
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



*Independent Attestation Review of the
Internal Revenue Service's Fiscal Year 2017
Annual Accounting of Drug Control
Funds and Related Performance*

January 18, 2018

Reference Number: 2018-10-017

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 2017 ANNUAL ACCOUNTING OF DRUG CONTROL FUNDS AND RELATED PERFORMANCE

Highlights

Final Report issued on January 18, 2018

Highlights of Reference Number: 2018-10-017 to the Internal Revenue Service Chief Financial Officer and Chief, Criminal Investigation.

IMPACT ON TAXPAYERS

TIGTA reviewed the assertions in the IRS's Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission and Performance Summary Report for Fiscal Year 2017. IRS management is responsible for preparing the report.

The IRS supports the National Drug Control Strategy through its continued support of the Organized Crime Drug Enforcement Task Force. 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 ONDCP Circular: *Accounting of Drug Control Funding and Performance Summary*, dated January 18, 2013. 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 measures that show the results associated with these expenditures. Further, the ONDCP 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

TIGTA previously recommended that the IRS set performance goals that are consistent with its documented methodology and are clearly explained. TIGTA found that the IRS addressed this recommendation for the Fiscal Year 2018 performance goals reported in the Fiscal Year 2017 submission. These performance goals are consistent with the IRS's documented methodology, which uses a newly implemented five-year average of prior performance results, and are clearly explained in the submission.

However, the Fiscal Year 2017 performance goals that were first reported in the Fiscal Year 2016 submission were not updated. TIGTA previously reported in January 2017 that the IRS did not update its reported performance goals for Fiscal Year 2017 to reflect its own documented methodology, which required the goals to be based on an average of the actual performance results achieved over the three prior fiscal years. The IRS advised us that updating the previously reported Fiscal Year 2017 goals was not feasible.

Otherwise, based on our review, nothing came to our attention that caused us to believe that the assertions in the IRS's Detailed Accounting Submission and Performance Summary Report are not fairly presented in all material respects in accordance with the ONDCP's established criteria.

WHAT TIGTA RECOMMENDED

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



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

January 18, 2018

MEMORANDUM FOR CHIEF FINANCIAL OFFICER
CHIEF, CRIMINAL INVESTIGATION

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Independent Attestation Review of the Internal Revenue Service’s Fiscal Year 2017 Annual Accounting of Drug Control Funds and Related Performance (Audit # 201710023)

This report presents the results of our attestation review of the Internal Revenue Service’s Fiscal Year 2017 annual accounting of drug control funds and related performance. The overall objective of this review was to express a conclusion about the reliability of each assertion made in the Office of National Drug Control Policy Detailed Accounting Submission and Performance Summary Report (the Report). This review is included in our Fiscal Year 2018 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 fact and conclusions presented.

If you have any questions, please contact me or Gregory D. Kutz, Assistant Inspector General for Audit (Management Services and Exempt Organizations).



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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 1988¹ established 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.

This review was conducted as required by the ONDCP and ONDCP Circular: *Accounting of Drug Control Funding and Performance Summary*, dated January 18, 2013. The National Drug Control Program agencies² 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.³ Agencies also need to identify and document performance measures that show 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 ONDCP 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.

Since Fiscal Year (FY) 2014, the IRS has modified the methodology it uses to report ONDCP expenditures to include costs applicable to all narcotics investigations. Previously, the IRS reported only costs applicable to narcotics investigations performed as part of a coordinated task force. The IRS told us this change was made to allow for more comprehensive reporting of the resources it devotes to the National Drug Control Strategy. This change was approved by the ONDCP. The reporting of performance measures was similarly modified to include accomplishments applicable to all narcotics investigations.

This review was performed at the IRS Headquarters offices of the Chief Financial Officer and the Chief, Criminal Investigation, in Washington, D.C., during the period July 2017 through December 2017. Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and in compliance with generally

¹ Pub. L. No. 100-690, 102 Stat. 4181 (1988).

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

³ Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.



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accepted government auditing standards. 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 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 2017 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 FY 2017, which ended September 30, 2017 (see Appendix IV). The Report was prepared pursuant to 21 United States Code 1704(d) and the ONDCP Circular. IRS management is responsible for preparing the Report.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and in compliance with generally accepted government auditing standards. An attestation review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the Report. Accordingly, we do not express such an opinion.

TIGTA previously recommended that the IRS set performance goals that are consistent with its documented methodology and are clearly explained.⁴ We found that the IRS addressed this recommendation for the FY 2018 performance goals reported in the FY 2017 submission. These performance goals are consistent with the IRS's documented methodology, which uses a newly implemented five-year average of prior performance results, and are clearly explained in the submission.

However, the FY 2017 performance goals that were first reported in the FY 2016 submission were not updated. We previously reported, in January 2017,⁵ that the IRS did not update its reported performance goals for FY 2017 to reflect its own documented methodology, which required the goals to be based on an average of the actual performance results achieved over the three prior fiscal years. The IRS advised us that updating the previously reported FY 2017 goals was not feasible.

⁴ Treasury Inspector General for Tax Administration, Ref. No. 2016-10-014, *Independent Attestation Review of the Internal Revenue Service's Fiscal Year 2015 Annual Accounting of Drug Control Funds and Related Performance* p. 4 (Jan. 2016).

⁵ Treasury Inspector General for Tax Administration, Ref. No. 2017-10-016, *Independent Attestation Review of the Internal Revenue Service's Fiscal Year 2016 Annual Accounting of Drug Control Funds and Related Performance* p. 3 (Jan. 2017).



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Otherwise, based on our review, nothing came to our attention that caused us to believe that the assertions in the Report are not fairly presented in all material respects in accordance with the ONDCP's established criteria.

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



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Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to perform an independent attestation review of the IRS's reporting of FY¹ 2017 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 2017 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 any 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 the relationship to the amounts being reported.
 - B. Verified whether all drug-related activities are reflected in the drug methodology.
 - C. Obtained documentation to support any modifications to the initial drug methodology and verified that the modifications were submitted to the ONDCP for review prior to implementation.
- III. Performed selected reviews of reported obligations in the Detailed Accounting Submission.
 - A. Verified that the Detailed Accounting Submission included all of the elements specified in Section 6 of ONDCP Circular: *Accounting of Drug Control Funding and Performance Summary*, dated January 18, 2013.
 - B. Verified the mathematical accuracy of the obligations presented in the Table of FY 2017 Drug Control Obligations.
 - C. Traced the information contained in the Table of FY 2017 Drug Control Obligations to the supporting documentation.

¹ Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.



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- D. Reviewed the supporting documentation for reasonableness.
- 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 the 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.
 - 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

Gregory D. Kutz, Assistant Inspector General for Audit (Management Services and Exempt Organizations)

Alicia P. Mrozowski, Director

Anthony J. Choma, Audit Manager

Paige K. Krivda, Lead Auditor

Angela Garner, Senior Auditor



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Appendix III

Report Distribution List

Commissioner
Office of the Commissioner – Attn: Chief of Staff
Deputy Commissioner for Operations Support
Deputy Commissioner for Services and Enforcement
Deputy Chief Financial Officer
Deputy Chief, Criminal Investigation
Director, Office of Audit Coordination



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Appendix IV

*The Internal Revenue Service's Fiscal Year 2017
Detailed Accounting Submission and
Performance Summary Report*



CHIEF FINANCIAL OFFICER

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

December 4, 2017

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

Ursula S. Gillis *Ursula S. Gillis*
Chief Financial Officer

SUBJECT:

Annual Accounting and Authentication of Fiscal Year (FY) 2017
Drug Control Funds, Related Performance, and Assertion of
Performance Information

The purpose of this memorandum is to transmit the IRS FY 2017 Annual Accounting and Authentication of Drug Control Funds and Related Performance Report, as directed in the Office of National Drug Control Policy (ONDCP) Circular: *Accounting of Drug Control Funding and Performance Summary*, dated January 18, 2013. 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 202-317-6400, or have a member of your staff contact Jeffrey Zottola, Associate Chief Financial Officer for Corporate Budget, at 202-317-4038.

Attachment



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Attachment

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

DETAILED ACCOUNTING SUBMISSION

A. Table of Fiscal Year (FY) 2017 Drug Control Obligations

Narcotics	
Drug Resources by Function	
Investigations	<u>\$63,009,079</u>
Total	\$63,009,079
Drug Resources by Decision Unit	
Narcotics Crimes	<u>\$63,009,079</u>
Total	\$63,009,079

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 chart above.
- b) The Internal Revenue Service (IRS) Drug Control Budget encompasses the Criminal Investigation (CI) Narcotics Program¹. CI's overall Direct Investigative Time (DIT) applied to narcotics investigations for FY 2017 was 11.60 percent of total DIT.

The methodology for computing the resources appropriated and realized for the Narcotics Program is applying the DIT attributable to narcotics investigations 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 that the resources are being reported. The result is determined to be the amount of resources expended on the Narcotics Program. This methodology was approved by CI, the IRS Chief Financial Officer, and the Office of National Drug Control Policy (ONDCP) during FY 2014 and was effective for FY 2014 and all subsequent fiscal years.

¹ The IRS-CI Narcotics Program consists of five sub-programs: Organized Crime Drug Enforcement Task Forces (OCDETF), High Intensity Drug Trafficking Area (HIDTA), HIDTA-OCDETF, Terrorism-OCDETF, and Narcotics-Other.



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2) Methodology Modifications

No changes or modifications in the methodology from the prior year.

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 current methodology used to calculate obligations of prior-year budgetary resources did not change from FY 2016 to FY 2017. There was no effect on the methodology in FY 2017 since the methodology in FY 2016 did not change.

a) Data

Data is derived from CIMIS to determine the DIT applied to the Narcotics Program. 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 to determine the total resources expended to support the U.S. Government's National Drug Control Strategy. The annual percentage of DIT relating to all narcotics sub-programs is applied to the total resources expended for FY 2017 in the CI Appropriated Enforcement Budget (excluding reimbursements and EITC).



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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: Accounting of Drug Control Funding and Performance Summary. Calculations made using this methodology are documented sufficiently 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. § 1703(f) and Section 9 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 and 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 Narcotics Program and all



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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 the status codes of 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 narcotics investigations 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 President's Strategy to Combat Transnational Organized Crime, the U.S. National Drug Control Strategy, and the National Money Laundering Strategy, by seeking to reduce or eliminate the profits and financial gains from Transnational Criminal Organizations involved in narcotics trafficking and money laundering. 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 effect.

b) Prior Years Performance Targets and Results

The performance results for FY 2012 through FY 2016 are shown below:

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Investigations Completed	904	943	862	1039	788
Convictions	559	621	584	601	695
Conviction Rate	90%	88%	91%	92%	90%

Note: The performance results for FY 2012 – FY 2013 listed in the table above were based on the prior drug methodology and only include investigations coded as OCDETF.



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c) Current Year Performance Targets and Results

CI calculated its year-end performance using the status date of investigations. The results for FY 2017 are shown below:

FY 2017 Narcotics Targets & Performance	FY 2017 Narcotics Targets	FY 2017 Performance Results Narcotics
Investigations Completed	800	693
Convictions	500	542
Conviction Rate	86.0%	87.4%

- The decrease in the number of investigations completed is due to reduced CI special agent staffing and agents being directed to work the most complex investigations, focusing resources on fewer but more significant investigations.

d) Fiscal Year 2018 Performance Targets Narcotics Cases:

The performance information for the IRS CI Narcotics program for FY 2018, as submitted to ONDCP (ONDCP Budget Submission):

Criminal Investigations Completed	936
Convictions	634
Conviction Rate	90.5%

- The FY 2018 statistics were calculated using five years of performance results for criminal investigations completed, convictions and conviction rate.

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.



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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 applied properly 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 2017 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 2017 Drug Control Funds as required by § 6a(1)(A) for which a significant amount of obligations were incurred in the previous year.

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.