



*Attestation Review of the Internal Revenue  
Service's Fiscal Year 2007 Annual  
Accounting of Drug Control Funds and  
Related Performance*

**January 31, 2008**

**Reference Number: 2008-10-058**

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 31, 2008

**MEMORANDUM FOR CHIEF FINANCIAL OFFICER**

A handwritten signature in black ink, appearing to read "Michael R. Phillips".

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

**SUBJECT:** Final Audit Report – Attestation Review of the Internal Revenue Service’s Fiscal Year 2007 Annual Accounting of Drug Control Funds and Related Performance (Audit # 200710038)

This report presents the results of our attestation review of the Internal Revenue Service’s (IRS) Fiscal Year (FY) 2007 Office of National Drug Control Policy (ONDCP)<sup>1</sup> 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 \$58.4 million on ONDCP-related activities and completed 654 ONDCP-related investigations in FY 2007. Overall, the methodology used to calculate the IRS’ FY 2007 Report was clearly explained and adequately documented. Complete and reliable financial and performance information is critical to the IRS’ ability to accurately report on the results of its operations to both internal and external stakeholders, including taxpayers.

*Synopsis*

Overall, the methodology used to calculate the IRS’ FY 2007 Report was clearly explained and adequately documented. However, in our opinion, the performance measure reported by the IRS could be improved to better represent the IRS’ contribution to the National Drug Control

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<sup>1</sup> The ONDCP was established in 1988 to set priorities, implement a national strategy, and certify Federal Government drug control budgets by the Anti-Drug Abuse Act of 1988, P.L. 105-277 (Division C-Title VII), Section 707(d).



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Strategy. Specifically, by reporting only the number of ONDCP-related investigations completed, the IRS is providing very little information on the effectiveness of its efforts.

In addition, our testing of the IRS ONDCP performance information for reasonableness identified that 47 (7 percent) of the 654 investigations reported as completed in FY 2007 were both initiated and completed on the same day and resulted in referral for prosecution, based on the supporting documentation provided. The IRS informed us that the 47 investigations were all related to other investigations and were worked as part of the related investigations. The IRS concluded that the 47 cases were not tracked as unique investigations until approximately the time the cases were forwarded for prosecution. While the IRS' explanation for the reporting of these types of investigations appears reasonable, we are unable to adequately verify it without a detailed review of at least a sample of investigation case files, which is significantly beyond the scope of this review.

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, expand the performance information used to report the IRS' contribution to the National Drug Control Strategy to include additional measures that specifically address program effectiveness.

### *Response*

The IRS agreed to consider expanding the performance information it reports. Specifically, the IRS will evaluate potential performance measures and, in particular, will look at the measures used by the other agencies that support the National Drug Control Strategy.

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 Nakamura, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), 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) Narcotics Program supports the National Drug Control

***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.***

Strategy with continued support of joint agency task forces (e.g., the Organized Crime and Drug Enforcement Task Force and High Intensity Drug Trafficking Area Task Force) through the use of asset forfeiture legislation, international training programs, and assistance programs.

This review was conducted as required by the National Drug Enforcement Policy (21 U.S.C. Section 1704(d)) and the 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. 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.

This review was performed at the IRS Headquarters offices of the Chief Financial Officer and Chief, Criminal Investigation Division, in Washington, D.C., during the period October through December 2007. Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. An attestation review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the 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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<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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## *Results of Review*

### ***The Methodology Used to Calculate the Internal Revenue Service's Fiscal Year 2007 Report Was Clearly Explained and Adequately Documented***

We reviewed the IRS' FY 2007 ONDCP Detailed Accounting Submission and Performance Summary Report (the Report) (see Appendix IV). The Report was prepared pursuant to 21 U.S.C. Section 1704(d) and the ONDCP Circular *Annual Accounting of Drug Control Funds*. It is the responsibility of the IRS.

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 the methodology used to establish performance targets is reasonable and correctly applied. The ONDCP-established criteria include well-documented sources of data, documented and explained calculations, and a complete and fair presentation of data from financial systems. The IRS reported that it expended \$58.4 million on ONDCP-related activities and completed 654 ONDCP-related investigations in FY 2007.

Overall, the methodology used to calculate the IRS' FY 2007 Report was clearly explained and adequately documented. However, in our opinion, the performance measure reported by the IRS could be improved to better represent the IRS' contribution to the National Drug Control Strategy. Specifically, by reporting only the number of ONDCP-related investigations completed, the IRS is providing very little information on the effectiveness of its efforts. Measures that would provide a better indicator of the effectiveness of the IRS' ONDCP-related efforts include the number of prosecution referrals, the number of convictions, and the conviction rate. 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.

In addition, our testing of IRS ONDCP performance information for reasonableness identified that 47 (7 percent) of the 654 investigations reported as completed in FY 2007 were both initiated and completed on the same day and resulted in referral for prosecution, based on the supporting documentation provided. The IRS informed us that the 47 investigations were all



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related to other investigations and were worked as part of the related investigations. It concluded that the 47 cases were not tracked as unique investigations until approximately the time the cases were forwarded for prosecution. While the IRS' explanation for the reporting of these types of investigations appears reasonable, we are unable to adequately verify it without a detailed review of at least a sample of investigation case files, which is significantly beyond the scope of this review.

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 expand the performance information used to report the IRS' contribution to the National Drug Control Strategy to include additional measures that specifically address program effectiveness.

**Management's Response:** The IRS agreed to consider expanding the performance information it reports. Specifically, the IRS will evaluate potential performance measures and, in particular, will look at the measures used by the other agencies that support the National Drug Control Strategy.

\* \* \* \* \*

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' FY 2007 ONDCP Detailed Accounting Submission and Performance Summary Report (the Report),<sup>1</sup> for the purpose of expressing a conclusion about the reliability of each assertion made in the Report. To accomplish our objective, we:

- I. Obtained an understanding of the process used to prepare the FY 2007 Report.
  - A. Discussed the process to record and report ONDCP expenditures and performance information with responsible IRS personnel.
  - B. Obtained documents that show the methodology used, such as written procedures, supporting worksheets, and recording modifications.
- II. Evaluated the reasonableness of the drug methodology process.
  - A. Reviewed data supporting the Detailed Accounting Submission segment of the Report to establish the relationship to the amounts being reported.
  - B. Reviewed the estimation methods used for consistency with reported amounts.
- III. Performed sufficient verifications of reported obligations to support our conclusion on the reliability of the assertions.
  - A. Verified whether the Detailed Accounting Submission segment of the Report included all elements specified in Section 6 of the ONDCP Circular *Annual Accounting of Drug Control Funds*.
  - B. Verified the mathematical accuracy of the obligations presented in the Table of the FY 2007 Drug Control Obligations.
  - C. Traced the information contained in the Table of the FY 2007 Drug Control Obligations to the supporting documentation.
- IV. Evaluated the reasonableness of the methodology used to report performance information for National Drug Control Program Agency activities.
  - A. Reviewed data supporting the Performance Summary segment of the Report to establish its relationship to the National Drug Control Program Agency activities being reported.

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<sup>1</sup> See Appendix IV.



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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 whether the Performance Summary segment of the Report includes all 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 Nakamura, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)  
Alicia Mrozowski, Director  
Anthony J. Choma, Audit Manager  
Mildred Rita Woody, Lead Auditor  
Richard Loudon, Senior Auditor  
Angela Garner, Auditor  
Rashme Sawhney, Auditor



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**Appendix III**

*Report Distribution List*

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



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**Appendix IV**

*Internal Revenue Service Fiscal Year 2007  
Detailed Accounting Submission and Performance  
Summary Report*



CHIEF FINANCIAL OFFICER

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

December 20, 2007

**RECEIVED**

JAN 07 2008

MEMORANDUM FOR MICHAEL PHILLIPS  
DEPUTY INSPECTOR GENERAL FOR AUDIT  
FROM: *Alison L. Doone*  
Alison L. Doone  
Chief Financial Officer  
SUBJECT: Internal Revenue Service (IRS) Fiscal Year 2007  
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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Attachment 11/15/2007

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

**DETAILED ACCOUNTING SUBMISSION**

**A. Table of FY 2007 Drug Control Obligations**

<b>Drug Resources by Function</b>	<b>(\$000)</b>
Investigations	<u>\$58,371</u>
Total	\$58,371
<b>Drug Resources by Decision Unit</b>	
Narcotics Crimes	<u>\$58,371</u>
Total	\$58,371

**1) Drug Methodology**

- All Drug Control Obligations (the resources appropriated and available for these activities) are reported under one Drug Control Function and one Budget Decision Unit, as shown in the above chart.
- The Internal Revenue Service's (IRS) Drug Control Budget encompasses the Criminal Investigation (CI) Narcotics-related program. The Office of National Drug Control Policy (ONDCP) requires CI to only report on the Organized Crime and Drug Enforcement Task Force (OCDETF) portion of the Narcotics program. Criminal Investigation's overall DIT applied to narcotics cases for FY 2007 was 11.6 percent of total DIT. The OCDETF sub-component of this program was 10.8 percent of total DIT or 93 percent of the total narcotics DIT.
- The methodology for computing the resources appropriated and realized for the OCDETF program is the application of the Direct Investigative Time (DIT) attributable to OCDETF cases and applying the DIT percentage to the total realized appropriated resources, reduced by reimbursable funds and Earned Income Tax Credit (EITC) resources, for the year for which the resources are being reported. The result is determined to be the amount of resources expended on OCDETF cases. This methodology has been approved by CI, the IRS's Chief Financial Officer, and the Treasury Inspector General for Tax Administration (TIGTA) during the FY 2006 ONDCP attestation



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

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

**2) Methodology Modifications**

None, since the FY 2006 attestation review, which was the first time CI was required to prepare this document independently.

**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 Criminal Investigation Management Information System (CIMIS) to the total CI Financial Plan less reimbursements and EITC funds.

**2) Drug Methodology**

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

**(a) Data**

Data is derived from CIMIS to determine the DIT applied to the OCDETF activities. Each special agent submits CIMIS time reports monthly detailing their activities relating to specific investigations. Each investigation is associated with a specific program and sub-program area. The percentage of DIT applied to each program area is



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calculated monthly with a final annual percentage determined after the close of the fiscal year. The annual percentage of DIT relating to OCDETF sub-program area items is applied to the total resources expended for FY 2007 in the CI budget (excluding reimbursables and EITC). These OCDETF percentages include High Intensity/OCDETF, OCDETF, and Terrorism/OCDETF program areas. These OCDETF DIT percentages are used to determine the total resources expended on the OCDETF program.

**(b) Other Estimation Methods**

None

**(c) Financial Systems**

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

**3) Application of Drug Methodology**

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

**4) Reprogramming or Transfers**

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

**5) Fund Control Notices**

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

**C. Performance Summary Report**

**1) Performance Reporting**

**(a) Performance Measures**





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The performance measure used for the National Drug Control Program is "criminal investigations completed". This is the same performance measure used for all programs. Criminal investigations completed for the OCDETF program and all other programs are defined as total subject criminal investigations completed during the fiscal year, including those resulting in a prosecution recommendation to the Department of Justice or discontinued due to lack of evidence or a finding that the allegation was false (or other reasons). It assesses CI's performance of its mission to serve the public by conducting investigations of potential violations of the Internal Revenue Code and related financial crimes (which OCDETF cases are an important component), to foster confidence in the tax system and enhance voluntary compliance. In addition it reduces or eliminates the profits and financial gains from narcotics trafficking and money laundering.

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

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

Prior to FY 2008 Criminal Investigation did not set performance targets for the OCDETF Program. However, CI did project for completed investigations which were used as benchmarks. The OCDETF resources became a part of the IRS budget in FY 2006. Prior to that, the IRS portion of the OCDETF resources were included in the Department of Justice (DOJ) appropriation and was reported as part of the DOJ budget submission. The performance measurements for FY 2003 through FY 2006 are shown below:

<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
<b>838</b>	<b>1,068</b>	<b>938</b>	<b>728</b>

Due to budgetary constraints Criminal Investigation reduced its narcotics DIT (9 to 11 percent of total) in FY2005, FY2006 and FY2007. This resulted in a decline in the number of completed OCDETF investigations in these years. Before the number of narcotics investigations can be significantly increased it will be necessary to counter the negative effects of the previous withdrawal of agents from these task forces by successfully



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reestablishing close working relationships with our law enforcement counterparts.

**(c) Current Year Performance Targets**

The total projected FY 2007 SCI's completed for OCDETF cases is 710. Criminal Investigation did not meet that projection, completing only 654 OCDETF investigations or 7.9 percent below the projection. As the number of narcotics case initiations increase, this trend will eventually result in corresponding increases in OCDETF completions. Estimated performance projections failed to anticipate the cumulative negative effect of the previous withdrawal of agents from the narcotics task forces, the inherent difficulties of rapidly increasing narcotics case initiations, and the problems of reestablishing working relationships with other task force members.

Targets are computed using the methodology used for all reporting programs (Legal Source Cases, Illegal Source Cases, and Narcotics Cases). The OCDETF Program is included in the Narcotics Program.

Historical data shows that a certain percentage of investigations are completed in the year of initiation as well as subsequent years. These percentages are reviewed and recalculated at the close of each fiscal year by CI Research. For FY 2004 through 2008 the most current percentages from FY 2006 were applied to investigations initiated. Completion rates are calculated for all reporting programs: Legal, Illegal and Narcotics. They are not changed during the year. Therefore, any calculation for current (FY 2007) and out-years (future) use the same percentages.

**(d) Quality of Performance Data**

To ensure the reliability of the data, all cases have unique numbers assigned in CIMIS which contains 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 in the proper order.



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**Appendix V**

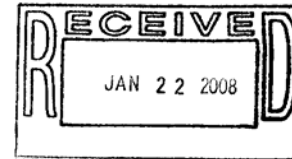
*Management's Response to the Draft Report*



CHIEF FINANCIAL OFFICER

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

January 22, 2008



MEMORANDUM FOR MICHAEL PHILLIPS  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

*Alison L. Doone*  
Alison L. Doone  
Chief Financial Officer

SUBJECT:

Response to Draft Audit Report – Attestation Review of the  
Internal Revenue Service's Fiscal Year 2007  
Annual Accounting of Drug Control Funds and Related  
Performance Summary Report (Audit #200710038)

Thank you for the opportunity to comment on the Treasury Inspector General for Tax Administration's (TIGTA) draft report titled "Attestation Review of the IRS's Fiscal Year 2007 Annual Accounting of Drug Control Funds". The draft report summarizes the results of TIGTA's review of the IRS's reporting of Fiscal Year (FY) 2007 Office of National Drug Control Policy (ONDCP) expenditures.

We reviewed the recommendation in the report and our comments follow.

**Recommendation**

"The Chief Financial Officer in coordination with the Chief, Criminal Investigation Division should expand the performance information used to report the IRS's contribution to the National Drug Control Strategy to include additional measures which specifically address program effectiveness."

The IRS will consider TIGTA's recommendation to expand performance information. We will evaluate potential performance measures and, in particular, will look at the measures used by the other agencies that support the National Drug Control Strategy.

On page three in the last paragraph, TIGTA states in part "our testing of IRS' ONDCP performance information for reasonableness identified that 47 (7 percent) of the 654 investigations reported as completed in FY 2007 were both initiated and completed on the same day and resulted in a referral for prosecution per the supporting documentation provided."

The 47 investigations mentioned by TIGTA were worked in conjunction with other cases. Many of CI's drug investigations involve drug organizations in which multiple targets/subjects are simultaneously investigated. CI typically opens investigations only on the individuals that have the greatest prosecution potential. However, there are



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some instances in which new information comes to light near the conclusion of the investigation which leads to additional investigations initiated on other subjects/targets. For example, it is somewhat common for one or more of the co-conspirators to provide information regarding the organization near the conclusion of investigations in plea bargain situations. In the above example, if information provided by the co-conspirator had been previously corroborated during the investigation the case on the additional subjects could be opened and closed in one day.

CI is concerned that the references to these cases portrays an inaccurate picture of CI's case initiation policies. TIGTA stated in the report a detailed review of these cases would be "significantly beyond the scope of this review." Further, TIGTA stated "the IRS' explanation for the reporting of these types of investigations appears reasonable." The number of days an investigation is open has no relevance to the completed cases measure depicting CI's effectiveness. Based on all of the above, CI requests that TIGTA remove the references to these cases from the report.

The IRS appreciates TIGTA's overall finding that the methodology IRS used to calculate the IRS's FY 2007 Annual Accounting of Drug Control Funds and Related Performance Summary Report was clearly explained and adequately documented.

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.