



*Attestation Review of the Internal Revenue  
Service's Fiscal Year 2009 Annual  
Accounting of Drug Control Funds and  
Related Performance*

**January 29, 2010**

**Reference Number: 2010-10-022**

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.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

January 29, 2010

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

*Michael R. Phillips*

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

**SUBJECT:** Final Audit Report – Attestation Review of the Internal Revenue Service’s Fiscal Year 2009 Annual Accounting of Drug Control Funds and Related Performance (Audit # 200910025)

This report presents the results of our attestation review of the Internal Revenue Service’s (IRS) Fiscal Year (FY) 2009 Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission and Performance Summary Report (the Report). The purpose of this review was to express a conclusion about the reliability of each assertion made in the Report. This review was part of our FY 2010 Annual Audit Plan and addressed the major management challenge regarding Leveraging Data to Improve Program Effectiveness and Reduce Costs.

### *Impact on the Taxpayer*

The IRS reported that it expended \$60.6 million on ONDCP-related activities and participated in 462 ONDCP-related cases that resulted in convictions in FY 2009. Based on our review, nothing came to our attention that caused us to believe that the assertions in the Report are not presented in all material respects in accordance with ONDCP-established criteria. Complete and reliable financial and performance information is critical to the IRS’ ability to accurately report on the results of its operations to both internal and external stakeholders, including taxpayers.

### *Synopsis*

Based on our review, nothing came to our attention that caused us to believe that the assertions in the Report are not presented in all material respects in accordance with ONDCP-established criteria. The IRS reported that it expended \$60.6 million on ONDCP-related activities and



*Attestation Review of the Internal Revenue Service's  
Fiscal Year 2009 Annual Accounting of  
Drug Control Funds and Related Performance*

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completed 652 ONDCP-related investigations in FY 2009. For FY 2009, the IRS also reported it participated in 462 ONDCP-related cases that resulted in convictions.

In addition, based on a recommendation in our FY 2008 attestation report,<sup>1</sup> the IRS informed us that it adjusted its year-end performance information for FY 2009 to include only cases that occurred in FY 2009. Our review of the IRS' Performance Summary Report for FY 2009 did not identify any cases reported that did not occur in FY 2009.

### *Management's Response*

We made no recommendations in this report as a result of our work performed during this review. IRS management agreed with the facts and conclusions presented in this report. Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the IRS 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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<sup>1</sup> *Attestation Review of the Internal Revenue Service's Fiscal Year 2008 Annual Accounting of Drug Control Funds and Related Performance* (Reference Number 2009-10-040, dated January 30, 2009).



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*Attestation Review of the Internal Revenue Service's  
Fiscal Year 2009 Annual Accounting of  
Drug Control Funds and Related Performance*

---

*Table of Contents*

**Background** .....Page 1

**Results of Review** .....Page 3

    Summary of the Attestation Review of the Fiscal Year 2009  
    Office of National Drug Control Policy Detailed Accounting  
    Submission and Performance Summary Report .....Page 3

    Corrective Actions Were Implemented to Adjust Year-End  
    Performance Information .....Page 3

**Appendices**

    Appendix I – Detailed Objective, Scope, and Methodology .....Page 5

    Appendix II – Major Contributors to This Report .....Page 7

    Appendix III – Report Distribution List .....Page 8

    Appendix IV – Internal Revenue Service Fiscal Year 2009 Detailed  
    Accounting Submission and Related Performance Summary Report .....Page 9

    Appendix V – Management’s Response to the Draft Report .....Page 15



*Attestation Review of the Internal Revenue Service's  
Fiscal Year 2009 Annual Accounting of  
Drug Control Funds and Related Performance*

---

*Abbreviations*

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



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*Attestation Review of the Internal Revenue Service's  
Fiscal Year 2009 Annual Accounting of  
Drug Control Funds and Related Performance*

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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 continued support of the Organized Crime Drug Enforcement Task Force. The mission of the Criminal Investigation Division 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<sup>2</sup> and the ONDCP Circular: *Drug Control Accounting*, dated May 1, 2007. The National Drug Control Program agencies<sup>3</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. Beginning in Fiscal Year (FY) 2006, ONDCP funding became a part of the IRS budget. In prior years, IRS-related ONDCP funds expended were reimbursed by the Department of Justice.

We conducted our fieldwork in the IRS Headquarters offices of the Chief Financial Officer and Chief, Criminal Investigation Division, in Washington, D.C., during the period September 2009 through January 2010. 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

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

<sup>2</sup> 21 U.S.C. Section 1704 (d) (1998).

<sup>3</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.



*Attestation Review of the Internal Revenue Service's  
Fiscal Year 2009 Annual Accounting of  
Drug Control Funds and Related Performance*

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opinion on the ONDCP Detailed Accounting Submission and Performance Summary Report. Accordingly, we do not express such an opinion. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to this report are listed in Appendix II.



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*Attestation Review of the Internal Revenue Service's  
Fiscal Year 2009 Annual Accounting of  
Drug Control Funds and Related Performance*

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## *Results of Review*

### ***Summary of the Attestation Review of the Fiscal Year 2009 Office of National Drug Control Policy Detailed Accounting Submission and Performance Summary Report***

We reviewed the IRS' ONDCP Detailed Accounting Submission and Performance Summary Report (the Report) for FY 2009, which ended September 30, 2009 (see Appendix IV). This Report was prepared pursuant to 21 U.S.C. Section 1704(d) and the ONDCP Circular: *Drug Control Accounting*, dated May 1, 2007. The IRS is responsible for preparing the report.

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 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 correctly 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 presented in all material respects in accordance with ONDCP-established criteria. The IRS reported that it expended \$60.6 million on ONDCP-related activities and completed 652 ONDCP-related investigations in FY 2009. For FY 2009, the IRS also reported it participated in 462 ONDCP-related cases that resulted in convictions.

### ***Corrective Actions Were Implemented to Adjust Year-End Performance Information***

In our prior review<sup>4</sup> of the FY 2008 Report, we found that 18 of the 478 convictions reported actually occurred prior to FY 2008. We similarly found that 3 of the 827 ONDCP-related investigations reported as completed were actually completed prior to FY 2008. In addition, we identified 18 cases among the cases the IRS reported as recommended for prosecution but

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<sup>4</sup> *Attestation Review of the Internal Revenue Service's Fiscal Year 2008 Annual Accounting of Drug Control Funds and Related Performance* (Reference Number 2009-10-040, dated January 30, 2009).



*Attestation Review of the Internal Revenue Service's  
Fiscal Year 2009 Annual Accounting of  
Drug Control Funds and Related Performance*

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ultimately resulted in acquittal or dismissal that occurred prior to FY 2008. We recommended that the IRS adjust its year-end performance information to reflect timing differences caused by late case postings.

Based on the recommendation in our FY 2008 attestation report, the IRS informed us that it adjusted its year-end performance information for FY 2009 to include only cases that occurred in FY 2009. Our review of the IRS' Performance Summary Report for FY 2009 did not identify any cases reported that did not occur in FY 2009.

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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*Attestation Review of the Internal Revenue Service's  
Fiscal Year 2009 Annual Accounting of  
Drug Control Funds and Related Performance*

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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' reporting of Fiscal Year 2009 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 2009 Detailed Accounting Submission and Performance Summary Report.
  - A. Discussed the process used to record and report 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 its relationship to the amounts being reported.
  - B. Reviewed the estimation methods for consistency with reported amounts.
- 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 that the drug control budget submitted to the ONDCP was consistent with the Detailed Accounting Submission.
  - C. Verified the mathematical accuracy of the obligations presented in the Table of FY 2009 Drug Control Obligations.
  - D. Traced the information contained in the Table of FY 2009 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.
  - A. Reviewed data supporting the Performance Summary Report to establish its relationship to the National Drug Control program activities being reported.



*Attestation Review of the Internal Revenue Service's  
Fiscal Year 2009 Annual Accounting of  
Drug Control Funds and Related Performance*

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- V. Performed sufficient verifications of reported performance information to support our conclusion of 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.
- VI. Evaluated any corrective actions implemented by the IRS in response to the FY 2008 audit finding regarding the ONDCP reporting process.



*Attestation Review of the Internal Revenue Service's  
Fiscal Year 2009 Annual Accounting of  
Drug Control Funds and Related Performance*

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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

Joseph P. Smith, Senior Auditor

Rashme Sawhney, Auditor



*Attestation Review of the Internal Revenue Service's  
Fiscal Year 2009 Annual Accounting of  
Drug Control Funds and Related Performance*

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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 Division 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 Division SE:CI  
    Chief Financial Officer OS:CFO



Attestation Review of the Internal Revenue Service's  
Fiscal Year 2009 Annual Accounting of  
Drug Control Funds and Related Performance

Appendix IV

Internal Revenue Service Fiscal Year 2009  
Detailed Accounting Submission and  
Related Performance Summary Report



CHIEF FINANCIAL OFFICER

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

RECEIVED  
DEC 28 2009

BY: *ALS*

December 28, 2009

MEMORANDUM FOR MICHAEL PHILLIPS  
DEPUTY INSPECTOR GENERAL FOR AUDIT  
FROM: *Alison L. Doorfe*  
Alison L. Doorfe  
Chief Financial Officer  
SUBJECT: Internal Revenue Service (IRS) Fiscal Year (FY) 2009  
Detailed Accounting Submission of Drug Control Funds

The IRS is resubmitting its Detailed Accounting Submission of Drug Control Funds to the Treasury Inspector General for Tax Administration (TIGTA) in compliance with Section 8, *Inspector General Authentication*, of the Office of National Drug Control Policy (ONDCP) Circular: Drug Control Accounting, dated May 1, 2007. This resubmission reflects the minor changes to the report agreed upon at the December 22, 2009 meeting by the IRS Chief Financial Officer, Criminal Investigation, and TIGTA staff. This circular requires TIGTA to perform an attestation review before the IRS submits this document to the ONDCP. After the 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) 622-6400, or have a member of your staff contact Ursula Gillis, Acting Associate Chief Financial Officer for Corporate Budget, at (202) 622-8770.

Attachments



*Attestation Review of the Internal Revenue Service's  
Fiscal Year 2009 Annual Accounting of  
Drug Control Funds and Related Performance*

Attachment 1

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

**DETAILED ACCOUNTING SUBMISSION**

**A. Table of FY 2009 Drug Control Obligations**

<b>Drug Resources by Function</b>	<b>(\$000)</b>
Investigations	<u>\$60,627</u>
Total	\$60,627
<b>Drug Resources by Decision Unit</b>	
Narcotics Crimes	<u>\$60,627</u>
Total	\$60,627

**1) Drug Methodology**

- 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.
- 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 only report 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 2009 was 11.5 percent of total DIT. The OCDETF sub-component of this program was 10.6 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



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*Attestation Review of the Internal Revenue Service's  
Fiscal Year 2009 Annual Accounting of  
Drug Control Funds and Related Performance*

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Attachment 1

FY 2006 ONDCP attestation review. The FY 2006 Annual Accounting of Drug Control Funds was submitted after the 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).

**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 CIMIS to the total CI 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



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*Attestation Review of the Internal Revenue Service's  
Fiscal Year 2009 Annual Accounting of  
Drug Control Funds and Related Performance*

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Attachment 1

OCDETF sub-program area items is applied to the total resources expended for FY 2009 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.

**(b) Other Estimation Methods**

None

**(c) Financial Systems**

The IRS Integrated Financial System (IFS) is the final authority for the IRS resource obligations.

**3) Application of Drug Methodology**

The methodology disclosed in this section 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**

CI 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.



*Attestation Review of the Internal Revenue Service's  
Fiscal Year 2009 Annual Accounting of  
Drug Control Funds and Related Performance*

Attachment 1

**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 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 or discontinued 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.

CI'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.



*Attestation Review of the Internal Revenue Service's  
Fiscal Year 2009 Annual Accounting of  
Drug Control Funds and Related Performance*

Attachment 1

**(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 completed investigations for FY 2005 through FY 2008 are shown below:

<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
<b>938</b>	<b>728</b>	<b>654</b>	<b>824</b>

As a result of budgetary constraints, CI reduced its narcotics DIT (9 to 11 percent of total) in FY 2005, FY 2006 and FY 2007. FY 2005 results are higher than subsequent years because they include completions from cases started in FY 2004. This resulted in a decline in the number of completed OCDETF investigations in years subsequent to FY 2005. 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 investigations in FY 2008 to between 11 and 13 percent of total DIT. CI maintained this same level through FY 2009.

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

Based on a recommendation from last year's 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 2009 are shown below:

<b>FY 2009 OCDETF Targets &amp; Performance</b>	<b>FY 2009 OCDETF Targets</b>	<b>Based on Status Date as of September 30, 2009</b>
<b>Investigations Completed<sup>1</sup></b>	710	652
<b>Convictions</b>	460	462
<b>Conviction Rate</b>	85.00%	84.93%

<sup>1</sup> It should be noted that while the number of OCDETF Investigations Completed are slightly down 8.2% at 652 from the target range of 710, there was an 11.6% drop in our OCDETF pipeline inventory from 873 (FY08) to 772 (FY09). We exceeded the fiscal year focus to reduce pipeline by 5%; however, the processes to reduce pipeline inventory did cause a significant amount of resources to be utilized to assist the United States Attorney's Office for the prosecution and final adjudication of these cases. Also, in FY08, we completed 824 investigations that although they are considered completed still require resources to push them through the pipeline. Additionally, the emphasis to work large complex and sophisticated OCDETF investigations increases cycle time.



*Attestation Review of the Internal Revenue Service's  
Fiscal Year 2009 Annual Accounting of  
Drug Control Funds and Related Performance*

**Appendix V**

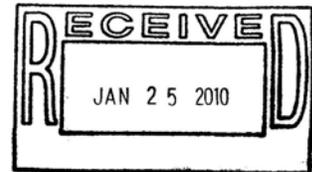
*Management's Response to the Draft Report*



CHIEF FINANCIAL OFFICER

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

January 22, 2010



MEMORANDUM FOR MICHAEL PHILLIPS  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:   
Alison L. Doone  
Chief Financial Officer

SUBJECT: Response to Draft Audit Report – Attestation Review of the  
Internal Revenue Service's (IRS) Fiscal Year (FY) 2009  
Annual Accounting of Drug Control Funds and Related  
Performance Summary Report (Audit #200910025)

Thank you for the opportunity to comment on the Treasury Inspector General for Tax Administration's (TIGTA) discussion draft report titled "Attestation Review of the Internal Revenue Service's Fiscal Year 2009 Annual Accounting of Drug Control Funds".

I am pleased there were no findings in FY 2009. We appreciate the recognition of our adjustment to year-end performance information based on TIGTA's FY 2008 Attestation Report recommendation.

If you have any questions, please contact me at (202) 622-6400, or have a member of your staff contact Ursula Gillis, Acting Associate Chief Financial Officer for Corporate Budget, at (202) 622-8770.