhs.gov](mailto:DHS-OIG.OfficePublicAffairs@oig.dhs.gov)

### **What We Found**

Williams, Adley & Company –DC, LLP (Williams Adley), under contract with the Department of Homeland Security OIG, issued an Independent Accountants' Report on U.S. Coast Guard's (Coast Guard) Detailed Accounting Submission. Coast Guard's management prepared the Table of FY 2017 Drug Control Obligations and related disclosures in accordance with the requirements of the ONDCP Circular, *Accounting of Drug Control Funding and Performance Summary*, dated January 18, 2013 (Circular). Based on its review, nothing came to Williams Adley's attention that caused it to believe that the Coast Guard's FY 2017 Detailed Accounting Submission is not presented in conformity with the criteria in ONDCP's Circular. Williams Adley did not make any recommendations as a result of its review.



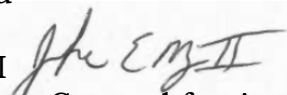
## OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

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

JAN 30 2018

MEMORANDUM FOR: Rear Admiral Andrew J. Tiongson  
Chief Financial Officer  
U.S. Coast Guard

FROM: John E. McCoy II   
Assistant Inspector General for Audits

SUBJECT: *Review of U.S. Coast Guard's Fiscal Year 2017 Detailed Accounting Submission for Drug Control Funds*

Attached for your information is our final report, *Review of U.S. Coast Guard's Fiscal Year 2017 Detailed Accounting Submission for Drug Control Funds*. Coast Guard's management prepared the Table of FY 2017 Drug Control Obligations and related disclosures to comply with the requirements of the Office of National Drug Control Policy's Circular, *Accounting of Drug Control Funding and Performance Summary*, dated January 18, 2013.

We contracted with the independent public accounting firm Williams, Adley & Company –DC, LLP (Williams Adley) to review the Coast Guard's Detailed Accounting Submission. Williams Adley is responsible for the attached Independent Accountants' Report, dated January 16, 2018, and the conclusions expressed in it. This report contains no recommendations.

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to 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 Maureen Duddy, Deputy Assistant Inspector General for Audits, at (617) 565-8723.

Attachment



## Independent Accountant's Report

Inspector General  
United States Department of Homeland Security

We have reviewed management's assertions related to the Detailed Accounting Submission (DAS) of the U.S. Department of Homeland Security's (DHS) United States Coast Guard (USCG) for the year ended September 30, 2017. USCG management is responsible for the preparation of the DAS in conformity with requirements of the Office of National Drug Control Policy Circular: *Accounting of Drug Control Funding and Performance Summary*, dated January 18, 2013 (the Circular). Our responsibility is to express a conclusion about management's assertions.

Our review was conducted in accordance with generally accepted government auditing standards, which incorporate the attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the review to obtain limited assurance about whether any material modifications should be made to the DAS or DAS assertions in order for them to be in accordance with the Circular. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's assertion. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the DAS or the DAS assertions for the year ended September 30, 2017 in order for them to be in conformity with the requirements set forth in the Circular.

*Williams, Adley & Company-DC, LLP*  
Washington, District of Columbia  
January 16, 2018

U.S. Department of  
Homeland Security

United States  
Coast Guard



Commandant  
United States Coast Guard

2703 Martin Luther King Jr. Ave. SE  
Washington, DC 20593  
Staff Symbol: CG-82  
Phone: (202) 372-3521

7110

**JAN 16 2018**

Mr. John Kelly  
Deputy Inspector General  
U.S. Department of Homeland Security  
Office of Inspector General

Dear Mr. Kelly,

In accordance with the Office of National Drug Control Policy Circular: *Accounting of Drug Control Funding and Performance Summary*, dated January 18, 2013, enclosed is the Coast Guard's FY 2017 Detailed Accounting Submission.

If there are any questions or revisions required, please contact my Drug Budget Coordinator, LCDR Colleen McCusker, (202)372-3512.

Sincerely,

A handwritten signature in blue ink, appearing to read "R. V. Timme", with a long horizontal flourish extending to the right.

R. V. Timme  
Captain, U.S. Coast Guard  
Chief, Office of Budget and Programs

Encl: USCG FY 2017 Detailed Accounting Submission

Copy: DHS Budget Office



**DEPARTMENT OF HOMELAND SECURITY  
UNITED STATES COAST GUARD  
Detailed Accounting Submission of FY 2017 Drug Control Funds**

**DETAILED ACCOUNTING SUBMISSION**

**A. Table of FY 2017 Drug Control Obligations**

<b>RESOURCE SUMMARY (Dollars in Millions)</b>		<b>2017 Actual</b>
<b>Drug Resources by Drug Control Function:</b>		<b>Obligations</b>
• Interdiction		\$1,419.249
• Research and Development		\$2.184
<b>Total Resources by Function</b>		<b>\$1,421.433</b>
<b>Drug Resources by Budget Decision Unit:</b>		
• Operating Expenses (OE)		\$968.129
• Reserve Training (RT)		\$15.171
• Acquisition, Construction, and Improvements (AC&I)		\$435.949
• Research, Development, Test and Evaluation (RDT&E)		\$2.184
<b>Total Drug Control Obligations</b>		<b>\$1,421.433</b>

**1. Drug Methodology**

In fiscal year (FY) 2000, a methodology known as the Mission Cost Model (MCM) was developed to present the 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 missions/programs 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 MCM output allocated to Drug Interdiction is allocated to the ONDCP Drug Control Function 'Interdiction' for all decision units with the exception of RDT&E. RDT&E is allocated to ONDCP Control Function 'Research and Development'. The information reported is timely and derived from an allocation process involving the Coast Guard's financial statement information and operational employment data. The operating hour allocation, or baseline, is developed and modified based upon budget line item requests and operational priorities.

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. For example, AC&I includes funding that remains available for obligation up to five years after appropriation and RDT&E includes funding that remains available for obligation up to three years after appropriation. 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. The Coast Guard tracks resource hours spent on each of its 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 reported percentage of time aircraft, cutters, and boats spent conducting drug interdiction activities.

The two chief input drivers to the MCM are:

- *The Coast Guard's Expanse Allocation Model (EAM)* – The EAM model development, formerly known as the Standard Rate and User Fee Model, uses the SAS<sup>®</sup> Activity Based Model (ABM) and Enterprise Guide (EG) software solutions. The model inputs include expenditure data captured by the Coast Guard's three general ledgers: Core Accounting System (CAS), Naval and Electronics Supply System (NESSS), and Aircraft Logistics Information Management System (ALMIS). As such, this 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 Asset Logistics Management Information System (ALMIS)* – The Coast Guard tracks resource hours incurred 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 is employed conducting each Coast Guard mission as a ratio of total resource hours incurred on all missions.

Using financial data recorded in the financial data recorded in the three general ledgers (CAS, NESSS, and ALMIS) in combination with asset activity data recorded in AOPS and ALMIS, the Coast Guard allocates OE costs to each of the 11 statutory missions. By design, the MCM is based on the OE decision unit. The employment category percentages derived from MCM can also be applied directly to the RT decision unit, as the RT decision unit is similar in structure to the OE decision unit, in that it is not project-based. AC&I and RDT&E decision units must be calculated separately, 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).

As previously discussed, because the Coast Guard budgets through congressionally established appropriations (rather than individual missions), the organization must rely on information contained within the activity based MCM. The Coast Guard uses this MCM data to determine financial obligations specifically related to statutory missions, including Drug Interdiction. This appropriation structure supports multi-mission requirements by allowing the service to surge and shift resources across all missions. This level of resource flexibility is critical to successful mission execution in our dynamic, operational environment. However, such a structure makes it difficult to precisely determine the cost of a particular mission or the “level of effort” expended in carrying out in each mission. The MCM provides the Coast Guard with a reliable, repeatable system that forecasts future year spending and estimates previous year obligations by mission.

## **2. Methodology Modifications**

The methodology described above is consistent with the previous year.

## **3. Material Weaknesses or Other Findings**

In prior fiscal years and FY17, the Coast Guard contributed to DHS material weaknesses in the following internal control areas: Financial Reporting and IT Controls and System Functionality. Following the recommendations providing in the previous DHS Independent Auditors' Reports, the Coast Guard has continued to implement corrective action plans to remediate long-standing internal control deficiencies, strengthen existing internal controls, and provide assurance over the fidelity of financial information.

We note Coast Guard's control deficiencies that contributed to the department-level material weaknesses did not impair Coast Guard's ability to report complete and accurate obligation data in the Table of FY 2017 Drug Control Obligations. The Coast Guard control deficiencies that contributed to the material weaknesses in Financial Reporting and IT Controls and System Functionality were related to the Coast Guard's three accounting systems. However, the deficiencies were primarily related to access controls, and the Coast Guard had sufficient compensating controls in place to ensure that budgetary data (i.e. obligations) was presented fairly, in all material respects.

As previously discussed, because the Coast Guard budgets through congressionally established appropriations (rather than individual missions), the organization must rely on information contained within the activity-based MCM. The Coast Guard uses this MCM data to determine financial obligations specifically related to statutory missions, including Drug Interdiction. This appropriation structure supports multi-mission requirements by allowing the service to surge and shift resources across all missions. This level of resource flexibility is critical to successful mission execution in our dynamic, operational environment. However, such a structure makes it difficult to precisely determine the cost of a particular mission or the “level of effort” expended in carrying out that mission. Notwithstanding its limitations, the MCM has been endorsed by the Office of Management and Budget (OMB) in formulation of the Coast Guard’s annual budget request to Congress. The MCM provides the Coast Guard with a reliable, repeatable system that forecasts future year spending and estimates previous year obligations by mission.

## **4. Reprogrammings or Transfers**

During FY 2017, Coast Guard had reprogrammings and transfers. As a component of DHS, Coast Guard submits all reprogramming and transfer requests through the Department for approval, and the



impact of these changes to funding is assessed by the Department. In FY 2017, the Department determined there were no reprogrammings or transfers that materially impacted Coast Guard's drug-related obligations reported in the Table of FY2017 Drug Control Obligations.

## **5. Other Disclosures**

The following provides a synopsis of the Coast Guard's FY 2017 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 is 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 the Coast Guard does not have a specific appropriation for drug interdiction activities. As such, there are no financial accounting lines for each of the Coast Guard's 11 statutory missions. All drug interdiction operations, capital improvements, reserve support, and research and development efforts are funded through general Coast Guard appropriations.

The Coast Guard's drug control budget is generally an accurate 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 ONDCP for the NDCS Budget Summary.

### **Assertions**

- 1) Obligations by Budget Decision Unit

Not Applicable. As a multi-mission agency, the Coast Guard is exempt from this reporting requirement, as noted in the ONDCP Circular: *Accounting of Drug Control Funding and Performance Summary*, Section 6(b)(1), dated January 18, 2013.

2) Drug Methodology

The methodology use to produce the drug interdiction funding in this report is reasonable and accurate. This methodology is consistently used by the Coast Guard to develop annual budget year submissions and mission related reports. The criteria associated to this assertion are as follows:

- a) Data – The percentage allocation results derived from its MCM methodology are based on the FY 2017 financial and AOPS/ALMIS data, as presented in the Coast Guard’s FY 2017 OMB budget submission.

Financial Systems – The MCM uses costs from three general ledgers (GL). These include; the Core Accounting System (CAS) GL, the Naval and Electronics Supply and Support System (NESSS) GL, and the Aircraft Logistics Management Information System (ALMIS) GL. These financial systems yield data that fairly presents, in all material respects, aggregate obligations from which drug-related obligation estimates are derived.

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: *Accounting of Drug Control Funding and Performance Summary*, issued January 18, 2013. Documentation on each decision unit is provided.

4) Reprogrammings or Transfers

During FY 2017, the Coast Guard had no reports of 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 2017.



## **OFFICE OF INSPECTOR GENERAL**

Department of Homeland Security

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### **Appendix A**

### **Report Distribution**

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