



*Independent Attestation Review of the  
Internal Revenue Service's Fiscal  
Year 2011 Annual Accounting of Drug  
Control Funds and Related Performance*

**January 30, 2012**

**Reference Number: 2012-10-018**

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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## HIGHLIGHTS

### **INDEPENDENT ATTESTATION REVIEW OF THE INTERNAL REVENUE SERVICE'S FISCAL YEAR 2011 ANNUAL ACCOUNTING OF DRUG CONTROL FUNDS AND RELATED PERFORMANCE**

## Highlights

**Final Report issued on January 30, 2012**

Highlights of Reference Number: 2012-10-018 to the Internal Revenue Service Chief Financial Officer and Acting Chief, Criminal Investigation.

### **IMPACT ON TAXPAYERS**

The IRS reported that it expended \$66.5 million on Office of National Drug Control Policy (ONDCP)-related activities and completed 927 ONDCP-related investigations in Fiscal Year 2011. Based on our review, nothing came to our attention that caused us to believe that the assertions in the Detailed Accounting Submission and Performance Summary Report are not appropriately presented in all material respects in accordance with ONDCP-established criteria. Complete and reliable financial and performance information is critical to the IRS's ability to accurately report on the results of its operations to both internal and external stakeholders, including taxpayers.

### **WHY TIGTA DID THE AUDIT**

This review was conducted as required by the ONDCP and the ONDCP Circular: *Drug Control Accounting*, dated May 1, 2007. The National Drug Control Program agencies are required to submit to the Director of the ONDCP, not later than February 1 of each year, a detailed accounting of all funds expended (the ONDCP Circular requires amounts obligated) during the previous fiscal year. Agencies also need to identify and document performance measure(s) that justify the results associated with these expenditures.

The Chief Financial Officer, or another accountable senior level executive, of each agency for which a Detailed Accounting Submission is required, shall provide a

Performance Summary Report to the Director of the ONDCP. Further, the Circular requires that each report be provided to the agency's Inspector General for the purpose of expressing a conclusion about the reliability of each assertion made in the report prior to its submission.

### **WHAT TIGTA FOUND**

Based on our review, nothing came to our attention that caused us to believe that the assertions in the Detailed Accounting Submission and Performance Summary Report are not appropriately presented in all material respects in accordance with ONDCP-established criteria. The IRS reported that it expended \$66.5 million on ONDCP-related activities and completed 927 ONDCP-related investigations in Fiscal Year 2011. The IRS also reported it participated in 435 ONDCP-related cases that resulted in convictions, with an 88.1 percent conviction rate.

### **WHAT TIGTA RECOMMENDED**

TIGTA made no recommendations as a result of the work performed during this review. However, key IRS officials reviewed this report prior to its issuance and agreed with the facts and conclusions presented.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

January 30, 2012

**MEMORANDUM FOR** CHIEF FINANCIAL OFFICER  
ACTING CHIEF, CRIMINAL INVESTIGATION

*Michael R. Phillips*

**FROM:** Michael R. Phillips  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Independent Attestation Review of the Internal Revenue Service’s Fiscal Year 2011 Annual Accounting of Drug Control Funds and Related Performance (Audit # 201110031)

This report presents the results of our attestation review of the Internal Revenue Service’s Fiscal Year 2011 Office of National Drug Control Policy Detailed Accounting Submission and Performance Summary Report (the Report). The overall objective of this review was to express a conclusion about the reliability of each assertion made in the Report. This review was included in our Fiscal Year 2012 Annual Audit Plan and addresses the major management challenge of Achieving Program Efficiencies and Cost Savings.

The Treasury Inspector General for Tax Administration made no recommendations as a result of the work performed during this review. However, key Internal Revenue Service officials reviewed this report prior to its issuance and agreed with the facts and conclusions presented.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report results. Please contact me at (202) 622-6510 if you have questions or Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations), at 202-622-8500.



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*Abbreviations*

FY	Fiscal Year
IRS	Internal Revenue Service
ONDCP	Office of National Drug Control Policy



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## *Background*

The Anti-Drug Abuse Act of 1988<sup>1</sup> establishes as a policy goal the creation of a drug-free America. A key provision of the Act is the establishment of the Office of National Drug Control Policy (ONDCP) to set priorities, implement a national strategy, and certify Federal Government drug control budgets. The Internal Revenue Service (IRS) supports the National Drug Control Strategy through its continued support of the Organized Crime Drug Enforcement Task Force. The mission of IRS Criminal Investigation in Federal law enforcement's anti-drug efforts is to reduce or eliminate the financial gains (profits) of major narcotics trafficking and money laundering organizations through the use of its unique financial investigative expertise and statutory jurisdiction.

***National Drug Control Program agencies are required to submit to the Director of the ONDCP, not later than February 1 of each year, a detailed accounting of all funds expended during the previous fiscal year.***

This review was conducted as required by the ONDCP and the ONDCP Circular: *Drug Control Accounting*, dated May 1, 2007. The National Drug Control Program agencies<sup>2</sup> are required to submit to the Director of the ONDCP, not later than February 1 of each year, a detailed accounting of all funds expended (the ONDCP Circular requires amounts obligated) during the previous fiscal year. Agencies also need to identify and document performance measure(s) that justify the results associated with these expenditures. The Chief Financial Officer, or another accountable senior level executive, of each agency for which a Detailed Accounting Submission is required, shall provide a Performance Summary Report to the Director of the ONDCP. Further, the Circular requires that each report be provided to the agency's Inspector General for the purpose of expressing a conclusion about the reliability of each assertion made in the report prior to its submission.

This review was performed at the IRS Headquarters offices of the Chief Financial Officer and Chief, Criminal Investigation, in Washington, D.C., during the period August 2011 through January 2012. Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. In general, our review procedures were limited to inquiries and analytical procedures appropriate for an attestation review based upon the criteria in the ONDCP Circular. Detailed information on our audit objective, scope, and

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<sup>1</sup> Pub. L. No. 100-690, 102 Stat. 4181 (1988).

<sup>2</sup> A National Drug Control Program agency is defined as any agency that is responsible for implementing any aspect of the National Drug Control Strategy.



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methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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## *Results of Review*

### **Summary of the Independent Attestation Review of the Fiscal Year 2011 Office of National Drug Control Policy Detailed Accounting Submission and Performance Summary Report**

We reviewed the assertions in the IRS's ONDCP Detailed Accounting Submission and Performance Summary Report (the Report) for Fiscal Year (FY)<sup>3</sup> 2011, which ended September 30, 2011 (see Appendix IV). The IRS is responsible for preparing the Report, which was prepared pursuant to 21 U.S.C. 1704 (d) and the ONDCP Circular: *Drug Control Accounting*, dated May 1, 2007. The IRS reported that it expended \$66.5 million on ONDCP-related activities and completed 927 ONDCP-related investigations in FY 2011. For FY 2011, the IRS also reported it participated in 435 ONDCP-related cases that resulted in convictions, with an 88.1 percent conviction rate.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. An attestation review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the ONDCP Detailed Accounting Submission and Performance Summary Report. Accordingly, we do not express such an opinion.

The Report assertions, as required by Section 6.b. of the ONDCP Circular, include statements that the methodology used is reasonable and accurate, including explanations and documentation of any estimation assumptions used; the methodology disclosed was the actual methodology used; and the data presented are associated with obligations against a financial plan that reflects changes, if made. The assertions, as required by Section 7.b. of the ONDCP Circular, also include statements that the performance reporting system is appropriate and applied, explanations for not meeting any performance targets are reasonable, and the methodology used to establish performance targets is reasonable and applied. ONDCP-established criteria require well-documented sources of data, documented and explained calculations, and complete and fair presentation of data from financial systems.

Based on our review, nothing came to our attention that caused us to believe that the assertions in the Report are not appropriately presented in all material respects in accordance with ONDCP-established criteria.

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<sup>3</sup> A 12-consecutive-month period ending on the last day of any month, except December. The Federal Government's fiscal year begins on October 1 and ends on September 30.



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While this report is an unrestricted public document, the information it contains is intended solely for the use of the IRS, the United States Department of the Treasury, the ONDCP, and Congress. It is not intended to be, and should not be, used by anyone other than these specified parties.



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## Appendix I

### *Detailed Objective, Scope, and Methodology*

The overall objective of this review was to perform an attestation review of the IRS's reporting of FY<sup>1</sup> 2011 ONDCP expenditures and related performance for the purpose of expressing a conclusion about the reliability of each assertion made in the Detailed Accounting Submission and Performance Summary Report. To accomplish our objective, we:

- I. Obtained an understanding of the process used to prepare the FY 2011 Detailed Accounting Submission and Performance Summary Report.
  - A. Discussed the process used to record ONDCP expenditures and performance information with responsible IRS personnel.
  - B. Obtained documents such as written procedures and supporting worksheets that evidence the methodology used.
- II. Evaluated the reasonableness of the drug methodology process for detailed accounting submissions.
  - A. Reviewed data supporting the Detailed Accounting Submission to establish their relationship to the amounts being reported.
  - B. Verified whether all drug-related activities are reflected in the drug methodology.
- III. Performed sufficient verifications of reported obligations for detailed accounting submissions to support our conclusion on the reliability of the assertions.
  - A. Verified that the Detailed Accounting Submission included all of the elements specified in Section 6 of the ONDCP Circular: *Drug Control Accounting*.
  - B. Verified the mathematical accuracy of the obligations presented in the Table of FY 2011 Drug Control Obligations.
  - C. Traced the information contained in the Table of FY 2011 Drug Control Obligations to the supporting documentation.
- IV. Evaluated the reasonableness of the methodology used to report performance information for National Drug Control Program activities.

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<sup>1</sup> A 12-consecutive-month period ending on the last day of any month, except December. The Federal Government's fiscal year begins on October 1 and ends on September 30.



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- A. Reviewed data supporting the Performance Summary Report to establish their relationship to the National Drug Control Program activities.
  - B. Verified whether all drug-related activities are reflected in the performance information.
- V. Performed sufficient verifications of reported performance information to support our conclusion on the reliability of the assertions.
- A. Verified that the Performance Summary Report included all of the elements specified in Section 7 of the ONDCP Circular: *Drug Control Accounting*.
  - B. Verified the mathematical accuracy of the performance information presented.
  - C. Traced the performance information presented to the supporting documentation.
  - D. Reviewed the supporting documentation for reasonableness.



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**Appendix II**

*Major Contributors to This Report*

Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations)

Jeffrey M. Jones, Director

Anthony J. Choma, Audit Manager

Angela Garner, Lead Auditor

Yasmin B. Ryan, Senior Auditor

Mildred Rita Woody, Senior Auditor



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**Appendix III**

*Report Distribution List*

Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
Deputy Commissioner for Operations Support OS  
Deputy Commissioner for Services and Enforcement SE  
Deputy Chief, Criminal Investigation SE:CI  
Deputy Chief Financial Officer OS:CFO  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis RAS:O  
Office of Internal Control OS:CFO:CPIC:IC  
Audit Liaisons:  
    Chief, Criminal Investigation SE:CI  
    Chief Financial Officer OS:CFO



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**Appendix IV**

*Internal Revenue Service's Fiscal Year 2011  
Detailed Accounting Submission and  
Related Performance Summary Report*



CHIEF FINANCIAL OFFICER

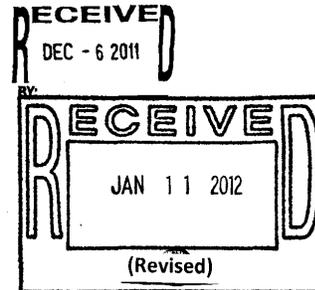
DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

December 5, 2011

MEMORANDUM FOR MICHAEL PHILLIPS  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:   
Pamela J. LaRue  
Chief Financial Officer

SUBJECT: Annual Accounting and Authentication of Fiscal Year (FY) 2011  
Drug Control Funds, Related Performance and Assertion of  
Performance Information



Please find attached the IRS FY 2011 Annual Accounting and Authentication of Drug Control Funds and Related Performance Report, as directed in the Office of National Drug Control Policy (ONDCP) Circular: Drug Control Accounting, dated May 1, 2007. This circular requires the Treasury Inspector General for Tax Administration (TIGTA) to perform an attestation review before the IRS submits this document to the ONDCP. After IRS receives TIGTA's conclusion as to the reliability of each assertion, I will forward the document to the ONDCP.

If you have any questions, please contact me at (202) 622-5173, or have a member of your staff contact Adina Leach, Acting Associate Chief Financial Officer for Corporate Budget, at (202) 622-4663.

Attachments



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Attachment 1  
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**INTERNAL REVENUE SERVICE  
Annual Accounting and Authentication of Drug Control Funds and Related  
Performance**

**DETAILED ACCOUNTING SUBMISSION**

**A. Table of Fiscal Year (FY) 2011 Drug Control Obligations**

<b>Drug Resources by Function</b>	<b>(\$000)</b>
Investigations	\$66,566
<b>Total</b>	<b>\$66,566</b>
<b>Drug Resources by Decision Unit</b>	
Narcotics Crimes	\$66,566
<b>Total</b>	<b>\$66,566</b>

**1) Drug Methodology**

- a) All Drug Control Obligations (the resources appropriated and available for these activities) are reported under one Drug Control Function and one Budget Decision Unit, as shown in the above chart.
- b) The Internal Revenue Service (IRS) Drug Control Budget encompasses the Criminal Investigation (CI) Narcotics-related program. The Office of National Drug Control Policy (ONDCP) requires CI to report only on the Organized Crime and Drug Enforcement Task Force (OCDETF) portion of the Narcotics program. CI's overall Direct Investigative Time (DIT) applied to narcotics cases for FY 2011 was 12.4 percent of total DIT. The OCDETF sub-component of this program was 11.4 percent of total DIT or 92 percent of the total narcotics DIT.

The methodology for computing the resources appropriated and realized for the OCDETF program is the application of the DIT attributable to OCDETF cases and applying the DIT percentage to the total realized appropriated resources, reduced by reimbursable funds and Earned Income Tax Credit (EITC) resources, for the year for which the resources are being reported. The result is determined to be the amount of resources expended on OCDETF cases. This methodology has been approved by CI, the IRS Chief Financial Officer, and the Treasury Inspector General for Tax Administration (TIGTA) during the FY 2006 ONDCP attestation review.

Fiscal Year 2006 was the first year OCDETF funding became a permanent part of the CI's budget. In the past, OCDETF was a reimbursable program administered by the Department of Justice (DOJ).



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**2) Methodology Modifications**

None

**3) Material Weaknesses or Other Findings**

None

**4) Reprogramming or Transfers**

None

**5) Other Disclosures**

None

**B. Assertions**

**1) Obligations by Budget Decision Unit**

Obligations reported by the Budget Decision Unit are a result of applying DIT data derived from the Criminal Investigation Management Information System (CIMIS) to the actual obligations from the CI realized Financial Plan, less reimbursements and EITC funds.

**2) Drug Methodology**

The methodology used to calculate obligations of prior-year budgetary resources is reasonable and accurate.

**a) Data**

Data is derived from CIMIS to determine the DIT applied to the OCDETF activities. Each special agent submits CIMIS time reports monthly detailing their activities relating to specific investigations. Each investigation is associated with a specific program and sub-program area. The percentage of DIT applied to each program area is calculated monthly with a final annual percentage determined after the close of the fiscal year. The annual percentage of DIT relating to OCDETF sub-program area items is applied to the total resources expended for FY 2011 in the CI budget (excluding reimbursables and EITC). These OCDETF percentages include High Intensity/OCDETF, OCDETF, and Terrorism/OCDETF program areas. These OCDETF DIT percentages are used to determine the total resources expended on the OCDETF program.



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**b) Other Estimation Methods**

None

**c) Financial Systems**

The IRS Integrated Financial System (IFS) is the final authority for the IRS resource obligations and yields data which fairly presents drug related obligation estimates.

**3) Application of Drug Methodology**

The methodology disclosed in this section was the actual methodology used to generate the required table and meets all requirements described in section 6 of the ONDCP Circular: Drug Control Accounting. Calculations made using this methodology are sufficiently documented to independently reproduce all data and ensure consistency between reporting years.

**4) Reprogramming or Transfers**

The data presented is associated with obligations against a financial plan and properly reflects any revisions occurring during the fiscal year.

**5) Fund Control Notices**

Criminal Investigation asserts the data presented is associated with obligations against a financial plan that fully complied with all fund control notices issued by the Director under 21 U.S.C. section 1703(f) and Section 8 of the ONDCP Circular: Budget Execution, as applicable.

**C. Performance Summary Report**

**1) Performance Reporting**

**a) Performance Measures**

The IRS reviewed performance measures used by other agencies that support the National Drug Control Strategy as well as budget-level performance measures that are already used to address the effectiveness of CI activities. As a result of the review, the IRS determined that, in addition to the number of subject Criminal Investigations Completed, the most appropriate performance measures to evaluate its contribution to the National Drug Control Strategy were number of Convictions and Conviction Rate. These are both budget-level performance measures already used by CI to evaluate its performance as a whole. Criminal Investigations Completed for



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the OCDETF program and all other programs are defined as total subject criminal investigations completed during the fiscal year, including those resulting in a prosecution recommendation to the DOJ, discontinuance due to lack of evidence, or a finding that the allegation was false (or other reasons). Convictions are defined as the total number of subject criminal investigations with CIMIS status codes of guilty plea, nolo-contendere, judge guilty, or jury guilty. Conviction Rate is defined as the total number of subject criminal investigations with CIMIS status codes of guilty plea, nolo-contendere, judge guilty, or jury guilty divided by these status codes and nolle prosequi, judge dismissed, and jury acquittal.

These measures assess CI's performance of its mission to serve the public by conducting investigations of potential violations of the Internal Revenue Code and related financial crimes (which OCDETF cases are an important component), to foster confidence in the tax system and enhance voluntary compliance. In addition, it reduces or eliminates the profits and financial gains from narcotics trafficking and money laundering.

Criminal Investigation's Narcotics Program supports the goals of the National Drug Control Strategy and the National Money Laundering Strategy by seeking to reduce or eliminate the profits and financial gains from narcotics trafficking and money laundering organizations. CI has participated in the OCDETF program since its inception in 1982 and focuses its narcotics efforts almost exclusively on high-priority OCDETF cases where its contributions will have the greatest impact.

**b) Prior Years Performance Targets and Results**

Before FY 2008, CI did not set performance targets for the OCDETF Program. However, CI projected for completed investigations which were used as benchmarks. The OCDETF resources became a part of the IRS budget in FY 2006. Previously, the IRS portion of the OCDETF resources was included in the DOJ appropriation and was reported as part of the DOJ budget submission. The performance results for FY 2006 through FY 2010 are shown below:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Investigations Completed	728	654	824	652	788
Convictions	N/A	N/A	460	462	405
Conviction Rate	N/A	N/A	90.6%	84.9%	82.3%

As a result of budgetary constraints, CI reduced its narcotics DIT (9 to 11 percent of total) in FY 2006 and FY 2007. In response to the Attorney General's request for the commitment of additional CI resources to OCDETF cases, CI agreed to increase the amount of DIT devoted to narcotics



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investigations in FY 2008 to between 11 and 13 percent of total DIT. Criminal Investigation maintained this same level through FY 2011.

**c) Current Year Performance Targets and Results**

Based on a recommendation from the FY 2008 audit and attestation, to evaluate the cause of the delayed case postings identified and evaluate the feasibility of either improving the timeliness of case postings and/or adjusting its year-end performance information to reflect timing differences caused by late postings of case information, CI calculated its year-end performance using the status date of investigations. The results for FY 2011 are shown below:

<b>FY 2011 OCDETF Targets &amp; Performance</b>	<b>FY 2011 OCDETF Targets</b>	<b>Based on Status Date as of November 02, 2011</b>
Investigations Completed	680	927
Convictions	410	435
Conviction Rate	85%	88.1%

As noted above, CI exceeded in all three performance target areas for FY 2011: Investigations Completed; Convictions; and Conviction Rate.

It should be noted that in last year's Attestation Review of the Internal Revenue Service's Fiscal Year 2010 Annual Accounting to Drug Control Funds, prepared on January 31, 2011, the reported Fiscal Year 2011's performance targets for OCDETF Cases Convictions was incorrectly reported as 460. The correct number for convictions for FY 2011 was previously set, and submitted to ONDCP, as 410.

In FY 2010, the target for convictions was lowered from 460 to 410. This target adjustment was made due to a decrease in resources in the OCDETF programs at the Department of Justice. Specifically, in the FY 2009 appropriations there was a reduction of positions within the OCDETF program. This reduction included a significant number of OCDETF attorney positions being funding within the United States Attorney's offices around the country. Criminal Investigation anticipated that this reduction in attorneys, used to prosecute the OCDETF investigations, would likely affect the number of convictions that would be achieved within the OCDETF program. Therefore the conviction target was lowered from 460 to 410 for FY 2010, FY 2011, and FY 2012.

**d) Fiscal Year 2012 Performance Targets OCDETF Cases:**

The performance information for the IRS CI OCDETF program for FY 2012, as submitted to ONDCP (ONDCP Budget Submission):



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Criminal Investigations Completed	680
Convictions	410
Conviction Rate	85%

**e) Quality of Performance Data**

To ensure the reliability of the data, all cases have unique numbers assigned in CIMIS which contain validity and business rule checks. The CIMIS database tracks the status of the investigations from initiation through final disposition. The system has sufficient internal checks and balances to assure status updates are input in the proper order.

**D. Annual Accounting and Authentication of Drug Control Funds and Related Performance**

**1) Performance Measures Assertions**

**a) Performance Reporting System is appropriate and applied**

The IRS uses the CIMIS to capture performance information accurately and that system was properly applied to generate the performance data.

**b) Explanations for not meeting performance targets are reasonable**

Explanations offered for failing to meet a performance target and for any recommendations concerning plans and schedules for meeting future targets or for revising or eliminating performance targets are reasonable.

**c) Methodology to establish performance targets is reasonable and applied**

The methodology described in the Performance Summary Report for FY 2011 to establish performance targets for the current year is reasonable given past performance and available resources.

**d) Adequate performance measures exist for all significant drug control activities**

The IRS established at least one acceptable performance measure for each Drug Control Decision Unit identified in its Detailed Accounting of FY 2011 Drug Control Funds as required by section 6a(1)(A) for which a significant amount of obligations were incurred in the previous year.



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**2) Criteria for Assertions**

**a) Data**

The sources of the data used are well documented and the data used in the report is clearly identified and is the most recent available.

**b) Estimation Methods**

Not applicable.

**c) Reporting Systems**

The reporting system supporting the above assertions is current, reliable, and an integral part of the agency's budget and management processes.