

**The Internal Revenue Service Has  
Enhanced Controls Over High Intensity  
Drug Trafficking Area Funds**

**January 2000**

**Reference Number: 2000-10-013**

**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.**




DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

January 7, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

FROM: Pamela J. Gardiner   
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - The Internal Revenue Service Has  
Enhanced Controls Over High Intensity Drug Trafficking Area  
Funds

This report presents the results of our follow-up review of the Internal Revenue Service's (IRS) controls over High Intensity Drug Trafficking Area (HIDTA) funds. Our objective was to assess the effectiveness of corrective actions taken by the IRS in response to a prior audit report titled, *Review of Controls Over High Intensity Drug Trafficking Area Funds* (Reference Number 083203, dated May 1998).

In summary, corrective actions taken to strengthen the control environment over HIDTA resources are adequate. The corrective actions included (1) revising financial operating guidelines, (2) tracking HIDTA expenditures by initiative on the Automated Financial System, and (3) using Memoranda of Agreement for better accountability over inter-agency transactions. The Assistant Commissioner (Criminal Investigation) agreed to the facts in the report. The full text of management's response is included as Appendix VI.

Copies of this report are also being sent to the IRS managers who are affected by the report. Please contact me at (202) 622-6510 if you have questions, or your staff may call Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

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## **Executive Summary**

The Office of National Drug Control Policy (ONDCP) distributed about \$1.3 million to the Internal Revenue Service (IRS) in Fiscal Year 1998 for High Intensity Drug Trafficking Area (HIDTA) activities. HIDTA funds are intended to provide resources for the IRS' participation in multi-agency task forces formed to disrupt drug trafficking organizations.

We initiated this follow-up review to evaluate the effectiveness of IRS management's corrective actions to a prior audit report, *Review of Controls Over High Intensity Drug Trafficking Area Funds* (Reference Number 083203, dated May 1998).

## **Results**

The Assistant Commissioner (Criminal Investigation) completed the corrective actions provided in the prior audit report. Based on our limited testing, we believe these actions have been effective in building a stronger control environment over HIDTA funds.

### **The Internal Revenue Service Is Now Using High Intensity Drug Trafficking Area Resources In Accordance With the Office of National Drug Control Policy Rules**

The Criminal Investigation Division (CID) revised its financial guidelines to provide better guidance and accountability for managers regarding the use of HIDTA resources. For the projects we reviewed, HIDTA funds were used for drug control activities consistent with ONDCP guidelines and strategies.

### **The Internal Revenue Service Is Now Properly Accounting For High Intensity Drug Trafficking Area Expenditures**

The CID is using the Project Cost Accounting Subsystem on the IRS' Automated Financial System to track HIDTA expenditures by project, rather than by district office. Coding by project has increased the accuracy of reporting the costs of HIDTA operations to the ONDCP.

**The Internal Revenue Service Has Enhanced Controls  
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**The Internal Revenue Service Is Now Maintaining Accountability Over  
Inter-Agency High Intensity Drug Trafficking Area Transactions**

Other federal law enforcement agencies directly pay for certain HIDTA expenses of the IRS special agents. To minimize the risks of possible duplicate or excessive payments, the CID now uses Memoranda of Agreement to fix responsibility for the control and use of HIDTA funds in these situations.

Management's Response: The Assistant Commissioner (Criminal Investigation) agreed to the facts in the report. Management's complete response to the draft report is included as Appendix VI.

## The Internal Revenue Service Has Enhanced Controls Over High Intensity Drug Trafficking Area Funds

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### Objective and Scope

*We evaluated the effectiveness of actions taken in response to a prior audit report.*

Our objective was to assess the effectiveness of corrective actions taken by the Internal Revenue Service (IRS) in response to a prior audit report titled, *Review of Controls Over High Intensity Drug Trafficking Area Funds* (Reference Number 083203, dated May 1998).

Audit tests focused on evaluating whether:

- High Intensity Drug Trafficking Area (HIDTA) resources are used in accordance with the Office of National Drug Control Policy (ONDCP) guidelines.
- HIDTA fund transactions are accounted for accurately and recorded properly.
- Accountability is maintained over inter-agency HIDTA transactions.

We conducted our limited tests in accordance with *Government Auditing Standards* between November 1998 and February 1999. Our tests were performed in the Los Angeles and South Texas District Offices. The projects selected for review enabled us to test 61 percent (\$175,274 of \$286,685) of the HIDTA funds spent or obligated on vehicles and equipment nationwide in Fiscal Year (FY) 1998.

Appendix I provides the detailed objective, scope, and methodology of our review. A listing of major contributors to this report is shown in Appendix II.

### Background

*In each of the last three years, the IRS received an average of about \$1.3 million from the ONDCP.*

In each of the last three years, the ONDCP distributed, on average, about \$1.3 million to the IRS for HIDTA activities. The funds are meant to help provide resources for participation in multi-agency task forces formed to disrupt drug trafficking organizations.

To ensure HIDTA funds are spent according to congressional intent, the ONDCP sets forth guidelines for agencies to follow that receive HIDTA funds. The

## **The Internal Revenue Service Has Enhanced Controls Over High Intensity Drug Trafficking Area Funds**

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previous audit identified the following areas where the IRS needed to strengthen controls to ensure HIDTA funds it receives are used in a manner consistent with ONDCP guidelines.

- HIDTA resources were not always used in HIDTA activities.
- HIDTA fund transactions were not always accounted for accurately or recorded properly.
- Accountability was not adequately maintained over expenses paid for by other agencies on behalf of IRS special agents.

### **Results**

Management's corrective actions to strengthen the control environment over HIDTA resources are adequate. Management agreed to the facts in the report and its complete response is included as Appendix VI.

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### **The Internal Revenue Service Is Now Using High Intensity Drug Trafficking Area Resources In Accordance With the Office of National Drug Control Policy Rules**

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#### *Prior Condition*

HIDTA funds and assets, such as vehicles and equipment, were not always used in a manner consistent with their intended purpose or as reported. For example, Criminal Investigation Division's (CID) National Office spent \$77,000 of HIDTA funds to purchase vehicles and other equipment that were used in general enforcement activities. The ONDCP guidelines, the National Director of HIDTA, and the IRS' Chief Counsel indicated that HIDTA funds are to be used only in support of HIDTA initiatives.

*We previously found that HIDTA funds were not always used in a manner consistent with their intended purpose.*

## The Internal Revenue Service Has Enhanced Controls Over High Intensity Drug Trafficking Area Funds

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### *Planned Corrective Actions*

The CID planned to revise its FY 1998 financial operating guidelines so that managers (1) reviewed budget execution quarterly to identify surplus funds, (2) annually certified that HIDTA resources were used appropriately, and (3) approved HIDTA funds for use in support of HIDTA activities. In addition, it planned to update its equipment control system with special codes to better track equipment purchased with HIDTA funds.

### *Follow-up Results*

*New guidelines have reinforced the need to ensure HIDTA resources are used appropriately.*

Quarterly budget execution reports, identifying HIDTA fund balances, were prepared and forwarded by district managers to the IRS' National Office on a quarterly basis. Managers also certified that HIDTA resources were used in accordance with ONDCP guidelines. Tests of selected expenditures from eight HIDTA initiatives in the Los Angeles and South Texas Districts also confirmed that the CID's corrective actions help ensure HIDTA resources are used for their intended purpose and as reported. Of the \$291,939 that the ONDCP distributed for the eight initiatives reviewed, 90 percent of funds, or \$264,162, was spent in the following areas:

- \$57,100 was spent to purchase 3 new vehicles. The vehicles were approved for use in HIDTA activities, in the custody of and assigned to special agents working primarily HIDTA cases, coded in the Automated Financial System (AFS) as a HIDTA purchase, and reflected in the CID's equipment control system as a HIDTA asset.
- \$118,174 was used to acquire equipment, such as computers, cellular phones, and investigative tools. The items were approved for use in HIDTA activities, in the custody of and assigned to special agents working primarily HIDTA cases, coded in the AFS as a HIDTA purchase, and reflected in the CID's inventory control systems as a HIDTA asset.
- \$88,888 was used to pay for services and supplies such as travel, gasoline, and vehicle maintenance costs. The expenses were approved as HIDTA



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expenditures, incurred by agents while working an HIDTA case, and coded in the AFS as a HIDTA expense.

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### **The Internal Revenue Service Is Now Properly Accounting For High Intensity Drug Trafficking Area Expenditures**

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#### *Prior Condition*

Under its old system, the CID could not reliably identify HIDTA transactions in the AFS. Instead, it used locally developed spreadsheets to report the costs of HIDTA projects to the ONDCP. This process left them in the situation of being unable to determine if and why differences existed between the AFS and amounts reported to the ONDCP. Discrepancies were identified exceeding \$600,000.

#### *Planned Corrective Actions*

The CID planned to develop special codes on the IRS' Project Cost Accounting Subsystem (PCAS) to track HIDTA expenditures for each of the 30 projects in which it was actively involved and for which it received funding. It also planned to establish AFS, not locally developed spreadsheets, as its system of record.

#### *Follow-up Results*

The CID has implemented PCAS codes on the AFS so that HIDTA expenditures can be tracked and reported to the ONDCP by initiative. This has increased the reliability of the underlying cost information of HIDTA operations that is ultimately reported to the ONDCP. Our reconciliation of HIDTA expenditures from three initiatives found no differences among the amounts reflected on source documents, the AFS, and the quarterly financial reports sent to the ONDCP.

*Using PCAS codes on the AFS to track spending by initiative has increased the accuracy of HIDTA cost information.*

## The Internal Revenue Service Has Enhanced Controls Over High Intensity Drug Trafficking Area Funds

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### The Internal Revenue Service Is Now Maintaining Accountability Over Inter-Agency High Intensity Drug Trafficking Area Transactions

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#### *Prior Condition*

HIDTA expenses of \$68,000 incurred by the CID special agents in a prior 18-month period were paid for by other federal agencies. There was no evidence that the special agents' managers had approved some of the expenses to ensure that they were incurred for a valid business purpose.

#### *Planned Corrective Actions*

The CID planned to formalize inter-agency responsibilities for direct payments into Memoranda of Agreement (MOA). It also planned to expand future operational reviews to include evaluating whether group managers are approving special agent expenditures paid for by other agencies.

#### *Follow-up Results*

Effective corrective actions were taken by the CID in FY 1998 to establish better control over inter-agency transactions. Its new financial guidelines require using the MOA process and operational reviews to provide reasonable assurance that transactions are properly authorized, adequately documented, and periodically included in the operational reviews of mid-level managers.

The HIDTA expenses incurred by the CID in the Los Angeles District, but paid for by the Drug Enforcement Administration (DEA) during FY 1998, were authorized in a MOA between the two agencies. Although the transactions had not been included in the operational reviews of mid-level managers, tests showed expense vouchers were properly prepared by the special agent and approved by the CID manager prior to submission to the DEA for reimbursement.

*Using MOAs has established better accountability over inter-agency transactions.*

**The Internal Revenue Service Has Enhanced Controls  
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**Conclusion**

The CID has taken effective corrective actions to strengthen the control environment over HITDA resources. These actions have diminished the risk that HIDTA resources will be misused.

## **The Internal Revenue Service Has Enhanced Controls Over High Intensity Drug Trafficking Area Funds**

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### **Appendix I**

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

Our objective was to assess the effectiveness of the Internal Revenue Service's (IRS) corrective actions taken in response to a prior audit report titled, *Review of Controls Over High Intensity Drug Trafficking Area Funds* (Reference Number 083203, dated May 1998). Our audit tests were performed in the Los Angeles and South Texas District Offices. The initiatives selected enabled us to test 61 percent (\$175,274 of \$286,685) of the High Intensity Drug Trafficking Area (HIDTA) funds spent on vehicles and equipment nationwide in Fiscal Year 1998. The specific tests included:

1. Reviewing Treasury's Inventory Tracking and Closure system to determine the dates planned corrective actions to our prior report were implemented.
2. Reviewing updated Office of National Drug Control Policy (ONDCP) guidelines to determine the current administrative and financial guidelines for HIDTA projects.
3. Evaluating the new financial operating guidelines to determine whether managers are required to review HIDTA budget execution reports, certify that HIDTA resources are used properly, approve HIDTA funds for use only in appropriate activities, and use the Memorandum of Agreement process for inter-agency HIDTA transactions.
4. Comparing a listing of HIDTA projects obtained from the ONDCP to the Project Cost Accounting Subsystem (PCAS) codes on the Automated Financial System (AFS) to determine whether codes were established to track and report HIDTA expenditures to the ONDCP by project.
5. Reconciling source documents from three HIDTA projects to PCAS reports to ensure HIDTA transactions were input and identifiable on the AFS.
6. Reconciling the \$175,274 of HIDTA equipment and vehicles purchases with inventory listings to determine whether HIDTA assets were properly controlled.
7. Tracing the \$175,274 of equipment and vehicles purchased with HIDTA funds to the custodians to determine whether HIDTA resources were used in a manner consistent with ONDCP guidelines.
8. Evaluating expense reports and the related requests for reimbursement that were submitted directly to the Drug Enforcement Administration to determine whether the transactions were properly authorized, documented, and periodically reviewed by mid-level management.

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**Appendix II**

**Major Contributors to This Report**

Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)

Stephen Mullins, Director

Frank Dunleavy, Audit Manager

Stanley Pinkston, Senior Auditor

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**Appendix III**

**Report Distribution List**

Chief Operations Officer OP  
Office of the Chief Counsel CC  
Assistant Commissioner (Criminal Investigation) OP:CI  
Assistant Commissioner (Program Evaluation and Risk Analysis) M:OP  
Director, Finance Division OP:CI:F  
National Director for Legislative Affairs CL:LA  
Office of Management Controls M:CFO:A:M  
Audit Liaisons:  
    Chief Operations Officer OP  
    Assistant Commissioner (Criminal Investigation) OP:CI

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**Appendix IV**

**Outcome Measures**

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to the Congress.

Finding and recommendation:

The Assistant Commissioner (Criminal Investigation) completed the corrective actions provided in a prior audit report titled, *Review of Controls Over High Intensity Drug Trafficking Area Funds* (Reference Number 083203, dated May 1998). The corrective actions have created a stronger control environment over the \$1.3 million of High Impact Drug Trafficking Area (HIDTA) resources made available in Fiscal Year (FY) 1998. The new financial operating guidelines are helping ensure HIDTA resources are used in accordance with the Office of National Drug Control Policy (ONDCP) Guidelines. Automated Financial System (AFS) enhancements have increased the accuracy of HIDTA accounting information. In addition, Memoranda of Agreement are providing better accountability over inter-agency transactions. Refer to page 2 of this report for more detailed information.

Type of Outcome Measure:

Protection of Resources - Actual

Reliability of Information - Actual

Value of the Benefit:

We believe the corrective actions completed by the Criminal Investigation Division have improved the safeguards over \$1.3 million in HIDTA funds.

Methodology Used to Measure the Reported Benefit:

In each of the last three years, the ONDCP distributed, on average, about \$1.3 million to the Internal Revenue Service for HIDTA activities. The funds are meant to help provide resources for participation in multi-agency task forces formed to disrupt drug trafficking organizations.

Our tests were performed in the Los Angeles and South Texas District Offices. The projects selected for review enabled us to test 61 percent (\$175,274 of \$286,685) of the HIDTA funds spent or obligated on vehicles and equipment in FY 1998.

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**Appendix V**

**Glossary of Terms**

AFS	Automated Financial System
CID	Criminal Investigation Division
DEA	Drug Enforcement Administration
HIDTA	High Impact Drug Trafficking Area
IRS	Internal Revenue Service
MOA	Memoranda of Agreement
ONDCP	Office of National Drug Control Policy
PCAS	Project Cost Accounting Subsystem



## The Internal Revenue Service Has Enhanced Controls Over High Intensity Drug Trafficking Area Funds

Appendix VI

### Management's Response to the Draft Report



COMMISSIONER

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20548

November 9, 1999

OFFICE OF TREASURY  
INSPECTOR GENERAL  
RECEIVED

1999 NOV 10 A 9 54

FOR TAX ADMINISTRATION

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR  
TAX ADMINISTRATION

FROM: Charles O. Rossotti  
Commissioner of Internal Revenue

SUBJECT: Draft Audit Report--The Internal Revenue Service (IRS)  
has Enhanced Controls over High Intensity Drug  
Trafficking Area (HIDTA) Funds

Thank you for the opportunity to respond to your draft report entitled "The Internal Revenue Service (IRS) has Enhanced Controls over High Intensity Drug Trafficking Areas (HIDTA) Funds." This report provided an assessment of the success of corrective actions we took to ensure HIDTA funds are used in a manner consistent with the Office of National Drug Control Policy (ONDCP) guidelines. The IRS is very pleased that the report concluded that IRS has strengthened its control environment and has diminished the risk that HIDTA resources could be misused.

The report reflects the fact that the IRS was very prompt in its response to the items identified during the audit and that the IRS completed all of the necessary corrective actions during FY 1998. The corrective actions included: (1) revising financial operating guidelines to provide better guidance and accountability for managers regarding the use of HIDTA resources, (2) tracking HIDTA expenditures by initiative on the Automated Financial System (AFS), and (3) using Memorandum of Agreement for better accountability over interagency transactions. Your assessment was that the corrective actions completed by IRS have improved the safeguards over \$1.3 million in HIDTA funds. As a result, we are adhering to ONDCP guidelines and remain eligible to participate in the HIDTA program in the future.

The report also recognized that the IRS has taken the initiative through the following actions to track the effectiveness of the corrective actions enumerated above:

- (1) Quarterly budget execution reports, identifying HIDTA fund balances, were prepared and forwarded by district managers to the IRS' National Office. Managers also certified that HIDTA resources are used in accordance with ONDCP guidelines. This process helps ensure HIDTA resources are used for their intended purposes as reported.

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- (2) IRS has implemented Project Cost Accounting Subsystem (PCAS) codes on AFS so that HIDTA expenditures can be tracked and reported to ONDCP by initiative. This has increased the reliability of the underlying cost information of HIDTA operations that is ultimately reported to ONDCP.
- (3) The requirement to formalize interagency responsibilities for direct payments into a Memorandum of Agreement and the implementation of operational reviews have provided reasonable assurance that transactions are properly authorized, adequately documented, and periodically included in the operational reviews of mid-level managers.

If you have any questions, please call Johnny C. Rose, Acting Director, National Operations Division (OP:CI:O), at (202) 622-4100.