



*Independent Attestation Review of the
Internal Revenue Service's Fiscal Year 2014
Annual Accounting of Drug Control Funds
and Related Performance*

December 19, 2014

Reference Number: 2015-10-010

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.

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HIGHLIGHTS

INDEPENDENT ATTESTATION REVIEW OF THE INTERNAL REVENUE SERVICE'S FISCAL YEAR 2014 ANNUAL ACCOUNTING OF DRUG CONTROL FUNDS AND RELATED PERFORMANCE

Highlights

**Final Report issued on
December 19, 2014**

Highlights of Reference Number: 2015-10-010 to the Internal Revenue Service Chief Financial Officer and Chief, Criminal Investigation.

IMPACT ON TAXPAYERS

TIGTA reviewed the assertions in the IRS's Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission and Performance Summary Report for Fiscal Year 2014. IRS management is responsible for preparing the report.

The IRS supports the National Drug Control Strategy through its continued support of the Organized Crime Drug Enforcement Task Force. Complete and reliable financial and performance 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.

WHY TIGTA DID THE AUDIT

This review was conducted as required by the ONDCP and ONDCP Circular: *Accounting of Drug Control Funding and Performance Summary*, dated January 18, 2013. 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. Agencies also need to identify and document performance measure(s) that show 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 the ONDCP. Further, the ONDCP 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.

WHAT TIGTA FOUND

Based on our review, nothing came to our attention that caused us to believe that the assertions in the Detailed Accounting Submission and Performance Summary Report are not fairly presented in all material respects in accordance with the ONDCP's established criteria.

WHAT TIGTA RECOMMENDED

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



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

December 19, 2014

MEMORANDUM FOR CHIEF FINANCIAL OFFICER
CHIEF, CRIMINAL INVESTIGATION

Michael E. McKenney

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Independent Attestation Review of the Internal Revenue Service’s Fiscal Year 2014 Annual Accounting of Drug Control Funds and Related Performance (Audit # 201410020)

This report presents the results of our attestation review of the Internal Revenue Service’s Fiscal Year 2014 Office of National Drug Control Policy Detailed Accounting Submission and Performance Summary Report (the report). The overall objective of this review was to express a conclusion about the reliability of each assertion made in the report. This review is included in our Fiscal Year 2015 Annual Audit Plan and addresses the major management challenge of Achieving Program Efficiencies and Cost Savings.

The Treasury Inspector General for Tax Administration made no recommendations as a result of the work performed during this review. However, key Internal Revenue Service officials reviewed this report prior to its issuance and agreed with the facts and conclusions presented.

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



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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 1988¹ 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 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.

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.

This review was conducted as required by the ONDCP and ONDCP Circular: *Accounting of Drug Control Funding and Performance Summary*, dated January 18, 2013. 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 (the ONDCP Circular requires amounts obligated) during the previous fiscal year.³ Agencies also need to identify and document performance measure(s) that show 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 the ONDCP. Further, the ONDCP 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.

For Fiscal Year (FY) 2014 and future years, the IRS elected to modify the methodology it uses to report ONDCP expenditures to include costs applicable to all narcotics investigations. Previously, the IRS reported only costs applicable to narcotics investigations performed as part of a coordinated task force. The IRS stated that it made this change to allow it to more comprehensively report the resources it devotes to the National Drug Control Strategy. This

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 aspect of the National Drug Control Strategy.

³ 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.



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change was approved by the ONDCP. The reporting of FY 2014 performance was similarly modified to include accomplishments applicable to all narcotics investigations.

This review was performed at the IRS Headquarters offices of the Chief Financial Officer and Chief, Criminal Investigation, in Washington, D.C., during the period June through December 2014. 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. 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. 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

**Summary of the Independent Attestation Review of the Fiscal
Year 2014 Office of National Drug Control Policy Detailed Accounting
Submission and Performance Summary Report**

We reviewed the assertions in the IRS's ONDCP Detailed Accounting Submission and Performance Summary Report (the report) for FY 2014, which ended September 30, 2014 (see Appendix IV). The report was prepared pursuant to 21 U.S.C. 1704 (d) and the ONDCP Circular. IRS management is responsible for preparing the report.

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. 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.

Based on our review, nothing came to our attention that caused us to believe that the assertions in the report are not fairly presented in all material respects in accordance with the ONDCP's established criteria.

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



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Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to perform an independent attestation review of the IRS's reporting of FY¹ 2014 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 2014 Detailed Accounting Submission and Performance Summary Report.
 - A. Discussed the process used to record ONDCP expenditures and performance information with responsible IRS personnel.
 - B. Obtained any documents such as written procedures and supporting worksheets that evidence the methodology used.
- II. Evaluated the reasonableness of the drug methodology process for detailed accounting submissions.
 - A. Reviewed data supporting the Detailed Accounting Submission to establish the relationship to the amounts being reported.
 - B. Verified whether all drug-related activities are reflected in the drug methodology.
 - C. Obtained documentation to support any modifications to the drug methodology and verified that the modifications were submitted to the ONDCP for review prior to implementation.
- III. Performed selected reviews of reported obligations in the Detailed Accounting Submission.
 - A. Verified that the Detailed Accounting Submission included all of the elements specified in Section 6 of the ONDCP Circular: *Accounting of Drug Control Funding and Performance Summary*.
 - B. Verified the mathematical accuracy of the obligations presented in the Table of FY 2014 Drug Control Obligations.
 - C. Traced the information contained in the Table of FY 2014 Drug Control Obligations to the supporting documentation.

¹ 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.



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- 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 the relationship to the National Drug Control Program activities.
 - B. Verified whether all drug-related activities are reflected in the performance information.
- V. Performed sufficient verifications of reported performance information to support our conclusion on the reliability of the assertions.
 - A. Verified that the Performance Summary Report included all of the elements specified in Section 7 of the ONDCP Circular.
 - 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

Gregory D. Kutz, Assistant Inspector General for Audit (Management Services and Exempt Organizations)

Alicia P. Mrozowski, Director

Anthony J. Choma, Audit Manager

Michele N. Strong, Lead Auditor

Trisa Brewer, Auditor

Rashme Sawhney, 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
Deputy Chief, Criminal Investigation 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 SE:CI
 Chief Financial Officer OS:CFO



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Appendix IV

*Internal Revenue Service's Fiscal Year 2014
Detailed Accounting Submission and
Performance Summary Report¹*



CHIEF FINANCIAL OFFICER

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

November 12, 2014

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Robin L. Canady *Robin L. Canady*
Chief Financial Officer

SUBJECT: Annual Accounting and Authentication of Fiscal Year (FY) 2014
Drug Control Funds, Related Performance, and Assertion of
Performance Information

The purpose of this memorandum is to transmit the IRS FY 2014 Annual Accounting and Authentication of Drug Control Funds and Related Performance Report, as directed in the Office of National Drug Control Policy (ONDCP) Circular: Accounting of Drug Control Funding and Performance Summary, dated January 18, 2013. This circular requires the Treasury Inspector General for Tax Administration (TIGTA) to perform an attestation review before the IRS submits this document to the ONDCP. After IRS receives TIGTA's conclusion as to the reliability of each assertion, I will forward the document to the ONDCP.

If you have any questions, please contact me at (202) 317-6400, or have a member of your staff contact Jeffrey Zottola, Acting Associate Chief Financial Officer for Corporate Budget, at (202) 317-4038.

Attachments (2)

¹ Attachment 2 - Organized Crime Drug Enforcement Task Force Program - Year End Financial Projection is not part of the Detailed Accounting Submission and Performance Summary Report that the Treasury Inspector General for Tax Administration is responsible for auditing.



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Attachment 1
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INTERNAL REVENUE SERVICE
Annual Accounting and Authentication of Drug Control Funds and Related Performance

DETAILED ACCOUNTING SUBMISSION

A. Table of Fiscal Year (FY) 2014 Drug Control Obligations

	Narcotics	OCDETF
Drug Resources by Function	(\$000)	(\$000)
Investigations	\$63,572	\$58,200
Total	\$63,572	\$58,200
Drug Resources by Decision Unit		
Narcotics Crimes	\$63,572	\$58,200
Total	\$63,572	\$58,200

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 (CI) Narcotics Program¹. CI's overall Direct Investigative Time (DIT) applied to narcotics investigations for FY 2014 was 11.4 percent of total DIT with 91.2percent of the DIT being applied to Organized Crime and Drug Enforcement Task Force (OCDETF) investigations.

The methodology for computing the resources appropriated and realized for the Narcotics Program is the application of the DIT attributable to narcotics investigations 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 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 is effective for FY2014 and all subsequent fiscal years.

¹ The IRS-CI Narcotics Program consist of 5 sub-programs which include: Organized Crime Drug Enforcement Task Forces (OCDETF); High Intensity Drug Trafficking Area (HIDTA); HIDTA-OCDETF; Terrorism-OCDETF; and Narcotics-Other.



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2) Methodology Modifications

In recent discussions with ONDCP's Office of Budget and Performance, CI learned that the funding it receives through the earmark is not limited to participation in the OCDETF program but should include all narcotics-related activities. Since 2006, CI has reported only the investigative resources and the related performance measures applied to the OCDETF sub-programs. This methodology of only reporting the OCDETF sub-programs allowed IRS-CI to meet its ONDCP funding mandates; however, it did not completely capture the total resources applied by CI to support the U.S. Government's National Drug Control Strategy.

During FY 2014, CI submitted a request to ONDCP for approval to change the methodology from only reporting the OCDETF sub-programs to reporting all narcotics sub-programs. On September 19, 2014, ONDCP approved this change effective for FY2014 and all subsequent fiscal years. The inclusion of all narcotics program resources will provide CI an ability to completely capture and report the resources being applied to support the U.S. Government's National Drug Control Strategy. The change in methodology will provide CI an increased ability, both presently and in future fiscal years, to meet its obligations for its receipt of Interagency Crime and Drug Enforcement (ICDE) funding.

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 the Criminal Investigation Management Information System (CIMIS) to the actual obligations from the CI realized Financial Plan, less reimbursements and EITC funds.



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2) Drug Methodology

The methodology used to calculate obligations of prior-year budgetary resources restricted DIT to investigative resources applied to investigations designated as OCDETF and omitted resources applied to non-OCDETF investigations. This methodology did not accurately reflect the total investigative resources expended on counter-narcotics/money laundering investigations. Inclusion of the non-OCDETF narcotics sub-programs more accurately reflects the resources currently being committed by IRS-CI to support the President's Strategy to Combat Transnational Organized Crime, U.S. Government's National Drug Control Strategy, and the National Money Laundering Strategy without a significant increase in resources.

a) Data

Data is derived from CIMIS to determine the DIT applied to the Narcotics Program. 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 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 2014 in the CI Appropriated Enforcement Budget (excluding reimbursables and EITC).

b) Other Estimation Methods

None

c) 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.

4) 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: Accounting of Drug Control Funding and Performance Summary. Calculations made using this methodology are sufficiently documented to independently reproduce all data and ensure consistency between reporting years.



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5) Reprogramming or Transfers

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

6) 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.

C. Performance Summary Report

1) Performance Reporting

a) Performance Measures

The IRS reviewed performance measures used by other agencies that support the National Drug Control Strategy as well as budget-level performance measures that are already used to address the effectiveness of CI activities. As a result of the review, the IRS determined that, in addition to the number of subject criminal investigations completed, the most appropriate performance measures to evaluate its contribution to the National Drug Control Strategy were number of convictions and conviction rate. These are both budget-level performance measures already used by CI to evaluate its performance as a whole. Criminal investigations completed for the Narcotics 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 DOJ, discontinuance due to lack of evidence, or a finding that the allegation was false (or other reasons). Convictions are defined as the total number of subject criminal investigations with CIMIS status codes of guilty plea, nolo-contendere, judge guilty, or jury guilty. Conviction rate is defined as the total number of subject criminal investigations with CIMIS status codes of guilty plea, nolo-contendere, judge guilty, or jury guilty divided by these status codes nolle prosequi, judge dismissed, and jury acquittal.



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These measures assess 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 narcotics investigations 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 President's Strategy to Combat Transnational Organized Crime, the U.S. National Drug Control Strategy, and the National Money Laundering Strategy by seeking to reduce or eliminate the profits and financial gains from Transnational Criminal Organizations involved in narcotics trafficking and money laundering. CI has participated in 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

The performance results for FY 2009 through FY 2013 are shown below:

	FY 2009	FY 2010	FY 2011	FY 2012 ²	FY 2013
Investigations Completed	652	788	927	904	943
Convictions	462	405	435	563	621
Conviction Rate	85%	82%	88%	90%	88%

Note: The performance results for FY2009 – FY2013 listed in the above table were based on the prior drug methodology and only include investigations coded as OCDETF.

² TIGTA and CI agreed to revise the number of convictions for FY2012 to 559 (from 563) based on a review of CIMIS data.



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c) Current Year Performance Targets and Results

CI calculated its year-end performance using the status date of investigations. The results for FY 2014 are shown below:

FY 2014 Narcotics Targets & Performance	FY 2014 Narcotics Targets	FY 2014 Performance Results (OCDETF Only) ³	FY 2014 Performance Results (Narcotics) ^{3 4}
Investigations Completed	680	810	862
Convictions	410	545	584
Conviction Rate	85%	91.4%	90.8%

- As noted in the above table, CI exceeded in all three performance target areas for FY 2014: Investigations Completed; Convictions; and Conviction Rate.
- Column 3 of the above table reflects the performance results using the prior methodology of reporting only OCDETF investigations.
- Column 4 of the above table reflects the performance results based on the newly approved methodology of reporting all narcotics program areas.

d) Fiscal Year 2015 Performance Targets Narcotics Cases:

The performance information for the IRS CI Narcotics program for FY2015, as submitted to ONDCP (ONDCP Budget Submission):

Criminal Investigations Completed	680
Convictions	410
Conviction Rate	85%

Note: For FY2015, CI has maintained the performance targets from FY2014 despite the fact that the level of narcotics funding requested for FY2015 is less than the amount received in prior years. Due to dwindling investigative resources (caused by Special Agent retirements and inability to hire Special Agents), CI anticipates a reduction in the number of narcotics-related investigation initiations and completions in the coming fiscal year. The above performance target range is commensurate with the level of investigative resources applied. It is anticipated that the proposed FY 2015 DIT range will be adjusted to 10.8% - 12.0% to ensure that IRS-CI meets the minimum resource level required.

³ Based on Status Date as of November 04, 2014

⁴ These figures are comprised of all Narcotics investigations (OCDETF, HIDTA-OCDETF, Terrorism-OCDETF, HIDTA, and Narcotics-Other). However, the performance goals were set prior to the methodology change.



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e) Quality of Performance Data

To ensure the reliability of the data, all cases have unique numbers assigned in CIMIS which contain validity and business rule checks. The CIMIS database tracks the status of the investigations from initiation through final disposition. The system has sufficient internal checks and balances to assure status updates are input in the proper order.

D. Annual Accounting and Authentication of Drug Control Funds and Related Performance

1) Performance Measures Assertions

a) Performance Reporting System is appropriate and applied

The IRS uses the CIMIS to capture performance information accurately and that system was properly applied to generate the performance data.

b) Explanations for not meeting performance targets are reasonable

Explanations offered for failing to meet a performance target and for any recommendations concerning plans and schedules for meeting future targets or for revising or eliminating performance targets are reasonable.

c) Methodology to establish performance targets is reasonable and applied

The methodology described in the Performance Summary Report for FY 2014 to establish performance targets for the current year is reasonable given past performance and available resources.

d) Adequate performance measures exist for all significant drug control activities

The IRS established at least one acceptable performance measure for each Drug Control Decision Unit identified in its Detailed Accounting of FY 2014 Drug Control Funds as required by Section 7(b)(4) for which a significant amount of obligations were incurred in the previous year.



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2) Criteria for Assertions

a) Data

The sources of the data used are well documented and the data used in the report is clearly identified and is the most recent available.

b) Estimation Methods

Not applicable.

c) Reporting Systems

The reporting system supporting the above assertions is current, reliable, and an integral part of the agency's budget and management processes.