Audit Report

Annual
Financial Statement

Fiscal Year 1999

VIII

Office of the Inspector General

COMMENTARY AND SUMMARY

The U.S. Department of Justice, under the direction of the Attorney General, is charged with protecting society against criminals and subversion; upholding the civil rights of all Americans; ensuring healthy competition of business in our free enterprise system; safeguarding the consumer; enforcing environmental, drug, immigration, and naturalization laws; and representing the American people in all legal matters involving the U.S. Government. The Department also plays a significant role in protecting citizens through its efforts for effective law enforcement, crime prevention, crime detection, and prosecution and rehabilitation of offenders. In FY 1999, the Department had approximately $20 billion in funding.

This audit report contains the Annual Financial Statement of the Department of Justice for the fiscal year ended September 30, 1999. PricewaterhouseCoopers LLP performed the consolidated Department audit and issued a qualified opinion on the FY 1999 consolidated balance sheet and the related consolidated statements of net cost and changes in net position, and the related combined statements of budgetary resources, financing, and custodial activity. A qualified opinion means that the financial statements are presented fairly in all material respects, except for matters identified in the audit report. The qualifications in this report resulted from the auditors of the Immigration and Naturalization Service being unable to substantiate two significant account balances – deferred revenue and intragovernmental accounts payable.

Weaknesses in computer security are a major concern for the Department. This issue was elevated from a reportable condition in FY 1998 to a material weakness in the FY 1999 Report on Internal Controls and it affects almost every Department component. In addition, in the Report on Compliance with Laws and Regulations, the auditors identified five Department components that were not compliant with the Federal Financial Management Improvement Act of 1996 that specifically addresses the adequacy of Federal financial management systems.

The auditors identified two other material weaknesses in the consolidated Report on Internal Controls. Eight of ten Department components did not have policies and procedures in place or were not following them to ensure that all transactions were recorded in accordance with generally accepted accounting principles and other Federal financial accounting and reporting requirements. This finding included problems with the accounting and reporting of liabilities, property, inventories, and deferred revenue. The other material weakness arose because six out of ten Department components did not have effective financial statement preparation processes to ensure financial statements are completed timely and in conformance with all requirements of the Federal government and Department policies. The auditors also identified one reportable condition on the need for improvement in components' controls over their fund balance with Treasury.

The following table depicts the audit results for the Department consolidated audit as well as for the ten individual component audits for FY 1999.

Fiscal Year 1999 Audit Results

Reporting Entity	Auditor's Opinion on Financial Statements	Number of Reportable Conditions: Material Weaknesses[18]	Number of Reportable Conditions: Reportable Conditions[19]
Consolidated Department of Justice	Qualified[20]	3	1
Assets Forfeiture Fund and Seized Asset Deposit Fund	Unqualified[21]	0	2
Bureau of Prisons	Unqualified	0	2
Drug Enforcement Administration	Unqualified	4	6
Federal Bureau of Investigation	Unqualified	3	2
Federal Prison Industries, Inc.	Unqualified	0	0
Immigration and Naturalization Service	Qualified	4	4
Offices, Boards and Divisions	Unqualified	0	3
Office of Justice Programs	Unqualified	1	5
U.S. Marshals Service	Unqualified	2	3
Working Capital Fund	Unqualified	0	1

18 A material weakness is a reportable condition (see below) in which the design or operation of the internal control does not reduce to a relatively low level the risk that error, fraud or noncompliance in amounts that would be material in relation to the principal statements or to performance measures may occur and not be detected within a timely period by employees in the normal course of their assigned duties.

19 A reportable condition includes matters coming to the auditor's attention that, in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of internal controls, which could adversely affect the entity's ability to properly report financial data.

20 Qualified opinion—An auditor's report that states, "except for" matters identified in the report, the financial statements present fairly, in all material respects, the financial position and results of operations of the reporting entity, in conformity with generally accepted accounting principles.

21 Unqualified opinion—An auditor's report that states the financial statements present fairly, in all material respects, the financial position and results of operation of the reporting entity, in conformity with generally accepted accounting principles.

MANAGEMENT'S OVERVIEW

Unaudited

DEPARTMENTAL REPORTING ENTITY

This report presents the FY 1999 consolidated financial statements for the Department of Justice. Under Title IV of the Government Management Reform Act (GMRA) of 1994, the Attorney General shall prepare and submit to the Director of the Office of Management and Budget (OMB), audited financial statements for the preceding fiscal year, covering all accounts and associated activities of each office, bureau and activity of the Department. Under the direction of the Assistant Attorney General for Administration (AAGA), the Justice Management Division (JMD) prepares the Department's consolidated financial statements. The Office of the Inspector General (OIG) is responsible for the audit of the statements. The Department's FY 1999 audited financial statements are consolidated based upon the results of audits undertaken at each Department reporting entity identified below:

- Assets Forfeiture Fund and Seized Asset Deposit Fund (AFF/SADF)
- Working Capital Fund (WCF)
- Offices, Boards and Divisions (OBD)
  - Attorney General
  - Associate Attorney General
  - Legal Counsel
  - Professional Responsibility
  - Public Affairs
  - Inspector General
  - U.S. Attorneys
  - INTERPOL
  - Executive Office for Immigration Review
  - Community Oriented Policing Services
  - Information and Privacy
  - U.S. Parole Commission
  - Antitrust Division
  - Civil Rights Division
  - Criminal Division
  - Environment and Natural Resources Division
  - Deputy Attorney General
  - Solicitor General
  - Legislative Affairs
  - Policy Development
  - Pardon Attorney
  - Community Relations Service
  - Dispute Resolution
  - Intelligence Policy and Review
  - U.S. Trustees
  - Intergovernmental Affairs
  - National Drug Intelligence Center
  - Foreign Claims Settlement Commission
  - Civil Division
  - Tax Division
  - Justice Management Division
- U.S. Marshals Service (USMS)
- Office of Justice Programs (OJP)
- Drug Enforcement Administration (DEA)
- Federal Bureau of Investigation (FBI)
- Immigration and Naturalization Service (INS)
- Bureau of Prisons (BOP)
- Federal Prison Industries, Inc. (FPI)

HIGHLIGHTS OF PERFORMANCE REPORTING

The Government Performance and Results Act of 1993 (GPRA) was enacted to improve the public's confidence in the capability of the Federal Government through improvements in program effectiveness and accountability. To comply with GPRA, the Department prepared the Strategic Plan for 1997 - 2002, which sets forth the broad strategic direction for the Department. In this Plan, the Attorney General established the following CORE functions:

1. Investigation and Prosecution of Criminal Offenses.
2. Assistance to Tribal, State and Local Governments.
3. Legal Representation, Enforcement of Federal Laws and Defense of U.S. Interests.
4. Immigration.
5. Detention and Incarceration.
6. Protection of the Federal Judiciary and Improvement of the Justice System.
7. Management.

The Department issued the Annual Summary Performance Plan for FY 1999 and revised its internal processes to ensure that performance planning and budgeting are driven by and consistent with the Attorney General's long term strategic goals. The FY 1999 performance plan and budget are linked to the CORE functions. This direct linkage between the Department's strategic goals and the annual plans and budgets ensures a coordinated and clear focus on mission and results. In the coming years, the Department will continue to examine changes to the budget account structure in order to more readily accommodate the planning and requirements of GPRA.

In FY 1998, the Department participated as a pilot agency under the GMRA and issued the Accountability Report for FY 1998, encompassing the Attorney General's annual report requirement, the Federal Managers' Financial Improvement Act certification and material weaknesses and non-conformances, the Department's consolidated audited financial statements and auditors'statement of opinion, and intellectual property/anti-counterfeiting data. In that report, the Department set the stage for linking planning and performance by organizing information according to the Strategic Plan's CORE functions, goals and objectives.

The FY 1999 Accountability Report will continue to be based on input provided by all components. The FY 1999 report will be the vehicle for Departmental performance reporting under GPRA. Among other things, the performance data will focus on accomplishments and includes information on the Department's organization, mission, goals and objectives, resources, performance measures and results, major Department-level strategic achievements and issues to be resolved, and management controls certifications.

The following narratives provide major highlights of the performance goals and the results these activities have produced.

- The Office of Community Oriented Policing Services (COPS) fulfilled a key element of its mission in FY 1999: On May 12, 1999, COPS had funded 100,000 police officers, one year in advance of scheduled time. By September 30, 1999, COPS had funded 103,760 police officers. Grantees are in the process of putting those officers on the street. As of April 1999, over 55,000 COPS-funded law enforcement officers had been deployed.
- The success of the Environment and Natural Resources Division during FY 1999 in enforcing environmental laws resulted in over $596 million in fines, penalties and restitution awarded in civil environmental cases, a 54 percent increase over FY 1998.

- The INS has achieved considerable success in restoring integrity and safety to the Southwest border by implementing the strategy through well-laid-out multi-year operations such as Operation Gatekeeper in San Diego, Operation Hold the Line in El Paso, Operation Rio Grande in McAllen, and Operation Safeguard in Tucson. The initial phases of these operations typically result in an increase in apprehensions, reflecting the deployment of more agents and enhanced technology. As the deterrent effect takes hold, the number of apprehensions declines as the operation gains control over the area. Continued heightened presence along the southwest border also allowed the INS to seize larger amounts of marijuana entering the United States.

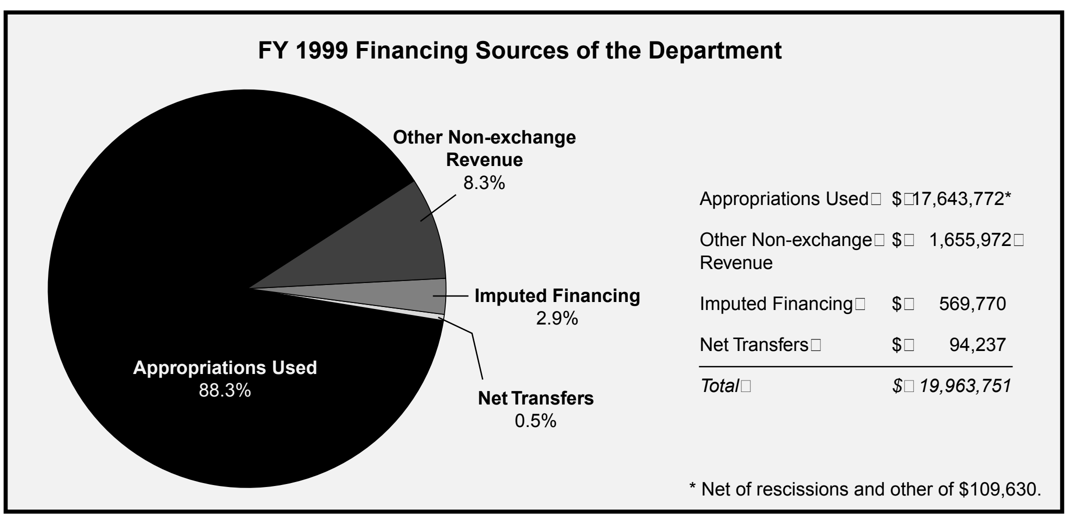
- The BOP total inmate population grew by more than 11,300 from FY 1998 to FY 1999, the largest one-year increase in the history of the agency. The population increase was due to enhanced law enforcement efforts with particular regard to drug crimes (in conjunction with mandatory sentences) and crimes along the southwest border. Despite the increase in population, there were no escapes from secure BOP institutions, there were no serious disturbances at any of the BOP's 94 institutions, and no staff suffered serious injuries or loss of life in the line of duty during FY 1999.

- During FY 1999, a total of $643.5 million in cash and proceeds was deposited in the AFF. From current balances, $283.3 million was shared with foreign governments and state and local law enforcement agencies that participated in joint investigations with Federal agencies that led to asset seizures and forfeitures.

Overview of Financial Data. The Department received a qualified opinion on the FY 1999 financial statements, an improvement from the disclaimers of opinion issued on the statements for FYs 1996, 1997 and 1998. Fund Balance with Treasury, approximately $18.1 billion, continues to be the largest asset and comprises 70 percent of the total assets. Total liabilities are approximately $6 billion, of which $4.1 billion consist of liabilities covered by budgetary resources.

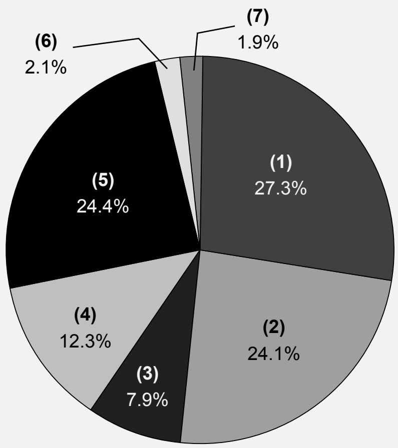
The charts below summarize, in thousands, the activity on the Statement of Changes in Net Position and Statement of Net Cost by presenting the resources provided to Department components in FY 1999 and how these resources were used. These charts are net of earned revenues of $4 billion.

Where it Comes From (000)



Where it Goes (000)

FY 1999 Costs of the Department CORE Functions

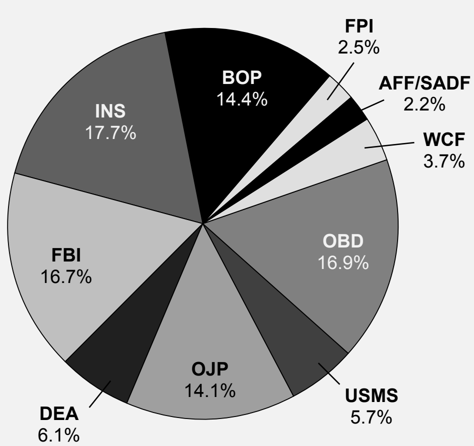


1. Investigation and Prosecution of Criminal Offenses	$ 5,182,677
2. Assistance to Tribal, State and Local Governments	$ 4,558,725
3. Legal Representation, Enforcement of Federal Laws and Defense of U.S. Interests	$ 1,495,609
4. Immigration	$ 2,331,658
5. Detention and Incarceration	$ 4,638,179
6. Protection of the Federal Judiciary and Improvement of the Justice System	$ 394,328
7. Management	$ 352,852
Total	*$ 18,954,028*

Share of DOJ Operations. The programs administered by Department components constitute a large share of the total revenues and expenses of the DOJ. The amounts represented in the following charts do not include intra-department eliminations of $1,535,230.

Costs by Reporting Entity (000)

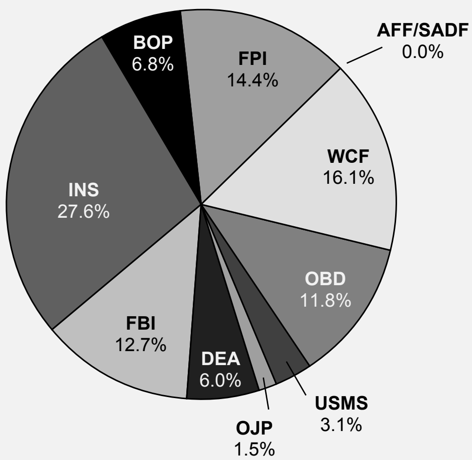
FY 1999 Costs
Before Intra-department Eliminations



AFF/SADF	$ 514,452
WCF	$ 858,088
OBD	$ 3,882,814
USMS	$ 1,311,575
OJP	$ 3,240,845
DEA	$ 1,402,341
FBI	$ 3,826,393
INS	$ 4,069,537
BOP	$ 3,310,440
FPI	$ 570,150
Total	*$ 22,986,635*

Earned Revenues by Reporting Entity (000)

FY 1999 Earned Revenues
Before Intra-department Eliminations



AFF/SADF	$ 924
WCF	$ 650,282
OBD	$ 477,021
USMS	$ 125,155
OJP	$ 59,614
DEA	$ 240,282
FBI	$ 510,273
INS	$ 1,114,360
BOP	$ 275,729
FPI	$ 578,967
Total	*$ 4,032,607*

YEAR 2000 ISSUES

Department's State of Readiness. The Chief Information Officer (CIO), who is also the Assistant Attorney General for Administration, uses an independent verification and validation (IV&V) contractor to help evaluate component Year 2000 progress, including the thoroughness of test plans, test execution, Year 2000 compliance and contingency planning. In addition, he and his staff meet with Department components to ensure that each component has a sound Year 2000 program by reviewing program status, identifying concerns and providing guidance for improvement. The Attorney General established a Department-wide goal for all mission critical systems, including non-computer systems, to become Year 2000 compliant by January 1999. As of September 15, 1999, the Department reported it had made significant progress in achieving this objective. Of the Department's 216 mission critical systems, 211 (98%) were compliant, 4 were undergoing repairs and 2 were in the process of replacement. Of the 4 systems undergoing repair, 3 were renovated and validated. The Department anticipated 100% of its mission critical systems would be Year 2000 compliant and implemented by December 1999. A post Y2K rollover test as of January 2, 2000, found no significant problems.

Costs to Address Year 2000 Issues. As of September 15, 1999, the Department estimated that components would incur costs totaling $165 million to address Year 2000 compliance issues. Of this amount, $118 million was for mission critical information technology systems and is primarily (87%) from four organizations: Executive Office for United States Attorneys (EOUSA) totaling $42.8 million, FBI totaling $25.6 million, DEA totaling $11.5 million, and INS totaling $22.9 million.

Contingency Plans. The Department concentrated on both system-level contingency plans as well as Business Continuity and Contingency Planning (BCCP). Department components are required to have contingency plans for each mission critical system. As of November 1, 1999, Department components had submitted 99% of the required contingency plans. The BOP utilized and augmented existing emergency plans to reflect Year Y2K which were favorably reviewed by the General Accounting Office. BCCPs are being developed by the DEA, the EOUSA, the Executive Office for United States Trustees, the FBI, the INS, the Justice Management Division Computer Services Staff, and the USMS.

The Department was at minimal risk as it approached Year 2000 with only six systems still to have compliant versions completely implemented. This factor along with the Department's program of IV&V for information technology systems, contingency plan development and testing, BCCP development, and a formal configuration management process ensured that the Department would be well positioned for the rollover to January 1, 2000.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations of the Department, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

Independent Accountants' Reports

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1616 N. Fort Myer Dr.
Arlington VA 22209-3195
Telephone (703) 741 1000
Facsimile (703) 741 1616
Direct phone (202) 514-9113
Direct fax (202) 514-2114

REPORT OF INDEPENDENT ACCOUNTANTS

United States Attorney General and
The Office of the Inspector General
U.S. Department of Justice

We have audited the accompanying consolidated balance sheet of the U.S. Department of Justice (the Department) as of September 30, 1999, and the related consolidated statements of net cost and changes in net position, and the related combined statements of budgetary resources, financing, and custodial activity, for the year then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain components of the Department, including the Working Capital Fund, the Office of Justice Programs, the Drug Enforcement Administration, the Federal Bureau of Investigation, the Immigration and Naturalization Service, the U.S. Marshals Service, the Bureau of Prisons, and the Federal Prison Industries, Inc., which statements reflect total combined assets of $20.3 billion and total combined net costs of $15.0 billion for the year ended September 30, 1999. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for these components, is based solely on the reports of the other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The auditors of the Immigration and Naturalization Service (INS) were unable to obtain sufficient evidential matter to form an opinion regarding the balances of deferred revenue ($507 million) and intragovernmental accounts payable ($197 million) at September 30, 1999, or the deferred revenue balance as of September 30, 1998. The INS' deferred revenue and intragovernmental accounts payable balances represent 78.7% and 37.0%, respectively, of the Department's September 30, 1999 combined balances.

PRICEWATERHOUSECOOPERS

Report of Independent Accountants
Page 2

In our opinion, based on our audit and the reports of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had other auditors been able to obtain sufficient evidential matter concerning the deferred revenue and intragovernmental accounts payable balances of the Immigration and Naturalization Service, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Justice and its components, at September 30, 1999, and their net cost, changes in net position, budgetary resources, custodial activity and reconciliation of net cost to budgetary resources for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the Department's consolidated and combined financial statements taken as a whole. The consolidating and combining information is presented for purposes of additional analysis of the Department's consolidated and combined financial statements rather than to present the financial position, net costs, changes in net position, budgetary resources, and reconciliation of net cost to budgetary resources of the Department's components. The consolidating and combining information has been subjected to the auditing procedures applied in the audit of the Department's consolidated and combined financial statements; and, in our opinion, except for the effects of other auditors not obtaining sufficient evidential matter concerning the deferred revenue and intragovernmental accounts payable balances of the Immigration and Naturalization Service, the consolidating and combining information is fairly stated in all material respects in relation to the Department's consolidated and combined financial statements taken as a whole.

The information in the "Management's Overview" and "Supplemental Financial and Management's Information" is not a required part of the principal financial statements, but is supplementary information required by OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended. This information has not been subjected to auditing procedures. Accordingly, other auditors and we expressed no opinion on this information.

In accordance with *Government Auditing Standards*, we have also issued reports dated February 21, 2000, on our consideration of the Department's internal controls and on its compliance with laws and regulations.

PricewaterhouseCoopers LLP

February 21, 2000
Arlington, Virginia

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1616 N. Fort Myer Dr.
Arlington VA 22209-3195
Telephone (703) 741 1000
Facsimile (703) 741 1616
Direct phone (202) 514-9113
Direct fax (202) 514-2114

REPORT OF INDEPENDENT ACCOUNTANTS ON INTERNAL CONTROLS

United States Attorney General and
The Office of the Inspector General
U.S. Department of Justice

We have audited the accompanying consolidated balance sheet of the U.S. Department of Justice (the Department) as of September 30, 1999, and the related consolidated statements of net cost and changes in net position, and the related combined statements of budgetary resources, financing, and custodial activity, for the year then ended, and have issued our report thereon dated February 21, 2000. Except as discussed in that report, we conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, as amended.

We did not audit the financial statements of certain components of the Department, including the Working Capital Fund (WCF), the Office of Justice Programs (OJP), the Drug Enforcement Administration (DEA), the Federal Bureau of Investigation (FBI), the Immigration and Naturalization Service (INS), the U.S. Marshals Service (USMS), the Bureau of Prisons (BOP), and the Federal Prison Industries, Inc. (FPI), which statements reflect total combined assets of $20.3 billion and total combined net costs of $15.0 billion for the year ended September 30, 1999. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our report on the Department's internal control herein, insofar as it relates to the internal controls specific to these components, is based solely on the reports of the other auditors.

Management of the Department is responsible for establishing and maintaining accounting systems and internal control. In fulfilling this responsibility, estimates and judgments are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that: (1) transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets; (2) funds, property, and other assets are safeguarded from loss from unauthorized use or disposition; (3) transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements and other relevant laws and regulations; and (4) data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information. Because of inherent limitations in any internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

PRICEWATERHOUSECOOPERS

Report on Internal Controls
Page 2

In planning and performing our audit of the Department's financial statements, we obtained an understanding of the design of significant internal controls and whether they had been placed in operation, tested certain controls and assessed control risk in order to determine our auditing procedures for the purpose of expressing an opinion on the consolidated financial statements. Our purpose was not to provide an opinion on the Department's internal controls. Accordingly, we do not express such an opinion.

With respect to internal control relevant to data that support reported performance measures, we obtained an understanding of relevant internal control policies and procedures designed to achieve the above noted control objectives, and assessed risk related to management's assertions that the data is complete and relates to events that have occurred. Our procedures were not designed to provide assurance on internal control over reported performance measures. Accordingly, we do not provide an opinion on such controls.

We noted, and the reports of other auditors identified, certain matters in the Department's components' internal control that are considered to be reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, as amended. Reportable conditions involve matters coming to the auditors' attention relating to significant deficiencies in the design or operation of the internal control that, in their judgment, could adversely affect the Department's ability to meet the internal control objectives described above.

Certain reportable conditions were also considered to be material weaknesses. A material weakness in internal control is a reportable condition in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited or material to a performance measure or aggregation of related performance measures may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Overview of Material Weaknesses and Reportable Conditions

Table 1 summarizes, by component, the 14 material weaknesses and 28 reportable conditions identified by components' auditors. We analyzed the reportable conditions identified by the components' auditors to determine their effect on the Department's internal control over financial reporting and identified four Department-wide reportable conditions, the first three are also considered to be material weaknesses.

Table 1: Department-wide Material Weaknesses (M) and Reportable Conditions (R)

Conditions Reported by Component Auditor	Total	OBD	AFF	FBI	DEA	OJP	INS	USM	BOP	FPI	WCF
Material weaknesses	14	0	0	3	4	1	4	2	0	0	0
Reportable conditions	28	3	2	2	6	5	4	3	2	0	1

PRICEWATERHOUSECOOPERS

Report on Internal Controls
Page 3

Department (DOJ) Condition	DOJ	OBD	AFF	FBI	DEA	OJP	INS	USM	BOP	FPI	WCF
The Department's components did not have policies or procedures in place or were not following them to ensure that financial transactions were recorded in accordance with generally accepted accounting principles.	M	R	R	M	M	M	M	M	R		
Weaknesses exist in components' financial management systems and improvements are needed in the general controls at the Department's data centers.	M	R	R	M	M	R	M	R	R		R
Financial statement preparation processes were not effective to ensure financial statements were completed timely and in conformance with the requirements of the Government Management Reform Act, OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended, and the Department's policies.	M	R		M	M	R	R	M			
Improvements are still needed in components' controls over fund balance with Treasury.	R				M		M				
(OBD) - Offices, Boards and Divisions (AFF) - Assets Forfeiture Fund and Seized Asset Deposit Fund											

Consideration of internal control would not necessarily disclose all matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. The remainder of this report discusses these reportable conditions in greater detail. All four conditions were identified in our previous fiscal years report on internal controls. Because of the frequency with which these conditions were found within the ten components, we recommend Department-wide corrective actions.

* * * * * * * * * *

PRICEWATERHOUSECOOPERS

Report on Internal Controls
Page 4

The Department's components did not have policies or procedures in place or were not following them to ensure that financial transactions were recorded in accordance with generally accepted accounting principles.

Eight of ten components do not have policies and procedures in place or were not following them to ensure that transactions were recorded in accordance with generally accepted accounting principles. Auditors reported deficiencies in components' financial accounting and reporting in accordance with the following:

- **Accounting for Liabilities of the Federal Government, *Statements of Federal Financial Accounting Standards (SFFAS) No. 5*.** The auditors of the INS, the DEA, the BOP, the OJP, and the OBD reported the following weaknesses in the components' accounting and reporting of obligations, accounts payable and related expenses, and accrued grant expenditures:

  I. Auditors' of the INS, the DEA, the BOP, and the OBD reported that methodologies used to estimate the components' accounts payable at September 30, 1999, were not performed correctly or were lacking adequate supporting documentation. The auditors' of the DEA reported that quarterly certifications of open obligations were not performed properly, expenses were reported in the wrong fiscal year, and there was a lack of oversight on the payment of invoices.

  II. The auditors of the OJP reported that controls were not in place to ensure data integrity during the grant accrual process, and that the OJP was not able to produce accurate year-end grant accrual amounts in a timely manner because of incomplete data in the grant accounting system. We identified the following conditions during our audit of the OBD: (a) limitations in the grant accounting system that prevented the recordation of transactions greater than $100 million; (b) non-current data was used in the calculation of grant advances and accrued grant expenditures; and (c) other data integrity issues that caused the OBD' account balances to be misstated.

- **Accounting for Property, Plant and Equipment (*SFFAS No. 6*).** The auditors of the FBI, the DEA, the USM, and the OJP reported weaknesses in the components' accounting, reporting and safeguarding of property and equipment, construction in progress, and leases and leasehold improvements. Auditors of the FBI and DEA reported that property reconciliations were not effective to detect differences between the property management system and the general ledger, increasing the risk that the components' financial statements are misstated and that assets are not properly safeguarded from loss or unauthorized use. The USM' auditors identified numerous errors and inconsistencies in the accounting of construction work-in-process, percentage of completion, accrued liabilities and depreciation for reimbursable work agreements with the General Services Administration. Finally, the auditors of the OJP reported that no policies or procedures exist to appropriately classify and record capital leases, or to adequately disclose lease information in the notes to the OJP' financial statements.

PRICEWATERHOUSECOOPERS

Report on Internal Controls
Page 5

- **Accounting for Inventory and Related Property, *SFFAS No. 3*.** We noted that seizing and custodial agencies did not take steps to ensure that corrections to the Consolidated Asset Tracking System inventory records were made in accordance with guidance provided by AFF's management. Auditors of the DEA reported that a reliable system is not in place to accurately report in the DEA's financial statements bulk drugs, seized property and funds held as evidence. The auditors of the FBI reported that financial reporting controls over the year-end compilation of evidence need to be strengthened and system deficiencies exist that affect the completeness of evidence acquisition and disposition summary reports. Other auditors reported that the USM and the DEA did not adequately report operating inventories of parts and supplies. The inventories relate mainly to materials held for maintenance of the DEA's and USM' fleet of aircraft.

- **Accounting for Revenue and Other Financing Sources, *SFFAS No. 7*.** Auditors of the INS were not able to obtain sufficient evidence to support the number of pending immigration and naturalization applications necessary to calculate deferred revenue; accordingly, the auditors qualified their opinion on the INS' financial statements as a result of this condition. Other auditors reported that the USM did not have sufficient procedures to regularly reconcile amounts reported in the financial subsidiary ledger. We identified an error of $28 million in the OBD' posting of year-end adjusting entries that was primarily caused by the lack of timely "billing" of reimbursable agreements; and we noted that approximately $135 million of the OBD' receivables were unbilled, increasing the risk that invalid receivables will not be detected.

The weaknesses discussed above led to errors in financial statements prepared pursuant to the Government Management Reform Act (GMRA) and budgetary reports submitted to the OMB and the Department of the Treasury. Although components' efforts have led to some progress in correcting misstatements to their financial statements, the findings cited above indicate that the Department still faces significant risk of misstatement to its consolidated financial statements. Department-wide efforts and attention to these areas is necessary to ensure the Department's consolidated financial statements are free of material misstatements.

Recommendation

We recommend the Chief Financial Officer:

1. Issue Department-wide policies that emphasize the accounting principles that should be followed by all components. The directives should be based on generally accepted accounting principles and other Federal accounting requirements. The Justice Management Division (JMD) should take the lead in identifying and resolving accounting issues to ensure that the components adhere to the Department's stated policies. The JMD should work with the components' senior financial managers to ensure they are made aware of all component-level accounting issues and their affect on the Department's consolidated financial statements. We also recommend that the Department reaffirm its accounting policies in the financial statement working group meetings held by the Justice Management Division.

PRICEWATERHOUSECOOPERS

Report on Internal Controls
Page 6

Management Response: Concur. JMD will communicate to senior component management the requirement to properly follow generally accepted accounting principles, federal accounting standards, and the need to resolve existing instances of noncompliance with these standards. JMD will further emphasize its accounting standards and policies through the financial statements working group. JMD will monitor component compliance with Department standards and policies through component corrective action plans.

PRICEWATERHOUSECOOPERS

Report on Internal Controls
Page 7

Weaknesses exist in components' financial management systems and improvements are needed in the general controls at the Department's data centers.

We and other auditors identified ten reportable conditions and three material weaknesses in nine of the components' general and application controls over financial management systems. These weaknesses increase the risk that software programs and data processed on the Department's systems are not adequately protected from unauthorized access. In some instances, the Department's components had substantially completed implementation of new financial management systems, or modified existing systems, to improve transaction processing. Management may not have devoted sufficient attention to the development and implementation of adequate general controls during the systems' implementation phase. For components that have not implemented new financial management systems, conditions identified by other auditors and us represent long-standing weaknesses that have not been adequately addressed by management. With respect to the components' application systems and the FBI data processing center, other auditors and we identified the deficiencies summarized below:

- **The INS' financial management systems are not integrated and have significant control weaknesses that affect the accuracy and reliability of financial information and limit the ability of management to make effective financial management decisions.** Auditors of the INS reported that improvements are needed in: (a) access controls over mainframe financial applications and the local area network; (b) segregation of duties surrounding the Financial Accounting Control System (FACS); (c) the firewall protecting external system connections; (d) security program management; (e) software development and change control; and (f) service continuity.

- **Improvements are needed in the USM' system risk assessments, contingency planning, and safeguards against unauthorized physical or logical access.** Auditors reported that the USM had not implemented a draft risk assessment for headquarters' computing, networking and telecommunication resources; and had not developed risk assessments at the district level or for all major applications (including the USM' core financial management system). In addition, improvements are needed in safeguarding against unauthorized physical or logical access to USM' systems.

- **The DEA needs to strengthen its general controls over information systems and improvements are needed in service continuity plans.** Auditors reported that the DEA's entity-wide security program needs refining and controls that limit or detect access to computer resources need improvement. Finally, the DEA should refine the procedures for storage of network backup tapes.

- **Security controls need to be strengthened over the OBD' Financial Management Information System (FMIS).** We noted that (a) inadequate segregation of duties provides weak security administration in FMIS; (b) change management methodologies for developing and implementing changes to the FMIS application need to be strengthened and formalized; and (c) security policies and procedures to guide security administration are informal and undocumented. The auditors of

PRICEWATERHOUSECOOPERS

Report on Internal Controls
Page 8

the AFF, the BOP, and the WCF also reported one or more of the conditions identified above because FMIS is the core financial management system for these components.

- **The auditors of the OJP identified deficiencies in general controls over information resources.** Auditors identified weak controls in procedures over access controls and noted that the OJP had not conducted or documented security control reviews for local area networks and financial management systems in the last four years. In addition, configuration management changes are informal as the OJP does not maintain libraries of source code or monitor the software developer's configuration management procedures.

- **The auditors of the FBI identified conditions that could compromise the agency's ability to ensure security over sensitive programmatic or financial data, the reliability of its financial reporting, and compliance with applicable laws and regulations.** Weaknesses were identified in the FBI's information systems general and application controls environment; including: (a) entity-wide security programs; (b) access controls; (c) service continuity; (d) the Financial Management System (FMS) application controls; and (e) change control processes.

As part of our audit of the Department's fiscal year 1999 financial statements, we also tested the general controls environment surrounding the computer systems located at the Department's data centers by performing an update of the general controls testing performed as part of our fiscal year 1998 engagement. Our work focused on the following general control areas: (a) entity-wide security program; (b) access controls (including mainframe system logical security and physical security); (c) segregation of duties for management and operations; (d) systems software controls and modifications; and (e) service continuity. A network security penetration study was also conducted using various penetration scenarios.

Because of the sensitivity of the information at the Department's data centers, we issued a separate limited distribution report to the Office of the Inspector General (OIG) that describes the conditions we identified and our recommendations for corrective actions. Auditors of the FBI performed similar procedures at the FBI's data centers and also issued a separate limited distribution report to the OIG. We have summarized the reportable conditions identified at the Department's data centers below:

- **Program change management procedures have not been formalized.** No formalized change control procedures for operating system software and program products exist. As a result, data center personnel used informal and undocumented procedures.

- **The Department does not have a comprehensive Business Continuity Plan (BCP) to recover primary systems, processing applications, or key business processes.** The Department has not developed a comprehensive BCP to recover its primary systems environment, critical data processing applications, or its key business processes, exposing the agency to a potential disruption of operations. The data centers have developed a plan to recover the operating system software and hardware components to provide a platform for their customers; however, this plan has not been comprehensively tested and data center customers have not developed supplementary plans for recovery of data and the contingency processes of key business applications.

PRICEWATERHOUSECOOPERS

Report on Internal Controls
Page 9

- **Entity-wide security policies and procedures are outdated and do not adequately address Department-wide security responsibilities or define authority.** The Department's written security policies are outdated and do not comprehensively specify the roles and responsibilities of the entity's managers and the security administration function, nor do they adequately define the authority of the organization responsible for maintaining and administering system security.

We and other auditors used the General Accounting Office's, *Federal Information System Controls Audit Manual (FISCAM)*, in our testing of the components' financial management systems. We also used the following in our testing of the Department's data centers: (a) OMB Circular A-130, Appendix III, *Automated Information Security Programs*; (b) the Computer Security Act of 1987; (c) the Department's Order No. 2640.2C, *Telecommunications and Automated Information Systems Security*, and Interim Dial-In/Dial-Out Telecommunications Security Policy dated March 24, 1997; and (d) the National Institute of Standards and Technology's (NIST) Publications.

Recommendations

We recommend the Chief Financial Officer:

2. Require that components' timely correct significant deficiencies in general and application controls over financial management systems. Attention should be focused on improvements in components' (a) contingency planning, (b) risk assessments, (c) segregation of duties, (d) access controls and (e) safeguards against unauthorized physical or logical access.

Management Response: Concur. The Department is committed to the implementation of corrective actions that will provide adequate security controls and protect sensitive information. The components will continue to implement plans to provide for adequate contingency planning, risk assessments, segregation of duties, access controls, and install safeguards against unauthorized physical or logical access.

3. Implement the recommendations made in our limited distribution report on the Department's data centers and in the limited distribution report on the FBI's systems prepared by the FBI's auditors. Both reports were issued directly to the Office of the Inspector General.

Management Response: Concur.

PRICEWATERHOUSECOOPERS

Report on Internal Controls
Page 10

Financial statement preparation processes were not effective to ensure financial statements were completed timely and in conformance with the requirements of the Government Management Reform Act, OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended, and the Department's policies.

The Government Management Reform Act (GMRA) requires federal agencies to submit audited Department-wide financial statements to the OMB by March 1 of each year. To meet this deadline, the Assistant Attorney General for Administration and the Inspector General issued a joint memorandum to the ten components outlining when critical procedures had to be completed to ensure the Department would be able to prepare, review, and have audited, its consolidated financial statements. However, other auditors and we continue to identify weaknesses at six of the ten components that affect their ability to produce timely financial statements in accordance with GMRA and Department policies. Auditors identified the following:

- **Auditors of the FBI, the DEA, and the USM reported material weaknesses in the components' financial statement preparation process.** Auditors observed technical and clerical errors, inconsistencies in the form and content of financial statements, late submissions, incomplete account reconciliations, and a lack of supervisory review. Auditors also noted that, in some cases, there were not sufficient resources in the Office of Finance dedicated to financial statement preparation, or that program managers did not adequately support the Office of Finance's financial statement preparation process, resulting in incomplete statements that required adjustments and revisions.

- **Auditors of the OJP, the INS and the OBD identified reportable conditions in the components' financial reporting processes.** Auditors of the OJP reported that financial statements were not completed by the Department's deadlines, and that the core financial accounting system was not capable of producing external financial reports in accordance with the Joint Financial Management Improvement Program's, *Core Financial System Requirements*. The INS' auditors noted that financial statements and supporting documentation were not adequately reviewed before release, and that statements and related note disclosures were submitted three weeks after the Department's deadlines. Finally, we reported that procedures were not in place to ensure adjustments to the OBD' financial statements were properly performed.

- **We identified that adjustments to the Department's financial statements were required to ensure they complied, in all material respects, to OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*; and in one instance, a component did not disclose information required by this bulletin.** We identified that the Department's components did not consistently report information in the form and content prescribed by the Department; accordingly, adjustments to the Department's consolidated financial statements and disclosures were required to ensure they were consistent and complied with the OMB's Form and Content requirements. Because of the untimely submission of components' financial statements to the Department, many of the adjustments were not identified until after the Department's deadline for completion of the

PRICEWATERHOUSECOOPERS

Report on Internal Controls
Page 11

consolidated financial statement audit. Untimely submissions and inconsistent reporting by components increase the risk that the Department's consolidated financial statements will not be submitted within the deadlines prescribed in the GMRA.

For example, the BOP and the OJP had not adequately disclosed the amount of intragovernmental program costs in their components' statements of net cost. Subsequent to identification of this error, management of the BOP performed additional analysis and was able to quantify the amount of intragovernmental program costs. The BOP's auditors performed additional audit procedures and were able to satisfy themselves that the amount calculated by management fairly stated intragovernmental costs for the BOP; accordingly, the BOP' financial statements were revised to properly disclose this information. The OJP did not quantify intragovernmental program costs and no adjustments were made to the OJP' financial statements. The amounts of likely OJP intragovernmental program costs, net of elimination, are not material to the Department's consolidated financial statements.

The Department's Justice Management Division (JMD) held financial statement working group meetings that communicated the Department's consolidated financial reporting requirements. The working group was established, in part, in response to our prior fiscal years Reports on Internal Controls recommending the Department implement a strategic plan for financial reporting that addresses: (a) reporting deadlines, (b) the need for consistent reporting among components, and (c) the need to involve senior financial and program managers in the financial statement preparation process. We believe the working group was a positive step to improve the financial reporting of the Department and encourage its continuance; however, we continue to identify a number of inconsistencies and errors that require adjustments to the consolidated financial statements. In general, the errors are caused by the components' failure to report in the form and content of the Department's consolidated statements and the lack of consistent accounting treatment among the components.

Recommendations

We recommend the Chief Financial Officer:

4. Require that components submit audited financial statements to the Justice Management Division (JMD) that are (a) timely, (b) consistent with the Department's form and content guidance, and (c) adhere to Department-wide accounting policies to ensure consistent accounting treatment among components. The JMD should determine whether components' statements are consistent with the Department's form and content, and ensure that accounting transactions are recorded consistently across all components. The JMD should require components to "correct" financial statements submitted for consolidation that do not adhere to the Department's requirements and resolve all accounting issues that affect more than one component. We also recommend that the JMD, in conjunction with the Office of the Inspector General, develop a working group that would recommend to the Assistant Attorney General for Administration: (a) form and content of the Department's financial statements and note disclosures; (b) resolution of multi-component accounting issues; and (c) guidelines for the components on how to complete and submit financial statements in a Departmental format.

PRICEWATERHOUSECOOPERS

Report on Internal Controls
Page 12

Management Response: Concur. JMD will continue to establish reporting timetables to enable the Department to fulfill its financial reporting requirements, and communicate the importance of those timetables to component senior management. JMD will issue clear guidance on standards for submission of financial statements for the Departmental consolidation, including requirements for consistency with applicable form and content standards. To further this effort, JMD will develop financial statement and footnote templates and work in conjunction with the Office of the Inspector General to ensure that formats are consistently used by all bureau components.

5. Require that program and administrative offices participate in the annual audit process and assist the components' Offices of Finance's efforts to produce annual financial statements. Components' financial statements represent the operations and program activities of the entire components, not just the finance offices. We also recommend that program and administrative management participate in audit status meetings and attend some of the working group meetings presented by the Justice Management Division.

Management Response: Concur. JMD will communicate to component senior management the need to include key program and administrative managers in the financial audit process and component corrective action plans. Particular emphasis will be placed on the importance of program and administrative offices adhering to the proper business practices and internal controls which enable reliable financial reporting, and the need for key program managers to participate in audit planning and status activities throughout the audit.

PRICEWATERHOUSECOOPERS

Report on Internal Controls
Page 13

Improvements are still needed in controls over fund balance with Treasury.

A fundamental accounting control is the reconciliation of the general ledger, from which financial statements are prepared, to subsidiary systems or records. Reconciliations are necessary to ensure that transactions are completely and accurately recorded and that reported balances are correct. A critical reconciliation for all Federal agencies is the reconciliation of the agencies' fund balance with Treasury (cash) to the U.S. Department of the Treasury's accounting records. Auditors' of the DEA and the INS reported material weaknesses in controls over fund balance with Treasury. The auditors of the USM identified weaknesses in the reconciliation of fund balance with Treasury, and reported this as a subset of a material weakness on financial accounting processes. The auditors reported the following:

- **The INS should continue to reduce reconciling items in its fund balance with Treasury accounts.** The auditors of the INS identified that some of the issues affecting the INS' ability to accurately record and report transactions in its general ledger result in consolidated net differences between INS' general ledger and the balance reported by Treasury. As of September 30, 1999, the INS had identified a net unreconciled difference of approximately $7 million.

- **The DEA should review and clear reconciling items monthly.** Auditors reported that the DEA's Treasury clearing account balances reached a high of $124 million during the year, but were reduced to $42 million as of September 30, 1999. Approximately 75% of the $124 million represented transactions that were processed through the Treasury's On-Line Payment and Collection (OPAC) system. Documentation required to process an OPAC charge against the DEA's funds was not timely received; as a result, the DEA was unable to classify and properly record the transaction timely.

- **The USM did not prepare detailed reconciliations for the first nine months of the fiscal year.** The USM' auditors identified differences between the USM' general ledger and Treasury's records, mainly caused by OPAC charges from the prior fiscal year. The lack of adequate and timely reconciliations increases the risk of inappropriate payments to vendors and misstatements in obligation and expense account balances.

Recommendation

We recommend the Chief Financial Officer:

6. Require that the INS, the DEA, and the USM perform timely reconciliations necessary to safeguard fund balance with Treasury. Where possible, reconciling items should be identified to specific transactions and correcting adjustments posted timely. Additional attention should be paid to suspense and clearing accounts to ensure transactions posted to these accounts are timely identified and recorded in the proper general ledger account.

PRICEWATERHOUSECOOPERS

Report on Internal Controls
Page 14

Management Response: Concur. JMD will work with component senior management to ensure components implement timely and effective corrective action plans to address the fund balance with Treasury reconciliation weaknesses, including weaknesses associated with clearing and suspense accounts. JMD will monitor the status of these corrective action efforts.

PRICEWATERHOUSECOOPERS

Report on Internal Controls
Page 15

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS:

As required by *Government Auditing Standards* and the Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, we have reviewed the status of the Department's corrective actions with respect to the findings and recommendations from our fiscal years 1996, 1997, and 1998 reports on the Department's internal controls. The analysis below provides our assessment of the progress the Department has made in correcting the reportable conditions identified in these reports. We also provide the Office of the Inspector General Report number and the fiscal year covered by the report where the condition was first identified, our recommendation for improvement and the status of the condition as of September 30, 1999:

Report	Reportable Condition	Status
97-24B (1996)	Material Weakness: Adequate controls do not exist to safeguard property and equipment and improved accounting is needed. For fiscal year 1997, this was reported as a reportable condition as improvements were made. Recommendation: Correct existing errors in account balances and study cost benefits of facilitating a Department-wide property management system or procedures.	In Process (c)
97-24B (1996)	Material Weakness: For fiscal year 1998, the accrual-based accounting concepts weakness was modified to report the inconsistent treatment of financial transactions in accordance with Federal Accounting Standards. Recommendation: Emphasize the proper processing and recording of financial transactions in accordance with Federal accounting standards.	In Process (a)
97-24B (1996)	Material Weakness: The Department must perform key reconciliations. For fiscal year 1997, this was reworded to emphasize reconciliation of fund balance with Treasury. Recommendation: Perform reconciliations and resolve all differences on a timely basis.	In Process (e)
97-24B (1996)	Material Weakness: Improved security is required at Departmental data centers and for component applications. Recommendation: Implement corrective actions identified in data center reports and correct control deficiencies at the component level.	In Process (b)
98-07A (1997)	Material Weakness: Financial accounting controls were not adequate to compile and report seized/forfeited property. Recommendation: Improve financial accounting and reporting of seized/forfeited property and property held as evidence.	In Process (c)

PRICEWATERHOUSECOOPERS

Report on Internal Controls
Page 16

Report	Reportable Condition	Status
98-07A (1997)	Reportable Condition: Improved financial year-end closing procedures are needed to meet financial reporting deadlines of GMRA. Recommendations: Implement a strategic plan that identifies the timelines and resources needed to prepare auditable consolidated financial statements.	In Process (d)

a) The material weakness has been revised to state that accounting policies and procedures were not adequate to ensure financial transactions are recorded in accordance with generally accepted accounting principles. This condition remains a material weakness.
b) The condition was a material weakness in fiscal years 1996 and 1997, a reportable condition in fiscal year 1998, and is now reported as a material weakness in fiscal year 1999.
c) For those conditions that remain for some of the components, they have been combined into the material weakness on compliance with generally accepted accounting principles.
d) A reportable condition in fiscal year 1998 and is now reported as a material weakness in fiscal year 1999.
e) First reported as a material weakness in fiscal year 1996, identified as a reportable condition in fiscal year 1998, and remains one in fiscal year 1999.

* * * * * * * * * *

Component auditors identified a number of other reportable conditions that we believe are not material to the Department's consolidated financial statements. A summarization of these conditions will be communicated to the Department's management in a separate management letter.

This report is intended solely for the information of the Attorney General, the Office of the Inspector General, the OMB, and Congress. This report is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

February 21, 2000
Arlington, Virginia

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1616 N. Fort Myer Dr.
Arlington VA 22209-3195
Telephone (703) 741 1000
Facsimile (703) 741 1616
Direct phone (202) 514-9113
Direct fax (202) 514-2114

REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH LAWS AND REGULATIONS

United States Attorney General and
The Office of the Inspector General
U.S. Department of Justice

We have audited the accompanying consolidated balance sheet of the U.S. Department of Justice (the Department) as of September 30, 1999, and the related consolidated statements of net cost and changes in net position, and the related combined statements of budgetary resources, financing, and custodial activity, for the year then ended, and have issued our report thereon dated February 21, 2000. Except as discussed in that report, we conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, as amended.

We did not audit the financial statements of certain components of the Department, including the Working Capital Fund, the Office of Justice Programs, the Drug Enforcement Administration, the Federal Bureau of Investigation, the Immigration and Naturalization Service, the U.S. Marshals Service, the Bureau of Prisons, and the Federal Prison Industries, Inc., which statements reflect total combined assets of $20.3 billion and total combined net costs of $15.0 billion for the year ended September 30, 1999. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our report on the Department's compliance with laws and regulations herein, insofar as it relates to these components, is based solely on the reports of the other auditors.

Compliance with laws and regulations applicable to the Department is the responsibility of management. As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, other auditors and we performed tests of the components' compliance with certain provisions of applicable laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 98-08, as amended, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. However, the objective of these tests was not to provide an opinion on the Department's overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

The results of auditors' tests of components' compliance with laws and regulations disclosed no instances of noncompliance with laws and regulations that we believe are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 98-08, as amended.

PRICEWATERHOUSECOOPERS

Report on Compliance with Laws and Regulations
Page 2

Under FFMIA, auditors are required to report whether components' financial management systems substantially comply with the Federal financial management systems requirements, applicable accounting standards, and the United States Standard General Ledger at the transaction level. To meet this requirement, auditors performed tests of components' compliance using the implementation guidance for the FFMIA included in OMB Bulletin No. 98-08, as amended.

Auditors of the U.S. Marshals Service, the Office of Justice Programs, the Drug Enforcement Administration, the Federal Bureau of Investigation, and the Immigration and Naturalization Service reported that components' financial management systems did not comply with the Federal system requirements of FFMIA; including: applicable provisions of OMB Circulars A-127, *Financial Management Systems*, and A-130, *Management of Federal Information Resources*; and certain requirements of the Joint Financial Management Improvement Program.

All significant facts pertaining to the matters referred to above and recommended remedial actions are included in component auditors' Reports on Internal Control. Auditors reported that these conditions are significant departures from the Federal financial management systems requirements of FFMIA. The Department should assign a high priority to the corrective actions consistent with the requirements of OMB Circular A-50 Revised, on audit follow-up.

This report is intended solely for the information of the Attorney General, the Office of the Inspector General, the OMB, and Congress. This report is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

February 21, 2000
Arlington, Virginia

Annual Financial Statement

CONSOLIDATED BALANCE SHEET

As of September 30, 1999

Dollars in Thousands	1999
ASSETS	
Entity	
Intragovernmental	
Fund Balance with U.S. Treasury (Note 2)	$ 17,661,005
Investments, Net (Note 4)	743,120
Accounts Receivable, Net (Note 5)	257,997
Advances and Prepayments	37,877
Other Assets (Note 6)	101
Total Intragovernmental	18,700,100
Accounts Receivable, Net (Note 5)	132,864
Cash and Other Monetary Assets (Note 3)	49,967
Inventory and Related Property, Net (Note 7)	124,333
General Property, Plant and Equipment, Net (Note 9)	5,282,695
Forfeited Property, Net (Note 8)	82,837
Advances and Prepayments	536,115
Other Assets (Note 6)	1,478
Total Entity	**$ 24,910,389**
Non-Entity	
Intragovernmental	
Fund Balance with U.S. Treasury (Note 2)	$ 482,604
Accounts Receivable, Net (Note 5)	6,712
Investments, Net (Note 4)	615,386
Total Intragovernmental	1,104,702
Accounts Receivable, Net (Note 5)	2,527
Cash and Other Monetary Assets (Note 3)	5,843
Cash Held as Evidence	58,617
Total Non-Entity	**$ 1,171,689**
Total Assets	**$ 26,082,078**

The accompanying notes are an integral part of these financial statements

CONSOLIDATED BALANCE SHEET
As of September 30, 1999

Dollars in Thousands		1999
LIABILITIES		
Liabilities Covered by Budgetary Resources		
Intragovernmental		
Accounts Payable	$	274,294
Accrued FECA Liability		633
Accrued Payroll and Benefits		55,027
Advances from Other		87,463
Other Liabilities (Note 11)		3,460
Total Intragovernmental		420,877
Accounts Payable		1,550,592
Environmental Cleanup Cost		5,163
Accrued Payroll and Benefits		414,833
Deferred Revenue		644,503
Deposit/Suspense Fund		505,950
Cash Held as Evidence		58,183
Contingent Liabilities (Note 16)		90,000
Capital Lease Liabilities (Note 12)		207
Other Liabilities (Note 11)		404,889
Total Liabilities Covered by Budgetary Resources	**$**	**4,095,197**
Liabilities Not Covered by Budgetary Resources		
Intragovernmental		
Accounts Payable	$	1,909
Debt (Note 10)		20,000
Undisbursed Civil and Criminal Debt Collections		253,782
Accrued FECA Liability		163,034
Other Liabilities (Note 11)		38,799
Total Intragovernmental		477,524
Accounts Payable		63,346
Environmental Cleanup Cost		5,309
FECA Actuarial Liabilities		678,913
Accrued Annual and Compensatory Leave		518,657
Capital Lease Liabilities (Note 12)		91,583
Contingent Liabilities (Note 16)		40,184
Cash Held as Evidence		434
Other Liabilities (Note 11)		15,266
Total Liabilities Not Covered by Budgetary Resources	**$**	**1,891,216**
Total Liabilities	**$**	**5,986,413**
NET POSITION		
Unexpended Appropriations (Note 15)	$	13,623,323
Cumulative Results of Operations		6,472,342
Total Net Position	**$**	**20,095,665**
Total Liabilities and Net Position	**$**	**26,082,078**

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STATEMENT OF NET COST

For fiscal year ended September 30, 1999

Dollars in Thousands		1999
PROGRAM COSTS		
Investigation and Prosecution of Criminal Offenses		
Production		
Intragovernmental	$	656,069
With the Public		4,705,952
Total	$	5,362,021
Less Earned Revenues		(179,344)
Net Program Costs	$	5,182,677
Assistance to Tribal, State, and Local Governments		
Production		
Intragovernmental	$	77,289
With the Public		4,594,027
Total	$	4,671,316
Less Earned Revenues		(112,591)
Net Program Costs	$	4,558,725
Legal Representation, Enforcement of Federal Laws, and Defense of U.S. Interests		
Production		
Intragovernmental	$	640,816
With the Public		1,060,714
Total	$	1,701,530
Less Earned Revenues		(205,921)
Net Program Costs	$	1,495,609
Immigration		
Production		
Intragovernmental	$	1,039,243
With the Public		2,090,496
Total	$	3,129,739
Less Earned Revenues		(798,081)
Net Program Costs	$	2,331,658

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STATEMENT OF NET COST

For fiscal year ended September 30, 1999

Dollars in Thousands		**1999**
PROGRAM COSTS		
Detention and Incarceration		
Production		
Intragovernmental	$	850,314
With the Public		4,805,269
Total	$	5,655,583
Less Earned Revenues		(1,017,404)
Net Program Costs	$	4,638,179
Protection of the Federal Judiciary and Improvement of the Justice System		
Production		
Intragovernmental	$	101,455
With the Public		412,793
Total	$	514,248
Less Earned Revenues		(119,920)
Net Program Costs	$	394,328
Management		
Production		
Intragovernmental	$	51,795
With the Public		365,173
Total	$	416,968
Less Earned Revenues		(64,116)
Net Program Costs	$	352,852
Net Cost of Operations	**$**	**18,954,028**

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For fiscal year ended September 30, 1999

Dollars in Thousands	1999
Net Cost of Operations	**$ (18,954,028)**
Financing Sources (other than exchange revenues):	
Appropriations Used	17,753,402
Other Non-exchange Revenues	1,655,972
Imputed Financing (Note 14)	569,770
Donations	20
Transfers-in	718,706
Transfers-out	(624,469)
Rescissions	(107,000)
Other Financing Source	(2,650)
Net Results of Operations	**$ 1,009,723**
Prior Period Adjustments (Note 17)	(600,241)
Net Change in Cumulative Results of Operations	**$ 409,482**
Increase in Unexpended Appropriations	1,333,144
Change in Net Position	**$ 1,742,626**
Net Position-Beginning of Period	18,353,039
Net Position - End of Period	**$ 20,095,665**

The accompanying notes are an integral part of these financial statements

COMBINED STATEMENT OF BUDGETARY RESOURCES

For fiscal year ended September 30, 1999

Dollars in Thousands	1999
Budgetary Resources	
Budget Authority	
Appropriations	$ 17,812,641
Net Transfers, Current Year Authority	1,906,856
Unobligated Balances - Beginning of Period	3,624,845
Net Transfers, Prior Year Balance, Actual	1,841
Spending Authority from Offsetting Collections	4,057,031
Adjustments	444,311
Total Budgetary Resources	**$ 27,847,525**
Status of Budgetary Resources	
Obligations incurred	$ 25,023,606
Unobligated Balances - Available	2,558,248
Unobligated Balances - Not Available	265,671
Total Status of Budgetary Resources	**$ 27,847,525**
Outlays	
Obligations Incurred	$ 25,023,606
Less: Spending Authority from Offsetting	
Collections and Adjustments	(4,716,074)
Other Adjustments	161,957
Subtotal	20,469,489
Obligated Balance, Net - Beginning of Period	12,481,169
Less: Obligated Balance, Net - End of Period	(14,246,517)
Total Outlays	**$ 18,704,141**

The accompanying notes are an integral part of these financial statements

COMBINED STATEMENT OF FINANCING

For fiscal year ended September 30, 1999

Dollars in Thousands		1999
Obligations and Nonbudgetary Resources		
Obligations incurred	$	25,023,606
Less: Spending Authority from Offsetting Collections and Adjustments		(4,716,074)
Financing Imputed for Cost Subsidies		569,770
Transfers-in (out)		355
Property Transfers in, Net		(2,646)
Revenue Not in the Entity's Budget		7,893
Other		(55,402)
Total Obligations as adjusted, and Nonbudgetary Resources	**$**	**20,827,502**
Resources That do not Fund Net Cost of Operations		
Change in Amount of Goods, Services, and Benefits Ordered but not yet Received or Provided	$	(1,981,117)
Change in Unfilled Customer Orders		101,735
Costs Capitalized on the Balance Sheet		(560,130)
Financing Sources That Fund Costs of Prior Periods		149,196
Revenue Collected in Advance		378,064
Other		(333,146)
Total Resources That do not Fund Net Cost of Operations	**$**	**(2,245,398)**
Costs That do not Require Resources		
Depreciation, Amortization and Bad Debt	$	265,129
Gain/Loss on Disposition of Assets		8,831
Other		3,227
Total Costs That do not Require Resources	**$**	**277,187**
Financing Sources Yet to Be Provided	**$**	**94,737**
Net Cost of Operations	**$**	**18,954,028**

The accompanying notes are an integral part of these financial statements

COMBINED STATEMENT OF CUSTODIAL ACTIVITY

For fiscal year ended September 30, 1999

Dollars in Thousands		1999
Revenue Activity		
Sources of Cash Collections		
Civil and Criminal Debt Collections	**$**	**1,472,691**
Disposition of Collections		
Transferred to Others		
Federal Agencies		(1,139,249)
Public		(209,928)
Decrease in Amounts to be Transferred		(93,215)
Refunds		(1,267)
Retained by the WCF pursuant to Section 108 of P.L. 103-121		(29,032)
Net Custodial Revenue Activity (Note 20)	**$**	**0**

The accompanying notes are an integral part of these financial statements

Notes to the Principal Financial Statements
(Dollars in Thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Reporting Entity

The responsibilities of the Department are wide-ranging. The responsibilities include: detecting, apprehending, prosecuting, and incarcerating criminal offenders; operating Federal prison factories; upholding the civil rights of all Americans; enforcing laws to protect the environment; ensuring healthy competition of business in our free enterprise system; safeguarding the consumer from fraudulent activity; carrying out the immigration laws of the United States; and representing the American people in all legal matters involving the United States Government. Under the direction of the Attorney General, these responsibilities are discharged by the components of the Department. For purposes of these financial statements, the following components comprise the Department's reporting entity:

- Assets Forfeiture Fund and Seized Asset Deposit Fund (AFF/SADF)
- Working Capital Fund (WCF)
- Offices, Boards and Divisions (OBD)

Offices
Attorney General
Deputy Attorney General
Associate Attorney General
Office of the Solicitor General
Office of Legal Counsel
Office of Legislative Affairs
Office of Professional Responsibility
Office of Policy Development
Office of Public Affairs
Office of Pardon Attorney
Office of the Inspector General
Community Relations Service
Executive Office for U.S. Attorneys
Office of Dispute Resolution
INTERPOL - U.S. National Central Bureau
Office of Intelligence Policy and Review
Executive Office for U.S. Trustees
Office of Information and Privacy
Office of Community Oriented Policing Services
National Drug Intelligence Center

Boards
U.S. Parole Commission
Foreign Claims Settlement Commission

Divisions
Antitrust Division
Civil Division
Civil Rights Division
Criminal Division
Environment and Natural Resources Division
Tax Division
Justice Management Division

These notes are an integral part of the financial statements

- U.S. Marshals Service (USMS)
- Office of Justice Programs (OJP)
- Drug Enforcement Administration (DEA)
- Federal Bureau of Investigation (FBI)
- Immigration and Naturalization Service (INS)
- Bureau of Prisons (BOP)
- Federal Prison Industries, Inc. (FPI)

B. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the U.S. Department of Justice (the Department), as required by the Government Management Reform Act of 1994, Public Law 103-356, 108, Stat. 3515. These financial statements have been prepared from the books and records of the Department in accordance with applicable portions of the form and content for entity financial statements specified by the Office of Management and Budget (OMB) Bulletin No. 97-01, Form and Content of Agency Financial Statements, as amended. These financial statements are different from the financial reports, also prepared for the Department pursuant to OMB directives, which are used to monitor and control the use of the Department's budgetary resources. The accompanying financial statements include the accounts of all funds under the Department's control.

C. Basis of Accounting

The financial statements have been prepared on an accrual basis of accounting. Transactions are recorded on an accrual and a budgetary accounting basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. On October 19, 1999, the American Institute of Certified Public Accountants Council passed a resolution recognizing Financial Accounting Standards Advisory Board as the body designated to establish generally accepted accounting principles (GAAP) for federal government entities.

The Statements of Federal Financial Accounting Standards (SFFAS) that were in effect as of September 30, 1999, were followed in the preparation of these financial statements.

D. Revenues and Other Financing Sources

The Department receives the majority of funding needed to support its programs through appropriations. The Department receives both annual and multi-year appropriations that may be used, within statutory limits, for operating and capital expenditures. Appropriations are recognized as revenue at the time the related program or administrative expenses are incurred. Additional amounts are obtained through exchange and non-exchange revenues.

Exchange revenues are recognized when earned, for example, goods have been delivered or services rendered. Non-exchange revenues are resources that the Government demands or receives, for example, taxes or duties.

These notes are an integral part of the financial statements

E. Funds with the U.S. Department of the Treasury and Cash

The Department does not, for the most part, maintain cash in commercial bank accounts. Certain receipts, however, are processed by commercial banks for deposit to individual accounts maintained at the U.S. Department of the Treasury (U.S. Treasury). Cash receipts and disbursements are processed by the U.S. Treasury as directed by authorized Department certifying officers. Funds with the U.S. Treasury represent primarily appropriated, revolving, and trust funds available to pay current liabilities and finance future authorized purchases.

The Department's cash and other monetary assets consist of undeposited collections, imprest funds, cash used in undercover operations, cash held as evidence, and drafts in transit.

F. Investments in U.S. Government Securities

Investments are Federal debt securities issued by the Bureau of Public Debt and purchased exclusively through Treasury's Financial Management Service. When securities are purchased, the investment is recorded at par value (the value at maturity). Premiums and/or discounts are amortized through the end of the reporting period. The Department's intent is to hold investments to maturity, unless securities are needed to sustain operations. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity.

G. Property, Plant and Equipment

The Department owns some of the buildings in which it operates. Other buildings are provided by the General Services Administration (GSA), which charges rent equivalent to the commercial rental rates for similar properties. Depreciation on buildings and equipment provided by the GSA is not recognized by the Department. Leasehold improvements are depreciated over the term of the remaining portion of the lease.

Except for BOP, Department acquisitions of personal property $25 and over are capitalized and depreciated, based on historical cost, using the straight-line method over the estimated useful lives of the assets. Personal property with an acquisition cost of less than $25 is expensed when purchased. BOP capitalizes personal property acquisitions over $5. Aircraft are capitalized when the initial cost of acquiring those assets is $100 or more. Real property, except for land, is capitalized when the cost of acquiring and /or improving the asset is $100 or more and the asset has a useful life of two or more years. Land is capitalized regardless of the acquisition cost.

H. Advances and Prepayments

Advances and prepayments classified as assets on the balance sheet include the excess funds disbursed to grantees over the total of expenditures made by those grantees to third parties based upon year end data. This amount also includes the current balance of travel advances issued to Federal employees in advance of official travel. Amounts issued are limited to meals and incidental expenses expected to be incurred by the employees during official travel. Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenditures/expenses when the related goods and services are received.

I. Liabilities

Liabilities represent the monies or other resources that are likely to be paid by the Department as the result of a transaction or event that has already occurred. However, no liability can be paid by the Department absent proper budget authority. Liabilities that are not funded by the current year appropriation are classified as unfunded liabilities and there is no certainty that corresponding future appropriations will be enacted. Liabilities cannot be liquidated without legislation that provides resources to do so.

These notes are an integral part of the financial statements

J. Non-Entity Assets and Liabilities

The Debt Collection Management Activity, within the WCF, monitors a clearing account, U.S. Treasury Fund Symbol 15F3885, which represents restricted undisbursed civil and criminal debt collections that are administered by but not available to the WCF. Non-entity assets for INS consist of cash bonds. These balances are classified as a non-entity assets on the balance sheet with a corresponding liability. AFF/SADF receives cash held in trust until a determination has been made as to its disposition. This balance is classified as a non-entity asset on the balance sheet with the corresponding deposit fund liability.

K. Loans and Interest Payable to the U.S. Treasury

During 1988, Congress granted the FPI borrowing authority pursuant to Public Law 100-690. Under this authority, during fiscal year 1989, the FPI borrowed $20,000 from the U.S. Treasury with a lump-sum maturity or optional renegotiation date of September 30, 1998. During 1995, the $20,000 loan maturity date was extended to September 30, 2008.

L. Accounting Policy for Contingencies and Commitments

The Department is involved in various legal actions, including administrative proceedings, lawsuits and claims. A liability is recognized as an unfunded liability for those legal actions where decisions are considered "probable" and an estimate for the liability can be made. Contingent liabilities that are considered "possible" are disclosed in the notes to the financial statements. Liabilities that are considered "remote" are not recognized in the financial statements or disclosed in the notes to the financial statements.

M. Annual, Sick and Other Leave

Annual and compensatory leave is expensed with an offsetting liability as it is earned and the liability is reduced as leave is taken. Each year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual and compensatory leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of nonvested leave are expensed as taken.

N. Interest on Late Payments

Pursuant to the Prompt Payment Act, 31 U.S.C. § 3901-3907, Federal agencies must pay interest on payments for goods or services made to business concerns after the due date. The due date is generally 30 days after receipt of a proper invoice or acceptance of the goods or services.

O. Retirement Plan

With few exceptions, employees hired before January 1, 1984, are covered by the Civil Service Retirement System (CSRS) and employees hired after that date are covered by the Federal Employees Retirement System (FERS).

For employees covered by the CSRS, the Department contributes 8.5 percent of the employees' gross pay for normal retirement or 9 percent for hazardous duty retirement. For employees covered by the FERS, the Department contributes approximately 13 percent of employees' gross pay. All employees are eligible to contribute to the Federal Thrift Savings Plan (TSP). For those employees covered by the FERS, a TSP is automatically established, and the Department is required to contribute an additional 1 percent of gross pay to this plan and match employee contributions up to 4 percent. No matching contributions are made to the TSPs established by the CSRS employees. The Department does not report CSRS or FERS assets, accumulated

These notes are an integral part of the financial statements

plan benefits, or unfunded liabilities, if any which may be applicable to their employees. Such reporting is the responsibility of the Office of Personnel Management (OPM).

The Statement of Federal Financial Accounting Standards Number Five (SFFAS No. 5), "Accounting for Liabilities of the Federal Government," requires employing agencies to recognize the cost of pensions and other retirement benefits during their employees' active years of service. Refer to Note 14—Imputed Financing.

P. Federal Employee Benefits

The Federal Employees Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The total FECA liability consists of an actuarial and an accrued portion as discussed below.

Actuarial Liability: The U.S. Department of Labor (DOL) calculates the liability of the Federal Government for future compensation benefits, which includes the expected liability for death, disability, medical, and other approved costs. The liability is determined using the paid-losses extrapolation method calculated over the next 37-year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. The projected annual benefit payments were discounted to present value. The resulting Federal Government liability was then distributed by the agency. The Department portion of this liability includes the estimated future cost of death benefits, workers' compensation, medical, and miscellaneous cost for approved compensation cases for the Department employees. The Department liability is further allocated to reporting entities on the basis of actual payments made to the FECA Special Benefits Fund (SBF) for the three prior years as compared to the total Department payments made over the same period. The Department actuarial FECA liability for FY 1999 was $678,913.

The FECA actuarial liability is recorded for reporting purposes only. This liability constitutes an extended future estimate of cost which will not be obligated against budgetary resources until the FY in which the cost is actually billed to the Department. The cost associated with this liability may be met by the Department without further appropriation action.

Accrued Liability: The accrued FECA liability is the difference between the FECA benefits paid by the FECA SBF and the agency's actual cash payments to the FECA SBF. For example, the FECA SBF will pay benefits on behalf of an agency through the current year. However, most agencies' actual cash payments to the FECA SBF for the current FY will reimburse the FECA SBF for benefits paid through a prior FY. The difference between these two amounts is the accrued FECA liability. The accrued FECA liability for FY 1999 was $163,667.

Q. Accounts Receivable

Net accounts receivable includes reimbursement and refund receivables due from Federal agencies and others, less the allowance for doubtful accounts. The WCF allowance for doubtful accounts represents estimated uncollectible amounts billed or billable to Federal agencies and others for services rendered by the WCF during FYs 1992 through 1999. The INS allowance for doubtful accounts for public receivables is determined by applying varying percentages to all accounts less than 365 days old and reserving 100 percent of all accounts greater than 365 days old. The INS has established an intragovernmental allowance for doubtful accounts for all accounts over 365 days old. The AFF/SADF, OBD, USMS, OJP, DEA, FBI, and FPS did not establish an allowance for doubtful accounts for any intragovernmental accounts receivable because these accounts are considered fully collectible.

R. Seized and Forfeited Property

Property is seized in consequence of a violation of public law. Seized property can include monetary instruments, real property, and tangible personal property of others in the actual or constructive possession of the custodial agency. Most noncash property is held by the U.S. Marshals Service from the point of seizure until its disposition.

Forfeited property is property for which the title has passed to the U.S. Government. This property is recorded at the estimated fair market value at the time of forfeiture. The value of the property is reduced by the estimated liens of record.

S. Principles of Consolidation

The consolidated financial statements of the Department include the accounts of the AFF/SADF, WCF, OBD, USMS, OJP, DEA, FBI, INS, BOP, and FPI. All significant intra-agency transactions and balances have been eliminated in consolidation. The statement of budgetary resources and the statement of financing are combining statements for FY 1999, as such, intra-entity transactions have not been eliminated.

T. Reclassification of Components' Balances

Certain balances were reclassified from the components' financial statements for consolidation purposes. These changes were immaterial.

U. Reporting of Comparative Data

OMB 97-01, as amended, does not require the reporting of comparative data in FY 1999.

V. Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results will invariably differ from those estimates.

NOTE 2: FUND BALANCE WITH THE U.S. TREASURY

The Fund Balance with the U.S. Treasury amount reported in the financial statements represents the unexpended cash balance on the Department's books for all Department Treasury Symbols at September 30, 1999:

	Entity	Non-Entity	Total
Trust Funds	$ 4,005,642	$ 170,955	$ 4,176,597
Revolving Funds	557,185	253,634	810,819
Appropriated Funds	11,201,955	—	11,201,955
Other Fund Types	1,896,223	58,015	1,954,238
Total	**$ 17,661,005**	**$ 482,604**	**$ 18,143,609**

NOTE 3: CASH, FOREIGN CURRENCY AND OTHER MONETARY ASSETS

	Entity	Non-Entity	Total
Cash	$ 22,884	$ 4,791	$ 27,675
Foreign Currency	347	—	347
Other Monetary Assets	3,548	—	3,548
Deposits-In-Transit	23,188	1,052	24,240
Total	**$ 49,967**	**$ 5,843**	**$ 55,810**

NOTE 4: INVESTMENTS — FEDERAL SECURITIES, NET

Investments are short term nonmarketable Federal debt securities issued by the Bureau of Public Debt and purchased exclusively through the U.S. Treasury's Financial Management Service. When securities are purchased, the investment is recorded at par value (the value at maturity). Premiums and/or discounts are amortized through the end of the reporting period. The following schedule shows the investment balance at September 30, 1999:

	Acquisition Cost	Unamortized Premium	Unamortized Discount	Investments Net	Market Value Disclosure
Intragovernmental Securities:					
Non-Marketable					
Market-Based:					
Entity	$ 744,915	$ 1,136	$ (2,931)	$ 743,120	$ 743,302
Non-Entity	617,576	—	(2,190)	615,386	615,457
Total	**$ 1,362,491**	**$ 1,136**	**$ (5,121)**	**$ 1,358,506**	**$ 1,358,759**

These notes are an integral part of the financial statements

NOTE 5. ACCOUNTS RECEIVABLE, NET

Accounts Receivable, Net for all Department Treasury Symbols at September 30, 1999:

Gross Receivable	Entity	Non-Entity	Total
Intragovernmental Accounts Receivable	$ 257,997	$ 6,712	$ 264,709
Accounts Receivable	169,640	21,339	190,979
Less: Allowance for Uncollectible Accounts	(36,776)	(18,812)	(55,588)
Net Receivables	**$ 390,861**	**$ 9,239**	**$ 400,100**

NOTE 6. OTHER ASSETS

Entity Assets	
Intragovernmental:	
Prototype Product Cost	$ 5
Assets in Transit	82
Other Deferred Prepaid Expenses	(16)
Others	30
Total Intragovernmental	$ 101
Farm Livestock	$ 1,478
Total Other Entity Assets	**$ 1,579**

NOTE 7. INVENTORY AND RELATED PROPERTY

All WCF inventories are held for sale and are intended to be sold in the normal operations of the WCF. Inventory is primarily composed of new and rehabilitated office furniture. The value of new stock is determined on the basis of acquisition cost and the value of rehabilitated stock is determined on the basis of rehabilitation and transportation costs. WCF inventory on hand at year end is reported at the lower of original costs (using the first-in, first-out method) or current market value. Recorded values of inventories are adjusted for the results of physical inventories conducted at the close of the fiscal year for WCF.

BOP inventories are comprised of merchandise on hand at 84 reporting sites located in the United States and Puerto Rico. Inventories consist of merchandise that are either not normally provided or are of a different quality than is regularly issued. Inventory sales are restricted to inmates and consist primarily of foods and beverages, tobacco products, hobby craft items, coins and stamps, clothing, health and hygiene commodities, and other sundry items. BOP has no allowance for inventory obsolescence because management considers such amounts insignificant. The FPI inventories are categorized into five product categories: metals, plastics and electronics, graphics, services and optics. FPI records, as an inventory allowance (contra-asset) account, anticipated inventory losses for contracts where the current estimated cost to manufacture the item exceeds the total sales price, as well as estimated losses for inventories which may not be utilized in the future.

These notes are an integral part of the financial statements

NOTE 7. INVENTORY AND RELATED PROPERTY – CONTINUED

Raw Materials and Factory Supplies		
Inventory Held for Current Sale	$	43,815
Excess, Obsolete and Unserviceable Inventory		3,240
Total Raw Materials and Factory Supplies	$	47,055
Work-In-Process		
Inventory Held for Current Sale	$	28,519
Finished Goods		
Inventory Held for Current Sale	$	23,068
Inventory Held in Reserve for Future Sale		355
Excess, Obsolete and Unserviceable Inventory		57
Total Finished Goods	$	23,480
Less Inventory Allowance – Excess Inventory Allowance	$	(6,681)
Operating Materials/Supplies Held for use		92,373
Inventory Purchased		
Operating Material Held for Use/Sale	$	31,960
Total Inventory	**$**	**124,333**

NOTE 8. FORFEITED AND SEIZED PROPERTY

Analysis of Change in Forfeited Property

Forfeited property consists of monetary instruments, real property and tangible personal property acquired through forfeiture proceedings. Forfeited property represents assets for which the U.S. Government has title, and is held for disposition by the custodial agency. Adjustments have been made to convert the forfeited property from unadjusted carrying value (market value at the time of seizure) to an estimate of the fair value (market value at the time of forfeiture), which is the amount recorded in the financial statements. The net value of this property has been reduced by all known liens of record. Federal Financial Accounting and Auditing Technical Release 4, "Reporting Non-Valued Seized and Forfeited Property" requires disclosure of property that does not have a legal market in the United States. This requirement was implemented in the Department during FY 1999. Additional property categories reported in FY 1999 that were not disclosed in FY 1998 include alcohol, chemicals, drug paraphernalia, and gambling devices. Weapons and some other categories of non-valued property were included in the seized and forfeited property balances reported in FY 1998. To ensure accuracy in the analysis of change for FY 1999, the values for the categories of non-valued property reported in FY 1998 with a value were deducted from the Beginning Balance Restated.

These notes are an integral part of the financial statements

NOTE 8. FORFEITED AND SEIZED PROPERTY – CONTINUED

The following table represents the analysis of change in forfeited property for fiscal year 1999. The number of items presented represents quantities calculated using many different units of measure.

Forfeited Property Category		Beginning Balance (Restated)	Forfeited During FY 1999	Disposed During FY 1999	Ending Balance	Liens and Claims	Ending Balance Net of Liens
Financial & Other Monetary Instruments							
	Number	354	737	917	174	7	167
	Value	$ 23,096	$ 154,389	$ 165,708	$ 11,777	$ 716	$ 11,061
Real Property							
	Number	406	460	554	312	6	306
	Value	$ 48,925	$ 55,546	$ 69,324	$ 35,147	$ 162	$ 34,985
Personal Property							
	Number	5,210	33,338	32,916	5,632	769	4,863
	Value	$ 46,067	$ 119,625	$ 126,921	$ 38,771	$ 2,862	$ 35,909
Other							
	Number	143	262	273	132	5	127
	Value	$ 1,102	$ 2,380	$ 2,557	$ 925	$ 43	$ 882
Non-Valued							
	Number	621	1,159	1,122	658	2	656
	Value	$ —	$ —	$ —	$ —	$ —	$ —
Total	**Number**	**6,734**	**35,956**	**35,782**	**6,908**	**789**	**6,119**
	Value	**$ 119,190**	**$ 331,940**	**$ 364,510**	**$ 86,620**	**$ 3,783**	**$ 82,837**

Analysis of Change in Seized Property and Evidence

A seizure is the act of taking possession of goods in consequence of a violation of public law. Seized property consists of monetary instruments, real property and tangible personal property in the actual or constructive possession of the seizing and the custodial agencies. Such property is not legally owned by the Department until judicially or administratively forfeited. Seized evidence includes cash, financial instruments, non-monetary valuables and illegal drugs.

Seized property and equipment (net of cash) are held for disposition by the custodial agency. This property is recorded at the estimated fair market value at the time of seizure. The fair market value of this property has been reduced by estimated liens and claims of innocent third parties. However, the estimate does not reflect all possible liens and claims. Such information becomes available as the individual cases proceed from seizure to forfeiture. Federal Financial Accounting and Auditing Technical Release 4, "Reporting Non-Valued Seized and Forfeited Property" requires disclosure of property that does not have a legal market in the United States. This requirement was implemented in the Department during FY 1999. Additional property categories reported in FY 1999 that were not disclosed in FY 1998 include alcohol, chemicals, drug paraphernalia, and gambling devices. Weapons and some other categories of non-valued property were included in the seized and forfeited property balances reported in FY 1998. To ensure accuracy in the analysis of change for FY 1999, the values for the categories of non-valued property reported in FY 1998 with a value were deducted from the Beginning Balance Restated.

NOTE 8. FORFEITED AND SEIZED PROPERTY – CONTINUED

The following table represents the analysis of change in seized property for fiscal year 1999:

Seized Property Category		Beginning Balance (Restated)	Seized During FY 1999	Disposed During FY 1999	Ending Balance	Liens and Claims	Ending Balance Net of Liens
Financial & Other Monetary Instruments							
	Number	1,178	923	842	1,259	63	1,196
	Value	$ 124,035	$ 122,604	$ 91,336	$ 155,303	$ 5,491	$ 149,812
Real Property							
	Number	490	326	483	333	94	239
	Value	$ 55,322	$ 42,538	$ 60,423	$ 37,437	$ 10,427	$ 27,010
Personal Property							
	Number	10,748	36,563	36,534	10,777	2,038	8,739
	Value	$ 72,975	$ 178,839	$ 158,759	$ 93,055	$ 24,467	$ 68,588
Other							
	Number	270	298	295	273	6	267
	Value	$ 5,303	$ 3,628	$ 3,560	$ 5,371	$ 67	$ 5,304
Non-Valued							
	Number	737	1,785	1,651	871	5	866
	Value	$ —	$ —	$ —	$ —	$ —	$ —
Total	**Number**	**13,423**	**39,895**	**39,805**	**13,513**	**2,206**	**11,307**
	Value	**$ 257,635**	**$ 347,609**	**$ 314,078**	**$ 291,166**	**$ 40,452**	**$ 250,714**

The DEA and FBI have custody of illegal drugs taken as evidence for legal proceedings. The drugs are subsequently destroyed. Illegal drugs have no value and are reported in weight only. Adjustments to beginning balances represent corrections of errors reported in FY 1998. These errors were the result of erroneous counts of drugs on hand and errors in converting pounds to kilograms.

Seized Narcotics Held for Evidence
Weight in Kilograms

Drug Evidence	Beginning Balance	Adjustments	Beginning Balance Restated	Seized During FY 1999	Disposed During FY 1999	Ending Balance
Heroin	1,908	-	1,908	410	806	1,512
Cocaine	202,225	-	202,225	35,350	61,001	176,574
Marijuana	17,224	-	17,224	17,311	14,971	19,564
Marijuana - Bulk	67,117	113,912	181,029	538,135	542,444	176,720
Methamphetamine	4,303	-	4,303	1,206	767	4,742
Other narcotics	11,793	-	11,793	8,097	7,493	12,397
Total	**304,570**	**113,912**	**418,482**	**600,509**	**627,482**	**391,509**

These notes are an integral part of the financial statements

NOTE 9. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

Items are generally depreciated using the straight line method. The Property, Plant and Equipment (PPE) balance as of September 30, 1999 included:

PPE Type	Acquisition Cost	Accumulated Depreciation	Net Book Value	Service Life
Aircraft	$ 197,263	$ (56,199)	$ 141,064	7-25 yrs
Buildings	4,104,455	(992,209)	3,112,246	24-50 yrs
Capital Leases	108,106	(22,608)	85,498	5-20 yrs
Construction in Progress	928,046	-	928,046	N/A
Equipment	590,551	(318,874)	271,677	2-25 yrs
Land	147,913	-	147,913	N/A
Leasehold Improvements	162,137	(48,314)	113,823	2-20 yrs
Software	7,308	(4,361)	2,947	5 yrs
Structure & Facilities	484,059	(127,442)	356,617	10-50 yrs
Vehicles	198,390	(80,664)	117,726	2-25 yrs
Other Personal Property	7,932	(2,794)	5,138	10-20 yrs
Total	**$ 6,936,160**	**$(1,653,465)**	**$ 5,282,695**	

NOTE 10. DEBT

During 1988, Congress granted the FPI borrowing authority pursuant to Public Law 100-690. Under this authority, during fiscal year 1989, FPI borrowed $20,000 from the U.S. Treasury with a lump-sum maturity or optional renegotiation date of September 30, 1998. During 1995, the $20,000 loan maturity date was extended to September 30, 2008. The funds received under this loan were restricted, by the FPI's Board of Directors, for use in the construction of factories and the purchase of equipment. The loan accrues interest, payable March 31 and September 30 of each year, at 5.5 percent (the rate equivalent to the yield of U.S. Treasury obligations of comparable maturities which existed on the date of the loan). Accrued interest payable under the loan is either fully or partially offset to the extent the FPI maintains non-interest bearing cash deposits with the U.S. Treasury. In this regard, there is no accrual of interest unless the FPI's cash balance, on deposit with the U.S. Treasury, falls below $20,000. When this occurs, interest is calculated on the difference between the loan amount ($20,000) and the FPI's cash balance.

The loan agreement provides for certain restrictive covenants and a prepayment penalty for debt retirements prior to 2008. Additionally, the agreement limits authorized borrowings in an aggregate amount not to exceed 25 percent of the FPI's net equity. There was no net interest expense for the year ended September 30, 1999.

NOTE 11. OTHER LIABILITIES

Other Liabilities Covered by Budgetary Resources		Current
Intragovernmental Liabilities		
Suspense, Deposit, and Clearing	$	1,896
Disbursements in Transit/Clearing		595
Miscellaneous Receipt Liability		969
Total Intragovernmental	$	3,460
Advances from Others	$	10,932
Undeposited Collections		457
Expected BCCI Distributions		184,091
Debit Card - Deferred Income		262
Liability for Inmate Telephone System Credits		1,158
Disbursements-in-transit		31,025
Cash Bonds - Immigration bonds		170,955
Legal Settlements		2,461
Other Monetary Assets		3,548
Total	**$**	**408,349**

Other Liabilities Not Covered by Budgetary Resources		Current
Intragovernmental		
Resource Payable to Treasury	$	93
Custodial Liability		654
Undeposited Collections		792
Foreign Currency		441
Undercover Liability		4,000
Advances from Others		31,312
Fines and Interest Payable		1,507
Total Intragovernmental	$	38,799
Canceled Payable	$	66
Legal Settlements		15,200
Total	**$**	**54,065**

These notes are an integral part of the financial statements

NOTE 12. LEASES

FBI reported capital leases for lease-to-own copiers of $2,600. The lease terms range from three to five years.

BOP reported a 30-year capital lease for a Federal Detention Center in Oklahoma City. In FY 1996, this lease was accounted for as an operating lease and was changed in FY 1997 to a capital lease. The lease arrangement calls for semi-annual payments of $4,500. BOP paid a total of $9,000 in payments during FY 1999.

USMS reported two capital leases. The lease on a hangar has an estimated cost of $20,000 over 20 years, with an estimated interest rate of 7 percent. The lease on a training center has an estimated cost of $6,000 over 16 years with an estimated interest rate of 6.5 percent.

Capital Leases	
Summary of Assets Under Capital Lease:	
Land & Buildings	$ 103,910
Machinery & Equipment	4,193
Accumulated Amortization	(22,252)
Total	**$ 85,851**

Future Payments Due:

Fiscal Year	**Building**	**Equipment**	**Total**
Year 1 (2000)	$ 9,490	$ 2,111	$ 11,601
Year 2 (2001)	9,490	2,066	11,556
Year 3 (2002)	9,490	1,814	11,304
Year 4 (2003)	9,490	1,548	11,038
Year 5 (2004)	9,490	1,286	10,776
After year 5	92,400	7,604	100,004
Total	$ 139,850	$ 16,429	$ 156,279
Less: Imputed Future Lease Payments Interest	(58,872)	(5,617)	(64,489)
Net Capital Lease Payments	**$ 80,978**	**$ 10,812**	**$ 91,790**
Liabilities covered by budgetary resources			$ 207
Liabilities not covered by budgetary resources			$ 91,583

Operating Leases

Future Operating Lease Payments Due:

Fiscal Year	**Building**
Year 1 (2000)	$ 852,697
Year 2 (2001)	771,723
Year 3 (2002)	808,284
Year 4 (2003)	838,826
Year 5 (2004)	871,338
After year 5	52,048
Total Future Lease Payments	**$4,194,916**

These notes are an integral part of the financial statements

NOTE 12. LEASES – CONTINUED

The majority of space occupied by the Department is leased from the General Services Administration (GSA). The space is assigned to the Department by the GSA based on the Department's square footage requirements. The rent charged to the Department is intended to approximate commercial rates. These leases may be terminated without incurring termination charges, however, it is anticipated that the Department will continue to lease space from the GSA in future years. Total future operating lease payments of $4,194,916 include GSA leases for BOP, FPI, DEA, and WCF. However, it does not include approximately $1,586,000 of GSA leases reported for INS. The remaining components did not identify GSA lease information.

The FBI leases are for copying machines. Operating leases have been established between three and five years and total payments per lease are below the $25 capitalization threshold.

BOP has various operating lease agreements for certain of its facilities, including its central office in Washington, DC. Under these agreements, total rent expense amounted to approximately $1,150. In addition, many of the BOP operating leases that expire over an extended period of time include an option to purchase the equipment at the current fair market value, or to renew the lease for additional periods.

DEA leases totaled $99,700 for FY 1999. Of this amount, approximately $98,600 was for office space, parking facilities, and warehouses, $1,100 was for airplane hangars, and the remainder for office equipment and vehicles. As of September 30, 1999, DEA leased 16 airplane hangars from individuals. These leases are annual leases without early termination charges. Some of the leases give DEA the first option to continue to lease. Vehicles are leased from vendors for 12 months or less.

The WCF has no material non-cancelable operating leases. However, the Department allocates a portion of the GSA rent charges to the WCF according to the amount of space used by WCF operations. The FY 1999 WCF rent charge was approximately $7,600.

NOTE 13. FUTURE FUNDING REQUIREMENTS

Total liabilities not covered by budgetary resources of $1,891,216 on the Balance Sheet does not equal the total financing sources yet to be provided on the Statement of Financing of $94,737. Only current unfunded expenses are included in the Statement of Financing, while liabilities not covered by budgetary resources on the balance sheet include both unfunded expenses for the current and prior fiscal years.

Generally, liabilities not covered by budgetary resources require future funding and can only be liquidated with the enactment of future appropriations. These liabilities include accrued leave, actuarial pension liabilities, and other contingent liabilities. However, some of the liabilities not covered by budgetary resources do not require appropriations and will be liquidated by the assets of these entities. They include civil and criminal debt collections of the WCF ($253,782), liabilities of the FPI ($127,853), and cash held as evidence ($434) by the DEA.

These notes are an integral part of the financial statements

NOTE 14. IMPUTED FINANCING

Imputed Financing recognizes actual cost of future benefits which include the Judgment Fund, the Federal Employees Health Benefits Program (FEHB), the Federal Employees Group Life Insurance Program (FEGLI), and the Pension that are paid by other Federal entities. The Treasury Judgment Fund was established by the Congress and funded at 31 U.S.C. 1304 to pay in whole or in part the court judgments and settlement agreements negotiated by the Department on behalf of agencies, as well as certain types of administrative awards. Interpretation of Federal Financial Accounting Standards No. 2, "Accounting for Treasury Judgment Fund Transactions: An Interpretation of Statements of Federal Financial Accounting Standards No. 4 and No. 5," requires agencies to recognize liabilities and expenses when unfavorable litigation outcomes are probable and the amount can be estimated.

SFFAS No. 5, "Accounting for Liabilities of the Federal Government," requires that employing agencies recognize the cost of pensions and other retirement benefits during their employees active years of service. SFFAS No. 5 requires OPM to provide cost factors necessary to calculate cost. OPM actuaries calculate the value of pension benefits expected to be paid in the future, and then determine the total funds to be contributed by and for covered employees. For FERS and CSRS employees, OPM calculated that 11.5 percent and 24.2 percent respectively of each employee's salary would be sufficient to fund these projected pension benefits. The cost to be paid by other agencies is the total calculated future costs, less employee and employer contributions. In addition, other retirement benefits which include the Federal Employees Health Benefits Program (FEHB) and the Federal Employees Group Life Insurance Program (FEGLI) that are paid by other Federal entities must also be disclosed.

Judgement Fund	$ 65,502
Health Insurance	290,209
Life Insurance	980
Pension	213,079
Total	**$ 569,770**

NOTE 15. UNEXPENDED APPROPRIATIONS

The unexpended appropriations for the DOJ reporting entity, as of September 30, 1999, is as follows:

Unexpected Appropriations	Total
Unobligated:	
Available	$ 1,701,870
Unavailable	298,844
Undelivered Orders	11,622,609
Total	**$ 13,623,323**

These notes are an integral part of the financial statements

NOTE 16. CONTINGENCIES AND COMMITMENTS

The DEA is involved in various legal actions, including administrative proceedings, lawsuits and claims. The balance sheet recognizes an estimate of $3,451 in unfunded liabilities for those legal actions where adverse decisions are considered "probable" by DEA's Office of Chief Counsel. In addition, the potential amount of contingencies for events where the likelihood of adverse decisions are classified as "possible" is estimated at $646.

The INS is party to various administrative proceedings, legal actions, and claims, including environmental damage claims, equal opportunity matters, and a contractual bid protest. The INS management has determined that it is probable that some of these proceedings and actions will result in the incurrence of liabilities, and the amounts are reasonably estimable. The estimated liability for these cases is $34,737 and the amount has been recorded in the financial statements as of September 30, 1999.

The FBI recorded a total of $1,996 in contingent liabilities, however, a breakdown of items was not available at the time the Department's statements were prepared.

The BOP recorded a total of $90,000 in contingent liabilities arising from litigation. BOP management believes loss with respect to this sum is probable.

The Department and its components are parties to various administrative proceedings, legal actions, and claims. Management, in consultation with legal counsel, has determined that it is probable that losses relating to these legal actions will occur. As of September 30, 1999, a contingent liability of $130,184 has been recorded in the consolidated balance sheet.

NOTE 17. PRIOR PERIOD ADJUSTMENTS

AFF/SADF adjustments were made to correct the FY 1998 liability for allocation transfers, interest and forfeiture income, and forfeited cash.

INS corrections were the result of efforts to improve the financial data recorded in the accounting records. The adjustments were made to correct the accounts receivable, unexpended appropriations, accounts payable accruals, fund balance with Treasury, FECA liability, advances and prepayments, property and equipment.

Corrections were made on the OBD statements to restate COPS grants beginning advances, accounts payable, and net position balances, and to correct an understatement as of FY 1998 of non-COPS grants accounts payable balances, U.S. Trustees Chapter 11 quarterly fees, FECA liabilities, capitalize property balances, reimbursement revenue and expense with other agencies. In addition, an adjustment was made to extract Court Services and Offender Supervision Agency (CSOSA) from the OBD statements. Through arrangements made with OMB, funding for CSOSA was allotted through the General Administration appropriation, however, CSOSA is not a component of the Department of Justice.

These notes are an integral part of the financial statements

NOTE 17. PRIOR PERIOD ADJUSTMENTS – CONTINUED

Prior Period Adjustments	
Unexpended Appropriations	$ 161,715
Earned Revenue/Expenses	77,430
Forfeited cash	39,500
Asset Value	3,781
COPS Grants Beginning Balances	(447,952)
Liabilities/Accounts Payable	(255,160)
Appropriated Capital Used	(90,736)
Fund Balance with Treasury	(27,540)
Transfers-In & Out	(24,742)
Advances from Others	(15,448)
Accounts Receivable	(13,068)
Actuarial FECA Liability	(7,512)
Construction in Process	(486)
Capital Property	(21)
Other	(2)
Total	**$ (600,241)**

NOTE 18. CONSOLIDATED TOTAL COST AND EARNED REVENUE BY BUDGET FUNCTION CODE

Total Cost by Budget Functional Code

Budget Functional Code	Gross Costs	Intra-DOJ Costs	Net Costs
National Defense (54)	$ 15,479	$ -	$ 15,479
International Development/Humanitarianism (151)	$ 59	$ -	$ 59
International Security Assistance (152)	13,282	-	13,282
International Affairs (153)	592	-	592
Total International Affairs	$ 13,933	$ -	$ 13,933
Administration of Justice (750)	$ 514,452	$ -	$ 514,452
Law Enforcement (751)	10,807,287	(1,113,341)	9,693,946
Litigative and Judicial (752)	3,508,242	(208,336)	3,299,906
Federal Correctional Activities (753)	3,880,590	(161,038)	3,719,552
Criminal Justice Assistance (754)	4,240,681	(52,515)	4,188,166
Total Administration of Justice	$ 22,951,252	$ (1,535,230)	$ 21,416,022
General Government (808)	$ 5,971	$ -	$ 5,971
Total Cost	**$ 22,986,635**	**$ (1,535,230)**	**$21,451,405**

These notes are an integral part of the financial statements

NOTE 18. CONSOLIDATED TOTAL COST AND EARNED REVENUE BY BUDGET FUNCTION CODE – CONTINUED

Total Earned Revenue by Budget Functional Code

Budget Functional Code	Gross Revenue	Intra-DOJ Revenue	Net Revenue
Administration of Justice (750)	$ (924)	$ -	$ (924)
Law Enforcement (751)	(2,552,452)	1,113,341	(1,439,111)
Litigative and Judicial (752)	(564,921)	208,336	(356,585)
Federal Correctional Activities (753)	(854,696)	161,038	(693,658)
Criminal Justice Assistance (754)	(59,614)	52,515	(7,099)
Total Earned Revenue	**$ (4,032,607)**	**$ 1,535,230**	**$(2,497,377)**
Net Cost of Operations	**$ 18,954,028**	**$ -**	**$18,954,028**

NOTE 19. EXCHANGE REVENUE

The exchange revenue for the AFF/SADF is for support from other government agencies for the U.S. Attorneys and the Consolidated Asset Tracking System.

The BOP and the FPI receive exchange revenues for daily care and maintenance of state and local offenders, for meals provided to Bureau staff at institutions, for rental of residences by Bureau staff, and for utilities used by FPI. Other exchange revenues are generated by the sale of merchandise and telephone services to inmates, and the sale of manufactured goods and services to other federal agencies. The pricing policy for goods and services provided is based on a formula that incorporates cost plus a predetermined gross margin ratio. Merchandise sold and services provided are marketed at fair market value.

The largest source of exchange revenue for the DEA is related to the Controlled Substances Act. This Act requires physicians, pharmacists, and chemical companies to be licensed by the DEA to manufacture and distribute certain controlled substances. The DEA charges a licensing fee for this service. Other revenue sources for the DEA include State and Local Task Force Participation, Joint Intragovernmental Agency Investigations, and the Asset Forfeiture Fund. The pricing policy of the exchange revenue is full cost for the controlled substances, and direct cost for all other revenues.

The OBD and the USMS receive exchange revenue from services rendered for legal activities provided to other Department components and other government agencies. The pricing policy for the exchange revenue is actual cost.

The majority of exchange revenue for the WCF includes the Space Management and Data Processing Services. The remaining revenue is from Telecommunication Services and other WCF activities. The pricing policy for the exchange revenue is full cost.

The INS exchange revenue from the fee accounts is earned through the performance of various services, such as inspecting commercial aircraft and sea vessel passengers and the processing of various applications. The FBI receives exchange revenue from the sale of FBI assets, principally vehicles.

These notes are an integral part of the financial statements

NOTE 20. NET CUSTODIAL REVENUE ACTIVITY

Debt Collection Management (DCM) is responsible for implementing the provisions of the Federal Debt Recovery Act of 1986, which authorizes the Attorney General to contract with private counsel to help the U.S. Attorneys collect delinquent Federal civil debts. Since FY 1994, the Attorney General has been authorized to credit to the WCF up to 3 percent of the Department's total civil cash collections to be used for paying the costs of "processing and tracking" such litigation. DCM is responsible for the operation of the Nationwide Central Intake Facility, the private counsel pilot project, and other projects funded by the 3 percent of the Department's civil debt collections.

NOTE 21. ANTICIPATED EQUITABLE SHARING IN FUTURE PERIODS

The statute governing the use of the AFF (28 U.S.C. 534(c)) permits the payment of equitable shares of forfeiture proceeds to participating foreign governments and state and local enforcement agencies. From 1994 through 1999, equitable sharing allocation levels averaged $207,000. The anticipated equitable sharing allocation level for FY 2000 is $330,000.

NOTE 22. PERMANENT INDEFINITE APPROPRIATIONS

The OBD has permanent indefinite authority for the Office of the Independent Counsel. A permanent indefinite appropriation is open-ended as to both its period of availability (amount of time the agency has to spend the funds) and its amount.

NOTE 23. RESTRICTIONS ON USE OF THE UNOBLIGATED BALANCES

The restricted use of the unobligated balance includes cash bonds held in trust by the INS, undisbursed civil and criminal debt collections due to other agencies, annual appropriations that expire and will be transferred to the general fund, and unobligated balances from other Departmental appropriations transferred to the WCF.

These notes are an integral part of the financial statements

Supplemental Financial and Management's Information

Unaudited

Required Supplementary Information

CONSOLIDATED STEWARDSHIP INFORMATION
As of September 30, 1999 and 1998

The Office of Justice Programs Violent Offender Incarceration Program provides grants to the states to build or expand correctional facilities for violent offenders, certain juvenile offenders, nonviolent offenders and criminal aliens to free prison space for violent offenders. The facilities built with these funds constitute an investment in non-federal physical property. In FY 1999, amounts reflect expenditures. Expenditure data was not available for FY 1998, as a result amounts reflect outlays.

Dollars in Thousands	FY 1999	FY 1998
Cooperative Agreement Program Administered by the U.S. Marshals Service	$ 9,515	$ 25,000
Discretionary Grants to Indian Tribes	1,387	1,367
Formula Grants to States	82,445	204,536
Total	**$ 93,347**	**$ 230,903**

CONSOLIDATED DEFERRED MAINTENANCE

For the fiscal year ended September 30, 1999

Deferred Maintenance for fiscal year ending September 30, 1999, was $11.5 million. This amount was determined using the requirements set forth by the Statement of Federal Financial Accounting Standards (SFFAS) Number 6, Accounting for Property, Plant and Equipment. The Immigration and Naturalization Service (INS) management estimates that this amount will be required to service and repair property, plant and equipment including vehicles, aircraft, buildings and other structures. Consistent with SFFAS No. 6, INS management estimated the amount of deferred maintenance based on the Total Life-Cycle Cost Method and is calculated as follows.

Dollars in Thousands	FY 1999
FY 1999 Initial Requirement	$ 45,600
(Less) FY 1999 Maintenance Performed	(3,506)
Total FY 1999 Net Requirement	42,094
(Less) FY 1999 Actual Funded	(30,591)
Total FY 1999 Deferred Maintenance	**$ 11,503**

CONSOLIDATED INTRA-GOVERNMENTAL ASSETS

As of September 30, 1999

Dollars in Thousands

Trading Partner		Fund Balance with Treasury	Investments	Accounts Receivable/ Advances and Other Assets
20	U. S. Treasury	$ 18,143,609	$ 1,358,506	$ 36,258
09	U. S. House of Representatives	-	-	7
10	The Judiciary	-	-	1,466
11	Executive Office of the President	-	-	426
12	Department of Agriculture	-	-	1,223
13	Department of Commerce	-	-	447
14	Department of Interior	-	-	5,497
16	Department of Labor	-	-	646
17	Department of Navy	-	-	4,623
18	U. S. Postal Service	-	-	3,627
19	Department of State	-	-	33,326
21	Department of Army	-	-	212
23	United States Courts	-	-	202
24	Office of Personnel	-	-	545
25	National Credit Union Association	-	-	1
26	Thrift Investment Board	-	-	192
27	Federal Communications Commission	-	-	87
28	Social Security Administration	-	-	6,491
29	Federal Trade Commission	-	-	32,681
31	Nuclear Regulatory Commission	-	-	32
33	Smithsonian Institute	-	-	4
36	Department of Veterans Affairs	-	-	1,054
41	Merit System Protection Board	-	-	17
45	U. S. Equal Employment Opportunity Commission	-	-	980
47	General Services Administration	-	-	8,064
50	Securities and Exchange Commission	-	-	979
51	Federal Deposit Insurance Coporation	-	-	11
56	Central Intelligence Agency	-	-	1,187
57	Department of the Air Force	-	-	1,988

CONSOLIDATED INTRA-GOVERNMENTAL ASSETS

As of September 30, 1999

Dollars in Thousands

Trading Partner	Fund Balance with Treasury	Investments	Accounts Receivable/ Advances and Other Assets
58 Federal Emergency Management Agency	$ -	$ -	$ 1,374
64 Tennessee Valley Authority	-	-	2
67 United States Information Agency	-	-	523
68 Environmental Protection Agency	-	-	478
69 Department of Transportation	-	-	7,157
72 Agency for International Development	-	-	19,146
73 Small Business Administration	-	-	20
75 Department of Health and Human Services	-	-	591
80 National Aeronautics and Space Administration	-	-	65
86 Department of Housing and Urban Development	-	-	140
00 Unapplied Total	-	-	50,322
88 National Archives and Records Administration	-	-	7
89 Department of Energy	-	-	70
91 Department of Education	-	-	5
95 Independent Agencies	-	-	415
96 U. S. Army Corps of Engineer	-	-	839
97 Office of the Secretary of Defense-Defense Agencies	-	-	85,760
Total	**$ 18,143,609**	**$ 1,358,506**	**$ 309,187**

CONSOLIDATED INTRA-GOVERNMENTAL LIABILITIES
As of September 30, 1999

Dollars in Thousands

Trading Partner	Accounts Payable & Other Liabilites	Accrued FECA	Debt/ Borrowings from Other Agencies
00 Unknown	$ 289,330	$ -	$ -
03 Library of Congress	357	-	-
04 Government Printing Office	1,544	-	-
10 The Judiciary	147	-	-
11 Executive Office of the President	21,278	-	-
12 Department of Agriculture	28,114	-	-
13 Department of Commerce	898	-	-
14 Department of Interior	30	-	-
16 Department of Labor	49	163,667	-
17 Department of Navy	7	-	-
18 U. S. Postal Service	26,193	-	-
19 Department of State	1,097	-	-
20 Department of the Treasury	21,758	-	20,000
21 Department of the Army	76	-	-
23 United States Courts	3,491	-	-
24 Office of Personnel Management	75,206	-	-
26 Federal Retirement Thrift Investment Board	4,014	-	-
27 Federal Communications Commission	0	-	-
28 Social Security Administration	7,188	-	-
36 Department of Veterans Affairs	713	-	-
45 U. S. Equal Employment Opportunity Commission	21	-	-
47 General Services Administration	165,478	-	-
49 National Science Foundation	0	-	-
56 Central Intelligence Agency	5,146	-	-
57 Department of the Air Force	4	-	-
58 Federal Emergency Management Agency	0	-	-
69 Department of Transportation	1,046	-	-
72 Agency for International Development	0	-	-
73 Small Business Administration	0	-	-

CONSOLIDATED INTRA-GOVERNMENTAL LIABILITIES
As of September 30, 1999

Dollars in Thousands

Trading Partner	Accounts Payable & Other Liabilites	Accrued FECA	Debt/ Borrowings from Other Agencies
75 Department of Health and Human Services	$ 1,647	$ -	$ -
80 NASA	2	-	-
83 Export-Import Bank of the United States	0	-	-
89 Department of Energy	290	-	-
91 Department of Education	4	-	-
93 Federal Mediation and Conciliation Service	1	-	-
95 Independent Agencies	3,716	-	-
96 U. S. Army Corps of Engineers	2,143	-	-
97 Office of the Secretary of Defense-Defense Agencies	53,746	-	-
Total	**$ 714,734**	**$ 163,667**	**$ 20,000**

CONSOLIDATED INTRA-GOVERNMENTAL EARNED REVENUE AND RELATED COST

For fiscal year ended September 30, 1999

Dollars in Thousands

Trading Partner	Earned Revenue
03 Library of Congress	$ 1
09 United States House of Representatives	224
10 The Judiciary	5,103
11 Executive Office of the President	1,348
12 Department of Agriculture	4,952
13 Department of Commerce	2,740
14 Department of Interior	9,532
16 Department of Labor	2,078
17 Department of Navy	4,320
18 U. S. Postal Service	24,225
19 Department of State	41,220
20 Department of the Treasury	80,728
21 Department of the Army	535
23 United States Courts	1,347
24 Office of Personnel Management	6,650
25 National Credit Union Association	5
26 Thrift Investment Board	1,281
27 Federal Communications Commission	448
28 Social Security Administration	108,456
29 Federal Trade Commission	104,629
31 United States Nuclear Regulatory Commission	227
33 Smithsonian Institute	25
36 Department of Veterans Affairs	7,058
41 Merit System Protection Board	111
45 U. S. Equal Employment Opportunity Commission	2,279
47 General Services Administration	58,527
50 Securities and Exchange Commission	1,502
51 Federal Deposit Insurance Corporation	84
54 Federal Labor Relations Authority	2
56 Central Intelligence Agency	1,799

CONSOLIDATED INTRA-GOVERNMENTAL EARNED REVENUE AND RELATED COST

For fiscal year ended September 30, 1999

Dollars in Thousands

Trading Partner	Earned Revenue
57 Department of the Air Force	$ 2,086
58 Federal Emergency Management Agency	2,069
64 Tennessee Valley Authority	23
67 United States Information Agency	3,053
68 Environmental Protection Agency	2,146
69 Department of Transportation	9,655
72 Agency for International Development	12,347
73 Small Business Administration	146
75 Department of Health and Human Services	4,995
80 National Aeronautics and Space Administration	381
86 Department of Housing and Urban Development	616
88 National Archives & Records Administration	46
89 Department of Energy	230
90 Selective Service System	1
91 Department of Education	60
95 Independent Agencies	1,438
96 U. S. Army Corps of Engineers	40
97 Office of the Secretary of Defense-Defense Agencies	413,000
00 Unknown	10,381
Total	**$ 934,149**

Budget Functional Classification	Gross Cost to Generate Revenue
751 - Federal Law Enforcement Activities	$ 237,030
752 - Federal Litigative and Judicial Activities	195,910
753 - Federal Corrections Activities	494,110
754 - Criminal Justice Assistance	7,099
Total	**$ 934,149**

CONSOLIDATING BALANCE SHEET
As of September 30, 1999

Dollars in Thousands	AFF/SADF	WCF	OBD	USMS	OJP	DEA	FBI	INS	BOP	FPI	Eliminations	Consolidated
ASSETS												
Entity												
Intragovernmental												
Fund Balance with U.S. Treasury (Note 2)	$ 91,099	$ 467,071	$ 4,252,642	$ 259,987	$ 7,479,790	$ 503,377	$ 906,711	$ 1,527,967	$ 2,083,052	$ 89,309	$ -	$ 17,661,005
Investments, Net (Note 4)	617,417	-	104,420	-	-	-	-	-	21,283	-	-	743,120
Accounts Receivable, Net (Note 5)	1,722	79,189	189,048	71,098	1,125	21,432	92,628	28,533	43,711	84,846	(355,335)	257,997
Advances and Prepayments	-	-	306,295	-	12,629	33,121	10,397	3,528	5,452	-	(333,545)	37,877
Other Assets (Note 6)	-	-	-	-	-	-	-	-	-	101	-	101
Total Intragovernmental	710,238	546,260	4,852,405	331,085	7,493,544	557,930	1,009,736	1,560,028	2,153,498	174,256	(688,880)	18,700,100
Accounts Receivable, Net (Note 5)	-	-	59,561	-	3,899	81	11,913	45,645	10,488	1,277	-	132,864
Cash and Other Monetary Assets (Note 3)	-	-	49	31	-	12,932	28,223	3,153	5,579	-	-	49,967
Inventory and Related Property, Net (Note 7)	-	316	-	7,695	-	10,722	2,545	-	10,682	92,373	-	124,333
General Property, Plant and Equipment, Net (Note 9)	-	14,040	2,982	117,551	2,262	158,909	399,366	349,239	4,091,725	146,621	-	5,282,695
Forfeited Property, Net (Note 8)	82,837	-	-	-	-	-	-	-	-	-	-	82,837
Advances and Prepayments	-	8	100,063	25	397,710	11,120	22,289	-	4,567	333	-	536,115
Other Assets (Note 6)	-	-	-	-	-	-	-	-	1,478	-	-	1,478
Total Entity	**$ 793,075**	**$ 560,624**	**$5,015,060**	**$ 456,387**	**$ 7,897,415**	**$ 751,694**	**$ 1,474,072**	**$ 1,958,065**	**$ 6,278,017**	**$ 414,860**	**$ (688,880)**	**$ 24,910,389**
Non-Entity												
Intragovernmental												
Fund Balance with U.S. Treasury (Note 2)	$ 29,129	$ 253,634	$ -	$ 16,836	$ -	$ -	$ 987	$ 170,955	$ 11,063	$ -	$ -	$ 482,604
Accounts Receivable, Net (Note 5)	-	-	-	-	-	-	-	-	6,712	-	-	6,712
Investments, Net (Note 4)	615,386	-	-	-	-	-	-	-	-	-	-	615,386
Total Intragovernmental	644,515	253,634	-	16,836	-	-	987	170,955	17,775	-	-	1,104,702
Accounts Receivable, Net (Note 5)	-	-	-	-	-	743	-	1,507	277	-	-	2,527
Cash and Other Monetary Assets (Note 3)	-	-	-	-	-	4,791	-	1,052	-	-	-	5,843
Cash Held as Evidence	11,529	-	-	-	-	434	46,654	-	-	-	-	58,617
Total Non-Entity	**$ 656,044**	**$ 253,634**	**$ -**	**$ 16,836**	**$ -**	**$ 5,968**	**$ 47,641**	**$ 173,514**	**$ 18,052**	**$ -**	**$ -**	**$ 1,171,689**
TOTAL ASSETS	**$1,449,119**	**$ 814,258**	**$5,015,060**	**$ 473,223**	**$7,897,415**	**$ 757,662**	**$1,521,713**	**$2,131,579**	**$6,296,069**	**$ 414,860**	**$ (688,880)**	**$ 26,082,078**

The accompanying notes are an integral part of these financial statements

CONSOLIDATING BALANCE SHEET

As of September 30, 1999

Dollars in Thousands	AFF/SADF	WCF	OBD	USMS	OJP	DEA	FBI	INS	BOP	FPI	Eliminations	Consolidated
LIABILITIES												
Liabilities Covered by Budgetary Resources												
Intragovernmental												
Accounts Payable	$ 61,950	$ 114,245	$ 32,600	$ 35,803	$ 10,901	$ 14,685	$ 27,025	$ 196,627	$ 37,943	$ -	$ (257,485)	$ 274,294
Accrued FECA Liability	-	-	-	-	20	-	-	-	-	613	-	633
Accrued Payroll and Benefits	-	-	15,473	-	527	-	24,410	14,617	-	-	-	55,027
Advances from Other	-	-	43,462	-	348,401	584	28,561	-			(333,545)	87,463
Other Liabilities (Note 11)	97,850	-	969	-	-	1,896	-	595	-	-	(97,850)	3,460
Total Intragovernmental	159,800	114,245	92,504	35,803	359,849	17,165	79,996	211,839	37,943	613	(688,880)	420,877
Accounts Payable	43,049	51,412	498,847	100,170	360,863	53,361	135,099	169,410	138,381	-	-	1,550,592
Environmental Cleanup Cost	-	-	-	-	-	-	-	5,163	-	-	-	5,163
Accrued Payroll and Benefits	-	2,056	65,220	18,527	2,557	39,073	88,942	97,799	100,659	-	-	414,833
Deferred Revenue	82,837	-	-	-	-	54,423	-	507,243	-	-	-	644,503
Deposit/Suspense Fund	460,424	-	-	16,836	-	4,890	987	-	22,813	-	-	505,950
Cash Held as Evidence	11,529	-	-	-	-	-	46,654	-	-	-	-	58,183
Contingent Liabilities (Note 16)	-	-	-	-	-	-	-	-	90,000	-	-	90,000
Capital Lease Liabilities (Note 12)	-	-	-	-	-	207	-	-	-	-	-	207
Other Liabilities (Note 11)	184,091	-	-	10,680	-	133	34,692	173,873	1,420	-	-	404,889
Total Liabilities Covered by Budgetary Resources	**$ 941,730**	**$ 167,713**	**$ 656,571**	**$ 182,016**	**$ 723,269**	**$ 169,252**	**$ 386,370**	**$ 1,165,327**	**$ 391,216**	**$ 613**	**$ (688,880)**	**$ 4,095,197**
Liabilities Not Covered by Budgetary Resources												
Intragovernmental												
Accounts Payable	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,909	$ -	$ 1,909
Debt (Note 10)	-	-	-	-	-	-	-	-	-	20,000	-	20,000
Undisbursed Civil and Criminal Debt Collections	-	253,634	-	-	-	-	-	-	148	-	-	253,782
Accrued FECA Liability	-	599	5,318	9,977	-	19,825	20,516	54,378	52,421	-	-	163,034
Other Liabilities (Note 11)	-	-	-	-	-	5,980	-	1,507	-	31,312	-	38,799
Total Intragovernmental	-	254,233	5,318	9,977	-	25,805	20,516	55,885	52,569	53,221	-	477,524
Accounts Payable	-	-	-	-	-	-	-	-	-	63,346	-	63,346
Environmental Cleanup Cost	-	-	-	-	-	-	-	5,309	-	-	-	5,309
FECA Actuarial Liabilities	-	1,978	22,775	42,278	136	86,942	90,147	210,297	219,859	4,501	-	678,913
Accrued Annual and Compensatory Leave	-	3,348	103,260	19,834	3,369	49,649	146,200	93,084	93,128	6,785	-	518,657
Capital Lease Liabilities (Note 12)	-	-	-	10,576	-	-	2,563	-	78,444	-	-	91,583
Contingent Liabilities (Note 16)	-	-	-	-	-	3,451	1,996	34,737	-	-	-	40,184
Cash Held as Evidence	-	-	-	-	-	434	-	-	-	-	-	434
Other Liabilities (Note 11)	-	-	-	-	-	-	66	15,200	-	-	-	15,266
Total Liabilities Not Covered by Budgetary Resources	**$ -**	**$ 259,559**	**$ 131,353**	**$ 82,665**	**$ 3,505**	**$ 166,281**	**$ 261,488**	**$ 414,512**	**$ 444,000**	**$ 127,853**	**$ -**	**$ 1,891,216**
Total Liabilities	**$ 941,730**	**$ 427,272**	**$ 787,924**	**$ 264,681**	**$ 726,774**	**$ 335,533**	**$ 647,858**	**$ 1,579,839**	**$ 835,216**	**$ 128,466**	**$ (688,880)**	**$ 5,986,413**
NET POSITION												
Unexpended Appropriations (Note 15)	$ -	$ -	$ 4,162,890	$ 167,060	$ 5,585,255	$ 392,233	$ 733,366	$ 830,912	$ 1,751,607	$ -	$ -	$ 13,623,323
Cumulative Results of Operations	507,389	386,986	64,246	41,482	1,585,386	29,896	140,489	(279,172)	3,709,246	286,394	-	6,472,342
Total Net Position	**$ 507,389**	**$ 386,986**	**$ 4,227,136**	**$ 208,542**	**$ 7,170,641**	**$ 422,129**	**$ 873,855**	**$ 551,740**	**$ 5,460,853**	**$ 286,394**	**$ -**	**$ 20,095,665**
TOTAL LIABILITIES AND NET POSITION	**$1,449,119**	**$ 814,258**	**$5,015,060**	**$ 473,223**	**$7,897,415**	**$ 757,662**	**$1,521,713**	**$2,131,579**	**$6,296,069**	**$ 414,860**	**$ (688,880)**	**$ 26,082,078**

The accompanying notes are an integral part of these financial statements

CONSOLIDATING STATEMENT OF NET COST
For fiscal year ended September 30, 1999

Dollars in Thousands	AFF/SADF	WCF	OBD	USMS	OJP	DEA	FBI	INS	BOP	FPI	Eliminations	Consolidated
Program Costs												
Investigation and Prosecution of Criminal Offenses												
Production												
Intragovernmental	$ 113,346	$ -	$ 146,502	$ 8,725	$ -	$ 184,514	$ 690,970	$ -	$ -	$ -	$ (487,988)	$ 656,069
With the Public	170,018	-	478,637	36,817	-	1,217,827	2,802,653	-	-	-	-	4,705,952
Total	$ 283,364	$ -	$ 625,139	$ 45,542	$ -	$1,402,341	$3,493,623	$ -	$ -	$ -	$ (487,988)	$ 5,362,021
Less Earned Revenues	(924)	-	(19,293)	(679)	-	(240,282)	(406,154)	-	-	-	487,988	(179,344)
Net Program Costs	$ 282,440	$ -	$ 605,846	$ 44,863	$ -	$1,162,059	$3,087,469	$ -	$ -	$ -	$ -	$ 5,182,677
Assistance to Tribal, State, and Local Governments												
Production												
Intragovernmental	$ -	$ -	$ 74,770	$ -	$ -	$ -	$ 55,034	$ -	$ -	$ -	$ (52,515)	$ 77,289
With the Public	231,088	-	898,868	-	3,240,845	-	223,226	-	-	-	-	4,594,027
Total	$ 231,088	$ -	$ 973,638	$ -	$3,240,845	$ -	$ 278,260	$ -	$ -	$ -	$ (52,515)	$ 4,671,316
Less Earned Revenues	-	-	(1,373)	-	(59,614)	-	(104,119)	-	-	-	52,515	(112,591)
Net Program Costs	$ 231,088	$ -	$ 972,265	$ -	$3,181,231	$ -	$ 174,141	$ -	$ -	$ -	$ -	$ 4,558,725
Legal Representation, Enforcement of Federal Laws, and Defense of U.S. Interests												
Production												
Intragovernmental	$ -	$ -	$ 727,365	$ 488	$ -	$ -	$ 10,781	$ -	$ -	$ -	$ (97,818)	$ 640,816
With the Public	-	-	1,014,925	2,060	-	-	43,729	-	-	-	-	1,060,714
Total	$ -	$ -	$1,742,290	$ 2,548	$ -	$ -	$ 54,510	$ -	$ -	$ -	$ (97,818)	$ 1,701,530
Less Earned Revenues	-	-	(302,395)	(1,344)	-	-	-	-	-	-	97,818	(205,921)
Net Program Costs	$ -	$ -	$1,439,895	$ 1,204	$ -	$ -	$ 54,510	$ -	$ -	$ -	$ -	$ 1,495,609
Immigration												
Production												
Intragovernmental	$ -	$ -	$ 42,749	$ -	$ -	$ -	$ -	$1,043,675	$ -	$ -	$ (47,181)	$ 1,039,243
With the Public	-	-	86,204	-	-	-	-	2,004,292	-	-	-	2,090,496
Total	$ -	$ -	$ 128,953	$ -	$ -	$ -	$ -	$3,047,967	$ -	$ -	$ (47,181)	$ 3,129,739
Less Earned Revenues	-	-	(1,228)	-	-	-	-	(844,034)	-	-	47,181	(798,081)
Net Program Costs	$ -	$ -	$ 127,725	$ -	$ -	$ -	$ -	$2,203,933	$ -	$ -	$ -	$ 2,331,658

The accompanying notes are an integral part of these financial statements

CONSOLIDATING STATEMENT OF NET COST

For fiscal year ended September 30, 1999

Dollars in Thousands	AFF/SADF	WCF	OBD	USMS	OJP	DEA	FBI	INS	BOP	FPI	Eliminations	Consolidated
Detention and Incarceration												
Production												
Intragovernmental	$ -	$ -	$ 1,821	$ 214,607	$ -	$ -	$ -	$ 247,219	$ 604,145	$ 9,053	$ (226,531)	$ 850,314
With the Public	-	-	5,751	757,775	-	-	-	774,351	2,706,295	561,097	-	4,805,269
Total	$ -	$ -	$ 7,572	$ 972,382	$ -	$ -	$ -	$ 1,021,570	$ 3,310,440	$ 570,150	$ (226,531)	$ 5,655,583
Less Earned Revenues	-	-	(123)	(118,790)	-	-	-	(270,326)	(275,729)	(578,967)	226,531	(1,017,404)
Net Program Costs	$ -	$ -	$ 7,449	$ 853,592	$ -	$ -	$ -	$ 751,244	$ 3,034,711	$ (8,817)	$ -	$ 4,638,179
Protection of the Federal Judiciary and Improvement of the Justice System												
Production												
Intragovernmental	$ -	$ -	$ 46,817	$ 55,765	$ -	$ -	$ -	$ -	$ -	$ -	$ (1,127)	$ 101,455
With the Public	-	-	177,455	235,338	-	-	-	-	-	-	-	412,793
Total	$ -	$ -	$ 224,272	$ 291,103	$ -	$ -	$ -	$ -	$ -	$ -	$ (1,127)	$ 514,248
Less Earned Revenues	-	-	(116,705)	(4,342)	-	-	-	-	-	-	1,127	(119,920)
Net Program Costs	$ -	$ -	$ 107,567	$ 286,761	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 394,328
Management												
Production												
Intragovernmental	$ -	$ 610,179	$ 63,686	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (622,070)	$ 51,795
With the Public	-	247,909	117,264	-	-	-	-	-	-	-	-	365,173
Total	$ -	$ 858,088	$ 180,950	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (622,070)	$ 416,968
Less Earned Revenues	-	(650,282)	(35,904)	-	-	-	-	-	-	-	622,070	(64,116)
Net Program Costs	$ -	$ 207,806	$ 145,046	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 352,852
NET COST OF OPERATIONS	**$ 513,528**	**$ 207,806**	**$3,405,793**	**$1,186,420**	**$3,181,231**	**$1,162,059**	**$3,316,120**	**$2,955,177**	**$3,034,711**	**$ (8,817)**	**$ -**	**$18,954,028**

The accompanying notes are an integral part of these financial statements

CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

For fiscal year ended September 30, 1999

Dollars in Thousands	AFF/SADF	WCF	OBD	USMS	OJP	DEA	FBI	INS	BOP	FPI	Eliminations	Consolidated
Net Cost of Operations	**$(513,528)**	**$(207,806)**	**$(3,405,793)**	**$(1,186,420)**	**$(3,181,231)**	**$(1,162,059)**	**$(3,316,120)**	**$(2,955,177)**	**$(3,034,711)**	**$ 8,817**	**$ -**	**$(18,954,028)**
Financing Sources (other than exchange revenues):												
Appropriations Used	-	-	3,566,160	1,173,118	2,839,471	1,132,536	3,148,900	2,753,738	3,139,479	-	-	17,753,402
Other Non-exchange Revenues	653,546	-	6,204	-	989,085	-	-	7,137	-	-	-	1,655,972
Imputed Financing (Note 14)	-	3,160	122,421	23,497	2,795	40,149	145,391	114,731	109,827	7,799	-	569,770
Donations	-	-	20	-	-	-	-	-	-	-	-	20
Transfers-in	-	154,663	39,616	4,431	-	4,466	2,474	-	608,558	-	(95,502)	718,706
Transfers-out	(105,516)	-	-	-	-	(1,821)	-	(8,000)	(604,634)	-	95,502	(624,469)
Rescissions	-	(107,000)	-	-	-	-	-	-	-	-	-	(107,000)
Other Financing Source	-	-	-	-	-	(2,471)	-	-	850	(1,029)	-	(2,650)
Net Results of Operations	**$ 34,502**	**$ (156,983)**	**$ 328,628**	**$ 14,626**	**$ 650,120**	**$ 10,800**	**$ (19,355)**	**$ (87,571)**	**$ 219,369**	**$ 15,587**	**$ -**	**$ 1,009,723**
Prior Period Adjustments (Note 17)	74,257	(2)	(759,359)	(9,964)	-	(486)	35,704	80,482	(20,873)	-	-	(600,241)
Net Change in Cumulative Results of Operations	**$ 108,759**	**$ (156,985)**	**$ (430,731)**	**$ 4,662**	**$ 650,120**	**$ 10,314**	**$ 16,349**	**$ (7,089)**	**$ 198,496**	**$ 15,587**	**$ -**	**$ 409,482**
Increase (Decrease) in Unexpended Appropriations	-	-	1,174,679	(44,931)	566,915	54,021	(211,493)	(315,060)	109,013	-	-	1,333,144
Change in Net Position	**$ 108,759**	**$ (156,985)**	**$ 743,948**	**$ (40,269)**	**$ 1,217,035**	**$ 64,335**	**$ (195,144)**	**$ (322,149)**	**$ 307,509**	**$ 15,587**	**$ -**	**$ 1,742,626**
Net Position-Beginning of Period	398,630	543,971	3,483,188	248,811	5,953,606	357,794	1,068,999	873,889	5,153,344	270,807	$ -	18,353,039
NET POSITION - END OF PERIOD	**$ 507,389**	**$ 386,986**	**$ 4,227,136**	**$ 208,542**	**$ 7,170,641**	**$ 422,129**	**$ 873,855**	**$ 551,740**	**$ 5,460,853**	**$286,394**	**$ -**	**$ 20,095,665**

The accompanying notes are an integral part of these financial statements

COMBINING STATEMENT OF BUDGETARY RESOURCES

For fiscal year ended September 30, 1999

Dollars in Thousands	AFF/SADF	WCF	OBD	USMS	OJP	DEA	FBI	INS	BOP	FPI	Combined
Budgetary Resources											
Budget Authority											
Appropriations	$ 699,109	$ -	$ 2,257,065	$ 1,138,145	$ 3,746,461	$ 1,298,369	$ 2,759,479	$ 2,640,862	$ 3,273,151	$ -	$ 17,812,641
Net Transfers, Current Year Authority	(95,789)	-	1,753,398	-	-	-	206,948	15,600	26,699	-	1,906,856
Unobligated Balances - Beginning of Period	293,914	382,587	320,108	40,470	830,787	115,182	293,352	149,776	1,198,669	-	3,624,845
Net Transfers, Prior Year Balance, Actual	-	154,662	(11,708)	-	-	(8,782)	(12,031)	(7,800)	(112,500)	-	1,841
Spending Authority from Offsetting Collections	2,269	659,826	492,916	145,596	379,694	182,132	546,343	1,372,703	275,552	-	4,057,031
Adjustments	21,604	(84,309)	231,179	36,846	146,629	29,277	9,276	49,325	4,484	-	444,311
Total Budgetary Resources	**$ 921,107**	**$1,112,766**	**$ 5,042,958**	**$ 1,361,057**	**$ 5,103,571**	**$ 1,616,178**	**$ 3,803,367**	**$ 4,220,466**	**$ 4,666,055**	**$ -**	**$ 27,847,525**
Status of Budgetary Resources											
Obligations incurred	$ 514,462	$ 997,038	$ 4,528,733	$ 1,299,958	$ 4,562,090	$ 1,555,569	$ 3,609,016	$ 4,121,559	$ 3,835,181	$ -	$ 25,023,606
Unobligated Balances - Available	449,043	83,519	472,626	50,038	535,191	27,491	155,122	78,715	706,503	-	2,558,248
Unobligated Balances - Not Available	(42,398)	32,209	41,599	11,061	6,290	33,118	39,229	20,192	124,371	-	265,671
Total Status of Budgetary Resources	**$ 921,107**	**$1,112,766**	**$ 5,042,958**	**$ 1,361,057**	**$ 5,103,571**	**$ 1,616,178**	**$ 3,803,367**	**$ 4,220,466**	**$ 4,666,055**	**$ -**	**$ 27,847,525**
Outlays											
Obligations Incurred	$ 514,462	$ 997,038	$ 4,528,733	$ 1,299,958	$ 4,562,090	$ 1,555,569	$ 3,609,016	$ 4,121,559	$ 3,835,181	$ -	$ 25,023,606
Less: Spending Authority from Offsetting											
Collections and Adjustments	(42,885)	(682,516)	(755,906)	(182,642)	(529,323)	(264,978)	(555,759)	(1,422,028)	(280,037)	-	(4,716,074)
Other Adjustments	-	-	-	-	161,957	-	-	-	-	-	161,957
Subtotal	471,577	314,522	3,772,827	1,117,316	4,194,724	1,290,591	3,053,257	2,699,531	3,555,144	-	20,469,489
Obligated Balance, Net - Beginning of Period	223,747	201,051	3,719,670	281,492	4,848,612	314,384	733,353	1,220,721	938,139	-	12,481,169
Less: Obligated Balance, Net - End of Period	(197,441)	(368,931)	(3,773,467)	(198,918)	(5,958,604)	(395,374)	(747,153)	(1,325,302)	(1,281,327)	-	(14,246,517)
Total Outlays	**$ 497,883**	**$ 146,642**	**$ 3,719,030**	**$ 1,199,890**	**$ 3,084,732**	**$ 1,209,601**	**$ 3,039,457**	**$ 2,594,950**	**$ 3,211,956**	**$ -**	**$ 18,704,141**

The accompanying notes are an integral part of these financial statements

COMBINING STATEMENT OF FINANCING

For fiscal year ended September 30, 1999

Dollars in Thousands	AFF/SADF	WCF	OBD	USMS	OJP	DEA	FBI	INS	BOP	FPI	Combined
Obligations and Nonbudgetary Resources											
Obligations incurred	$514,462	$ 997,038	$ 4,528,733	$ 1,299,958	$ 4,562,090	$ 1,555,569	$3,609,016	$ 4,121,559	$ 3,835,181	$ -	$ 25,023,606
Less: Spending Authority from Offsetting Collections and Adjustments	(42,885)	(682,516)	(755,906)	(182,642)	(529,323)	(264,978)	(555,759)	(1,422,028)	(280,037)	-	(4,716,074)
Financing Imputed for Cost Subsidies	-	3,160	122,421	23,497	2,795	40,149	145,391	114,731	109,827	7,799	569,770
Transfers-in (out)	-	-	-	4,431	-	-	-	(8,000)	3,924	-	355
Property Transfers in, Net	-	-	-	-	-	(2,646)	-	-	-	-	(2,646)
Revenue Not in the Entity's Budget	-	-	(7,220)	-	-	-	7,976	7,137	-	-	7,893
Other	-	-	-	-	-	(35,035)	-	106	-	(20,473)	(55,402)
Total Obligations as adjusted, and Nonbudgetary Resources	**$ 471,577**	**$ 317,682**	**$ 3,888,028**	**$ 1,145,244**	**$ 4,035,562**	**$ 1,293,059**	**$ 3,206,624**	**$ 2,813,505**	**$ 3,668,895**	**$ (12,674)**	**$ 20,827,502**
Resources That do not Fund Net Cost of Operations											
Change in Amount of Goods, Services, and Benefits Ordered but not yet Received or Provided	$ 41,951	$(109,873)	$ (204,401)	$ 39,791	$(1,350,309)	$ (46,899)	$ 66,304	$ 1,178	$ (418,859)	$ -	$ (1,981,117)
Change in Unfilled Customer Orders	-	-	53,800	-	1,869	819	32,572	12,675	-	-	101,735
Costs Capitalized on the Balance Sheet	-	(6,108)	(256)	(13,981)	(1,248)	(47,858)	(28,991)	(41,116)	(413,584)	(6,988)	(560,130)
Financing Sources That Fund Costs of Prior Periods	-	126	2,017	-	148,542	(52,180)	(7,459)	81,232	(23,082)	-	149,196
Revenue Collected in Advance	-	-	-	-	348,401	-	-	29,663	-	-	378,064
Other	-	-	(338,310)	(623)	-	(15,086)	-	-	20,873	-	(333,146)
Total Resources That do not Fund Net Cost of Operations	**$ 41,951**	**$ (115,855)**	**$ (487,150)**	**$ 25,187**	**$ (852,745)**	**$ (161,204)**	**$ 62,426**	**$ 83,632**	**$ (834,652)**	**$ (6,988)**	**$ (2,245,398)**
Costs That do not Require Resources											
Depreciation, Amortization and Bad Debt	$ -	$ 5,478	$ 1,052	$ 9,097	$ (499)	$ 13,812	$ 28,163	$ 35,348	$ 161,833	$ 10,845	$ 265,129
Gain/Loss on Disposition of Assets	-	-	-	-	-	-	5,007	149	3,675	-	8,831
Other	-	501	-	-	(1,087)	3,813	-	-	-	-	3,227
Total Costs That do not Require Resources	**$ -**	**$ 5,979**	**$ 1,052**	**$ 9,097**	**$ (1,586)**	**$ 17,625**	**$ 33,170**	**$ 35,497**	**$ 165,508**	**$ 10,845**	**$ 277,187**
Financing Sources Yet to Be Provided	**$ -**	**$ -**	**$ 3,863**	**$ 6,892**	**$ -**	**$ 12,579**	**$ 13,900**	**$ 22,543**	**$ 34,960**	**$ -**	**$ 94,737**
Net Cost of Operations	**$513,528**	**$ 207,806**	**$ 3,405,793**	**$ 1,186,420**	**$ 3,181,231**	**$ 1,162,059**	**$3,316,120**	**$ 2,955,177**	**$ 3,034,711**	**$ (8,817)**	**$ 18,954,028**

The accompanying notes are an integral part of these financial statements

Appendix

Office of the Inspector General, Audit Division

Analysis and Summary of Actions Necessary to Close the Report

Department management was provided a draft of the Report of Independent Accountants on Internal Controls for their review and concurrence on the findings and recommendations. Their comments are incorporated into the body of the independent accountants' report following the recommendations. Since management concurred with all of the recommendations, this report is being issued resolved; however, additional corrective actions need to be completed in order for the OIG to close the recommendations and the report. The following describes those actions necessary for closure.

Internal Control Recommendation Number:

1. **Resolved.** This recommendation can be closed when the Chief Financial Officer issues Department-wide policies that emphasize the accounting principles that should be followed by all components. These policies should be based on generally accepted accounting principles and other Federal accounting requirements and should address multi-component accounting issues.

2. **Closed.** We will follow up on general control weaknesses and security issues by monitoring the status of the recommendations noted in the audit reports of the Department data centers and the individual components.

3. **Closed.** We will follow up on general control weaknesses and security issues by monitoring the status of the recommendations noted in audit reports of the Department data centers.

4. **Resolved.** This recommendation can be closed when the Chief Financial Officer has provided us with: (1) copies of the Department's FY 2000 financial statement audit reporting timetable; (2) JMD's plans for determining whether components' final statements (either in the template format or the stand-alone statement format) for FY 2000 are consistent with the Department's form and content requirements; (3) JMD's plan for resolving accounting issues that involve more than one component; and (4) a determination on whether a separate working group will be formed which would recommend to the Chief Financial Officer (a) form and content of the Department's financial statements and note disclosures, (b) resolution of multi-component accounting issues; and (c) guidelines for the components on how to complete and submit financial statements in a Departmental format.

5. **Resolved.** This recommendation can be closed when the Chief Financial Officer provides us with updates on the planning undertaken to coordinate the FY 2000 financial statement preparation and audit process with the Department components' program and administrative management. The Department components' program and administrative management should, at a minimum, participate in audit status meetings, attend working group meetings, and review financial statements and related report submissions.

6. **Closed.** We will continue to follow up on this recommendation through our monitoring of the status of recommendation number 5 in our prior report (OIG Report Number 98-07A).