



*Attestation Review of the Internal Revenue  
Service's Fiscal Year 2008 Annual  
Accounting of Drug Control Funds and  
Related Performance*

**January 30, 2009**

**Reference Number: 2009-10-040**

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 30, 2009

**MEMORANDUM FOR CHIEF FINANCIAL OFFICER**

*Nancy A. Nakamura*

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

**SUBJECT:** Final Audit Report – Attestation Review of the Internal Revenue Service’s Fiscal Year 2008 Annual Accounting of Drug Control Funds and Related Performance (Audit # 200810034)

This report presents the results of our attestation review of the Internal Revenue Service’s (IRS) Fiscal Year (FY) 2008 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.

*Impact on the Taxpayer*

The IRS reported that it expended \$64.2 million on ONDCP-related activities and participated in 478 ONDCP-related cases that resulted in convictions in FY 2008. Overall, the methodology used to prepare the IRS’ FY 2008 Report was clearly explained and adequately documented. However, we determined that the performance information reported by the IRS includes a small number of cases from fiscal years prior to FY 2008. For example, 18 of the 478 convictions reported actually occurred prior to FY 2008 and, therefore, should not be included in the FY 2008 measure. 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.



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## Synopsis

Overall, we found that the methodology used to prepare the IRS' FY 2008 Report was clearly explained and adequately documented. In response to our FY 2007 attestation report,<sup>1</sup> and to better represent program effectiveness, the IRS began reporting the number of convictions and conviction rate related to its participation in ONDCP-related cases. For FY 2008, the IRS reported 478 cases that resulted in convictions and an overall conviction rate of 87.9 percent.

While this additional reporting is a positive step in improving the reporting of performance measures, our testing indicated that 18 of the 478 convictions actually occurred prior to FY 2008 and, therefore, should not be included in the FY 2008 measure. We similarly found that 3 of the 827 ONDCP-related investigations reported as completed in FY 2008 were actually completed prior to FY 2008.

We also identified 18 cases among the cases the IRS reported as recommended for prosecution, but ultimately resulted in acquittal or dismissal, that occurred prior to FY 2008. The IRS informed us that it does not adjust its reporting to account for timing differences resulting from the sometimes delayed posting of case results. Not accounting for these timing differences adversely impacts the reliability of IRS performance information. Specifically, the IRS' conviction rate would be 90.6 percent by omitting these 36 cases that resulted in a conviction, acquittal, or dismissal prior to FY 2008 instead of the 87.9 percent reported. Notably, these timing differences may also be present and result in the reporting of FY 2008 cases as occurring during FY 2009, further obscuring the correct calculation of the FY 2008 performance measures including the conviction rate. Because of the limited-scope nature of our review, we did not perform indepth testing of IRS records necessary to identify potential errors of this type, nor did we analyze in detail the specific causes for the delayed postings we identified.

Based on our review, with the exception of the matters discussed above, nothing came to our attention to indicate that the assertions are not presented in all material respects in accordance with ONDCP-established criteria.

## Recommendation

We recommended the Chief Financial Officer, in coordination with the Chief, Criminal Investigation Division, evaluate the cause of the delayed case postings we identified and based on this analysis, evaluate the feasibility of either improving the timeliness of its case postings and/or adjusting its yearend performance information to reflect timing differences caused by late postings of case information.

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<sup>1</sup> *Attestation Review of the Internal Revenue Service's Fiscal Year 2007 Annual Accounting of Drug Control Funds and Related Performance* (Reference Number 2008-10-058, dated January 31, 2008).



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*Response*

IRS management agreed with our recommendation. For its FY 2009 report on accounting of drug control funds, the IRS will include only those investigations completed within the fiscal year in the performance results. In addition, the IRS adjusted its reporting of FY 2008 performance information to reflect timing differences caused by late postings of case information and included this revised reporting in its response. Management's complete response to the draft report is included as Appendix VI.

*Office of Audit Comment*

In responding to our report, the IRS provided a revised reporting of its FY 2008 performance information to reflect timing differences. Because of the time limitations imposed by the mandatory reporting deadline of this review, we did not evaluate or perform any testing relating to the IRS' revised reporting.

Copies of this report are also being sent to the IRS managers affected by the report recommendation. 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 continued support of the Organized Crime and Drug Enforcement Task Force.

***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.***

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.

This review was conducted as required by the National Drug Control Policy (21 U.S.C. Section 1704(d)) and ONDCP Circular, *Annual Accounting of Drug Control Funds*, 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 National Drug Control Policy. 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, during the period of October 2008 through January 2009. 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

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<sup>1</sup> P.L. 105-277 (Division C-Title VII), Section 707(d).

<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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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. 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*

### ***The Methodology Used to Prepare the Fiscal Year 2008 Annual Accounting of Drug Control Funds and Related Performance Summary Report Was Clearly Explained and Adequately Documented, but Improvements Are Needed to Ensure Data Accuracy***

We reviewed the IRS' ONDCP Detailed Accounting Submission and Performance Summary Report (the Report) for FY 2008, which ended September 30, 2008 (see Appendix V). This Report was prepared pursuant to 21 U.S.C. § 1704(d) and the ONDCP Circular *Annual Accounting of Drug Control Funds*. 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, include statements that the performance reporting system is appropriate and applied, explanations for not meeting any performance targets are reasonable, and methodology used to establish performance targets is reasonable and correctly applied. ONDCP-established criteria include well-documented sources of data, documented and explained calculations, and complete and fair presentation of data from financial systems.

Overall, we found that the methodology used to prepare the IRS' FY 2008 Report was clearly explained and adequately documented. The IRS reported that it expended \$64.2 million on ONDCP-related activities and completed 827 ONDCP-related investigations in FY 2008. In response to our FY 2007 attestation report,<sup>3</sup> and to better represent program effectiveness, the IRS began reporting the number of convictions and conviction rate related to its participation in ONDCP-related cases. For FY 2008, the IRS reported 478 cases that resulted in convictions and an overall conviction rate of 87.9 percent.

While this additional reporting is a positive step in improving the reporting of performance measures, our testing indicated that 18 of the 478 convictions actually occurred prior to FY 2008 and, therefore, should not be included in the FY 2008 measure. We similarly found that 3 of the 827 ONDCP-related investigations reported as completed in FY 2008 were actually completed prior to FY 2008. These 18 convictions and 3 completed investigations were included in the

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<sup>3</sup> *Attestation Review of the Internal Revenue Service's Fiscal Year 2007 Annual Accounting of Drug Control Funds and Related Performance* (Reference Number 2008-10-058, dated January 31, 2008).



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FY 2008 performance measure because the IRS calculates its performance measures based strictly on the date the case results are input into its management information system. We also identified 18 cases among the cases the IRS reported as recommended for prosecution but ultimately resulted in acquittal or dismissal that occurred prior to FY 2008. The IRS informed us that it does not adjust its reporting to account for timing differences resulting from the sometimes delayed posting of case results. The 39 total cases (18 convictions, 3 completed investigations, and 18 acquittals or dismissals) we identified as completed or occurring prior to FY 2008 included 28 FY 2007 cases and 11 FY 2006 and prior cases.

Not accounting for these timing differences adversely affects the reliability of IRS performance information. Specifically, the IRS' conviction rate would be 90.6 percent by omitting these 36 cases that resulted in a conviction, acquittal, or dismissal prior to FY 2008 instead of the 87.9 percent reported. Notably, these timing differences may also be present and result in the reporting of FY 2008 cases as occurring during FY 2009, further obscuring the correct calculation of the FY 2008 performance measures including the conviction rate. Because of the limited-scope nature of our review, we did not perform indepth testing of IRS records necessary to identify potential errors of this type, nor did we analyze in detail the specific causes for the delayed postings we identified.

Based on our review, with the exception of the matters discussed above, nothing came to our attention to indicate that the assertions are not presented in all material respects in accordance with ONDCP-established criteria.

## ***Recommendation***

**Recommendation 1:** The Chief Financial Officer, in coordination with the Chief, Criminal Investigation Division, should evaluate the cause of the delayed case postings we identified and based on this analysis, evaluate the feasibility of either improving the timeliness of its case postings and/or adjusting its yearend performance information to reflect timing differences caused by late postings of case information.

**Management's Response:** IRS management agreed with our recommendation. For its FY 2009 report on accounting of drug control funds, the IRS will include only those investigations completed within the fiscal year in the performance results. In addition, the IRS adjusted its reporting of FY 2008 performance information to reflect timing differences caused by late postings of case information.

**Office of Audit Comment:** In responding to our report, the IRS provided a revised reporting of its FY 2008 performance information to reflect timing differences. Because of the time limitations imposed by the mandatory reporting deadline of this review, we did not evaluate or perform any testing relating to the IRS' revised reporting.

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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*

Our overall objective was to perform an attestation review of the IRS' reporting of FY 2008 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 2008 Detailed Accounting Submission and Performance Summary Report.
  - A. Discussed the process to record and report ONDCP expenditures and performance information with responsible IRS personnel.
  - B. Obtained documents such as written procedures, supporting worksheets, and recording modifications that evidence the methodology used.
- II. Evaluated the reasonableness of the drug methodology process.
  - 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 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: *Annual Accounting of Drug Control Funds*.
  - 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 the FY 2008 Drug Control Obligations.
  - D. Traced the information contained in the Table of the FY 2008 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.



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- B. Reviewed the estimation methods for consistency with reported performance information.
- 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 includes all of the elements specified in Section 7 of the ONDCP Circular: *Annual Accounting of Drug Control Funds*.
  - 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

Seth A. Siegel, Senior Auditor

Melvin Lindsey, 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  
Chief, Criminal Investigation Division SE:CI  
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



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## **Appendix IV**

### *Outcome Measure*

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

#### **Type and Value of Outcome Measure:**

- Reliability of Information – Actual; 39 Cases (see page 3).

#### **Methodology Used to Measure the Reported Benefit:**

Our review found that the IRS included cases from prior years in its reporting of FY 2008 ONDCP-related investigations. Specifically, the IRS reported 827 completed investigations during FY 2008. The IRS also reported that 478 cases resulted in convictions during FY 2008 corresponding to a conviction rate of 87.9 percent.

Our testing indicated that 18 of the 478 reported convictions and 18 cases that had been recommended for prosecution but resulted in acquittals or dismissals occurred prior to FY 2008 but were used to compute the IRS' FY 2008 conviction rate. We similarly found that 3 of the 827 ONDCP-related investigations reported as completed in FY 2008 were actually completed prior to FY 2008. The IRS calculates its performance measures based strictly on the date the case results are input into its management information system and it does not adjust its reporting to account for timing differences resulting from the sometimes delayed posting of case results.





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**Appendix V**

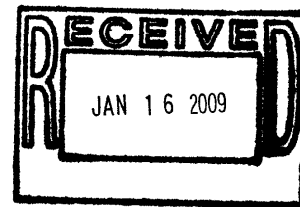
*Internal Revenue Service Fiscal Year 2008 Detailed  
Accounting Submission and Related Performance  
Summary Report*



CHIEF FINANCIAL OFFICER

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

January 15, 2009



MEMORANDUM FOR MICHAEL PHILLIPS  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:   
Alison L. Doone  
Chief Financial Officer

SUBJECT: Internal Revenue Service's (IRS) Fiscal Year (FY) 2008  
Detailed Accounting Submission of Drug Control Funds

The Internal Revenue Service (IRS) is submitting this report 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 circular requires TIGTA to perform an attestation review of this report before the IRS submits it to the ONDCP. After the IRS receives TIGTA's conclusion as to the reliability of each assertion made in the report, 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 Bob Mahaffie, Associate Chief Financial Officer for Corporate Performance Budgeting, at (202) 622-4663.

Attachment



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

**DETAILED ACCOUNTING SUBMISSION**

**A. Table of FY 2008 Drug Control Obligations**

<b>Drug Control Resources by Function</b>	<b>(\$000)</b>
Investigations	<u>\$64,247</u>
Total	\$64,247
<b>Drug Control Resources by Decision Unit</b>	
Narcotics Crimes	<u>\$64,247</u>
Total	\$64,247

**1) Drug Methodology**

- The Organized Crime and Drug Enforcement Task Force (OCDEF) program is carried out by the Internal Revenue Service (IRS) Criminal Investigation (CI) Narcotics Crimes decision unit. All Drug Control obligations (the resources appropriated and available for these activities) are reported under one Drug Control function and the Narcotics Crimes budget decision unit, as shown in the above chart.
- The Office of National Drug Control Policy (ONDCP) requires CI to report only on the OCDEF portion of the narcotics program. CI's Direct Investigative Time (DIT) applied to narcotics cases for FY 2008 was 12.3% of total DIT. The OCDEF portion of this program was 11.5% of total DIT or 93% of the total narcotics DIT.
- The methodology for computing the resources appropriated and realized for the OCDEF program is the application of the DIT attributable to OCDEF cases to the total realized CI 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 the amount of resources expended on OCDEF cases. This methodology was approved by CI, the IRS Chief Financial Officer, and the Treasury Inspector General for Tax Administration (TIGTA) during the FY 2006 ONDCP attestation review.



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- FY 2006 was the first year OCDETF funding became a permanent part of the CI budget. Before FY 2006, OCDETF was a reimbursable program administered by the Department of Justice.

**2) Methodology Modifications**

The methodology to calculate drug control obligations has not been modified. The IRS added the number of convictions and conviction rate to the performance measures used to assess its contribution to the National Drug Control Strategy.

**3) Material Weaknesses or Other Findings**

None

**4) Reprogramming or Transfers**

None

**5) Other Disclosures**

None

**B. Assertions**

**1) Obligations by Budget Decision Unit**

The FY 2008 OCDETF obligations are derived from multiplying the OCDETF DIT to total CI obligations 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 are derived from the Criminal Investigation Management Information System (CIMIS) to determine the OCDETF DIT applied to the OCDETF activities. Special agents submit 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 an annual percentage determined after the close of the fiscal year. The annual percentage of OCDETF DIT is applied to the total resources expended for FY 2008 in the CI budget



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(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 source of the CI 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 documented to allow independent review and to ensure consistency between reporting years.

**4) Reprogramming or Transfers**

There were no reprogrammings or transfers in the OCDETF program in FY 2008.

**5) Fund Control Notices**

The OCDETF obligations were derived based on 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.



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**C. Performance Summary Report**

**1) Performance Reporting**

**(a) Performance Measures**

In addition to the number of OCDETF criminal investigations completed, the IRS added the number of OCDETF convictions and OCDETF conviction rate to evaluate its contribution to the National Drug Control Strategy. The number of convictions and conviction rate are both budget level performance measures used by CI to evaluate its overall performance, and the number of OCDETF convictions and OCDETF conviction rate are subsets of those measures.

OCDETF criminal investigations completed are defined as total OCDETF criminal investigations completed during the fiscal year, including those resulting in a prosecution recommendation to the Department of Justice or discontinued for reasons including lack of evidence or a finding that the allegation was false. The number of OCDETF convictions is defined as the total number of OCDETF criminal investigations with results of guilty plea, nolo-contendere, and outcomes of guilty by judge or jury. Conviction rate is defined as the total number of OCDETF criminal investigations with results of guilty plea, nolo-contendere, and outcomes of guilty by judge or jury divided by these outcomes plus nolle prosequi, judge dismissed cases, and jury acquittals. These measures assess CI's performance in OCDETF cases to reduce or eliminate the profits and financial gains from narcotics trafficking and money laundering in support of the National Drug Control Strategy and the National Money Laundering Strategy goals. CI has participated in the OCDETF program since its inception in 1982 and focuses its narcotics efforts on high-priority OCDETF cases where its contributions will have the greatest impact.

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

The number of completed OCDETF investigations for FY 2004 through FY 2008 is shown below:

<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
<b>1,068</b>	<b>938</b>	<b>728</b>	<b>654</b>	<b>827</b>

Criminal Investigation maintained a narcotics DIT level of 9 to 11% in FY 2005 through 2007. In response to the Attorney General's request for the commitment of additional CI resources to OCDETF



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cases, CI increased the amount of DIT devoted to narcotics investigations in FY 2008 to between 11% and 13%.

**(c) Current Year Performance Results**

The FY 2008 completed OCDETF investigations target was 710. CI exceeded the 2008 target, completing 827 OCDETF investigations, 16.5% above the projection. The higher number of completions resulted from closure of several large conspiracy cases yielding a higher number of closures than anticipated. Additionally, OCDETF convictions were 478 resulting in an OCDETF Conviction Rate of 87.9%. This is the first year CI is reporting results for OCDETF Convictions and OCDETF Conviction Rate so there were no FY 2008 target.

**(d) FY 2009 OCDETF Performance Targets**

CI performance targets are established based on projected case completion rates that are reviewed and recalculated each year to include the prior year completions. Based on the most recent completion rates for all CI reporting programs including legal, illegal, and narcotics, the FY 2009 targets for the three OCDETF measures are:

OCDETF Criminal Investigations Completed – 710  
OCDETF Convictions – 460  
OCDETF Conviction Rate – 85%

**(e) Reliability of Performance Data**

Data are derived from the Criminal Investigation Management Information System (CIMIS). All cases have unique numbers assigned in CIMIS and are subject to validity and business rule checks. The CIMIS database tracks the status of the investigations from initiation through final disposition. The only limitations on the reliability of data relate to the accuracy and timeliness of the data input into CIMIS. The system has sufficient internal checks and balances to assure status updates are input correctly.



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**Appendix VI**

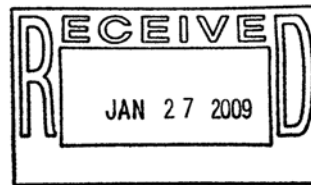
*Management's Response to the Draft Report*



CHIEF FINANCIAL OFFICER

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

January 27, 2009



Nancy A. Nakamura  
Assistant Inspector General  
(Management Services and Exempt Organizations)  
1125 15<sup>th</sup> St. NW  
Washington, DC 20005

Dear Nancy:

We appreciate the opportunity to review TIGTA Discussion Draft Report – Attestation Review of the Internal Revenue Service's Fiscal Year 2008 Annual Accounting of Drug Control Funds and Related Performance (Audit # 200810034). Our comments on the discussion draft are provided below.

We agree with TIGTA's findings on the number of cases included from prior years and the recommendation to adjust year-end performance information. To ensure accuracy in the FY 2008 performance information we adjusted the performance to reflect timing differences caused by late postings of case information. The adjusted FY 2008 results are included in the attached "Annual Accounting and Authentication of Drug Control Funds and Related Performance."

To complete the FY 2009 report on accounting of drug control funds, the IRS will ensure that only those OCDEF investigations completed within the fiscal year are included in the performance results. The IRS also will continue to measure performance in its field offices against the requirement that 85% of status actions must be input to the CIMIS system within five days of the action being taken. In FY 2008, CI entered 91.5% of status actions within five days of the action.

At each field office, cases that are not input timely are reviewed to determine the cause of the delay. Cases that do not meet the target frequently result from delays in notification telephone calls and letters issued by the Department of Justice.



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If you have any questions please contact Peter Rose at (202) 622-4508.

Sincerely,

Alison L. Doone

Attachment





*Attestation Review of the Internal Revenue Service's  
Fiscal Year 2008 Annual Accounting of Drug Control Funds  
and Related Performance*

Attachment 1/15/2009

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

**DETAILED ACCOUNTING SUBMISSION**

**A. Table of FY 2008 Drug Control Obligations**

<b>Drug Control Resources by Function</b>	<b>(\$000)</b>
Investigations	<u>\$64,247</u>
Total	\$64,247
<b>Drug Control Resources by Decision Unit</b>	
Narcotics Crimes	<u>\$64,247</u>
Total	\$64,247

**1) Drug Methodology**

- The Organized Crime and Drug Enforcement Task Force (OCDETF) program is carried out by the Internal Revenue Service (IRS) Criminal Investigation (CI) Narcotics Crimes decision unit. All Drug Control obligations (the resources appropriated and available for these activities) are reported under one Drug Control function and the Narcotics Crimes budget decision unit, as shown in the above chart.
- The Office of National Drug Control Policy (ONDCP) requires CI to report only on the OCDETF portion of the narcotics program. CI's Direct Investigative Time (DIT) applied to narcotics cases for FY 2008 was 12.3% of total DIT. The OCDETF portion of this program was 11.5% of total DIT or 93% 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 to the total realized CI 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 the amount of resources expended on OCDETF cases. This methodology was approved by CI, the IRS Chief Financial Officer, and the Treasury Inspector General for Tax Administration (TIGTA) during the FY 2006 ONDCP attestation review.



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- FY 2006 was the first year OCDETF funding became a permanent part of the CI budget. Before FY 2006, OCDETF was a reimbursable program administered by the Department of Justice.

**2) Methodology Modifications**

The methodology to calculate drug control obligations has not been modified. The IRS added the number of convictions and conviction rate to the performance measures used to assess its contribution to the National Drug Control Strategy.

**3) Material Weaknesses or Other Findings**

None

**4) Reprogramming or Transfers**

None

**5) Other Disclosures**

None

**B. Assertions**

**1) Obligations by Budget Decision Unit**

The FY 2008 OCDETF obligations are derived from multiplying the OCDETF DIT to total CI obligations 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 are derived from the Criminal Investigation Management Information System (CIMIS) to determine the OCDETF DIT applied to the OCDETF activities. Special agents submit 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 an annual percentage determined after the close of the fiscal year. The annual percentage of OCDETF DIT is applied to the total resources expended for FY 2008 in the CI budget



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(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 source of the CI 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 documented to allow independent review and to ensure consistency between reporting years.

**4) Reprogramming or Transfers**

There were no reprogrammings or transfers in the OCDETF program in FY 2008.

**5) Fund Control Notices**

The OCDETF obligations were derived based on 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.



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**C. Performance Summary Report**

**1) Performance Reporting**

**(a) Performance Measures**

In addition to the number of OCDETF criminal investigations completed, the IRS added the number of OCDETF convictions and OCDETF conviction rate to evaluate its contribution to the National Drug Control Strategy. The number of convictions and conviction rate are both budget level performance measures used by CI to evaluate its overall performance, and the number of OCDETF convictions and OCDETF conviction rate are subsets of those measures.

OCDETF criminal investigations completed is defined as total OCDETF criminal investigations completed during the fiscal year, including those resulting in a prosecution recommendation to the Department of Justice or discontinued for reasons including lack of evidence or a finding that the allegation was false. The number of OCDETF convictions is defined as the total number of OCDETF criminal investigations with results of guilty plea, nolo-contendere, and outcomes of guilty by judge or jury. Conviction rate is defined as the total number of OCDETF criminal investigations with results of guilty plea, nolo-contendere, and outcomes of guilty by judge or jury divided by these outcomes plus nolle prosequi, judge dismissed cases, and jury acquittals. These measures assess CI's performance in OCDETF cases to reduce or eliminate the profits and financial gains from narcotics trafficking and money laundering in support of the National Drug Control Strategy and the National Money Laundering Strategy goals. CI has participated in the OCDETF program since its inception in 1982 and focuses its narcotics efforts on high-priority OCDETF cases where its contributions will have the greatest impact.

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

The number of completed OCDETF investigations for FY 2004 through FY 2008 are shown below:

<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
<b>1,068</b>	<b>938</b>	<b>728</b>	<b>654</b>	<b>827</b>

Criminal Investigation maintained a narcotics DIT level of 9 to 11% in FY 2005 through 2007. In response to the Attorney General's request for the commitment of additional CI resources to OCDETF



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cases, CI increased the amount of DIT devoted to narcotics investigations in FY 2008 to between 11% and 13%.

**(c) Current Year Performance Results**

The FY 2008 completed OCDETF investigations target was 710. CI exceeded the 2008 target, completing 827 OCDETF investigations, 16.4% above the projection. The higher number of completions resulted from closure of several large conspiracy cases yielding a higher number of closures than anticipated. Additionally, OCDETF convictions were 475 resulting in an OCDETF Conviction Rate of 88.9%. This is the first year CI is reporting results for OCDETF Convictions and OCDETF Conviction Rate so there were no FY 2008 targets.

**(d) FY 2009 OCDETF Performance Targets**

CI performance targets are established based on projected case completion rates that are reviewed and recalculated each year to include the prior year completions. Based on the most recent completion rates for all CI reporting programs including legal, illegal and narcotics, the FY 2009 targets for the three OCDETF measures are:

OCDETF Criminal Investigations Completed – 710  
OCDETF Convictions – 460  
OCDETF Conviction Rate – 85%

**(e) Reliability of Performance Data**

Data are derived from the Criminal Investigation Management Information System (CIMIS). All cases have unique numbers assigned in CIMIS and are subject to validity and business rule checks. The CIMIS database tracks the status of the investigations from initiation through final disposition. The only limitations on the reliability of data relate to the accuracy and timeliness of the data input into CIMIS. The system has sufficient internal checks and balances to assure status updates are input correctly.