

**Attestation Review of the Internal Revenue
Service's Fiscal Year 2001 Annual Accounting
of Drug Control Funds**

February 2002

Reference Number: 2002-10-053

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

February 1, 2002

MEMORANDUM FOR COMMISSIONER ROSSOTTI

Scott E. Wilson

FROM: (for) Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Attestation Review of the Internal Revenue Service's Fiscal Year 2001 Annual Accounting of Drug Control Funds (Audit # 200210006)

This report presents the results of our attestation review of the Internal Revenue Service's (IRS) Fiscal Year (FY) 2001 Office of National Drug Control Policy (ONDCP) detailed accounting submission. The purpose of this review was to express a conclusion about the reliability of each assertion made in the detailed accounting submission.

In summary, except for one matter concerning the IRS' explanation and documentation of estimation methods, nothing came to our attention that caused us to believe that the accompanying IRS FY 2001 ONDCP detailed accounting submission assertions are not presented, in all material respects, based on ONDCP-established criteria. However, we identified several detailed accounting submission report processing controls that could be implemented or strengthened to reduce the risk of reporting misstatements.

We recommend that the IRS' Chief Financial Officer ensure that written procedures are established to fully document and provide guidance for the processes used to compile the accounting submissions; ensure that the accounting submissions are examined by a responsible official who would certify as to their accuracy; and, maintain documentation in such a manner that it is easily associated with the accounting submission.

Management's Response

The IRS agreed to implement the TIGTA recommendations included in the report

Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or

Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

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Background

The Anti-Drug Abuse Act of 1988 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 drug control budgets. The Internal Revenue Service's (IRS) Narcotics Program supports the National Drug Control Strategy through continued support of joint agency task forces including the Interagency Crime Drug Enforcement Task Force and High Intensity Drug Trafficking Area Task Force, through the use of asset forfeiture legislation, and international training and assistance programs.

The Strategy established 5 goals and 31 supporting objectives as the basis for a coherent, long-term national effort. The IRS focuses on two goals, which are to reduce drug-related crime and to reduce sources of supplies.

This review was conducted as required by the National Drug Enforcement Policy (21 U.S.C. § 1704(d)) and the ONDCP Circular, *Annual Accounting of Drug Control Funds*, dated December 17, 1999. The National Drug Control Program agencies are required to submit to the Director of the ONDCP, not later than February 1 of each year, a detailed accounting of all funds expended (the ONDCP Circular requires amounts obligated) during the previous fiscal year. Further, it requires such accounting to be authenticated by the Inspector General of each agency prior to its submission.

We conducted our fieldwork in the IRS' Headquarters offices of the Chief Financial Officer (CFO) and Chief, Criminal Investigation (CI) during the period of November 2001 through January 2002. 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 ONDCP detailed accounting submission assertions. Accordingly, we do not express such an opinion.

The IRS' Fiscal Year (FY) 2001 submission included additional information concerning Interagency Crime Drug Enforcement obligations, which is not required by the

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**The Fiscal Year 2001 Detailed
Accounting Submission Was
Presented Fairly**

ONDCP Circular. This information was not reviewed, and accordingly, we do not express any form of assurance on it.

Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

We reviewed the accompanying IRS ONDCP detailed accounting submission and assertions for the fiscal year ended September 30, 2001 (Appendix IV). This submission, including the assertions made, were prepared pursuant to 21 U.S.C. § 1704(d) and the ONDCP Circular, *Annual Accounting of Drug Control Funds*, dated December 17, 1999, and they are the responsibility of the IRS.

The assertions, as required by Section 5.b. of the ONDCP Circular, include that the methodology used is reasonable and accurate, including thorough 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 properly reflects changes if made. ONDCP-established criteria include well-documented sources of data with demonstrated connection to drug control obligations, documented and explained estimations, complete reporting of data, fair presentation of data from financial systems, well-documented calculations, and association with a financial plan that, if revised, properly reflects those revisions, including ONDCP's approval of reprogrammings in excess of \$5 million.

The IRS was unable to thoroughly explain or provide detailed documentation of two estimation assumptions used in its detailed accounting submission. The IRS based its allocation of funds on institutional knowledge for general CI resources and Currency Transaction Reporting resources between goals 2 and 5. Documentation presented to support the general CI resource allocation assumption was an e-mail message from a Special Agent dated May 15, 1998. This e-mail message showed a 60/40 percent allocation for goals 2 and 5 respectively. Further, no documentation was presented for the 50/50 percent allocation assumption for goals 2 and 5 used for Currency Transaction Reporting

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Improvements Are Needed to Strengthen the Controls Over the Detailed Accounting Submission Report Process

resources. Due to this condition, we were unable to verify either allocation assumption.

Based on our review, with the exception of the matter described in the preceding paragraph, nothing came to our attention that caused us to believe that the accompanying IRS FY 2001 ONDCP detailed accounting submission assertions are not presented, in all material respects, in accordance with ONDCP-established criteria.

We identified several detailed accounting submission report processing controls that could be implemented or strengthened to reduce the risk of reporting misstatements. The IRS currently does not have written guidance on: how the submissions should be prepared, supervisory reviews of the completed submissions to ensure that the amounts are accurate, and uniform accumulation of detailed documentation to support the amounts that are included in the submissions.

During the course of our verification testing, we identified various processing and mathematical errors that were corrected by the IRS prior to its final issuance of the detailed accounting submission. These errors could have been prevented if written procedures were available and an accountable official reviewed the work performed prior to the submission being presented for audit.

Recommendations

1. The CFO, with participation of the Chief, CI, should ensure that written procedures are established to fully document and provide guidance for the processes used to compile the accounting submissions, including the support for the estimation assumptions used.

Management's Response: The IRS agreed to implement the TIGTA recommendation.

2. The CFO, with participation of the Chief, CI, should ensure that the accounting submissions are examined by a responsible official who would certify as to their accuracy.

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Management's Response: The IRS agreed to implement the TIGTA recommendation.

3. The CFO, with participation of the Chief, CI, should ensure that detailed supporting documentation is maintained in such a manner that it is easily associated with the accounting submission. This would facilitate both a post preparation examination and the auditor's review.

Management's Response: The IRS agreed to implement the TIGTA recommendation.

* * * * *

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 the 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

The overall objective of this review was to perform an attestation review of the Internal Revenue Service's (IRS) reporting of Fiscal Year (FY) 2001 Office of National Drug Control Policy (ONDCP) expenditures for the purpose of expressing a conclusion about the reliability of each assertion made in the detailed accounting submission. To accomplish our objective, we:

- I. Obtained an understanding of the process used to prepare the FY 2001 detailed accounting submission.
 - A. Discussed the process to record and report ONDCP expenditures with responsible IRS personnel.
 - B. Obtained documents such as the detailed accounting submission, written procedures, supporting worksheets, and evidence of the methodology used.
 - C. Prepared a narrative of the process used to prepare the accounting submission including the identification of controls that ensure amounts are accurately recorded and reported.
- 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.
 - C. Verified whether all drug related activities were reflected in the drug methodology such as investigation and support resources, intelligence, international, etc.
 - D. Identified material weaknesses associated with IRS financial systems that yield data from which the drug related obligation estimates were derived.
 - E. Obtained documentation to support any modifications to the initial drug methodology and verified that the modifications were submitted to the ONDCP for review prior to implementation.
 - F. Verified that any reprogramming or transfers, affecting the drug control budget in excess of \$5 million, were approved by the ONDCP.

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- 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 5 of the ONDCP Circular, *Annual Accounting of Drug Control Funds*.
 - B. Verified that Interagency Crime and Drug Enforcement funds were excluded from the reported obligations.
 - C. Verified that the Table of Drug Control Obligations presented obligations by Strategic Goals, Drug Function, Budget Decision Units, and any other published subdivision displayed in the National Drug Control Strategy Budget Summary.
 - D. Verified that the drug control budget submitted to the ONDCP was consistent with the detailed accounting submission.
 - E. Verified the mathematical accuracy of the obligations presented in the table.
 - F. Traced the information contained in the table to supporting documentation.
 - G. Reviewed the supporting documentation for reasonableness.
 - H. Re-performed the calculations performed by management to obtain the breakout by goal, function, and decision unit. Also, verified the basis for estimates used in the accounting submission.
 - I. Verified that the methodology disclosed was the actual methodology used to generate the table.
 - J. Reviewed the presentation of the data in the table for consistency with prior year submissions.

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Appendix II

Major Contributors to This Report

Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)

John R. Wright, Director

Thomas J. Brunetto, Audit Manager

Gary D. Pressley, Senior Auditor

Gwen Bryant-Hill, Auditor

Linda Douglas, Auditor

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Appendix III

Report Distribution List

Deputy Commissioner N:DC
Chief Financial Officer N:CFO
Chief, Criminal Investigation CI
Department of the Treasury, Deputy Chief Financial Officer MD
Chief Counsel CC
National Taxpayer Advocate TA
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Office of Management Controls N:CFO:F:M
Audit Liaisons:
 Chief Financial Officer N:CFO
 Chief, Criminal Investigation CI

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Appendix IV

Internal Revenue Service Fiscal Year 2001 Detailed Accounting Submission

**INTERNAL REVENUE SERVICE
ANNUAL ACCOUNTING OF DRUG CONTROL FUNDS**

DETAILED ACCOUNTING SUBMISSION (Revised 1/23/02)

A. Table of FY 2001 Drug Control Obligations

Drug Resources by Goal	IRS (\$000)	ICDE (\$000)
Goal 2	\$27,953	\$37,888
Goal 5	\$23,427	\$25,258
Total:	\$51,380	\$63,146
Drug Resources by Function		
Investigations	\$30,827	\$63,146
Intelligence	\$18,217	0
International	\$1,756	0
Total:	\$51,380	\$63,146
Drug Resources by Decision Unit		
Narcotics Crimes	\$33,163	\$63,146
Currency Transaction Reports	\$18,217	0
Total:	\$51,380	\$63,146

(1.) Drug Methodology

- The Internal Revenue Service's (IRS) Drug Control Budget contains two components: the Criminal Investigation (CI) Narcotics-Related Financial Crime Program and Currency Reporting Forms Processing.
- During FY 2001, IRS-CI dedicated 18.8 percent of its Direct Investigative Time (DIT) to the investigation and prosecution of narcotics organizations and narcotics money laundering organizations, supporting Goals 2 and 5 of the National Drug Control Strategy.
- Currency Reporting Forms Processing: IRS resources are expended to process Currency Reporting Forms required by the Bank Secrecy Act (Title 31); namely, Currency Transaction Reports and Casino Currency Transaction Reports, Suspicious Activity Reports, and Foreign Bank Account Reports as well as Form 8300, Cash Payments in Excess of \$10,000 Received in a Trade or Business, required by the Internal Revenue Code (Title 26). The forms are processed for reporting banks, financial institutions, and money services businesses as well as

Note: The exhibited detailed accounting submission was changed by the IRS and received by TIGTA on February 1, 2002, to reflect a revision in the first column heading from IRS - CI to IRS as mentioned in its response to TIGTA's draft report. This was the only change made to the submission that was reviewed by the TIGTA.

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INTERNAL REVENUE SERVICE ANNUAL ACCOUNTING of DRUG CONTROL FUNDS

retail businesses. This program activity is reported in a separate account in the IRS' budget activities and is scored as 100 percent drug related, supporting Goals 2 and 5 of the National Drug Control Strategy.

(2.) Methodology Modifications

None

(3.) Material Weaknesses or Other Findings

None

(4.) Reprogramming or Transfers

None

(5.) Other Disclosures

The information reflects the FY 2001 Service's position in relation to the drug budget and no policy variances can be assumed.

B. Assertions

(1.) Drug Methodology - - The methodology used to calculate obligations of prior-year budgetary resources is reasonable and accurate.

(a.) Data

Data is retrieved from the Criminal Investigation Management Information System (CIMIS) to determine the number of FTE's used in drug control activities. Special agents submit CIMIS time reports monthly detailing their activities relating to investigations (direct investigative time or DIT). Each investigation is associated with a specific program and sub-program area.¹ The percentage of DIT used on each program area is calculated monthly with a final annual percentage determined after the close of the fiscal year. The annual percentage of DIT used for the Narcotics-Related Financial Crimes program is applied to realized FTE as calculated by the IRS Automated Financial System (AFS) to determine the number of FTE expended on the program. Reimbursed FTE are subtracted from the total program FTE's to determine the IRS funded portion of the Criminal Investigation Narcotics-Related Financial Crimes Program.

After the number of FTE included in the IRS-funded portion of the Criminal Investigation Narcotics-Related Financial Crimes program has been determined,

¹ Criminal Investigation has three program areas: the Legal Income Tax Crimes Program, the Illegal Income Financial Crimes Program and the Narcotics-Related Financial Crimes Program.

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INTERNAL REVENUE SERVICE ANNUAL ACCOUNTING of DRUG CONTROL FUNDS

related dollars are calculated using the total IRS-CI budget obligations and simply dividing this amount by the number of FTE expended.

(b.) Other Estimation Methods

None

(c.) Completeness

The Internal Revenue Service Drug Control Budget contains two components: Criminal Investigation Narcotics Related Financial Crime Program and Currency Reporting Forms Processing.

(d.) Financial Systems

The Service's Automated Financial System is the final authority for IRS resource obligations.

(2.) Application of Methodology -- The methodology disclosed in this section is the actual methodology used to generate the table required by Section 5A of the Office of National Drug Control Policy Circular: Annual Accounting of Drug Control Funds. Calculations are sufficiently well documented to independently reproduce this data and ensure consistency of data between reporting years.

CIMIS tracks DIT of agents by program area. The annual percentage of DIT related to Narcotics-Related Financial Crimes Programs is then applied to realized FTE as calculated by AFS. The reimbursed FTE are subtracted from the total program FTEs to determine the IRS funded Narcotics-Related Financial Crime program. IRS-CI devotes 60 percent of narcotics-related DIT in support of Goal 2 of the National Drug Control Strategy; 40 percent to support Goal 5.

New initiatives are costed using the Service's established Unit Cost Rates for the budget year.

(3.) Financial Plan – Including Reprogramming or Transfers -- The data presented is associated with obligations against a financial plan and properly reflects any revisions occurring during the fiscal year including the Office of National Drug Control Policy's approval of reprogrammings or transfers affecting drug-related resources in excess of \$5 million.

There were no revisions.

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Appendix V

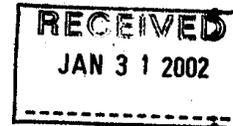
Management's Response to the Draft Report



CHIEF FINANCIAL OFFICER

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

January 31, 2002



MEMORANDUM FOR PAMELA J. GARDINER
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: W. Todd Grams *WTG*
Chief Financial Officer

TO: Draft Audit Report – Attestation Review of the Internal
Revenue Service (IRS) Fiscal Year 2001 Annual
Accounting of Drug Control Funds (Audit #200210006)

We have reviewed the Treasury Inspector General for Tax Administration's (TIGTA) draft report titled, "Attestation Review of the Internal Revenue Service's Fiscal Year 2001 Annual Accounting of Drug Control Funds". We agree to implement your three recommendations.

We request your office make one change to the table in Appendix IV. There are two columns in the Table of FY 2001 Drug Control Obligations. The first column, IRS-CI, includes resources for Currency Transaction Reports. This is not a Criminal Investigation activity. Therefore, we request the column heading be revised to "IRS".

If you have any questions, please contact me at 202.622.6400 or a member of your staff may contact Jeff Cajka at 202.622.3604 or Dava Berkman at 202.622.4202.

cc: William Campbell