

# **Review of U.S. Coast Guard's Fiscal Year 2016 Detailed Accounting Submission**





# DHS OIG HIGHLIGHTS

## *Review of U.S. Coast Guard's Fiscal Year 2016 Detailed Accounting Submission*

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**February 1, 2017**

### **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.

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-IG.OfficePublicAffairs@oig.dhs.gov](mailto:DHS-IG.OfficePublicAffairs@oig.dhs.gov)

### **What We Found**

KPMG LLP (KPMG), 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 2016 Drug Control Obligations* and related disclosures to comply 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 KPMG's attention that caused it to believe that the Coast Guard's FY 2016 Detailed Accounting Submission is not presented in conformity with the criteria in ONDCP's Circular. KPMG 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)

February 1, 2017

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

FROM: John V. Kelly   
Deputy Inspector General

SUBJECT: *Review of U.S. Coast Guard's Fiscal Year 2016  
Detailed Accounting Submission*

Attached for your information is our final report, *Review of U.S. Coast Guard's Fiscal Year 2016 Detailed Accounting Submission*. Coast Guard's management prepared the *Table of FY 2016 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 KPMG LLP (KPMG) to review the Coast Guard's Detailed Accounting Submission. KPMG is responsible for the attached Independent Accountants' Report, dated January 23, 2017, and the conclusions expressed in it. KPMG's 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



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 management's assertion that the Detailed Accounting Submission of the U.S. Department of Homeland Security's (DHS) United States Coast Guard (USCG) for the year ended September 30, 2016 was prepared 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). USCG management is responsible for the assertion.

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. 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, nothing came to our attention that caused us to believe that management's assertion referred to above, is not fairly stated, in all material respects, in conformity with the requirements set forth in the Circular.

*KPMG LLP*

January 23, 2017



U.S. Department of  
Homeland Security

United States  
Coast Guard



Commandant  
United States Coast Guard

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Washington, DC 20593  
Staff Symbol: CG-82  
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7110

JAN 23 2017

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 2016 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".

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

Encl: USCG FY 2016 Detailed Accounting Submission

Copy: DHS Budget Office

**DEPARTMENT OF HOMELAND SECURITY  
UNITED STATES COAST GUARD  
Detailed Accounting Submission of Fiscal Year (FY) 2016 Drug Control Funds**

**DETAILED ACCOUNTING SUBMISSION**

**A. Table of FY 2016 Drug Control Obligations**

**RESOURCE SUMMARY**

<b>Drug Resources by Drug Control Function:</b>	<b>FY16 Actual Obligations (in millions)</b>
• Interdiction	\$1,362.076
• Research and Development	<u>\$2.300</u>
<b>Total Resources by Function</b>	<b>\$1,364.376</b>
<b>Drug Resources by Budget Decision Unit:</b>	
• Operating Expenses (OE)	\$911.886
• Reserve Training (RT)	\$14.391
• Acquisition, Construction, and Improvements (AC&I)	\$435.799
• Research, Development, Test and Evaluation (RDT&E)	<u>\$2.300</u>
<b>Total Drug Control Obligations</b>	<b>\$1,364.376</b>

**1. Drug Methodology**

In 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 Drug 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: OE; RT; AC&I; and 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 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. The Coast Guard tracks resource hours incurred 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 incurred conducting drug interdiction activities.

The two chief input drivers to the MCM are:

- *The Coast Guard's Expense Allocation Model (EAM)* – The EAM model development, formerly known as the Standard Rate and User Fee Model (SRUF), uses the SAS® 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 ALMIS* – The Coast Guard tracks the 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 the total resource hours incurred on all missions.

Using 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. Mission-program employment category percentages derived from MCM can be directly applied to 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 Coast Guard's three general ledger systems.

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. 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 FY16, the Coast Guard contributed to DHS material weaknesses in the following internal control areas: Financial Reporting, IT Controls and System Functionality, and Property, Plant and Equipment (PP&E). Following the recommendations provided in 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 2016 Drug Control Obligations. Specifically, the control deficiencies identified for the Coast Guard that contributed to the material weakness in PP&E were not relevant with respect to the information contained in this report, as the control deficiencies identified did not relate to the tracking of cutter and boat activities in AOPS or operational hours within ALMIS. Next, 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.

## **4. Reprogrammings or Transfers**

During FY 2016, 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 2016, the Department determined there were no reprogrammings or transfers that materially impacted Coast Guard’s drug-related obligations reported in the Table of FY 2016 Drug Control Obligations.

## **5. Other Disclosures**

The following provides a synopsis of the Coast Guard’s FY 2016 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 obligations 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 specific 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.

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. The Coast Guard continues to present supplementary budget information through the use of the MCM, which allocates base funding and incremental requests by mission. 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 used 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 Coast Guard's MCM uses the FY 2016 financial and AOPS/ALMIS data, as described in the Drug Methodology section above. The data is reliable, in that it is available, timely and relevant.

- b) Financial Systems – The MCM uses costs from three general ledgers. These include the CAS GL, the NESSS GL, and the 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.

4) Reprogrammings or Transfers

The data presented are associated with obligations against a financial plan that properly reflects all changes in drug-related budgetary resources that occurred during the fiscal year, including reprogrammings or transfers. Although the Department determined there was no material impact to drug-related obligations, the ONDCP approved all reprogrammings or transfers in excess of \$1 million in FY 2016.

5) Fund Control Notices

ONDCP did not issue the Coast Guard a Fund Control Notice for FY 2016.

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

(dollars in thousands)		
FY 2016		
	Obligations	% of total
1. Search and Rescue (SAR)	715,183	10.25%
2. Marine Safety (MS)	528,744	7.58%
3. Aids to Navigation (ATON)	1,215,284	17.42%
4. Ice Operations (IO)	174,329	2.50%
5. Marine Environmental Protection (MEP)	164,449	2.36%
6. Living Marine Resources (LMR)	685,680	9.83%
7. Drug Interdiction	911,886	13.07%
8. Other Law Enforcement (OTH-LE)	87,574	1.26%
9. Migrant Interdiction	506,311	7.26%
10. Ports, Waterways & Coastal Security (PWCS)	1,507,156	21.61%
11. Defense Readiness	479,079	6.87%
<b>Total OE Obligations</b>	<b>\$ 6,975,675</b>	<b>100%</b>

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

(dollars in thousands)		
<b>FY 2016</b>		
	<b>Obligations</b>	<b>% of total</b>
<b>1. Search and Rescue (SAR)</b>	<b>11,287</b>	<b>10.25%</b>
<b>2. Marine Safety (MS)</b>	<b>8,344</b>	<b>7.58%</b>
<b>3. Aids to Navigation (ATON)</b>	<b>19,179</b>	<b>17.42%</b>
<b>4. Ice Operations (IO)</b>	<b>2,751</b>	<b>2.50%</b>
<b>5. Marine Environmental Protection (MEP)</b>	<b>2,595</b>	<b>2.36%</b>
<b>6. Living Marine Resources (LMR)</b>	<b>10,822</b>	<b>9.83%</b>
<b>7. Drug Interdiction</b>	<b>14,391</b>	<b>13.07%</b>
<b>8. Other Law Enforcement (OTH-LE)</b>	<b>1,382</b>	<b>1.26%</b>
<b>9. Migrant Interdiction</b>	<b>7,990</b>	<b>7.26%</b>
<b>10. Ports, Waterways &amp; Coastal Security (PWCS)</b>	<b>23,785</b>	<b>21.61%</b>
<b>11. Defense Readiness</b>	<b>7,561</b>	<b>6.87%</b>
<b>Total RT Obligations</b>	<b>\$ 110,086</b>	<b>100%</b>



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

(dollars in thousands)		
FY 2016		
	Obligations	% of total
1. Search and Rescue (SAR)	104,309	8.31%
2. Marine Safety (MS)	16,768	1.34%
3. Aids to Navigation (ATON)	57,256	4.56%
4. Ice Operations (IO)	12,554	1.00%
5. Marine Environmental Protection (MEP)	9,601	0.76%
6. Living Marine Resources (LMR)	201,590	16.06%
7. Drug Interdiction	435,799	34.72%
8. Other Law Enforcement (OTH-LE)	50,875	4.05%
9. Migrant Interdiction	166,173	13.24%
10. Ports, Waterways & Coastal Security (PWCS)	103,583	8.25%
11. Defense Readiness	96,821	7.71%
<b>Total AC&amp;I Obligations</b>	<b>\$ 1,255,330</b>	<b>100%</b>

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

		(dollars in thousands)	
		FY 2016	
		Obligations	% of total
1. Search and Rescue (SAR)		1,873	7.98%
2. Marine Safety (MS)		3,906	16.63%
3. Aids to Navigation (ATON)		1,616	6.88%
4. Ice Operations (IO)		348	1.48%
5. Marine Environmental Protection (MEP)		6,183	26.33%
6. Living Marine Resources (LMR)		2,040	8.69%
7. Drug Interdiction		2,300	9.79%
8. Other Law Enforcement (OTH-LE)		319	1.36%
9. Migrant Interdiction		1,052	4.48%
10. Ports, Waterways & Coastal Security (PWCS)		3,036	12.93%
11. Defense Readiness		810	3.45%
Total RDT&E Obligations		\$ 23,484	100%



## **OFFICE OF INSPECTOR GENERAL**

Department of Homeland Security

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### **Appendix A Report Distribution**

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