

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

## **Independent Review of U.S. Coast Guard's Reporting of FY 2013 Detailed Accounting Submission**





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

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

FEB 12 2014

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

FROM: Mark Bell   
Acting Assistant Inspector General for Audits

SUBJECT: *Independent Review of U.S. Coast Guard's Reporting of  
FY 2013 Detailed Accounting Submission*

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

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 February 04, 2014, and the conclusions expressed in it. We do not express an opinion on the Detailed Accounting Submission. This report contains no recommendation.

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 Sandra John, Acting 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 Detailed Accounting Submission of the U.S. Department of Homeland Security's (DHS) U.S. Coast Guard (USCG) for the year ended September 30, 2013. USCG's management is responsible for the Detailed Accounting Submission.

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 Detailed Accounting Submission. Accordingly, we do not express such an opinion.

Management of USCG prepared the Detailed Accounting Submission to comply with the requirements of the Office of National Drug Control Policy (ONDCP) Circular, *Accounting of Drug Control Funding and Performance Summary*, dated January 18, 2013 (the Circular).

Based on our review, nothing came to our attention that caused us to believe that the Detailed Accounting Submission for the year ended September 30, 2013, referred to above, is not fairly stated, in all material respects, in conformity with 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**

February 4, 2014

U.S. Department of  
Homeland Security

United States  
Coast Guard



Commandant  
United States Coast Guard

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7110

FEB 4 2014

Ms. Anne L. Richards  
Assistant Inspector General for Audits  
Office of the Inspector General  
Department of Homeland Security

Dear Ms. Richards,

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 2013 Detailed Accounting Submission.

If you require further assistance on this information, please contact LCDR Emile Cochet at (202) 372-3511.

Sincerely,

A handwritten signature in blue ink that reads "A. J. Tiongson" with "CAPT USCG" written in smaller letters below it.

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

Enclosure: USCG FY 2013 Detailed Accounting Submission

Copy: DHS Budget Office

**DEPARTMENT OF HOMELAND SECURITY  
UNITED STATES COAST GUARD  
Detailed Accounting Submission of FY 2013 Drug Control Funds**

**DETAILED ACCOUNTING SUBMISSION**

**A. Table of FY 2013 Drug Control Obligations**

<b>RESOURCE SUMMARY (Dollars in Millions)</b>	<b>2013 Actual Obligations</b>
<b>Drug Resources by Drug Control Function:</b>	
• Interdiction	\$1,313.028
• Research and Development	\$2.563
<b>Total Resources by Function</b>	<b>\$1,315.591</b>
<b>Drug Resources by Budget Decision Unit:</b>	
• Operating Expenses (OE)	\$773.540
• Reserve Training (RT)	\$14.636
• Acquisition, Construction, and Improvements (AC&I)	\$524.852
• Research, Development, Test and Evaluation (RDT&E)	\$2.563
<b>Total Drug Control Obligations</b>	<b>\$1,315.591</b>
<small>Note: Reimbursements and external funding streams (e.g. HIDTA and OCDEF) are independent from the above FY13 obligations and are not included in the total.</small>	

**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 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 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 the 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 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 are captured by the AOPS system, while aircraft operational hours 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.

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 FY 2013 Independent Auditors' Report of the Department of Homeland Security (DHS), the Coast Guard contributed to Departmental weaknesses in the following internal control areas: Financial Reporting; IT Controls and System Functionality; Property, Plant and Equipment; and Budgetary Accounting. Following the recommendations provided in previous Independent Auditors' Reports, the Coast Guard continued to implement corrective action plans to remediate long-standing internal control deficiencies. The aforementioned weaknesses do not have a significant effect on the presentation of FY 2013 drug-related obligations data. Moreover, the Coast Guard can provide reasonable assurance that FY 2013 obligations data has been fairly reported.

The Coast Guard's Financial Strategy for Transformation and Audit Readiness (FSTAR) continues to strengthen internal controls and provides assurance over the fidelity of financial information. This effort seeks to remedy the causes of identified material weaknesses and aims to implement long-term solutions to remedy such issues. Such improvements helped DHS to achieve a clean, unqualified audit opinion on its FY 2013 financial statements. The Coast Guard will continue to utilize FSTAR to make improvements and to strengthen Department-wide internal controls by implementing recommendations contained in Exhibit I of the FY 2013 Independent Auditors' Report.

As previously discussed, because the Coast Guard budgets by 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, and 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 2013, 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 2013 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 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.

## **Assertions**

### 1) Obligations by Budget Decision Unit

Not Applicable. 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 FY 2013 financial and AOPS data, as presented in the Coast Guard’s FY 2015 OMB Budget Submission.
- b) 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 remediated weaknesses identified by independent auditors during previous audits, the Coast Guard can provide reasonable assurances to the accuracy of the data contained in this report. To mitigate the risk of inaccuracies or incomplete accounting records, the Coast Guard utilizes procedures such as transactional level Audit Command Language (ACL) tie points analytics, substantive testing over budget authority and reimbursable agreements, funds controls enacted in field-level financial systems, and quarterly reviews of open transactions to ensure the accuracy of data.

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 2013, 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 Coast Guard a Fund Control Notice for FY 2013.

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

	(dollars in thousands) FY 2013	
	Obligations	% of total
1. Search and Rescue (SAR)	801,960	11.64%
2. Marine Safety (MS)	605,389	8.79%
3. Aids to Navigation (ATON)	1,229,114	17.84%
4. Ice Operations (IO)	99,332	1.44%
5. Marine Environmental Protection (MEP)	162,958	2.37%
6. Living Marine Resources (LMR)	630,776	9.16%
7. Drug Interdiction	773,540	11.23%
8. Other Law Enforcement (OTH-LE)	75,472	1.10%
9. Migrant Interdiction	471,528	6.84%
10. Ports, Waterways & Coastal Security (PWCS)	1,603,467	23.28%
11. Defense Readiness	435,560	6.32%
<b>Total OE Obligations</b>	<b>\$ 6,889,096</b>	<b>100%</b>

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

	(dollars in thousands)	
	FY 2013	
	Obligations	% of total
1. Search and Rescue (SAR)	15,173	11.64%
2. Marine Safety (MS)	11,454	8.79%
3. Aids to Navigation (ATON)	23,255	17.84%
4. Ice Operations (IO)	1,879	1.44%
5. <i>Marine Environmental Protection (MEP)</i>	3,083	2.37%
6. Living Marine Resources (LMR)	11,934	9.16%
7. Drug Interdiction	14,636	11.23%
8. Other Law Enforcement (OTH-LE)	1,431	1.10%
9. Migrant Interdiction	8,921	6.84%
10. Ports, Waterways & Coastal Security (PWCS)	30,338	23.28%
11. Defense Readiness	8,241	6.32%
<b>Total RT Obligations</b>	<b>\$ 130,344</b>	<b>100%</b>

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

	(dollars in thousands)	
	FY 2013	
	Obligations	% of total
1. Search and Rescue (SAR)	122,408	8.08%
2. Marine Safety (MS)	8,943	0.59%
3. Aids to Navigation (ATON)	43,633	2.88%
4. Ice Operations (IO)	20,713	1.37%
5. Marine Environmental Protection (MEP)	11,681	0.77%
6. Living Marine Resources (LMR)	296,222	19.55%
7. Drug Interdiction	524,852	34.64%
8. Other Law Enforcement (OTH-LE)	82,273	5.43%
9. Migrant Interdiction	125,530	8.28%
10. Ports, Waterways & Coastal Security (PWCS)	130,178	8.59%
11. Defense Readiness	148,940	9.83%
<b>Total AC&amp;I Obligations</b>	<b>\$ 1,515,374</b>	<b>100%</b>

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

(dollars in thousands)		
FY 2013		
	Obligations	% of total
1. Search and Rescue (SAR)	3,954	17.75%
2. Marine Safety (MS)	858	3.85%
3. Aids to Navigation (ATON)	2,827	12.69%
4. Ice Operations (IO)	231	1.04%
5. Marine Environmental Protection (MEP)	5,161	23.16%
6. Living Marine Resources (LMR)	1,402	6.29%
7. Drug Interdiction	2,563	11.50%
8. Other Law Enforcement (OTH-LE)	254	1.14%
9. Migrant Interdiction	1,235	5.54%
10. Ports, Waterways & Coastal Security (PWCS)	3,066	13.76%
11. Defense Readiness	729	3.27%
<b>Total RDT&amp;E Obligations</b>	<b>\$ 22,281</b>	<b>100%</b>



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

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