

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Independent Attestation Review of the Internal Revenue Service's Fiscal Year 2021 Budget Formulation Compliance Report and Detailed Accounting Report of Drug Control Funds

January 27, 2022

Report Number: 2022-10-016

HIGHLIGHTS: Independent Attestation Review of the Internal Revenue Service's Fiscal Year 2021 Budget Formulation Compliance Report and Detailed Accounting Report of Drug Control Funds

Final Audit Report issued on January 27, 2022

Report Number 2022-10-016

Why TIGTA Did This Audit

This review was conducted as required by the Office of National Drug Control Policy (ONDCP), established under the Anti-Drug Abuse Act of 1988. The ONDCP issued ONDCP Circular: *National Drug Control Program Agency Compliance Reviews*, dated September 9, 2021, which requires all National Drug Control Program agencies to submit to the Director of the ONDCP, not later than February 1 of each year, budget formulation information and a detailed accounting of all funds expended (the ONDCP Circular requires amounts obligated) during the previous fiscal year.

Further, the ONDCP Circular requires that the agency provide the reports to the agency's Inspector General prior to its submission for the purpose of expressing a conclusion about the reliability of each assertion made in the reports.

Impact on Taxpayers

The IRS supports the National Drug Control Strategy through its continued support of the Organized Crime Drug Enforcement Task Force. IRS management is responsible for preparing the annual ONDCP Budget Formulation Compliance Report and Detailed Accounting Report. Complete and reliable financial information is critical to the IRS's ability to accurately report on the results of its operations to both internal and external stakeholders, including taxpayers.

TIGTA reviewed the assertions in the IRS's Fiscal Year 2021 reports.

What TIGTA Found

TIGTA reviewed the assertions in the IRS's ONDCP Budget Formulation Compliance Report and Detailed Accounting Report for Fiscal Year 2021, which ended September 30, 2021. The reports were prepared pursuant to the National Drug Control Policy and the ONDCP Circular. Our responsibility is to express a conclusion on the reliability of management's assertions based on our review.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and in compliance with generally accepted government auditing standards. These standards require that TIGTA plan and perform the review to obtain limited assurance about whether any material modifications should be made to management's assertions to be in accordance with the criteria.

Based on our review, TIGTA is not aware of any material modifications that should be made to the assertions in the IRS's Fiscal Year 2021 Budget Formulation Compliance Report and Detailed Accounting Report in order for them to be in accordance with the ONDCP Circular.

What TIGTA Recommended

TIGTA made no recommendations as a result of this review. However, IRS management reviewed this report prior to its issuance and agreed with the facts and conclusions presented.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

January 27, 2022

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Independent Attestation Review of the Internal Revenue Service’s Fiscal Year 2021 Budget Formulation Compliance Report and Detailed Accounting Report of Drug Control Funds (Audit # 202210005)

This report presents the results of our review to express a conclusion about the reliability of each assertion made in the Internal Revenue Service’s Fiscal Year 2021 Budget Formulation Compliance Report and Detailed Accounting Report. This review is part of our Fiscal Year 2022 Annual Audit Plan and addresses the major management and performance challenge of *Enhancing Security of Taxpayer Data and Protection of IRS Resources*.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report findings. If you have any questions, please contact me or Bryce Kisler, Acting Assistant Inspector General for Audit (Management Services and Exempt Organizations).

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Background

The Anti-Drug Abuse Act of 1988 established the Office of National Drug Control Policy (ONDCP) to set priorities, implement a national strategy, and certify Federal Government drug control budgets.¹ The Internal Revenue Service (IRS) supports the National Drug Control Strategy through its continued support of the Organized Crime Drug Enforcement Task Force. The mission of the IRS's Criminal Investigation in Federal law enforcement's anti-drug efforts is to reduce or eliminate the financial gains (profits) of major narcotics trafficking and money laundering organizations through the use of its unique financial investigative expertise and statutory jurisdiction.

The National Drug Control Program agencies² are required to submit to the Director of the ONDCP, not later than February 1 of each year, a detailed accounting of all funds expended (ONDCP guidance requires amounts obligated) by the agency during the previous fiscal year and related assertions, referred to as a Detailed Accounting Report. The National Drug Control Program agencies are also required to include a Budget Formulation Compliance Report as part of their annual submission to the Director of the ONDCP. The Budget Formulation Compliance Report includes the agency drug control budget request and related assertions. Further, ONDCP Circular: *National Drug Control Program Agency Compliance Reviews*, dated September 9, 2021, 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. The ONDCP Circular also specifies that Inspector General reviews be conducted not less frequently than every three years. The last IRS ONDCP reporting reviewed by the Treasury Inspector General for Tax Administration³ was Fiscal Year 2018.⁴

Results of Review

Summary of the Independent Attestation Review of the Fiscal Year 2021 Office of National Drug Control Policy Budget Formulation Compliance Report and Detailed Accounting Report

We reviewed the assertions in the IRS's ONDCP Budget Formulation Compliance Report and Detailed Accounting Report for Fiscal Year 2021, which ended September 30, 2021.⁵ The reports

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

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

³ Treasury Inspector General for Tax Administration, Report No. 2019-10-020, *Independent Attestation Review of the Internal Revenue Service's Fiscal Year 2018 Annual Accounting of Drug Control Funds and Related Performance* (Feb. 2019).

⁴ Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.

⁵ Appendix II presents the IRS's Fiscal Year 2021 Budget Formulation Compliance Report and Detailed Accounting Report.

were prepared pursuant to the National Drug Control Policy⁶ and the ONDCP Circular. IRS management is responsible for preparing the reports and its assertions. Our responsibility is to express a conclusion on the reliability of management's assertions based on our review.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and in compliance with generally accepted government auditing standards. These standards require that we plan and perform the review to obtain limited assurance about whether any material modifications should be made to management's assertions to be in accordance with the criteria. An attestation review is substantially less in scope than an examination—the objective of an examination is to obtain reasonable assurance about whether management's assertions are in accordance with the criteria in all material respects in order to express an opinion. Accordingly, we do not express such an opinion. We believe that our review provides a reasonable basis for our conclusion.

Based on our review, we are not aware of any material modifications that should be made to the assertions in the IRS's Budget Formulation Compliance Report and Detailed Accounting Report in order for them to be in accordance with the ONDCP Circular.

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

⁶ 21 U.S. Code § 1704 (d).

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit is to perform an independent attestation review of the IRS's reporting of Fiscal Year 2021 ONDCP budget formulation information and funds expended for the purpose of expressing a conclusion about the reliability of each assertion made in the Budget Formulation Compliance Report and Detailed Accounting Report. To accomplish our objective, we:

- Obtained an understanding of the process used to prepare the Fiscal Year 2021 Budget Formulation Compliance Report and Detailed Accounting Report.
- Evaluated the reasonableness of the methodology used to report funds expended for the National Drug Control Program activities.
- Performed selected reviews of reported obligations in the Detailed Accounting Report.
- Evaluated the reasonableness of the methodology used to report budget formulation information for National Drug Control Program activities.
- Performed selected reviews of reported budget resources in the Budget Formulation Compliance Report.

Performance of This Review

This review was conducted as required by the ONDCP and the ONDCP Circular. This review was performed with information obtained from the IRS Headquarters offices of the Chief Financial Officer and Chief, Criminal Investigation, in Washington, D.C., during the period September 2021 through January 2022. Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and in compliance with generally accepted government auditing standards. A review is substantially less in scope than an examination, the objective of which (an examination) is to obtain reasonable assurance about whether management's assertions are in accordance with the criteria in all material respects in order to express an opinion. Accordingly, we do not express such an opinion. In general, our review procedures were limited to inquiries and analytical procedures appropriate for an attestation review based upon the criteria in the ONDCP Circular.

Major contributors to the report were Bryce Kisler, Acting Assistant Inspector General for Audit (Management Services and Exempt Organizations); LaToya George, Director; Anthony Choma, Audit Manager; Angela Garner, Lead Auditor; and Morgan Little, Senior Auditor.

Appendix II

Fiscal Year 2021 Budget Formulation Compliance Report and Detailed Accounting Report



CHIEF FINANCIAL OFFICER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

January 11, 2022

MEMORANDUM FOR Michael E. McKenney
Deputy Inspector General for Audit

FROM

Teresa R. Hunter

IRS Chief Financial Officer

**Teresa R.
Hunter**

Digitally signed by Teresa
R. Hunter
Date: 2022.01.11
09:55:21 -05'00'

SUBJECT:

FY 2021 IRS Budget Formulation Compliance Report and
Detailed Accounting Report for National Drug Control Program
Agency Compliance Review

The purpose of this memorandum is to transmit the IRS FY 2021 Budget Formulation Compliance Report and Detailed Accounting Report. The Budget Formulation Compliance Report includes the summer budget formulation transmittal email and resource summary table. These documents are submitted as directed in the Office of National Drug Control Policy (ONDCP) Circular entitled *National Drug Control Program Agency Compliance Reviews*, dated September 9, 2021. This circular requires the Treasury Inspector General for Tax Administration (TIGTA) to express a conclusion about the reliability of each management assertion made in the IRS's submission by February 1, 2022.

If you have any questions, please contact please contact Jason Bumiller, Director of Budget Execution at (202) 317-4307 or Jeramie Ashton, Director, Budget Formulation, at (202) 317-4180.

Attachment A: Summer Drug Budget Transmittal Email and Formulation Assertions

Attachment B: Summer Drug Budget Resource Summary Table

Attachment C: Detailed Accounting Submission

Attachment A:

Summer Drug Budget Transmittal Email and Formulation Assertions

On June 14, 2021 the summer budget was submitted to ONDCP under ONDCP Circular: Budget Formulation, Section 9.a.(1).

Assertions

- The agency provided the FY 2023 Summer Drug Budget Transmittal email and FY 2023 Summer Budget Resource Summary Table to ONDCP on June 14, 2021, in response to Sections 6.a.(1) the ONDCP Circular: National Drug Control Program Agency Compliance Reviews and 9.a.(1) in the ONDCP Circular: Budget Formulation. The FY 2023 Summer Drug Budget was provided to ONDCP at the same time as the budget request was submitted to Agency superiors, in accordance with 21 U.S.C. Section 1703(c)(1)(A). The FY 2023 Summer Drug Budget Transmittal email and Summer Budget Resource Summary Table are provided in Attachments A and B.
- The funding request in the submission provided in Section 6.a.(2) of this circular represent the funding levels in the budget submission made by the Criminal Investigation Division to the IRS without alteration or adjustment by any official at the IRS.

Transmittal Email¹

¹ Note: TIGTA deleted the transmittal e-mail attachment as it is not a required part of this ONDCP reporting. We also deleted page 3 of this document because it was blank.

Attachment B:

Summer Drug Budget Resource Summary Table

A copy of the funding tables submitted to ONDCP under ONDCP Circular: Budget Formulation, Section 9.a.(2) is included below as attachment B.

Resource Summary

	Budget Authority (in Millions)		
	FY 2021 Operating Plan	FY 2022 (Assumed Enacted)	FY 2023 Proposed Request
Drug Resources by Function			
Investigations	\$60.257	\$60.257	\$60.257
Total Drug Resources by Function			
Drug Resources by Decision Unit			
Criminal Investigation	\$60.257	\$60.257	\$60.257
Total Drug Resources by Decision Unit			
Drug Resources Personnel Summary			
Total FTEs (direct only)	295	295	295
Drug Resources as a Percent of Budget			
Total Bureau Budget (in Billions)	\$12.0	\$13.2	\$14.6
Drug Resources Percentage	0.50%	0.46%	0.41%

Attachment C:

Detailed Accounting Submission

A. Table of Fiscal Year (FY) 2021 Drug Control Obligations

Narcotics	
Drug Resources by Function	
Investigations	<u>\$68,973,512</u>
Total	\$68,973,512
Drug Resources by Decision Unit	
Narcotics Crimes	<u>\$68,973,512</u>
Total	\$68,973,512

1) Drug Methodology

- a) All Drug Control Obligations (the resources appropriated and available for these activities) are reported under one Drug Control Function and one Budget Decision Unit, as shown in the above chart.
- b) The Internal Revenue Service (IRS) Drug Control Budget encompasses the Criminal Investigation's (CI) Narcotics Program¹. CI's overall Direct Investigative Time (DIT) applied to narcotics investigations for FY 2021 is 11.2 percent of the agency's total DIT.

The methodology for computing the resources appropriated and realized for the Narcotics Program is the application of DIT attributable to narcotics investigations. The Narcotics DIT percentage is applied to the total realized appropriated resources for a year, excluding reimbursable and Earned Income Tax Credit (EITC) funds, for which the resources are being reported. The result is determined to be the amount of resources expended on the Narcotics Program. This methodology was approved by CI, the IRS Chief Financial Officer, and the Office of National Drug Control Policy (ONDCP) during FY 2014 and was effective for FY 2014 and all subsequent fiscal years.

¹ The IRS-CI Narcotics Program consists of five sub-programs that include; 1. Organized Crime Drug Enforcement Task Forces (OCDETF); 2. High Intensity Drug Trafficking Area (HIDTA); 3. HIDTA-OCDETF; 4. Terrorism-OCDETF; and 5. Narcotics-Other.

2) Methodology Modifications

No changes or modifications in the DIT computation methodology from the prior year were made.

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's Management Information System (CIMIS) to the actual obligations from the CI realized Financial Plan, excluding reimbursables and EITC funds.

2) Drug Methodology

The drug control methodology used is reasonable and accurate. The current methodology used to calculate obligations of prior-year budgetary resources has not changed from FY 2018 to FY 2021. There was no impact in the methodology in FY 2021 since the methodology in FY 2020 did not change.

a) Data

Data is derived from CIMIS to determine the DIT applied to CI's Narcotics Program. Each CI special agent submits CIMIS time reports monthly detailing their activities relating to specific investigations. Each investigation is associated with a specific program and sub-program area. The percentage of DIT applied to each program area is calculated monthly with a final annual percentage determined after the close of the fiscal year to determine the total resources expended to support the U.S. Government's National Drug Control Strategy. The annual percentage of DIT relating to all narcotics sub-programs is applied to the total resources expended for FY 2021 in the CI Appropriated Enforcement Budget (excluding reimbursable and EITC funds).

b) Financial Systems

The IRS Integrated Financial System (IFS) is the final authority for the IRS resource obligations and yields data which fairly presents drug related obligation estimates.

3) Application of Drug Methodology

The methodology disclosed in this section was the actual methodology used to generate the required table and meets all requirements described in Section 6 of the ONDCP Circular: Compliance Review. Calculations made using this methodology are sufficiently documented to independently reproduce all data and ensure consistency between reporting years.

4) Material Weaknesses or Other Findings

All material weaknesses or other findings by independent sources, or other known weaknesses, including those identified in the Agency's Annual Statement of Assurance, which may affect the presentation of prior year drug-related obligations as required by Section 7.a.(4) have been disclosed.

5) Methodology Modifications

No modifications were made to methodology for reporting drug control resources from the previous year's reporting.

6) Reprogramming or Transfers

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

7) Fund Control Notices

Criminal Investigation asserts the data presented is associated with obligations against a financial plan that fully complied with all fund control notices issued by the Director under 21 U.S.C. § 1703(f) and Section 9 of the ONDCP Circular: Budget Execution, as applicable.

Appendix III

Abbreviations

IRS	Internal Revenue Service
ONDCP	Office of National Drug Control Policy



**To report fraud, waste, or abuse,
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By Web:

www.treasury.gov/tigta/

Or Write:

Treasury Inspector General for Tax Administration

P.O. Box 589

Ben Franklin Station

Washington, D.C. 20044-0589

Information you provide is confidential, and you may remain anonymous.