AUDIT OF
THE COAST GUARD’S
CIVILIAN PAY BUDGET PROCESS

Office of Audits
OIG-05-29
August 2005
The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the Homeland Security Act of 2002 (Public Law 107-296) by amendment to the Inspector General Act of 1978. This is one of a series of audit, inspection, and special reports published by the OIG as part of its DHS oversight responsibilities to promote economy, effectiveness, and efficiency within the department.

The attached report presents the results of the audit of the U. S. Coast Guard Civilian Pay Budget Process that was requested by Representative Harold Rogers, Chairman, Subcommittee on Homeland Security, U.S. House of Representatives. We contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the audit. KPMG is responsible for the attached auditor’s report and the conclusions expressed in it.

The recommendations herein have been discussed in draft with those responsible for implementation. It is our hope that this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

Richard L. Skinner
Acting Inspector General
January 28, 2005

Acting Inspector General
U.S. Department of Homeland Security

KPMG LLP (KPMG) is pleased to submit this performance audit report, *Audit of the Coast Guard’s Civilian Pay Budget Process*, in fulfillment of our contract with the Department of Homeland Security’s (DHS) Office of Inspector General (OIG). The OIG asked us to evaluate certain matters related to the civilian pay budget in response to concerns raised by the Chairman of the House Subcommittee on Homeland Security, Committee on Appropriations, Harold Rogers. Those concerns are described in Section 1.0 of this report.

We conducted our audit from December 17, 2004 through January 28, 2005, and the purpose of this report is to communicate the results of our efforts. As such, we present in Section 2.0 a detailed discussion of our findings pertaining to the Coast Guard’s budget process for civilian pay.

We have shared the results of our audit with the OIG and officials from the Coast Guard and DHS and have incorporated official comments from the Chief of Staff, U.S. Coast Guard, as Section 4.0.

Since January 28, 2005, we have not performed any additional audit procedures, except as specifically noted in our report, and have no obligation to update our report or to revise the information contained therein to reflect events occurring subsequent to January 28, 2005. We appreciate the opportunity to serve the OIG and DHS.
Table of Contents

TRANSMITTAL LETTER .................................................................................................................. 2
Executive Summary ......................................................................................................................... 1
1.0 BACKGROUND .......................................................................................................................... 2
   1.1 Objectives and Scope ............................................................................................................. 2
   1.2 Methodology ......................................................................................................................... 3
2.0 RESULTS OF AUDIT .................................................................................................................. 4
   2.1 Civilian Pay Was a New Budget Category in FY 2004 ............................................................. 4
   2.2 Improvements Are Needed to Support the Civilian Pay Category ....................................... 5
3.0 Recommendations ..................................................................................................................... 9
4.0 Management’s Response .......................................................................................................... 10
Appendix A: Program, Project, and Activity Structure ............................................................... 13
Appendix B: Summary of Second Civilian Pay Reprogramming Request .................................. 14
Appendix C: Example Monitoring Techniques ............................................................................. 15
Appendix D: Chairman Rogers’ Letter .......................................................................................... 16
Appendix E: Management’s Response And Our Analysis ............................................................. 17
Executive Summary

In response to a letter dated September 16, 2004 from Chairman Rogers, the Office of Inspector General (OIG) engaged KPMG LLP (KPMG) to conduct a performance audit of civilian pay expenses and related budget reprogramming requests made by DHS for the Coast Guard in FY 2004. In his letter, Chairman Rogers said that the reprogramming requests were not adequately justified; referred to repeated discrepancies with respect to civilian pay expenses; and suggested there was little oversight and management review of these expenses.

We met with the Subcommittee’s staff to discuss the scope of our performance audit that would address Chairman Rogers’ concerns. We designed our performance audit to meet the following objectives:

- Assess whether budget formulation and execution processes and internal controls for civilian pay and benefits (civilian pay) were properly designed, and
- Assess whether those processes and controls, if properly designed, were operating effectively and could justify civilian pay reprogramming requests.

A copy of Chairman Rogers’ letter is included as Appendix D. We conducted our performance audit from December 17, 2004 through January 28, 2005, in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Results of Audit

The Coast Guard had not designed appropriate processes and internal controls for the development and execution of the civilian pay budget. As a result, the Coast Guard had difficulty supporting its FY 2004 reprogramming requests with respect to civilian pay. A change in the Coast Guard’s budget structure for FY 2004 increased the importance of good budgetary processes. Prior to FY 2004, civilian pay was part of a much larger budget category that included military pay. Now civilian pay is its own budget category and has more visibility.

Recommendations

We recommend the Coast Guard (a) analyze historical and current trend data for each of the civilian pay components when formulating the civilian pay budget and monitoring its execution, and (b) document and formalize policies and procedures related to the civilian pay budget.

Section 3.0 discusses our recommendations in further detail. Section 1.0 of this report discusses the objective, scope and methodology of our performance audit. Section 2.0 presents the results of our performance audit.
1.0 BACKGROUND

The Coast Guard is a military, maritime service that performs a wide range of security, safety, law enforcement and emergency response missions. The Coast Guard has approximately 39,000 active duty personnel, 8,000 reserve members, and 6,000 full-time permanent civilian employees. In addition, the Coast Guard has an auxiliary of approximately 32,000 civilian volunteers. In March 2003, the Coast Guard was transferred from the Department of Transportation to the newly created Department of Homeland Security.

During FY 2004, DHS submitted two reprogramming requests to Congress on behalf of the Coast Guard. A reprogramming action involves a movement of funds within an appropriation to fund requirements not anticipated when the appropriation was approved by Congress. Unless stipulated by law, an agency has the implicit authority to reprogram funds in order to manage its appropriations. In most instances, however, appropriation law requires notification of reprogramming actions to Congressional appropriation committees when such actions meet certain thresholds or conditions. In general, for FY 2004, Congress required notification from DHS 15 days in advance of reprogrammings exceeding $5 million dollars or 10 percent, whichever was less.\(^1\)

1.1 Objectives and Scope

In response to a letter dated September 16, 2004 from Chairman Rogers, the OIG engaged KPMG to conduct a performance audit of civilian pay expenses and related budget reprogramming requests made by DHS for the Coast Guard in FY 2004. In his letter, Chairman Rogers said that the reprogramming requests were not adequately justified; referred to repeated discrepancies with respect to civilian pay expenses; and suggested there was little oversight and management review of these expenses.

We met with the Subcommittee’s staff to discuss the scope of our performance audit that would address Chairman Rogers’ concerns. We designed our performance audit to meet the following objectives:

- Assess whether budget formulation and execution processes and internal controls for civilian pay and benefits (civilian pay) were properly designed, and

---

\(^1\) With respect to reprogramming actions, Section 503 (b) of the Department of Homeland Security Appropriations Act, 2004, Public Law (P.L.) 108-90, states, “None of the funds provided by this Act...shall be available for obligation or expenditure for programs, projects, or activities through a reprogramming of funds in excess of $5,000,000 or 10 percent, whichever is less, that: (1) augments existing programs, projects, or activities; (2) reduces by 10 percent funding for any existing program, project, or activity, or numbers of personnel by 10 percent as approved by the Congress; or (3) results from any general savings from a reduction in personnel that would result in a change in existing programs, projects, or activities as approved by the Congress; unless the Committees on Appropriations of the Senate and the House of Representatives are notified 15 days in advance of such reprogramming of funds.”
Assess whether those processes and controls, if properly designed, were operating effectively and could justify civilian pay reprogramming requests.

A copy of Chairman Rogers' letter is included as Appendix D. We conducted our field work from December 17, 2004 through January 28, 2005, at the Coast Guard's headquarters location in Washington, D.C. We focused our work on reprogramming requests and correspondence provided to the Committee during FY 2004. We also gained an understanding of internal controls established and implemented over the civilian pay budget formulation and execution processes.

The purpose of this report is to present the results of our performance audit (Section 2.0), and our recommendations (Section 3.0). We conducted our performance audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

1.2 Methodology

To achieve the objectives of this performance audit and address Chairman Rogers' concerns, our review consisted of interviews, document reviews, and certain corroborative procedures, as discussed below:

- **Internal interviews** – We interviewed key officials within the Coast Guard’s Planning, Resources and Procurement Directorate, including the Budget Formulation Division and the Budget Execution Division, to understand the various functions, activities, information systems, and internal controls relevant to the civilian pay budget process. In order to identify existing internal controls, we performed walk-throughs of the process for developing, reviewing and approving the civilian pay budget and related reprogramming requests. In evaluating the Coast Guard's internal controls, we considered the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*.

- **Document reviews** – To further develop our understanding of the civilian pay budget process, we reviewed applicable Coast Guard policies and procedures and laws and regulations related to Federal budgeting. To corroborate information from the various interviews, we reviewed internal documentation (i.e., memoranda, schedules, and agreements), external reports, and relevant documents (e.g., correspondence with the Subcommittee) that were available at the time of our evaluation.

- **Corroboration** – We also reviewed prior OIG and GAO audit reports falling within the scope and objective of our performance audit to familiarize ourselves with any relevant issues or concerns previously identified by these government oversight bodies.
2.0 RESULTS OF AUDIT

The Coast Guard had not designed appropriate processes and internal controls for the development and execution of the civilian pay budget. As a result, the Coast Guard had difficulty supporting its FY 2004 reprogramming requests with respect to civilian pay. A change in the Coast Guard's budget structure for FY 2004 increased the importance of good budgetary processes. Prior to FY 2004, civilian pay was part of a much larger budget category that included military pay. Now civilian pay is its own budget category and has more visibility.

02.1 Civilian Pay Was a New Budget Category in FY 2004

In his letter, Chairman Rogers expressed concern about the level of oversight and management review of civilian pay expenses. Prior to FY 2004, civilian pay was monitored as part of a much larger budget category within the Coast Guard's operating expense appropriation. A change in budget structure for FY 2004 made the need for better processes and oversight related to civilian pay more apparent.

Prior to FY 2004, the operating expense appropriation was divided into three categories, also called program, project, and activity (PPA) elements: personnel resources and two maintenance categories. Civilian pay was included with military pay in personnel resources. Civilian pay, however, was only approximately $400 million compared with military pay, which was nearly $2 billion. For FY 2004, Congress directed the Coast Guard to expand the three operating expense PPAs to six in total. Civilian pay was separated from personnel resources and became its own PPA. Appendix A traces the conversion of PPAs from three to six.

As a separate and distinct PPA, civilian pay became directly subject to the reprogramming threshold. Previously, the Coast Guard could move funds between subaccounts within the personnel resources PPA without notification to Congress. Once civilian pay became its own PPA, however, the Coast Guard had to notify Congress of the movement of funds in excess of $5 million or 10 percent, whichever was less, in accordance with P.L. 108-90.

The Coast Guard told us that it had only two months to analyze its allocation methodology and convert its PPAs from three to six for FY 2004. The change from three PPAs to six was not always a simple subdivision of each of the original PPAs. In some cases, two of the old PPAs contributed to a new PPA. Given the limited time and complexity, the Coast Guard informed us that they believed this change contributed to its reprogramming requests in FY 2004.
2.2 Improvements Are Needed to Support the Civilian Pay Category

Two Reprogramming Requests Made in FY 2004

Chairman Rogers expressed concern that two reprogramming requests made during FY 2004 were not adequately justified. DHS submitted two reprogramming requests on behalf of the Coast Guard on January 24, 2004, and August 12, 2004. In the first request, the Coast Guard requested significant adjustments to properly align funds to the new PPA structure. In the second request, the Coast Guard proposed moving $42 million from the operating funds and unit level maintenance PPA to the other five PPAs. Based on correspondence provided by the Subcommittee, the second reprogramming request appeared to be of particular concern.

Of the $42 million requested for the second reprogramming, civilian pay represented approximately $20 million, or almost half. The Coast Guard provided the following table to Congress summarizing the reasons for the reprogramming request related to civilian pay:

Table 1: Components of Second Civilian Pay Reprogramming Request – FY 2004

<table>
<thead>
<tr>
<th>Line Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY04 Omnibus Rescission</td>
<td>$ 2.3</td>
</tr>
<tr>
<td>Civilian Pay Raise above President’s Budget</td>
<td>$ 6.0</td>
</tr>
<tr>
<td>Civilian PCS Expenses²</td>
<td>$ 1.7</td>
</tr>
<tr>
<td>Higher Civilian Retention</td>
<td>$ 2.0</td>
</tr>
<tr>
<td>Military to Civilian Conversions</td>
<td>$ 1.7</td>
</tr>
<tr>
<td>AR&amp;SC Billet Costs³</td>
<td>$ 6.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$19.7</strong></td>
</tr>
</tbody>
</table>

The Omnibus Rescission and the civilian pay raise line items, totaling $8.3 million, or 42 percent of the request, appeared to be beyond the Coast Guard’s direct control. The Consolidated Appropriations Act of 2004, P.L. 108-199, was enacted on January 23, 2004, after submission of the Coast Guard’s final budget and the beginning of the fiscal year, and rescinded budget authority of .59 percent. As a result, the Coast Guard allocated an across the board reduction to all PPAs of .59 percent. The Coast Guard requested a $2.3 million reprogramming to cover a projected shortfall in the civilian pay PPA resulting from the rescission.

With respect to the civilian pay raise, the Coast Guard’s request for $6 million resulted from a timing difference between the budget and legislative processes. The Coast Guard’s FY 2004 budget request allowed for a 2 percent pay raise for civilian employees,

² PCS stands for permanent changes of station.
³ AR&SC stands for Aircraft Repair and Supply Center.
as mandated by the Office of Management and Budget (OMB). The Coast Guard’s budget was enacted on October 1, 2003 as part of the Department of Homeland Security Appropriations Act, 2004, P.L. 108-90. Subsequently, on January 23, 2004, Congress enacted a civilian pay raise of 4.1 percent. The Coast Guard said this higher rate of increase caused a shortfall of $6 million in the civilian pay budget.

The remaining line items in the reprogramming request, however, appeared to result, at least in part, from insufficient internal controls over the civilian pay budget formulation and execution processes. A discussion of these weaknesses and the remaining line items follows. A summary of our assessment of the reprogramming request for all line items is included as Appendix B.

**Budget Formulation Process Needs to Be Strengthened**

The Coast Guard formulated its FY 2004 civilian pay budget using traditional methods that did not readily support its reprogramming requests, particularly considering the new civilian pay PPA. The primary components of civilian pay PPA were:

- Salaries,
- Benefits,
- Federal Employees Compensation Act (FECA) costs,
- Permanent changes of station (PCS) costs,
- Awards, and
- Overtime.

In the past, the Coast Guard computed the civilian pay budget by multiplying the prior year’s budgeted civilian salaries and benefits by the anticipated civilian pay increase specified by OMB. For the other civilian pay components, the Coast Guard added or subtracted amounts based on judgment, anticipated program initiatives, or other factors. However, these methods were not subjected to a thorough analysis to support their validity. Specifically, the Coast Guard did not analyze each of the individual civilian pay components for historical trends and related cost drivers.

Further, we observed that the Coast Guard lacked specific policies and procedures for formulating the civilian pay budget. In preparing the FY 2003 and 2004 budget, Coast Guard personnel used Commandant Instruction M7100.3C, *Financial Resource Management Manual (FRMM)* and OMB Circular A-11. The FRMM provided policies and procedures to assist Coast Guard personnel in various budgeting and accounting activities; however, the FRMM provided only an overview of the budget process and did not address the specific policies and procedures to formulate and execute the civilian pay budget. Specifically, the FRMM did not include step-by-step instructions or guidance to prepare the civilian pay budget.

---

4 OMB specifies this increase annually in its Circular A-11, *Preparation, Submission, and Execution of the Budget.*
The lack of a strong budgeting process for civilian pay contributed to the second reprogramming request. Civilian PCS expenses and military to civilian conversions line items in Table 1 accounted for $3.4 million of the requested civilian pay reprogramming. The Coast Guard chose to fund civilian PCS expenses at the same level as the prior year without consideration of proposed or planned actions in FY 2004 or historical trends. Therefore, the Coast Guard did not increase its budget request related to civilian PCS costs, although historical data showed that the number of relocations was increasing. Of note, in FY 2005, the Coast Guard has drafted new criteria making PCS eligibility more restrictive. For military to civilian conversions, the Coast Guard did not use available historical data to make its projection, and therefore underestimated the conversion rate. With respect to the $6 million requested for AR&SC billet costs, the Coast Guard inadvertently omitted those costs in its FY 2004 budget request. The Coast Guard requested a correction in its second reprogramming request.

*Monitoring of Budget Execution Needs to Be Strengthened*

In FY 2004, the Coast Guard’s formal procedures to monitor budget execution for civilian pay were limited primarily to salaries and benefits, and their consumption or “burn,” rate. Specifically, the allotment fund code manager in the Human Resources Directorate maintained a spreadsheet that tracked limited information on a monthly basis for salaries and benefits. The information included actual payroll costs incurred, funding available for the entire civilian pay PPA, and projected year-end total civilian pay costs. The manager also maintained a list of bi-weekly payroll costs and an average daily cost for the related pay period. The manager could only make a comparison of payroll costs to the total civilian pay budget because the Coast Guard had not provided the manager with the specific budget amounts for the salary and benefits components. In FY 2004, the Coast Guard transferred the allotment fund code manager position to the Budget Execution Division to centralize the civilian pay budget function.

Although salaries and benefits make up most of the civilian pay budget, monitoring controls need to be expanded and should include all components of civilian pay, especially in light of the reprogramming threshold that now applies to civilian pay. The Coast Guard did not use other effective monitoring procedures, such as tracking the number of full-time, part-time, and temporary civilian employees by job series and grade on a monthly basis to develop and monitor civilian hiring trends. Oversight of other civilian pay components was minimal. Field units had responsibility for monitoring and managing awards and overtime against periodic spending updates provided by headquarters. These two components, however, represented less than two percent of the total budgeted civilian pay and benefits in FY 2004.
Stronger monitoring techniques might have also helped the Coast Guard reduce or avoid the line item in its second reprogramming request titled “higher civilian retention.” The Coast Guard said that the civilian hiring rate was faster than anticipated in the budget, resulting in the need for an additional $2 million. Better monitoring techniques might have helped budget personnel notice the faster rate and adjust hiring to help avoid a budget shortfall.

The Coast Guard reported that during FY 2004, it revised the process by which it tracks and reviews each of the six components of civilian pay. We noted, however, that formal policies and procedures were not in place to require the use of the methodology, identify the source of relevant component information, or specify the supervisory reviews to be performed. GAO’s Standards for Internal Control in the Federal Government says that internal controls include policies, procedures, and supervisory activities, and should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. Appropriate tracking and monitoring of all civilian pay components would assist in minimizing potential reprogramming requests and identifying and justifying such requests when needed. Appendix C provides a table of monitoring techniques that the Coast Guard may wish to consider in a comprehensive review of its monitoring procedures for civilian pay; however, it is not intended to be all-inclusive.

5 The Coast Guard inadvertently characterized the increased hiring rate of civilians as “higher civilian retention.”
3.0 Recommendations

We recommend that the Coast Guard take the following actions related to civilian pay:

1. Analyze historical and current trend data for each of the civilian pay components when formulating the civilian pay budget and monitoring its execution.

2. Document policies and procedures for formulating the civilian pay budget. The procedures should include:
   - Step-by-step instructions for each component,
   - Duties of the individuals responsible for formulating the budget,
   - Data sources and reports to be utilized, and
   - Periodic review of procedures for continued validity.

3. Formalize policies and procedures related to monitoring budget execution to require:
   - Identification of relevant monitoring information,
   - Supervisory reviews,
   - Designation of responsible individuals,
   - Timelines for monitoring activities, and
   - Periodic review of procedures for continued validity.
4.0 Management’s Response

MEMORANDUM

From: Admiral, VADM
Chief of Staff, U.S. Coast Guard

To: Assistant Inspector General for Audits

Subj: U.S. COAST GUARD CIVILIAN PAY BUDGET PROCESS

Ref: (a) Draft Report dated March 28, 2005

1. This letter transmits our comments to the Department of Homeland Security Inspector General draft report findings and recommendations contained in reference (a).

2. We have reviewed the draft report and generally concur with the findings and recommendations. We have provided some technical comments and corrections for your consideration.

3. The Coast Guard appreciates the opportunity to comment on this report and will continue its work to improve its civilian pay formulation and execution procedures. If you have any questions, please contact Mark Kulwicki at (202)-267-2294.

Enclosure: U.S. Coast Guard Comments on Draft Report
UNITED STATES COAST GUARD
STATEMENT ON INSPECTOR GENERAL REPORT

TITLE: "Audit of the U.S. Coast Guard Civilian Pay Budget Process" (Draft Report dated March 28, 2005)

The Coast Guard concurs with the findings included in this report and appreciates the efforts of KPMG in documenting areas for improvement in the Coast Guard’s civilian pay account. The Coast Guard also agrees with the recommended actions and is already in the process of implementing corrective actions. Documentation of policies and procedures is being developed and will be completed by 15 June 2005. The following comments are provided.

The overall finding of the report indicates that the Coast Guard had not designed appropriate processes and internal controls for the: 1) formulation; and 2) execution, of the civilian pay budget. In that regard, the Coast Guard has the following comments:

Recommendation: Formulation of the civilian pay budget

The Coast Guard agrees with the auditor’s findings regarding formulation of the civilian pay budget and appreciates the suggested corrective measures. The Coast Guard continually seeks improvements to the formulation process and will attempt to catalog budgeting procedures and policy in a clear, precise and accurate manner by 15 June 2005. Current directives that are followed include: OMB Circular A-11, Department of Homeland Security (Department of Transportation in the past) budget guidance, the Coast Guard Financial Resource Management Manual, and internal annual fiscal year budget guidance. Annual and periodic training is also conducted on the budget formulation processes.

In calculating the civilian pay budget the Coast Guard follows a methodology called the Personnel Compensation and Benefits (PC&B) model, which includes the primary components of the civilian pay PPA by object classifications 11.1, 11.3, 11.5, 11.8 and 12.1. The process starts by using the most recent rolled-up civilian pay and personnel base available and then mandatory base adjustments are applied such as the pay raise, with-in grade increases, and locality pay increases, etc., followed by adding or subtracting positions (FTP) and Full-Time Equivalents (FTE) as appropriate. The Coast Guard can do a better job of analyzing the trend data within this PPA and will work to diligently apply the recommendations of this audit.

Recommendation: Formalize and document policies related to monitoring the execution of the civilian pay budget

As noted in the report, the function of the civilian pay allotment fund code (AFC-08) manager position was transferred from the Coast Guard's Human Resource Directorate over to the Coast Guard's Budget Execution Division in FY 2004. This allowed the Coast Guard to centralize the civilian pay budget function. Upon this transfer, the Coast Guard implemented several controls to better track and execute the main "cost drivers" of the civilian pay account. These controls included more stringent supervisory reviews and financial system controls that limit the amount of civilian relocation costs allowed in a fiscal year; as well as a recurring monthly review of the civilian pay account by senior-level financial managers in the Human Resource Directorate and Planning, Resource, & Procurement Directorate. Several other initiatives that have taken place
since the audit include increased monitoring of vacant civilian billets, as well as on-going controls to better utilize civilian overtime.

The Coast Guard acknowledges its need to improve its documentation of these policies and procedures and will, in conjunction with its formulation procedures, better formalize these controls. The Coast Guard will also consult with GAO’s Standards for Internal Control in the Federal Government, along with DHS OIG and KPMG’s suggestions outlined in Appendix C.

Other Technical Comments and Corrections:

1) Page 7, 2nd paragraph of section 2.1: “Civilian pay, however, was only approximately $400 million compared with military pay, which was more than $3 billion.” This is incorrect. The old PPA 1 was over $3 billion; and AFC-01 (military pay), a component of the old PPA 1, was just under $2 billion.

2) Page 10, 1st complete paragraph, last two sentences: “With respect to the $6 million requested for AR&SC billet costs, the Coast Guard inadvertently omitted those costs in its FY2004 budget request. The Coast Guard requested a correction in its first reprogramming request, but that request was not approved.” These sentences are not factually correct. The Coast Guard did not omit those costs in its FY 2004 budget request; they were incorrectly included in PPA 6 (Depot Level Maintenance) with the new PPA structure mandated by Congress. Upon this discovery, the Coast Guard sought the technical adjustment to correctly allocate these wage grade billet costs to the appropriate PPA. It should be noted that the Coast Guard did not request to reprogram any dollars with AR&SC billets in the first reprogramming. The reprogramming of dollars associated with AR&SC billets was included in the second reprogramming submission of August 12, 2004, and was approved by both Homeland Security subcommittees. This same inaccuracy is stated in the table of Appendix B, page 15, seventh row, third column.
Appendix A: Program, Project, and Activity Structure

Expansion of PPAs within the Operating Expense Appropriation

<table>
<thead>
<tr>
<th>FY 2003 and Prior</th>
<th>FY 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel Resources</td>
<td>Military Pay and Allowances</td>
</tr>
<tr>
<td></td>
<td>Civilian Pay and Benefits</td>
</tr>
<tr>
<td>Operating Funds and Unit Level Maintenance</td>
<td>Training and Recruiting</td>
</tr>
<tr>
<td></td>
<td>Operating Funds and Unit Level Maintenance</td>
</tr>
<tr>
<td></td>
<td>Centrally Managed Accounts</td>
</tr>
<tr>
<td>Intermediate and Depot Level Maintenance</td>
<td>Intermediate and Depot Level Maintenance</td>
</tr>
</tbody>
</table>
## Appendix B: Summary of Second Civilian Pay Reprogramming Request
($ in millions)

<table>
<thead>
<tr>
<th>Line Item</th>
<th>Amount</th>
<th>Coast Guard’s Explanation for Reprogramming</th>
<th>KPMG’s Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY04 Omnibus Rescission</td>
<td>$ 2.3</td>
<td>Amount was not considered when the budget was formulated.</td>
<td>Not in Coast Guard’s direct control. Projecting such potential actions can be difficult at the time of budget formulation.</td>
</tr>
<tr>
<td>Civilian Pay Raise above President’s Budget</td>
<td>$ 6.0</td>
<td>Due to timing difference.</td>
<td>Not in Coast Guard’s direct control. Coast Guard budgeted for salaries at the rate set by OMB. Congress subsequently enacted a higher pay raise.</td>
</tr>
<tr>
<td>Civilian PCS Expenses</td>
<td>$ 1.7</td>
<td>Category was funded at the same level as FY 2003; additional costs were not budgeted for FY 2004.</td>
<td>Ineffective formulation process. Coast Guard did not consider any increase for FY 2004, although historical data indicated otherwise.</td>
</tr>
<tr>
<td>Higher Civilian Retention</td>
<td>$ 2.0</td>
<td>New hires were brought on board sooner than anticipated.</td>
<td>Ineffective monitoring process.</td>
</tr>
<tr>
<td>Military to Civilian Conversions</td>
<td>$ 1.7</td>
<td>Actual number of positions converted from military to civilian was greater than accounted for in budget.</td>
<td>Ineffective formulation process. The FY 2004 budget did not consider the increase in military to civilian conversions as reflected by the historical data.</td>
</tr>
<tr>
<td>AR&amp;SC Billet Costs</td>
<td>$ 6.0</td>
<td>Technical correction was requested in the second reprogramming request as the amount was originally classified in PPA-6.</td>
<td>Ineffective formulation process. Lack of detailed procedures led to this oversight in the FY 2004 budget.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$19.7</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Appendix C: Example Monitoring Techniques

<table>
<thead>
<tr>
<th>Cost Driver(s)</th>
<th>Types of Monitoring Techniques</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Salaries</strong></td>
<td></td>
</tr>
<tr>
<td>• FTEs</td>
<td>Track the number of current full-time, part-time, and temporary employees by job series and grade on a monthly basis to develop and monitor civilian hiring trends.</td>
</tr>
<tr>
<td>• Promotions</td>
<td>On a monthly basis, re-evaluate the anticipated number of new hires, new retirees, and new military-to-civilian conversions based on the civilian hiring trends and the current operating environment to identify potential shortfalls prior to the end of the fiscal year.</td>
</tr>
<tr>
<td>• Retirement</td>
<td></td>
</tr>
<tr>
<td>• Military-to-civilian conversions</td>
<td></td>
</tr>
<tr>
<td><strong>Benefits</strong></td>
<td></td>
</tr>
<tr>
<td>• FTEs</td>
<td>Track the total amount of civilian benefits by job series/grade paid on a monthly basis to develop and monitor benefit-spending trends.</td>
</tr>
<tr>
<td>• Promotions</td>
<td>Develop an expectation for the average benefits paid to employees within each pay grade and series. Using the expectation developed and the civilian hiring trends, develop an estimate for anticipated increases or decreases in civilian benefits for the remainder of the fiscal year.</td>
</tr>
<tr>
<td>• Retirement</td>
<td></td>
</tr>
<tr>
<td>• Military-to-civilian conversions</td>
<td></td>
</tr>
<tr>
<td><strong>PCS Costs</strong></td>
<td>Workforce needs at Coast Guard units and headquarters</td>
</tr>
<tr>
<td><strong>FECA Costs</strong></td>
<td>Track civilian PCS costs at the OMB object class code level on a monthly basis, utilizing current obligation data and approved PCS benefits that have been awarded but not obligated.</td>
</tr>
<tr>
<td><strong>Awards</strong></td>
<td>Worker’s compensation claims filed</td>
</tr>
<tr>
<td><strong>Overtime</strong></td>
<td>Prepare a historical trend of FECA costs based on prior FECA bills.</td>
</tr>
<tr>
<td>• Workforce demands</td>
<td>Track award spending by Administrative Target Unit (ATU) on a monthly basis to identify potential overspending by an ATU.</td>
</tr>
<tr>
<td>• Current operating environment</td>
<td></td>
</tr>
<tr>
<td>• Workforce demands</td>
<td>Track overtime costs by ATU on a monthly basis to identify potential shortfalls based on the overtime trends and current events.</td>
</tr>
</tbody>
</table>
Appendix D: Chairman Rogers’ Letter

September 16, 2004

Mr. Clark Kent Ervin
Inspector General
Department of Homeland Security
Washington, DC 20528

Dear Mr. Ervin:

This letter is to request your expedited assistance in review of a Coast Guard matter for the Subcommittee. The Committee has received two reprogramming requests this past year from the Coast Guard that have not been adequately justified. There have been repeated discrepancies about how the Coast Guard is obligating, tracking, and accounting for civilian pay expenses, including, but not limited to, pay parity with respect to annual inflation, workers compensation, relocation costs, staffing levels, and internal controls for managing the expenditures.

For each reprogramming, the amounts requested changed significantly from the original submittal. It appears as if there is very little oversight and management review of these expenses. I am requesting that the Office of Inspector General audit the Coast Guard’s civilian pay expenses for the past five years, including fiscal year 2004 to date. The Subcommittee appreciates your evaluation of this matter and requests that you report back to the Subcommittee by February 1, 2005.

If you have any questions about this request, please do not hesitate to contact Stephanie Gupta of the majority staff on (202) 225-5834.

Thank you for your assistance.

Sincerely,

[Signature]

Harold Rogers
Chairman
Subcommittee on Homeland Security
Appendix E: Management’s Response And Our Analysis

In a memorandum dated May 16, 2005, from the Chief of Staff, U.S. Coast Guard, management provided an official response to our draft report dated March 28, 2005. On page 3 of the memorandum, management disagreed with certain statements in our report. As previously noted, the full text of the memorandum is presented as Section 4.0. We have evaluated such comments and have revised our report where we deemed necessary. In addition, in the following paragraphs, we provide KPMG’s responses to certain of these management comments.

**Coast Guard’s Comment** - The comment stated, “The old PPA 1 was over $3 billion; and AFC-01 (military pay), a component of the old PPA 1, was just under $2 billion.”

**KPMG’s Response** - We agree with the Coast Guard’s comment. As such, on page 7, we have revised the report to read, “…compared with military pay, which was nearly $2 billion.”

**Coast Guard’s Comment** - The comment stated, “The Coast Guard did not omit those [AR&SC billet costs, see page 10] costs in its FY 2004 budget request; they were incorrectly included in PPA-6 (Depot Level Maintenance) with the new PPA structure mandated by Congress. Upon this discovery, the Coast Guard sought the technical adjustment to correctly allocate these wage grade billet costs to the appropriate PPA. It should be noted that the Coast Guard did not request to reprogram any dollars with the AR&SC billets in the first reprogramming. The reprogramming of dollars associated with AR&SC billets was included in the second reprogramming submission.”

**KPMG’s Response** – The Coast Guard said that it did not omit AR&SC billet costs in its FY 2004 budget request, but the net result was that those costs were not included in the civilian pay PPA. Therefore, we did not change the language in our report. However, we agree that the Coast Guard did not request to reprogram any dollars with the AR&SC billets in the first reprogramming. We have revised page 10 of the report to read, “The Coast Guard requested a correction in its second reprogramming request,” and we updated Appendix B on page 17 to read, “Technical correction was requested in the second reprogramming request as the amount was originally classified in PPA-6.”
REPORT DISTRIBUTION

Department of Homeland Security

Secretary
Deputy Secretary
Chief of Staff
General Counsel
Executive Secretariat
Under Secretary, Management
Assistant Secretary for Public Affairs
Chief Financial Officer
Deputy Chief Security Officer
OIG Liaison

United States Coast Guard

Chief of Staff
Chief Financial Officer
OIG Liaison

Office of Management and Budget

Chief, Homeland Security Branch
DHS OIG Program Examiner

Congress

Committee on Homeland Security and Governmental Affairs
United States Senate

Committee on Homeland Security
United States House of Representatives

Congressional Oversight and Appropriations Committees, as appropriate
Additional Information and Copies

To obtain additional copies of this report, call the Office of Inspector General (OIG) at (202) 254-4100, fax your request to (202) 254-4285, or visit the OIG web site at www.dhs.gov.

OIG Hotline

To report alleged fraud, waste, abuse or mismanagement, or any other kind of criminal or noncriminal misconduct relative to department programs or operations, call the OIG Hotline at 1-800-323-8603; or write to Department of Homeland Security, Washington, DC 20528, Attn: Office of Inspector General, Investigations Division – Hotline. The OIG seeks to protect the identity of each caller and writer.