Audit Report

MANAGEMENT CONTROLS OVER THE FY 2000 NATIONAL DRUG CONTROL PROGRAM FUNDS MANAGED THROUGH THE DOD CENTRAL TRANSFER ACCOUNT

Report No. D-2001-117 May 10, 2001

Office of the Inspector General
Department of Defense

Additional Copies

To obtain additional copies of this audit report, visit the Inspector General, DoD, Home Page at www.dodig.osd.mil/audit/reports or contact the Secondary Reports Distribution Unit of the Audit Followup and Technical Support Directorate at (703) 604-8937 (DSN 664-8937) or fax (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Audit Followup and Technical Support Directorate at (703) 604-8940 (DSN 664-8940) or fax (703) 604-8932. Ideas and requests can also be mailed to:

OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-4704

Defense Hotline

To report fraud, waste, or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending an electronic message to Hotline@dodig.osd.mil; or by writing to the Defense Hotline, The Pentagon, Washington, DC 20301-1900. The identity of each writer and caller is fully protected.

Acronyms

ACC	Air Combat Command
DEP&S	Drug Enforcement Policy and Support
DFAS	Defense Finance and Accounting Service
FSSC	Fleet Surveillance Support Command
JIATF-W	Joint Interagency Task Force West
NSWC	Naval Special Warfare Command
O&M	Operation and Maintenance
ONDCP	Office of National Drug Control Policy
ROTHR	Relocatable Over-The-Horizon Radar
STARS-FL	Standard Accounting and Reporting System – Field Level
ULO	Unliquidated Obligations

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

May 10, 2001

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DEPUTY ASSISTANT SECRETARY OF DEFENSE (DRUG ENFORCEMENT POLICY AND SUPPORT)

SUBJECT: Audit Report on the Management Controls Over the FY 2000 National Drug Control Program Funds Managed Through the DoD Central Transfer Account (Report No. D-2001-117)

We are providing this report for your information and use. We conducted this audit in support of the attestation review of the annual DoD Drug Control Obligation Report required by the Office of National Drug Control Policy Reauthorization Act of 1998. We considered management comments on a draft of this report when preparing the final report.

Comments received on the draft of this report conformed to the requirements of DoD Directive 7650.3. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Robert Murrell at (703) 604-9180 (DSN 664-9180) (rmurrell@dodig.osd.mil) or Mr. Albert Putnam at (703) 604-8779 (DSN 664-8779) (aputnam@dodig.osd.mil). The audit team members are listed inside the back cover. See Appendix E for the report distribution.

Thomas F. Gimble
Acting
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. D2001-117 **May 10, 2001**
(Project No. D2000LH-0241)

Management Controls Over the FY 2000 National Drug Control Program Funds Managed Through the DoD Central Transfer Account

Executive Summary

Introduction. This audit was performed to support the attestation review of the annual DoD Drug Control Obligation Report required by the Office of National Drug Control Policy Reauthorization Act of 1998 (Public Law 105-277). Under the Act, Congress reauthorized the Office of National Drug Control Policy for 5 years and increased its authority and responsibilities. We performed a review on the FY 1999 DoD counterdrug program (see Appendix A, Prior Coverage). The audit work performed on the DoD FY 1999 counterdrug budget did not identify any significant problems with management controls over the obligation of funds. Therefore, the scope of our FY 2000 review was more limited than the audit previously performed.

Section 705 of the Act requires Federal agencies involved in the National Drug Control Program to submit to the Director, Office of National Drug Control Policy, no later than February 1 of each year a detailed accounting of funds expended during the previous fiscal year. The Act further states that the reports will be authenticated by the Inspector General of the respective Federal agency.

The DoD counterdrug program is administered by the Office of the Deputy Assistant Secretary of Defense (Drug Enforcement Policy and Support). The DoD counterdrug program is controlled and funded through the DoD Central Transfer Account. When the budgeted counterdrug funds are received, they are placed in the DoD Central Transfer Account and subsequently reprogrammed to the Services, Defense agencies, and the National Guard Bureau responsible for executing the DoD counterdrug program. The DoD counterdrug program for FY 2000 was funded at $838.8 million, excluding operating tempo funds. The Services receive operating tempo funds directly for the counterdrug program to cover flying and steaming hours. Operating tempo funds were not included in our review.

Objectives. Our audit objective was to evaluate the management controls over obligations and unliquidated obligations of DoD National Drug Control Program funds to determine whether the controls ensure that the funds are used for the purpose intended by Congress.

Results. Management controls over distribution of the FY 2000 National Drug Control Program funds managed through the DoD Central Transfer Account were initially reasonable, however, procedures were changed during the year that lessened the effectiveness of the controls. During execution of the FY 2000 budget, the Office of the Deputy Assistant Secretary of Defense (Drug Enforcement Policy and Support) stopped reprogramming funds by project code from the DoD Central Transfer Account to the Defense Components. As a result, a documented audit trail for adequate control and oversight over the DoD counterdrug budget was eliminated.

During both this audit and our prior audit, we noted that management controls over obligations of DoD counterdrug funds were reasonable to ensure that the funds were used for their intended purpose. However, the budget execution data used to prepare the DoD annual report to the Office of National Drug Control Policy came from a multitude of sources and were processed on a number of different financial systems, which were not in compliance with Federal and DoD reporting requirements. Management is working with the Office of the Under Secretary of Defense (Comptroller) to make sure that when the DoD financial systems become compliant with Federal and DoD reporting requirements, the systems will be able to provide the detailed data necessary to produce the DoD report to the Office of National Drug Control Policy. In addition, the tabulation of and reporting on unliquidated obligations at the organizations we visited was in compliance with the DoD Financial Management Regulation.

Summary of Recommendation. We recommend that the Deputy Assistant Secretary of Defense (Drug Enforcement Policy and Support), in coordination with the Under Secretary of Defense (Comptroller), incorporate by reference the Deputy Assistant Secretary of Defense (Drug Enforcement Policy and Support) data sheet attachment showing the funding allocation by project code into the DD 1415-3, "Reprogramming Action - Internal," when funds are reprogrammed from the DoD Central Transfer Account to the Defense Components.

Management Comments. The Office of the Department of Defense Coordinator for Drug Enforcement Policy and Support concurred with the recommendation to coordinate with the Under Secretary of Defense (Comptroller) to incorporate into the DD 1415-3, "Reprogramming Action – Internal," by reference, the data sheet showing the funding allocation by project code. See the finding section for the complete discussion of management comments and the Management Comments section for the complete text of the management comments.

Table of Contents

Executive Summary i

Introduction

Background 1
Objectives 1

Finding

Reprogramming Actions from the Central Transfer Account 2

Appendixes

A. Audit Process
Scope and Methodology 7
Management Control Program Review 8
Prior Coverage 9
B. Attestation Memorandum for DoD Coordinator for Drug Enforcement Policy and Support 10
C. Compliance Status of Accounting Systems 12
D. Organizations Visited 13
E. Report Distribution 20

Management Comments

DoD Coordinator for Drug Enforcement Policy and Support 22

Background

The Office of National Drug Control Policy Reauthorization Act of 1998 (Public Law 105-277) requires Federal agencies that receive National Drug Control Program funds to provide a detailed accounting of the prior fiscal year funding to the Office of National Drug Control Policy (ONDCP) by February 1 of each year. The Act also requires the respective agency Inspectors General to authenticate the reports prior to submission to ONDCP. To implement the requirement, "ONDCP Circular: Annual Accounting of Drug Control Funds" (ONDCP Circular) was issued December 17, 1999. The ONDCP Circular prescribes the form and content of how the report should be presented.

National Drug Control Program. ONDCP is responsible for setting priorities, implementing a national strategy, and certifying Federal drug control budgets. ONDCP is also responsible for ensuring that Federal agencies with counterdrug programs spend their counterdrug funds in compliance with agency-approved budgets and in compliance with the National Drug Control Strategy. The National Drug Control Strategy provides a comprehensive plan to reduce drug use through treatment and prevention and to attack the supply of drugs through law enforcement and international cooperation.

DoD Counterdrug Program. DoD receives National Drug Control Program funds and executes those funds through the DoD counterdrug program. The Office of the Deputy Assistant Secretary of Defense (Drug Enforcement Policy and Support) (DEP&S) is responsible for administering the DoD counterdrug program and ensuring that it conforms to the National Drug Control Strategy. The functions of the DoD counterdrug program include drug testing of military and civilian personnel; providing assistance, training, and support to law enforcement agencies; gathering and analyzing intelligence; educating youth to reject drugs; and detecting and monitoring drug trafficking routes. The counterdrug program is controlled and funded through the DoD Central Transfer Account. The DoD counterdrug program for FY 2000 was funded at $838.8 million, excluding operating tempo funds. In addition, the Services receive operating tempo funds to support the DoD counterdrug program. Those funds cover flying and steaming hours. The Services receive and control the operating tempo funds directly and not through the DoD Central Transfer Account. Therefore, operating tempo funds were not included in our review. The Services reported about $129 million in operating tempo counterdrug obligations during FY 2000.

Objectives

The audit objective was to evaluate the management controls over obligations and unliquidated obligations of DoD National Drug Control Program funds to determine whether those controls ensure that the funds are used for the purpose intended by Congress. See Appendix A for a discussion of the audit scope, methodology, and prior audit coverage.

Reprogramming Actions from the Central Transfer Account

Management controls over the distribution of FY 2000 National Drug Control Program funds managed through the DoD Central Transfer Account were initially reasonable, however, procedures were changed during the year, which lessened the effectiveness of the management controls. To expedite the release of funds, DEP&S stopped reprogramming the funds by project code from the DoD Central Transfer Account to the Defense Components during execution of the FY 2000 budget. The change occurred in June 2000, affecting $52 million of the total $838.8 million of FY 2000 funds. As a result, a documented audit trail for adequate control and oversight over the DoD counterdrug budget was eliminated.

Central Transfer Account

Management controls over distribution of FY 2000 National Drug Control Program funds received by DoD and managed through the DoD Central Transfer Account were initially reasonable. The DoD counterdrug budget is received as a single line item with no appropriation type identified. The funds are placed into the DoD Central Transfer Account managed by DEP&S. The DoD Central Transfer Account is used by DoD to separate, account for, and distribute the DoD counterdrug budget to Defense Components for execution.

During FY 2000, DEP&S initiated four reprogramming actions that provided funding to the various Defense Components. The counterdrug funds were reprogrammed to about 18 Defense Components by project code and identified by appropriation type. The Defense Components then transferred the funds to their subordinate commands and organizations that had responsibility for budget execution. The breakdown of DoD counterdrug funding by Defense Components and appropriation type is shown in the table below.

FY 2000 DoD Counterdrug Funding by Appropriation

	in millions					
Defense Components	MILCON	MILPERS	O&M	Procurement	RDT&E	Total
Army	$ 0	$ 7.4	$143.4	$ 3.5	$ 0	$154.3
Navy	0	11.9	146.6	11.8	24.2	194.5
Air Force	10.8	2.5	109.2	12.6	0	135.1
National Guard Bureau	0	193.1	38.3	0	0	231.4
Other Defense agencies	0	0	99.0	15.6	8.9	123.5
Total	**$10.8**	**$214.9**	**$536.5**	**$43.5**	**$33.1**	**$838.8**

MILCON Military Construction
MILPERS Military Personnel
O&M Operation and Maintenance
RDT&E Research, Development, Test, and Evaluation

Reprogramming Actions from the DoD Central Transfer Account

During the execution of the FY 2000 counterdrug budget, DEP&S stopped reprogramming funds from the DoD Central Transfer Account to Defense Components by project code to expedite the release of funds, beginning in June 2000. About $52 million of the total $838.8 million of FY 2000 Counterdrug funds were affected.

Counterdrug funds are reprogrammed from the DoD Central Transfer Account to the Defense Components by issuing a DD 1415-3, "Reprogramming Action – Internal." Each DoD counterdrug mission or function is identified by a four-digit DoD counterdrug project code assigned by DEP&S and used for internal budgetary control purposes. When counterdrug funds were reprogrammed, a DD 1415-3 was prepared that listed the Defense Component receiving the funds, the applicable budget activity and amount, and the applicable counterdrug project code. The DD 1415-3 was then signed by the Office of the Under Secretary of Defense (Comptroller), and the funds were released to the appropriate Defense Components. That action provided DEP&S with adequate control and visibility and a well-documented audit trail showing where the DoD counterdrug budget was distributed.

During FY 2000, four reprogramming actions took place. The first two reprogramming actions showed the Defense Component, the applicable budget activity and amount, and the specific project code on the DD 1415-3. The last two actions, dated June 30, 2000 and August 24, 2000, did not identify a specific project code. Instead, the DD 1415-3 showed only the Defense Component, the applicable budget activity and amount, and contained a statement that the funding was for drug interdiction. DEP&S included an attachment that identified project codes, but the attachment did not officially designate the funds to specific project codes as the DD 1415-3 had done. The funds were designated for counterdrug purposes, but the revised procedures give little assurance that the counterdrug budget will be executed as directed by DEP&S. DEP&S personnel stated that the reason for changing the reprogramming action procedures was to expedite the reprogramming process so that the Defense Components would receive the counterdrug funds in a more timely manner.

The last two reprogramming actions accounted for $52 million of the total $838.8 million that was reprogrammed from the DoD Central Transfer Account during FY 2000. The change in procedures eliminated a well-documented audit trail used for control and oversight of budget execution. Therefore, the data sheet attachment prepared by DEP&S, showing the funding allocation by project code, should be incorporated by reference on the DD 1415-3 to ensure that the funds will be distributed and executed in accordance with the DEP&S execution plan.

Reporting of Obligations

Each Defense Component that executed counterdrug funding received from the DoD Central Transfer Account was responsible for accurately reporting the budget execution results to DEP&S. DEP&S consolidates the year-end results provided by the Defense Components to prepare the DoD annual report to ONDCP that satisfies reporting requirements of Public Law 105-277. The budget execution data used to prepare the DoD annual report to ONDCP came from a multitude of sources and were processed on several financial systems, which were not compliant with Federal and DoD reporting requirements. That condition was addressed in Inspector General, DoD, Report No. D-2000-145, "Management Controls Over National Drug Control Program Funds Managed Through the DoD Central Transfer Account," June 9, 2000. DEP&S management is working with the Office of the Under Secretary of Defense (Comptroller) to ensure that when the DoD financial systems become compliant with Federal and DoD requirements, the systems will be able to provide the detailed data necessary to prepare the DoD report to ONDCP. The planned milestone dates for when the systems will become compliant are listed in Appendix C.

DoD Attestation Memorandum

We received the FY 2000 DoD annual report to ONDCP for review on January 25, 2001. The FY 2000 table of obligations was prepared using the same procedures used to prepare the FY 1999 annual report. Our FY 2000 attestation memorandum (see Appendix B) states that we could not attest to the accuracy of the obligation amounts, but could attest to the reasonableness of the methodology used to control and account for the DoD counterdrug budget obligations. However, future attestation results could be adversely affected unless management requires the reprogramming actions from the DoD Central Transfer Account to be allocated by project codes.

Our attestation memorandum also states that the FY 2000 annual report was not compliant with the ONDCP Circular because the report did not include information regarding DoD personnel resources used on drug control programs, the percentage of the DoD total budget used on counterdrug programs, and a table of management assertions. However, those portions of the annual report are applicable to Federal agencies that account for the counterdrug budget as a percentage or an estimate of the total agency budget. DoD manages its counterdrug budget through the DoD Central Transfer Account and does not use percentages or estimates. The DoD counterdrug budget is approved annually for specific programs, and resources applied to those programs are tracked through the DoD Central Transfer Account.

The ONDCP Circular also requires listing the accounting systems used to process accounts funded by the counterdrug budget and any identified material weakness associated with those systems. DEP&S identified three of the major systems used: the Standard Finance System, which processes Army accounts;

the Standard Accounting and Reporting System, which processes Navy accounts; and the General Accounting and Finance System, which processes Air Force accounts. The report also states that the National Guard Bureau employed a central accounting service from the Defense Finance and Accounting Service (DFAS) to process its accounts but did not identify the system. From our previous audit work on the FY 1999 counterdrug budget, we identified the National Guard Bureau system as the State Accounting and Budget Expenditure Reservation System. The DEP&S report to ONDCP does not report any material weaknesses associated with those systems. However, we found that none of those systems are compliant with Federal and DoD reporting requirements. Some of the systems are listed as legacy systems that will be replaced and some will be modified or redesigned to make them compliant with applicable requirements. See Appendix C for the DoD planned milestone dates when each system will be compliant with applicable requirements or will be replaced.

Organizations Reviewed

The audit work performed on the DoD FY 1999 counterdrug budget did not identify any significant problems with management control over the obligation of funds, therefore, the scope of this review was more limited than that of the audit we previously performed. The results of our review of management controls over the obligation and financial reporting relating to National Drug Control Program Funds for the organizations we visited during this audit are summarized at Appendix D. The finding discusses overall management controls over the distribution of National Drug Control Program Funds.

Conclusion

Management controls over distribution of FY 2000 National Drug Controls Program funds were initially reasonable to ensure that the funds were used for the intended purpose. However, procedures were changed during the year to discontinue reprogramming funds from the DoD Central Transfer Account to the Defense Components by project code. The revised procedures eliminated a well-documented audit trail of how the DoD counterdrug program budget was distributed for execution.

Recommendation and Management Comments

We recommend that the Deputy Assistant Secretary of Defense (Drug Enforcement Policy and Support), in coordination with the Under Secretary of Defense (Comptroller), incorporate by reference the Deputy Assistant Secretary of Defense (Drug Enforcement Policy and Support) data sheet attachment showing the funding allocation by project code into the DD 1415-3, "Reprogramming Action - Internal," when funds are reprogrammed from the DoD Central Transfer Account to Defense Components.

Office of the Department of Defense Coordinator for Drug Enforcement Policy and Support Comments. The Acting Deputy Assistant Secretary of Defense (Drug Enforcement Policy and Support) concurred with the recommendation and will coordinate with the Under Secretary of Defense (Comptroller) to incorporate into the DD 1415-3, "Reprogramming Action – Internal," by reference, the data sheet attachment prepared by DEP&S showing the funding authorization by individual project code. This will occur when funds are reprogrammed from the DoD Central Transfer Account to the Defense Components.

Appendix A. Audit Process

Scope and Methodology

The audit performed on the DoD FY 1999 counterdrug budget did not identify any significant problems; therefore, the scope of this review of the DoD FY 2000 counterdrug budget was more limited. In addition to reviewing reprogramming of funds from the DoD Central Transfer Account and controls over obligations, we reviewed unliquidated obligations to determine if the validation review was being accomplished as required by the DoD Financial Management Regulation. The regulation requires unliquidated obligations that exceed a certain dollar threshold, depending on appropriation type, to be validated three times a year. We used the FY 2000 Financial Obligation Status Reports and funding documents to review the management controls over the DoD counterdrug projects managed by the Air Combat Command (ACC), the Fleet Surveillance Support Command (FSSC), the Joint Interagency Task Force West (JIATF-W), and the Naval Special Warfare Command (NSWC). We reviewed procedures for approving, recording, and reporting FY 2000 obligations of the DoD counterdrug funds at each organization responsible for budget execution that we visited. We reviewed contract modifications, financial obligation status reports, funding documents, laws, Military Interdepartmental Purchase Requests, purchase orders, travel authorizations, and other data necessary to achieve the audit objectives. We also interviewed personnel responsible for budget execution at each of the sites we visited.

DoD-Wide Corporate-Level Coverage. In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate-level goals, subordinate performance goals, and performance measures. This report pertains to the achievement of the following corporate-level goal and subordinate performance goal:

> **FY 2001 DoD Corporate Level Goal 2:** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploring the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-2)**
> **FY 2001 Subordinate Performance Goal 2.5:** Improve DoD financial and information management. **(01-DoD-2.5)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following Financial Management Functional Area objective and goal:

> **Objective:** Eliminate problem disbursements. **Goal:** Improve timeliness and accuracy of obligations. **(FM-3.3)**

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management high-risk area.

Use of Computer-Processed Data. We relied on computer-processed data from the accounting systems at each Defense Component visited to determine the amount of funding received and obligations recorded. Although we did not perform a formal reliability assessment of the computer-processed data, we determined that the funding received by the Defense Components and obligations reported agreed with the information in the computer-processed data. We did not find any errors that would preclude use of the computer-processed data to meet the audit objectives or that would change the conclusions in this report.

Audit Type, Dates, and Standards. We performed this financial-related audit from September 2000 through March 2001 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD. Further details are available on request.

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We examined management controls over the obligation and financial reporting of National Drug Control Program funds at selected organizations that actually executed portions of the FY 2000 counterdrug budget. We also reviewed overall DoD management controls over the distribution of National Drug Control Program Funds. We limited our review of the management control program at Major Command recipients of drug control funds who only had management oversight of the funds, but delegated the budget execution to subordinate organizations.

Adequacy of Management Controls. Management controls over distribution of National Drug Control Program Funds managed through the DoD Central Transfer Account were initially reasonable, but DEP&S changed procedures during the year and stopped reprogramming the funds from the DoD Central Transfer Account to Defense Components by project code. The change eliminated a well-documented audit trail.

Management controls over obligation of and financial reporting that relates to National Drug Control Funds managed through the DoD Central Transfer

Account were adequate to prevent misuse of the funds at the organizations that we visited that executed the DoD counterdrug budget. For the results of our review of the Management Control Program at the budget execution sites we visited, see Appendix D.

Prior Coverage

During the last 5 years, the Inspector General, DoD, issued one report covering National Drug Control Program funds managed through the DoD Central Transfer Account. Unrestricted Inspector General, DoD, reports can be accessed through the Internet at http://www.dodig.osd.mil/audit/reports.

Inspector General, DoD

Inspector General, DoD, Report No. D-2000-145, "Management Controls Over National Drug Control Program Funds Managed Through the DoD Central Transfer Account," June 9, 2000

Appendix B. Attestation Memorandum for DoD Coordinator for Drug Enforcement Policy and Support

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

January 31, 2001

MEMORANDUM FOR DEPARTMENT OF DEFENSE COORDINATOR FOR DRUG ENFORCEMENT POLICY AND SUPPORT

SUBJECT: Attestation Review of the January 24, 2001, DoD FY 2000 Drug Control Obligations Report (Report No. D-2001-901)

We are providing this memorandum in response to Public Law 105-277, "The Office of National Drug Control Policy Reauthorization Act." The law requires the Office of the Inspector General to authenticate the DoD accounting of funds expended on the National Drug Control Program before submission of such accounting to the Director, Office of National Drug Control Policy. The Office of National Drug Control Policy (ONDCP) Circular, "Annual Accounting of Drug Control Funds," December 17, 1999, provides the policies and procedures to be used for reporting and authenticating all funds obligated by DoD on National Drug Control Program activities.

In accordance with the ONDCP Circular, the Office of the Inspector General was to review the DoD FY 2000 Drug Control Obligations Report (the FY 2000 Report) and related management assertions on drug control methodology, application methodology, and financial planning and attest to the reliability of the report. Our attestation review was conducted in accordance with the standards established by the American Institute of Certified Public Accountants. An attestation review is substantially less in scope than an examination. The objective of an examination is to express an opinion. Accordingly, we do not express such an opinion. The scope of the FY 2000 attestation review was further limited because the FY 2000 Report was not received from your office until January 25, 2001. We realize the main cause for the delay was the result of the late receipt of financial data from some of the Defense Components responsible for budget execution.

We cannot attest to the Table of Obligations at Tab A of the report. The FY 2000 Report was manually prepared from data submitted by the Military Departments and other DoD agencies and not directly from official DoD accounting systems. We did not perform a review of the OPTEMPO obligations as shown in Tab A because OPTEMPO funds are allocated directly to the Military Departments and not through the DoD Central Transfer Account. However, we can attest that the methodologies used to develop the Table of Obligations, as described in Tab B, do appear reasonable based on audit work performed.

The FY 2000 Report was not completed in accordance with the ONDCP Circular. The FY 2000 Report did not include required information regarding DoD personnel resources used on drug control programs, the percentage of the DoD total budget used on counterdrug programs, and a table of management assertions. However, these portions of the report are applicable to those Federal agencies that account for the counterdrug budget as a percentage or an estimate of the total agency budget. DoD manages its counterdrug budget through the Central Transfer Account

and does not use percentages or estimates. The DoD counterdrug budget is approved annually for specific programs, and resources applied to those programs are tracked through the Central Transfer Account. The FY 2000 Report was also incomplete with regard to listing all accounting systems used and the material management control weaknesses of the accounting systems.

Nothing came to our attention during our review that caused us to believe that the obligations reported were used for purposes other than the National Drug Control Program. Had we performed additional procedures, other matters might have come to our attention that would be reported to you.

We appreciate the courtesies extended to the review staff. Questions on the review should be directed to Mr. Robert M. Murrell at (703) 604-9180 (rmurrell@dodig.osd.mil) or Mr. Albert L. Putnam at (703) 604-8779 (aputnam@dodig.osd.mil).

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Attachment

cc: Director, Office of Programs, Budget, Research and Evaluations, ONDCP

2

Appendix C. Compliance Status of Accounting Systems

The table below identifies the accounting systems that DEP&S identified in the DoD annual report to ONDCP as being used by the Army, Navy, and Air Force. Although referenced below, we separately identified the accounting system used by the National Guard Bureau. The table also shows the DFAS estimate to make the system compliant with Federal and DoD requirements, or for legacy systems, the estimated date the replacement system will be operational.

Compliance of Accounting Systems

System	Acronym	User	Compliancy	Date
Standard Finance System	STANFINS	Army	Legacy	September 2005[1]
Standard Accounting and Reporting System	STARS	Navy	Noncompliant	September 2002
General Accounting and Finance System	GAFS	Air Force	Noncompliant	September 2004
State Accounting and Budget Expenditure Reservation System[1]	SABERS	Guard	Noncompliant	October 2004

[1]The Defense Financial Management Improvement Plan shows STANFINS to be consolidated into the Defense Joint Accounting System by September 2005.

Appendix D. Organizations Visited

As a result of the work we previously performed under audit Project No. D1999LH-0043 (Inspector General, DoD, Report No. D-2000-145), for this audit we limited the number of sites we visited and reduced the scope of work performed at those sites. This appendix discusses our review of management controls over obligation and financial reporting related to National Drug Control Program funds.

Air Combat Command

The ACC, located at Langley Air Force Base, Virginia, receives funding for seven counterdrug project codes. The ACC is an Air Force Major Command and does not directly execute the counterdrug budget, but does have oversight responsibility. The actual budget execution of the seven projects was performed by ACC subordinate organizations.

Counterdrug Funding. The ACC receives funding for counterdrug projects from DEP&S through the Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller). The ACC distributes the funding to subordinate organizations responsible for budget execution. Table D-1 shows the amount of counterdrug O&M funding that ACC reported and obligated by project code.

Table D-1. Reported FY 2000 ACC Counterdrug O&M Funding and Obligation Status
(in millions)

Project Code	Project Description	Received	Obligated
4110	Tethered Aerostat Radar	$29.0*	$34.4*
4207	Caribbean Basin Radar	12.9	12.9
4418	Air Support – SOUTHCOM	4.6	4.6
4419	Ground Mobile Radar	9.5	9.5
4431	AWACS Counterdrug Support	3.7	3.7
8451	Demand Reduction	1.0	1.0
9500	Forward Operating Locations	18.1	18.3*
Total		$78.8	$84.4

SOUTHCOM U.S. Southern Command
AWACS Airborne Warning and Control Systems

*includes some noncounterdrug funds (see explanation below)

Obligations. We judgmentally selected and reviewed $30.3 million in obligations for project codes 4110, 4418, and 4419, or about 75 percent of the $40.4 million ($26.3 million + $4.6 million + $9.5 million) in counterdrug

FY 2000 O&M funds obligated for those projects. We did not review obligation of counterdrug procurement funds at ACC or any O&M funds of the other ACC counterdrug projects. Although ACC reported receiving $29 million FY 2000 O&M counterdrug funds for project 4110, the ACC explained in a footnote that the $29 million received included $2.7 million in noncounterdrug O&M funds. The Tethered Aerostat Radar System includes 11 radar sites, 8 of which support counterdrug missions. The tethered aerostat radar program is funded by both counterdrug and noncounterdrug funds. The Air Force sent $2.7 million in noncounterdrug funds to the ACC for the three radar sites that did not support counterdrug missions, but mistakenly placed a counterdrug restriction on the funds. That mistake caused ACC to believe it had received more O&M counterdrug funds for project 4110 from the DoD Central Transfer Account than actually received. Therefore, the $29 million ACC reported as FY 2000 counterdrug O&M funds received for project 4110 was overstated by including at least $2.7 million in noncounterdrug funds. The correct figure for FY 2000 counterdrug O&M funds for project 4110 was, at most, $26.3 million.

ACC also supplemented its counterdrug funds for project 4110 with $5.4 million in noncounterdrug funds (also explained in a footnote) and reported $8.1 million too much ($2.7 million + $5.4 million) in O&M counterdrug obligations for the project. The $5.4 million was also intended for the three noncounterdrug tethered aerostat radar sites, although the Air Force had not placed a counterdrug restriction on these funds. Therefore, ACC did not report the funds as counterdrug funds received, but included them in obligations because they supported the radar program. The $34.4 million FY 2000 O&M counterdrug obligations for project 4110 reported by ACC was overstated by the amount of noncounterdrug funds. The correct figure was instead, at most, $26.3 million. The Air Force counterdrug coordinator corrected these amounts when forwarding Air Force totals to DEP&S to ensure consistent and appropriate reporting of figures to be included in the DoD data sent to the ONDCP.

The counterdrug funds distributed represent a “floor” funding amount, which must be spent as directed, although agencies have authority to supplement counterdrug projects with noncounterdrug funds if necessary to fund their operations. For counterdrug project 9500, ACC reported that it obligated about $200,000 more than received in FY 2000 O&M counterdrug funding. The extra amount was funded with noncounterdrug funds, and the Air Force counterdrug coordinator reported the ACC actual obligation figure for this project to DEP&S instead of backing out the noncounterdrug funds that ACC included, as it had done for project 4110. We did not interpret these reporting differences to indicate a material control weakness. Because the reported figures for project 4110 were corrected before becoming part of the DoD report and footnoted to ensure that they were interpreted properly by Air Force management, the figures that ACC reported to the Air Force merely represented additional information to the Air Force Counterdrug Coordinator.

The obligations for project 4110 consisted of contract expenses for O&M of the Tethered Aerostat Radar System. The obligations for projects 4418 and 4419 that we reviewed were also appropriate.

Unliquidated Obligation Review. At ACC, a tri-annual review of unliquidated obligations (ULO) was performed as required and outlined in the DoD Financial Management Regulation. The tri-annual reviews cover the periods of October through January, February through May, and June through September of each fiscal year. DFAS assisted ACC in the tri-annual review efforts. On scheduled release dates, DFAS prepares and sends ACC three files to perform the ULO validation review. The fund holders review and update the files. At a specified suspense date, the files are returned to DFAS for processing. Management reports on the ULO review are generated by DFAS for analysis by the fund holders at ACC. Our examination of the status of the drug programs at ACC shows that the fund administrators are proactive in managing their counterdrug programs.

Management Control Program. We examined the FY 2000 Annual Statement of Assurance prepared by ACC and several internal management control reviews, which reported no material deficiencies in internal management controls that would affect our audit results. The only deficiency reported by ACC was unrelated to controls over obligation of counterdrug funds. In addition, the Air Force established specific accounting codes for use in FY 2000 and later to accumulate costs for counterdrug projects, enhancing their visibility of the counterdrug funding execution. Finally, ACC had numerous external reviews conducted on its internal controls throughout the year, which reported nothing that would adversely affect our results.

Conclusion. Internal controls over obligation of counterdrug funds at ACC appeared adequate. During our limited review at ACC, nothing came to our attention to indicate that counterdrug funds were used for anything other than the purposes intended by Congress.

Fleet Surveillance Support Command

The FSSC, located in Chesapeake, Virginia, is responsible for execution of the O&M budget of the Relocatable Over-The-Horizon Radar (ROTHR) program. The ROTHR program provides tactically significant, wide area surveillance information to support the detection and monitoring mission of the Joint Interagency Task Force East, located in Florida.

Counterdrug Funding. FSSC receives ROTHR counterdrug funding from DEP&S through the Office of the Chief of Naval Operations and the Commander, Naval Space Command. The ROTHR project code is 3217; however, the funding is distributed and accounted for by the amounts provided to each radar site. For FY 2000, the Virginia and Texas sites received $33 million and the Puerto Rico site received $12 million for a total of $45 million in O&M funding. Of the $45 million, the FSSC received a total of $44.8 million, with the remainder being executed by the ROTHR program office, which is located at the Naval Space Command in Dalhgren, Virginia.

Obligations. The majority of the ROTHR program obligations was related to contract expenses involving the O&M and/or upgrade of the three radar sites.

The FSSC reported obligating all of the $44.8 million in FY 2000 counterdrug funding that it received. That total agreed with the amounts recorded in the Standard Accounting and Reporting System-Field Level (STARS-FL) database as of September 30, 2000. The STARS-FL is an official Navy accounting system. FSSC personnel developed a system of local records to track budget execution because STARS-FL cannot produce reports in the format needed to brief senior management on the status of the program. The locally developed management reports track funding and obligations, and summarizes the data by radar site and expense category. The reports also enabled management to identify the expenses as either direct mission support or base operations. The locally developed management reports were reconciled monthly with reports from the STARS-FL. We tested the local records to validate their reliability and completeness and found no substantive errors with the FSSC records or reports.

We judgmentally selected and reviewed 38 documents valued at about $32.3 million, or 72 percent of the $44.8 million received in O&M counterdrug funding. The O&M contract to maintain and operate the three radar sites accounted for about $22.4 million. Another $7.6 million was for support from the Space and Naval Warfare Systems Command. The remainder of the obligation documents reviewed included expenses such as installation and use of communications lines, land lease expenses for a transmitter site, purchase and installation of network equipment for the radar sites, radar equipment upgrades, and telephone and janitorial services.

Unliquidated Obligation Review. FSSC performed quarterly reviews of its unliquidated obligations in accordance with Navy guidance. The Navy requirement was more stringent than the requirement in the DoD Financial Management Regulation because the Navy requires a quarterly review of all unliquidated obligations rather than a review of unliquidated obligations that exceed a specified dollar threshold three times a year. The STARS-FL produces an Active Document List, which identifies open obligations. For each quarter, every unliquidated obligation for FY 1995 through FY 2000 was reviewed. If the obligation was no longer valid, it was deobligated. FSSC prepared a written report of review results each quarter. For each fiscal year, the report showed the number of documents reviewed, the amount of obligations reviewed, and any amounts that were obligated or deobligated as a result of the review. The report was sent to the Assistant Secretary of the Navy (Financial Management and Comptroller).

Management Control Program. We reviewed the adequacy of the FSSC Management Control Program. Specifically, we reviewed controls over budget obligations, travel claims, and unmatched disbursements. A management control review had been conducted in each of these areas and no weaknesses were identified. FSSC management controls were adequate. We identified no material management control weaknesses.

Conclusion. The controls over the ROTHR counterdrug funds at the FSSC appeared reasonable. During our limited review, we found no material problems that would lead us to believe that the counterdrug funds were being obligated for purposes other than intended, or that the dollar amounts reported by FSSC as being obligated were materially misstated.

Joint Interagency Task Force West

The JIATF-W, located in Alameda, California, is responsible for conducting detection and monitoring operations and for providing support to law enforcement agencies and U.S. country teams with the mission to disrupt drug trafficking throughout the U.S. Pacific Command area of responsibility. The primary mission of JIATF-W is to provide intelligence support and information on heroin, cocaine, and other illegal drugs that originate from or transit through Southeast Asia, Southwest Asia, or the Eastern Pacific Ocean.

Counterdrug Funding. The JIATF-W counterdrug budget is distributed from DEP&S through the Assistant Secretary of the Navy (Financial Management and Comptroller) to the U.S. Pacific Command. The U.S. Pacific Command issues a Resource Authorization document, which provides JIATF-W with counterdrug funding, identified by project code. During FY 2000, JIATF-W was responsible for three counterdrug project codes. The funding and reported obligations by project code are shown in Table D-2.

Table D-2. Reported FY 2000 JIATF-W Counterdrug O&M Funding and Obligation Status
(in millions)

Project Code	Project Description	Received	Obligated
3204	Other Pacific Counterdrug Support	$ 0.6	$ 0.6
3309	Intelligence Support	9.2	9.2
9202	Heroin Counterdrug Operations	0.4	0.4
Total		**$10.2**	**$10.2**

Obligations. JIATF-W reported counterdrug obligations of $10.2 million, which agreed with the amounts recorded in the STARS-FL. Of the $10.2 million, more than $7.3 million was for purchases of goods and services or travel expenses. The remainder of the funds was primarily for civilian pay. We focused our review on the $7.3 million and sampled $3.7 million of the supporting documentation. The documentation we reviewed included contracts, Military Interdepartmental Purchase Requests, purchase orders, and travel orders. The majority of the travel orders that we sampled were to support either counterdrug operations or training, and the majority of the purchases were for equipment, ground support, and other support services required to accomplish the JIATF-W counterdrug mission. The remainder of the transactions was for administrative and base support expenses.

Unliquidated Obligation Review. JIATF-W performs a quarterly review of its unliquidated obligations in accordance with Navy guidance and sends the reports to the U.S. Pacific Fleet. During FY 2000, the review included unliquidated obligations for FY 1995 through FY 2000. However, because of limited comptroller staff at JIATF-W, each fiscal year is not reviewed every quarter. We noted that the JIATF-W report indicated the number of documents that were reviewed, the amount reviewed, and the amount that was deobligated as a result of the review. We told JIATF-W comptroller personnel that we did not feel this was adequate documentation, and suggested that at a minimum, the specific documents that were reviewed should be identified. The JIATF-W Comptroller agreed and stated that beginning with the next review they would keep a listing of the documents reviewed.

Management Control Program. We reviewed the adequacy of the Management Control Program at JIATF-W. The Annual Statement of Assurance prepared by JIATF-W reported that internal controls were effective and provided reasonable assurance that assets were protected from fraud, waste, and abuse. The Annual Statement of Assurance reported no material weaknesses. The management controls at JIATF-W were adequate in that we identified no material control weaknesses.

Conclusion. The controls over JIATF-W counterdrug funds appeared reasonable. During our limited review, we found no material problems that would lead us to believe that the counterdrug funds were being obligated for purposes other than intended, or that the dollar amounts reported by JIATF-W as being obligated were materially misstated.

Naval Special Warfare Command

The NSWC, located in San Diego, California, is responsible for three project codes—project 6404 (Riverine Support), project 6410 (Patrol Coastal), and project 6415 (Special Operations Forces Counterdrug Support). The NSWC receives its counterdrug funding from DEP&S through the Special Operations Command. The two primary projects are Riverine Support and Patrol Coastal. Under the Riverine Support project, the Navy conducts training to enhance the skills of host-nation forces in counterdrug operations. The Patrol Coastal project funds the operation and deployment of naval vessels in coordination with law enforcement agencies for counterdrug detection and monitoring operations in international waters. In addition, the Patrol Coastal project also provides counterdrug training to enhance the skills of host-nation forces in counterdrug operations. The Navy Special Forces units that receive and execute counterdrug funds are the Naval Special Warfare Groups One and Two, and Special Boat Squadrons One and Two. Those units are based in Little Creek, Virginia, and at the Naval Amphibious Base, San Diego, California.

Counterdrug Funding. The NSWC received and reported as obligated about $6 million in FY 2000 counterdrug O&M funding. The funding and reported obligations by project code are shown in Table D-3.

Table D-3. Reported FY 2000 NSWC Counterdrug O&M Funding and Obligation Status
(in millions)

Project Code	Project Description	Received	Obligated
6404	Riverine Support	$4.30	$4.22
6410	Patrol Coastal	1.72	1.80
6415	Special Operations Forces Counterdrug Support	.02	.02
Total		**$6.04**	**$6.04**

Obligations. The supporting documentation for the obligation amounts was located at the operational component level. Because of the time constraints of the audit, the relative small magnitude of the program, and because we found nothing that indicated a problem with budget obligations, we did not visit the individual units.

Unliquidated Obligation Review. The NSWC performs a quarterly review of unliquidated obligations in accordance with Navy guidance. We did not review the supporting documentation for the unliquidated obligation review report at NSWC because it only contained obligations data for the portion of the NSWC budget that was executed at the headquarters level. The NSWC counterdrug budget was executed mostly by subordinate organizations, and data about these transactions were maintained at the organization level.

Management Control Program. NSWC implemented internal controls and performed reviews to evaluate them. We examined the FY 1999 and FY 2000 Annual Statements of Assurance and four reviews of management internal controls for assessable units relevant to our audit. No significant or material weaknesses were reported in any of the management control reviews or in the Annual Statements of Assurance prepared by NSWC. Additionally, we obtained a copy of an inspection checklist that NSWC used to evaluate the internal controls of subordinate organizations during command inspections and noted that the checklist included procedures for review of counterdrug program functions. We concluded that internal controls over obligation of funds at the command were adequate to prevent misuse of counterdrug funds. We did not review the management control program of subordinate organizations of NSWC that actually executed the counterdrug budget.

Conclusion. The controls over the counterdrug funds managed by NSWC appeared reasonable. During our limited review, we found no material problems that would lead us to believe that the counterdrug funds were being obligated for purposes other than intended, or that the dollar amounts reported by NSWC as obligated were materially misstated.

Appendix E. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Policy
  Assistant Secretary of Defense (International Security Affairs)
  Deputy Assistant Secretary of Defense (Drug Enforcement Policy and Support)
    Coordinator for Drug Enforcement Policy and Support
Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)

Department of the Army

Chief, National Guard Bureau
Inspector General, Department of the Army
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
  Special Assistant for Counterdrug Matters
Commander, Fleet Surveillance Support Command
Commander, Naval Space Command
Inspector General, Department of the Navy
Auditor General, Department of the Navy

Department of the Air Force

Commander, Air Combat Command
Assistant Secretary of the Air Force (Financial Management and Comptroller)
  Acting Chief of Air Force Counterdrug Budget
Inspector General, Department of the Air Force
Auditor General, Department of the Air Force

Unified Commands

Commander in Chief, U.S. Pacific Command
  Commander, Joint Interagency Task Force West
Commander in Chief, U.S. Special Operations Command
  Commander, Naval Special Warfare Command

Non-Defense Federal Organizations

Office of Management and Budget
Director, Office of National Drug Control Policy

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

DoD Coordinator for Drug Enforcement Policy and Support Comments

OFFICE OF THE DEPARTMENT OF DEFENSE COORDINATOR
FOR DRUG ENFORCEMENT POLICY AND SUPPORT

1510 DEFENSE PENTAGON
WASHINGTON DC 20301-1510

12 APR 2001

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Proposed Audit Report on the Management Controls Over the FY 2000 National Drug Control Program Funds Managed Through the DoD Central Transfer Account (Project No. D2000LH-0241)

I concur with the findings and recommendation of the draft report. In accordance with the recommendation, I will coordinate with the Under Secretary of Defense (Comptroller) to incorporate by reference the data sheet attachment showing the funding allocation by project code into the Department's Counterdrug Reprogramming Action (DD 1415-3), when funds are reprogrammed from the DoD Central Transfer Account to the Defense Components.

The Department appreciates the opportunity to review the draft IG report. My point of contact for further questions is Ms. Silvia Serban within the Programs, Resources and Assessments Directorate at (703) 693-1919/8.

Deborah G. Rosenblum
Acting Deputy Assistant Secretary of Defense for
Drug Enforcement Policy and Support

Audit Team Members

The Readiness and Logistic Support Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of the Inspector General, DoD, who contributed to the report are listed below.

Shelton R. Young
Raymond D. Kidd
Robert M. Murrell
Albert L. Putnam
Bernard M. Baranosky
Gregory S. Fulford
Steven G. Schaefer