

OFFICE OF INSPECTOR GENERAL

Review of U.S. Coast Guard's Fiscal Year 2015 Detailed Accounting Submission



Homeland
Security

January 27, 2016
OIG-16-29



DHS OIG HIGHLIGHTS

Review of U.S. Coast Guard's Fiscal Year 2015 Detailed Accounting Submission

January 27, 2016

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-OIG.OfficePublicAffairs@oig.dhs.gov

What We Found

KPMG LLP, 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 2015 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 LLP's attention that caused it to believe that the Coast Guard's FY 2015 Detailed Accounting Submission is not presented in conformity with the criteria in ONDCP's Circular. KPMG LLP 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

JAN 27 2016

MEMORANDUM FOR: Rear Admiral Todd. A Sokalzuk
Chief Financial Officer
U.S. Coast Guard

FROM: Mark Bell *Mark Bell*
Assistant Inspector General for Audits

SUBJECT: *Review of U.S. Coast Guard's Fiscal Year 2015 Detailed Accounting Submission*

Attached for your information is our final report, *Review of U.S. Coast Guard's Fiscal Year 2015 Detailed Accounting Submission*. Coast Guard management prepared the Table of FY 2015 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 20, 2016, 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 (202) 254-4100.

Attachment



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

Independent Accountants' Report

Assistant Inspector General for Audits
U.S. Department of Homeland Security:

We have reviewed the accompanying Detailed Accounting Submission of the U.S. Department of Homeland Security's (DHS) United States Coast Guard (USCG) for the year ended September 30, 2015. 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 the standards applicable to attestation engagements 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, 2015, referred to above, is not presented, 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

January 20, 2016

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) 372-3501

7110

JAN 21 2013

Mr. Mark Bell
Assistant Inspector General for Audits
Office of the Inspector General
Department of Homeland Security

Dear Mr. Bell,

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 2015 Detailed Accounting Submission.

If there are any questions or revisions required, please contact my Drug Budget Coordinator, CDR Brian Erickson at (202) 372-3430.

Sincerely,

A handwritten signature in blue ink, appearing to read "G. J. Sanial".

G. J. SANIAL
Captain, U.S. Coast Guard
Chief, Office of Budget and Programs

Encl: USCG FY 2015 Detailed Accounting Submission

Copy: DHS Budget Office

**U.S. DEPARTMENT OF HOMELAND SECURITY
 UNITED STATES COAST GUARD
 Detailed Accounting Submission of Fiscal Year 2015 Drug Control Funds**

DETAILED ACCOUNTING SUBMISSION

A. Table of FY 2015 Drug Control Obligations

RESOURCE SUMMARY (Dollars in Millions)	FY 2015 Actual Obligations
Drug Resources by Drug Control Function:	
• Interdiction	\$1,250.289
• Research and Development	\$1.356
Total Resources by Function	\$1,251.645
Drug Resources by Budget Decision Unit:	
• Operating Expenses (OE)	\$828.540
• Reserve Training (RT)	\$13.358
• Acquisition, Construction, and Improvements (AC&I)	\$408.391
• Research, Development, Test and Evaluation (RDT&E)	\$1.356
Total Drug Control Obligations	\$1,251.645
<i>Note: Excludes reimbursements and external funding streams (e.g. HIDTA and OCDEF).</i>	

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. 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 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, formerly known as the Standard Rate and User Fee Model, is developed using 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 Asset 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. An employment category defines resource use purpose. AOPS and ALMIS Electronic Asset Logbook (EAL) Employment categories represent the organizing buckets for how the Coast Guard records the type of operational activity or mission being conducted.

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 is employed conducting each Coast Guard mission as a ratio of the total resource hours spent 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 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

The Coast Guard contributed to Departmental material weaknesses in the following internal control areas: Financial Reporting, IT Controls and System Functionality, and Property, Plant and Equipment. In FY 2015, the Department remediated the Budgetary Accounting material weakness to a significant deficiency. We note the material weakness identified for Property, Plant and Equipment or IT is not relevant with respect to the information contained in this report, as there is no information presented that is reliant upon information related to fixed assets, or within the scope of the IT testwork performed. 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. This effort seeks to remedy the causes of identified material weaknesses through implementation of long-term solutions. The Coast Guard will continue this effort to strengthen its internal controls by implementing recommendations contained in Exhibit I of the FY 2015 DHS Independent Auditors' Report. The Budgetary Accounting significant deficiency was primarily driven by deficiencies in controls over Undelivered Orders, and were not related to completeness and accuracy of funding (appropriations). Thus, we determined the aforementioned weaknesses do not have a significant effect on the presentation of FY 2015 drug related obligations data.

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 2015, 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 Coast Guard's FY 2015 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.

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 reasonable and accurate, as it 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 2015 financial and AOPS/ALMIS data, as presented in the Coast Guard's FY 2015 OMB budget submission.

Financial Systems – Costs from three general ledgers are used in the Standard Rates Model. 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. Cost data residing in each of these GL is combined to develop a consolidated Total Cost Pool of operating expenses.

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 2015, 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 2015.



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Department of Homeland Security

Appendix A
Report Distribution

Department of Homeland Security

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U.S. Coast Guard

Commandant
Chief Financial Officer
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