
VIII. U. S. Department of Justice 1998 Annual Financial Statement

U.S. DEPARTMENT OF JUSTICE

Audit Report

U. S. Department of Justice
Annual Financial Statement
Fiscal Year 1998

99-05

February 1999

Prepared by Office of the Inspector General, Audit Division

U. S. DEPARTMENT OF JUSTICE
ANNUAL FINANCIAL STATEMENT
FISCAL YEAR 1998

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 1998, the Department had over 121,300 employees and funding of over \$20 billion.

This audit report contains the Annual Financial Statement of the Department of Justice for the fiscal year ended September 30, 1998. The audit was performed by PricewaterhouseCoopers LLP and resulted in a disclaimer of opinion on the FY 1998 consolidated balance sheet and the related consolidated statements of net costs and changes in net position, and the related combined statements of budgetary resources, financing, and custodial activity. Because of the following deficiencies, the auditors were unable to obtain sufficient evidence about certain account balances and disclosures:

- The Immigration and Naturalization Service (INS) has not established effective internal controls to ensure that accounting records and relevant documentation are maintained to support certain balances and related disclosures contained in INS' financial statements. The INS also lacks effective internal controls to ensure that transactions are accurately and completely recorded. The INS' reported total assets of \$2.2 billion and total costs of \$3.7 billion constitute 8.7 percent of the Department's combined total assets at September 30, 1998, and 18.1 percent of combined total costs for the year then ended.
- Management of the Offices, Boards and Divisions (OBDs) was not able to demonstrate that advances made to state and local law enforcement agencies as part of the Community Oriented Policing Services Program were properly reported. OBDs' advances account balance represents \$432.3 million (38.1%) of the Department's combined advances account balance.
- Because of weaknesses in the Assets Forfeiture Fund and Seized Asset Deposit Fund's (AFF/SADF) financial accounting and disclosure of seized and forfeited property, the auditors could not determine whether forfeited property and related deferred revenue of \$127.8 million and the related seized and forfeited activity disclosed in the notes were

fairly stated. These amounts represent substantially all of the Department's seized and forfeited property account balances.

- Because of weaknesses in the processing and recording of accounts payable and related unexpended appropriations at the U.S. Marshals Service (USMS) and the OBDs and accounts payable and unliquidated obligations at the AFF/SADF, the auditors could not determine whether accounts payable balances of \$1.4 billion (48.5%) and related costs, unexpended appropriations of \$3.2 billion (26.0%), and unliquidated obligations were fairly stated.
- The Federal Prison System (FPS) was not able to provide support for \$100 million of transferred financing sources reflected in the statements of changes in net position and financing within the timeline established by the Department for preparing component financial statements. As a result, the FPS' auditors were not able to determine the effect of this transfer on these statements. The FPS' auditors reported that these amounts appeared to have been created during the resolution of previous audit findings with respect to unrecorded real property and related depreciation.
- Amounts reported in components' balance sheets as of September 30, 1997, enter into the determination of FY 1998 net costs, changes in net position, budgetary resources, and the reconciliation of net costs to budgetary resources. It was not practicable for auditors of the INS, Drug Enforcement Administration (DEA), Office of Justice Programs (OJP), USMS, AFF/SADF, and the OBDs to extend audit procedures during the audit of the components' FY 1998 financial statements to satisfy themselves as to opening balances. As a result, auditors were unable to apply sufficient audit procedures to determine whether amounts reported in the components' FY 1998 statements of net costs, changes in net position, budgetary resources, and financing were fairly stated.

The following table depicts the audit results for the Department consolidated audit as well as for the nine individual component audits for FY 1998. The Department has made progress towards an unqualified opinion, although improvements are still needed in certain areas.

Comparison of Fiscal Year 1998 Audit Results

Reporting Entity	Balance Sheet	Statement of Net Costs	Statement of Changes in Net Position	Statement of Budgetary Resources	Statement of Financing
Consolidated Department	D	D	D	D	D
Assets Forfeiture Fund and Seized Asset Deposit Fund	D	D	D	D	D
Drug Enforcement Administration	U	D	D	D	D
Federal Bureau of Investigation	U	U	U	U	U
Federal Prison System	Q	Q	Q	Q	Q
Immigration and Naturalization Service	D	D	D	D	D
Offices, Boards and Divisions	D	D	D	D	D
Office of Justice Programs	U	D	D	D	D
U.S. Marshals Service	D	D	D	D	D
Working Capital Fund	U	U	U	U	U

D – Disclaimer of Opinion
 Q – Qualified Opinion
 U – Unqualified Opinion

For FY 1997, the Department received a disclaimer of opinion on the consolidated statement of financial position and the consolidated statement of operations and changes in net position (Office of the Inspector General Report No. 98-07A). The Working Capital Fund (WCF) received an unqualified opinion; the FPS and Federal Bureau of Investigation (FBI) both received a qualified opinion; and all other components received a disclaimer of opinion on their FY 1997 financial statements.

The Department also received a disclaimer of opinion on the FY 1996 consolidated statement of financial position; the auditors were not engaged to and did not audit the FY 1996 consolidated statement of operations and changes in net position (Office of the Inspector General Report No. 97-24B). The WCF, OJP, and AFF/SADF each received an unqualified opinion; the FBI received a qualified opinion; and all other components received a disclaimer of opinion on their respective FY 1996 statement of financial position.

The Department noted as part of its overview to the financial statements that significant progress has been made in ensuring that all mission critical systems are Year 2000 compliant and that the Department is at minimal risk as the Year 2000 approaches. In our judgment, the Department's stated expectations for Year 2000 compliance are contingent on the completion of a great deal of work that has yet to be completed. The Office of the Inspector General (OIG), Computer Security and Information Technology Audit Office has conducted several audits to date to assess the Department's Year 2000 progress. Although progress is being made, the OIG is unable to provide any assurance as to whether all mission critical systems will be compliant or that the Department is at minimal risk.

UNITED STATES DEPARTMENT OF JUSTICE
ANNUAL FINANCIAL STATEMENT
FISCAL YEAR 1998

TABLE OF CONTENTS

	<u>PAGE</u>
MANAGEMENT'S OVERVIEW	VIII-11
REPORT OF INDEPENDENT ACCOUNTANTS	VIII-33
REPORT OF INDEPENDENT ACCOUNTANTS ON INTERNAL CONTROLS	VIII-36
REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH LAWS AND REGULATIONS	VIII-54
ANNUAL FINANCIAL STATEMENT	
CONSOLIDATED BALANCE SHEET	VIII-58
CONSOLIDATED STATEMENT OF NET COST	VIII-60
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION	VIII-62
COMBINED STATEMENT OF BUDGETARY RESOURCES	VIII-63
COMBINED STATEMENT OF FINANCING	VIII-64
COMBINED STATEMENT OF CUSTODIAL ACTIVITY	VIII-65
NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS	VIII-66
CONSOLIDATING AND COMBINING FINANCIAL STATEMENTS	VIII-93
APPENDIX - AUDIT DIVISION ANALYSIS AND SUMMARY OF ACTIONS NECESSARY TO CLOSE THE REPORT	VIII-101

U.S. Department of Justice
Management's Overview

A. Introduction

The Department of Justice was established in June 1870 (28 U.S.C. 501, 503), with the Attorney General as its head. Prior to 1870 the Attorney General was a member of the President's Cabinet, but not the head of a department, the office having been created in September 1789.

As the Nation's chief law enforcement officer, the Attorney General enforces Federal laws and contributes to the fair and efficient administration of the Federal justice system. In carrying out this mission, the Attorney General directs the activities of the more than 121,300 attorneys, law enforcement professionals, and other employees of the Department. The responsibilities of the Department are wide-ranging and include:

- Detecting, apprehending, prosecuting, and incarcerating criminal offenders.
- 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.
- 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 following principal components of the Department:

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 Immigration Review
Executive Office for U.S. Trustees
Community Oriented Policing Services
Office of Intergovernmental Affairs
Office of Information and Privacy
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

Bureaus

Federal Bureau of Investigation
Federal Prison System
Drug Enforcement Administration
Immigration and Naturalization Service
Office of Justice Programs
U.S. Marshals Service

B. Departmental Reporting Entity

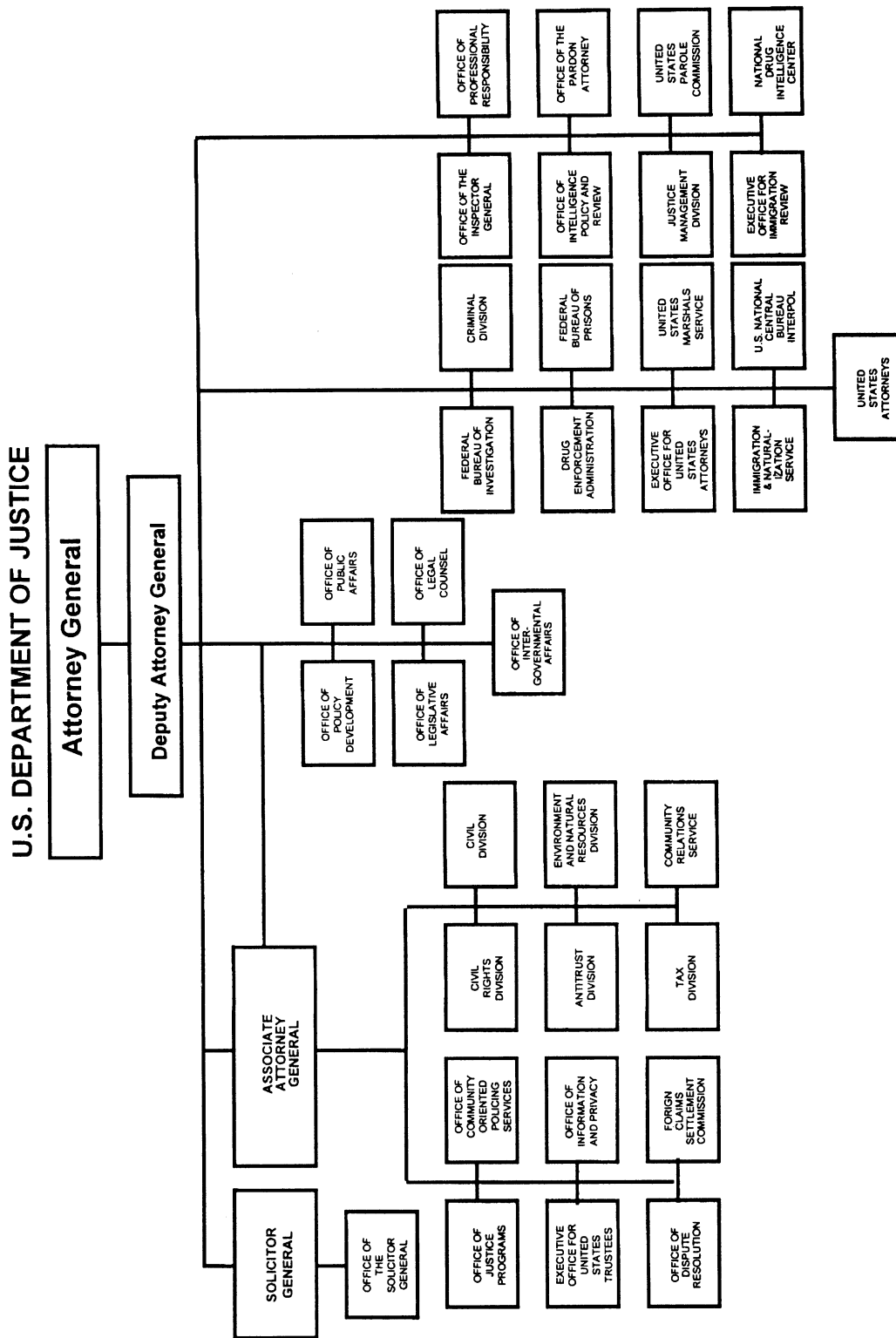
Under Title IV of the Government Management Reform Act (GMRA) of 1994, the head of each executive agency, including the Department, shall prepare and submit to the Director of the Office of Management and Budget (OMB), audited financial statements for the preceding fiscal year, covering all accounts and associated activities of each office, bureau, and activity of the agency. The audited financial statements shall reflect: 1) the overall financial position of the agency, including assets and liabilities thereof; and 2) the results of operations for the agency.

Under the direction of the Assistant Attorney General for Administration (AAGA), the Justice Management Division (JMD) is responsible for preparing the Department's consolidated financial statements. The Office of the Inspector General (OIG) is responsible for the audits of the statements. The AAGA submits the audited financial statements to the Director of the OMB.

The Department's FY 1998 financial statements consist of Department-wide consolidated financial statements supported by separate audited financial statements for each of the following Department reporting entities:

- Assets Forfeiture Fund and Seized Asset Deposit Fund (AFF/SADF)
- Working Capital Fund (WCF)
- Offices, Boards and Divisions (OBDs)
- U.S. Marshals Service (USMS)
- Office of Justice Programs (OJP)
- Drug Enforcement Administration (DEA)
- Federal Bureau of Investigation (FBI)
- Immigration and Naturalization Service (INS)
- Federal Prison System (FPS) (collectively the Bureau of Prisons, the Commissary Trust Fund and the Federal Prison Industries)

The Chief Financial Officers for the OJP, DEA, FBI, INS, FPS, and USMS and the Justice Management Division (for AFF/SADF, WCF, and OBDs,) have defined the reporting entity and prepared and submitted the entity's audited financial statements to the AAGA.



C. Missions and Programs

The following segments provide an overview of the mission and programs for each of the Department's bureaus and components. The bureaus and components are described in the same order as presented in the financial statements: Assets Forfeiture Fund and Seized Asset Deposit Fund; Working Capital Fund; Offices, Boards and Divisions; U.S. Marshals Service; Office of Justice Programs; Drug Enforcement Administration; Federal Bureau of Investigation; Immigration and Naturalization Service; and the Federal Prison System.

- 1. *Assets Forfeiture Fund and Seized Asset Deposit Fund*** - The Assets Forfeiture Fund and Seized Asset Deposit Fund (AFF/SADF) is a nationwide law enforcement program administered by the Department. The AFF/SADF is comprised of the following participating Department entities: the Drug Enforcement Administration, the Federal Bureau of Investigation, the Immigration and Naturalization Service, the U.S. Marshals Service, the U.S. Attorneys, and the Asset Forfeiture and Money Laundering Section, Criminal Division. The U.S. Postal Inspection Service, the U.S. Park Police, and the Food and Drug Administration's Office of Criminal Investigations are the non-Department participants in the program.

Asset forfeiture continues to be an extremely effective and powerful tool in the Department's fight against organized crime, drug trafficking, and money laundering. While forfeiture is as old as our nation, its current scope was widened with the passage of the Comprehensive Crime Control Act of 1984. The ability of the Government to remove the proceeds of crime from individuals and destroy the economic infrastructure of criminal organizations is an essential law enforcement tool. The AFF/SADF is a nationwide law enforcement program that involves Federal employees and contract personnel. Thousands of investigators, litigators, property managers, and support staff are involved in the seizure and forfeiture process. In addition, thousands of state and local law enforcement officials work cooperatively with their Federal counterparts in the investigation and prosecution of criminal cases, including the effort to strip criminals of their ill-gotten gains.

Mission Statement - The mission of the Seized Asset Management Program is to maximize the effectiveness of forfeiture as a deterrent to crime.

The Department's program is aimed at attacking and dismantling criminal organizations at all levels. Wealth is power, and illicit organizations, large and small, are fueled by their tainted money and property. By seizing the assets of illicit organizations, the Government can sharply curtail or eliminate their

operations. Forfeiture procedures occur through civil and criminal judicial cases, and through administrative means.

2. **Working Capital Fund** - The basic principle supporting the establishment of a Working Capital Fund (WCF) is to consolidate, under one financing arrangement, many common services to obtain economies of scale and efficiency of operations while avoiding a duplication of effort. This principle was embraced by Congress for the Department on January 2, 1975, through the enactment of the Fund (28 U.S.C. § 527). The WCF provides certain administrative services where a determination has been made that these services can be provided more advantageously on a centralized basis. The WCF provides the Department with the flexibility to effectively obtain and use resources in response to the service demands of customers both within and outside the Department.

Mission Statement - The mission of the Working Capital Fund is to provide, on a centralized basis, consistently high quality products and services to its customers at the lowest possible cost.

The WCF is a revolving fund authorized to finance the provision of goods and services through a process that charges customers for the goods and services delivered. The WCF is operated on a not-for-profit basis. The WCF generates its cash through collections from customers, rather than appropriations from Congress. Customer billings are based on rates which are intended to fully recover the actual expenses associated with the services provided.

The WCF has a well established organizational structure. All services are provided by employees of the Justice Management Division (JMD). With the exception of those employees located at the Dallas, Texas, data processing facility, all employees are located in the Washington, D.C. metropolitan area. The services provided, however, are available to all of the Department's locations worldwide. The thirteen major services provided by the WCF include:

- Telecommunications Services
- Data Processing Services
- Financial Management Systems
- Human Resource Systems
- Asset Forfeiture Management
- Justice Building Services
- Space Management
- Library Acquisition Services
- Personnel Services
- Drug-Free Workplace
- Debt Collection Management
- Property Management
- Mail, Audio-Visual, and Publications Services (MAPS)

3. **Offices, Boards, and Divisions** - For the purposes of these financial statements, Department components comprising the Offices, Boards, and Divisions reporting entity include the following:

Department Leadership includes the Office of the Attorney General, the Office of the Deputy Attorney General, and the Office of the Associate Attorney General. These offices advise the President on Constitutional matters and legal issues involving the execution of the laws of the United States; formulate and implement policies and programs that advance the administration of justice in the United States; and coordinate criminal justice matters with Federal, state, and local law enforcement and criminal agencies.

Executive Support consists of the Offices of Policy Development, Public Affairs, Legislative Affairs, and Inter-Governmental Affairs. These offices serve as the liaison between the Department and Congress, coordinating Department and Administration policy initiatives in the areas of civil and criminal justice and ensuring that the public and the news media are kept informed about the activities and policies of the Department in the fields of law enforcement and legal affairs.

Office of the Solicitor General represents the interest of the Federal Government in cases before the Supreme Court; decides which cases the Government should ask the Supreme Court to review; and decides what position the Government should take in the cases before the court.

Office of the Inspector General promotes efficient and effective management within the Department of Justice and detects and deters wrongdoing in its programs and operations by the use and coordination of investigative, inspection, and audit resources.

Office of Legal Counsel assists in the Attorney General's role as legal adviser to the Executive Branch; drafts legal opinions of the Attorney General rendered in response to requests from the President and heads of the executive departments; and provides written opinions and informal advice in response to requests from the various executive and military departments of the Government as well as offices within the Department and from Presidential staff and advisors.

Intelligence Policy and Professional Responsibility consists of the Offices of Intelligence Policy and Review and Professional Responsibility. These offices are responsible for assisting the Attorney General and other senior Department and Executive Branch officials in ensuring that the national security-related activities of the United States are consistent with relevant law and overseeing the

investigation of allegations of criminal and ethical misconduct by the Department's attorneys, criminal investigators, or other law enforcement personnel.

Office of Information and Privacy manages and coordinates the discharge of the Department responsibilities under the Freedom of Information Act (FOIA) and the Privacy Act of 1974 through the coordination of compliance of FOIA by all Federal agencies and compliance with the Privacy Act within the Department.

Office of Dispute Resolution promotes the broader use of alternative dispute resolution in appropriate cases to improve access to justice to all citizens and to lead to more effective resolution of disputes involving the government.

Justice Management Division provides advice to senior Department officials and develops Departmental policies in the areas of management and administration; ensures compliance by the Department components with departmental and other Federal policies and regulations; and provides a full range of management and administrative support services.

United States Attorneys serve as the Nation's principal litigators in each of the nation's 94 judicial districts. Under general executive assistance provided by the Executive Office for U.S. Attorneys, the responsibilities of the U.S. Attorneys include: the prosecution of criminal cases brought by the Federal government; the prosecution and defense of civil cases in which the United States is a party; and the collection of debts owed the Federal government which are administratively uncollectible.

Antitrust Division promotes and maintains competition in the United States economy. The Division enforces the antitrust laws and seeks to prevent antitrust violations by providing information concerning the antitrust laws and the Division's enforcement policies to the public and business community. The Division appears before Federal regulatory agencies to advocate in favor of more competition and less regulation, advises other Executive Branch departments and agencies, and provides recommendations to Congress on legislation affecting competition.

Civil Division represents the interests of the United States fairly and consistently in civil litigation and selected criminal cases. The Division confronts significant policy issues, which often rise to constitutional dimensions, in defending and enforcing various Federal programs and actions.

Civil Rights Division enforces the constitutional and Federal rights of persons who have been subjected to discrimination on the basis of race, color, gender, age, disability, religion, familial status, and national origin. The Division also provides for payments to individuals of Japanese ancestry who were evacuated, relocated or interned in the United States during World War II.

Criminal Division serves the public interest through the development and enforcement of criminal statutes in a vigorous, fair and effective manner and exercises general supervision over the enforcement of all Federal criminal laws, with the exception of those statutes specifically assigned to the Antitrust, Civil Rights, Environment and Natural Resources, or Tax divisions.

Environment and Natural Resources Division, through litigation in the Federal and state courts, safeguards and enhances the American environment; acquires and manages public lands and natural resources; and protects and manages Indian rights and property.

Tax Division represents the United States and its officers in all civil and criminal litigation arising under the internal revenue laws, other than proceedings in the U.S. Tax Court.

INTERPOL - United States National Central Bureau facilitates international law enforcement cooperation as the United States representative with the International Criminal Police Organization (INTERPOL) on behalf of the Attorney General.

Executive Office for Immigration Review (EOIR) ensures fairness, competence, and efficiency in decisions relating to the status of individual aliens in the United States. EOIR interprets immigration laws and conducts administrative hearings and appellate reviews on a wide variety of immigration issues.

Office of the Pardon Attorney assists the President in the exercise of his Constitutional pardoning power by providing him with the best information available on which to base a fair and just decision in particular cases.

United States Parole Commission makes parole release decisions for eligible Federal prisoners, determines the conditions of parole supervision, and revokes paroles for violation of the condition of release.

United States Trustees supervise the administration of bankruptcy cases and private trustees in the Federal Bankruptcy Courts. Under the general executive assistance of the Executive Office for U.S. Trustees, the activities of the U.S.

Trustees assure that bankruptcy cases are administered with dispatch and that all parties comply with their legal obligations; assure that the cost of administering bankruptcy cases is appropriately monitored, assets are not dissipated, and distributions to creditors are maximized; and assure that private trustees adhere to fiduciary standards and observe consistent national procedures and policies to assure that violations of applicable criminal laws are referred to law enforcement and regulatory agencies.

Community Relations Service provides services to communities and individuals in the prevention and resolution of disputes, disagreements, or difficulties relating to actions, policies, and practices perceived to be discriminatory on the basis of race, color, or national origin, that impair the rights of citizens under the Constitution or laws of the United States.

Foreign Claims Settlement Commission adjudicates claims against foreign governments for losses sustained by United States nationals pursuant to programs authorized by statute or under international agreements.

Office of Community Oriented Policing Services (COPS) is dedicated, through partnerships with communities, policing and other organizations, to improving the quality of life in neighborhoods throughout the Nation through the COPS grants program, whereby State and local governments are provided grants to place more uniformed officers on the street. COPS activities include increasing America's cops on the beat and promoting and demonstrating the effectiveness of community policing by reducing the levels of disorder, violence, and crime in the Nation's neighborhoods.

National Drug Intelligence Center (NDIC) coordinates and consolidates strategic organizational drug intelligence from national security and law enforcement agencies to produce requested assessments and analysis regarding the structure, membership, finances, communication, transportation, logistics, and other activities of drug trafficking organizations.

4. **United States Marshals Service** - The U.S. Marshals Service (USMS) mission is to protect the Federal courts and ensure the effective operation of the Federal judicial system. The USMS protects Federal judges and other participants in the judicial process; provides for the security of the Federal court; executes warrants and court orders, including certain arrest warrants; seizes, maintains, and disposes of assets; carries out the directions issued by the Attorney General; provides for secure confinement, transportation, and protection of prisoners; ensures long term safety of government witnesses; collects fees and makes payment in support of prisoners in non-Federal facilities.

Mission Statement - The mission of the U.S. Marshals Service is the protection of the Federal judiciary; protection of witnesses; execution of court orders; management of seized assets; and custody and transportation of unsentenced prisoners.

The USMS is organized into four business operations which support its mission: Judicial Security; Prisoner Services; Investigative Services; and Business Services (which includes the management of seized and forfeited assets).

5. **Office of Justice Programs** - The Office of Justice Programs (OJP) was established by the Justice Assistance Act of 1984 and re-authorized in 1988. The OJP is responsible for collecting statistical data and conducting analysis; identifying emerging criminal justice issues; developing and testing promising approaches to address these issues; evaluating program results; and disseminating these findings and other information to state and local governments.

All of the bureaus and offices of OJP award grants and contracts or enter into interagency and cooperative agreements to implement programs, carry out research, and collect data to carry out their mandates. Grants are awarded in two forms: *formula* and *discretionary*. Formula (also referred to as block) grants are awarded to the states which, in turn, sub-award the funds to state and/or local agencies. The bureaus and offices within the OJP assign formula grants on the basis of population or other legislatively-mandated criteria. All of the OJP bureaus and offices administer discretionary grant programs. Discretionary grants are awarded directly to state and local agencies and private organizations. Each bureau outlines its planned discretionary grant activities in a published annual Program Plan.

Mission Statement - The mission of the Office of Justice Programs is to provide leadership in developing the nation's capacity to prevent and control crime, administer justice, and assist crime victims.

The Office is headed by an Assistant Attorney General who, by statute and delegation of authority from the Attorney General, establishes, guides, promotes, and coordinates policy; focuses efforts on the priorities established by the President and the Attorney General; and promotes coordination among the nine major bureaus and offices within the OJP. These bureaus and offices are:

- Bureau of Justice Assistance
- Bureau of Justice Statistics
- National Institute of Justice

- Office of Juvenile Justice and Delinquency Prevention
- Office for Victims of Crime
- Executive Office for Weed and Seed
- Violence Against Women Grants Office
- Corrections Program Office
- Drug Courts Program Office

Program bureaus and offices award formula grants to state agencies, which, in turn, sub-grant funds to units of state and local government. The Bureau of Justice Assistance, the Office of Juvenile Justice and Delinquency Prevention, the Office for Victims of Crime, the Corrections Program Office, and the Violence Against Women Grants Office assign formula grants on the basis of population or other legislatively-mandated criteria. Formula grant programs, drug control and system improvement, juvenile justice, victims compensation, and victims assistance are administered by state agencies designated by each state's Governor. Discretionary grant funds are announced in the *Federal Register* and applications are made directly to the sponsoring OJP bureau or office.

6. ***Drug Enforcement Administration*** - the Drug Enforcement Administration (DEA) has a long and proud history. Today's DEA is built on the successful tradition of several agencies which preceded it, which were ultimately united as DEA in 1973 by Executive Order. The 1973 Executive Order abolished the Bureau of Narcotics and Dangerous Drugs, the Office of Drug Abuse Law Enforcement, and the Office of National Narcotics Intelligence making DEA the only United States government agency whose sole mission is to combat drug trafficking. By FY 1998, DEA operated 20 Domestic Divisions, and 74 Foreign Offices in 53 different countries throughout the world. At the end of FY 1998, DEA employed a total of 8,387 individuals, 4,309 of which were Special Agents.

Mission Statement - The mission of the Drug Enforcement Administration is to enforce the controlled substance laws and regulations of the United States and to bring to the criminal and civil justice system of the United States or any other competent jurisdiction, those organizations, and principal members of organizations, involved in the growing, manufacture, or distribution of controlled substances appearing in or destined for illicit traffic in the United States; and to recommend and support nonenforcement programs aimed at reducing the availability of illicit controlled substances on the domestic and international markets.

DEA is the lead agency responsible for the development of overall Federal drug enforcement strategy, programs, planning, and evaluation. The DEA's primary responsibilities include:

- Investigation and preparation for prosecution of major violators of controlled substances laws operating at interstate and international levels.
- Management of a national drug intelligence system in cooperation with Federal, state, local, and foreign officials to collect, analyze, and disseminate strategic and operational drug intelligence information.
- Seizure and forfeiture of assets derived from, traceable to, or intended to be used for illicit drug trafficking.
- Enforcement of the provisions of the Controlled Substances Act as they pertain to the manufacture, distribution, and dispensing of legally produced controlled substances.
- Coordination and cooperation with Federal, state, and local law enforcement officials on mutual drug enforcement efforts and enhancement of such efforts through exploitation of potential interstate and international investigations beyond local or limited Federal jurisdictions and resources.
- Responsibility, under the policy guidance of the Secretary of State and U.S. Ambassadors, for all programs associated with drug law enforcement counterparts in foreign countries.
- Liaison with the United Nations, INTERPOL, and other organizations on matters relating to international drug control programs.

7. ***Federal Bureau of Investigation*** - The Federal Bureau of Investigation (FBI) is the principal investigative arm of the Department. Title 28, United States Code, authorized the Attorney General to "appoint officials to detect crimes against the United States," and other Federal statutes give the FBI the authority and responsibility to investigate specific crimes. At present, the FBI has investigative jurisdiction over violations of more than 200 categories of Federal crimes. Top priority has been assigned to the five areas that affect society the most: counterterrorism, drugs/organized crime, foreign counterintelligence, violent crimes, and white-collar crimes. The FBI is also authorized to provide

other law enforcement agencies with cooperative services, such as fingerprint identification, laboratory examinations, police training, Uniform Crime Reports, and the National Crime Information Center.

Mission Statement - The mission of the Federal Bureau of Investigation is to uphold the law through the investigation of violations of Federal criminal law; to protect the United States from foreign intelligence and terrorist activities; to provide leadership and law enforcement assistance to Federal, state, local, and international agencies; and to perform these responsibilities in a manner that is responsive to the needs of the public and is faithful to the Constitution of the United States.

The goals of the FBI are to:

- Investigate violations of the laws of the United States within FBI jurisdiction and collect evidence in domestic and international cases in which the United States is or may be a party of interest.
- Collect, analyze, and exploit information to identify and neutralize the activities of foreign powers and their agents, and domestic entities, that adversely affect the United States' national security through counterintelligence, counterterrorism, and security countermeasures investigations.
- Provide forensic, identification, information, and training services external to the FBI.
- Provide effective and efficient supporting services necessary to the accomplishment of the FBI mission.
- Provide effective national and organizational leadership as well as effective direction, control, and administration of resources.

8. ***Immigration and Naturalization Service*** - The Immigration and Naturalization Service (INS) was established by the Immigration and Nationality Act, as amended, which charges the Attorney General with the administration and enforcement of its provisions and other laws relating to the immigration and naturalization of non-citizens. The Attorney General has delegated authority to the Commissioner of the INS to carry out national policy which provides for selective immigration and for controlled entry and stay of non-immigrants in order to promote the reunification of families, entry of immigrants possessing needed skills, temporary admission of specific classes of non-citizens and refugees from persecution.

Mission Statement - The mission of the Immigration and Naturalization Service is to determine the admissibility of persons seeking entry and to adjust the status of and provide other benefits to legally entitled non-citizens within the country with proper regard for equity and due process. This includes assistance to those who seek permanent resident status and those who wish to become citizens through naturalization.

The INS ensures appropriate documentation of aliens at entry, denies entry to those who are not legally admissible whether they attempt to enter through ports-of-entry or surreptitiously across the border, and determines the status of those aliens in the country. The INS is also responsible for deterring illegal entry and stay, including enforcement of criminal provisions against those who act or conspire to promote such entry and stay. Further, it is the responsibility of the INS to detect, apprehend, and remove those noncitizens whose entry was illegal, whether undocumented or fraudulent, and those found to have violated the conditions of their stay.

9. ***Federal Prison System*** - The Federal Prison System (FPS) encompasses the appropriated activities of the Federal Bureau of Prisons (BOP) and its functional entities, the Federal Prison Industries, Incorporated (FPI), also known by the trade name UNICOR, and the Commissary Trust Fund (Trust Fund).

The BOP is comprised of 93 institutions, six regional offices, three training centers, and a central office or headquarters in Washington, D.C. The Executive Office of the Director provides overall direction for agency operations with nine central office divisions, each led by a member of the Bureau's Executive Staff, who provide operational and policy direction. The central office manages the security and correctional operations of the BOP, the medical and psychiatric programs, and the food and nutritional programs. Additionally, the central office oversees the Bureau's budget development, contracting, property management, and financial management. Additional operational support and direction are provided for community corrections and detention programs, legal counsel, public affairs, and human resources management. Program oversight is performed through a rigorous program review process which measures program effectiveness and adequacy of internal controls.

Mission Statement - The Federal Bureau of Prisons protects society by confining offenders in the controlled environments of prisons and community-based facilities that are safe, cost efficient, humane, and appropriately secure, and which provide work and other self-improvement opportunities to assist offenders in becoming law-abiding citizens.

FPI is a wholly-owned government corporation created by Congress in 1934. No appropriated funds are provided to the FPI for its operations. The FPI conducts its operations in a self-sustaining manner which minimizes competition with private industry and labor while providing inmates with occupational knowledge and skills. The FPI's operations currently focus in five areas: textiles, electronics, furniture, metals, and graphics services.

Mission Statement - The mission of the Federal Prison Industries is to employ and train the requisite number of inmates in Federal correctional facilities necessary to ensure the safe and secure operation of such institutions, by producing market-priced, quality products and services to other Federal agencies, while operating in a self-sustaining manner that minimizes adverse impact on industry, business, and labor.

The Trust Fund was created in the early 1930's to provide a means for inmates to purchase products and services which are not provided by Federal funds, for example, personal grooming products, stamps, telephone, and laundry services. The Trust Fund is a self-sustaining revolving account which is funded through sales of goods and services to inmates.

D. Performance Goals and Results

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. GPRA is intended to improve performance of Federal programs by focusing on results rather than activities. GPRA requires agencies to identify long term strategic and annual performance goals that are measurable and outcome oriented. GPRA also requires annual reporting to the Congress and the public on actual accomplishments in meeting these goals.

To comply with GPRA, the Department prepared the Strategic Plan for 1997 - 2002, which sets forth the broad strategic direction for the Department over the

next five years. In this Plan, the Attorney General established the following goals/core functions:

- Investigation and Prosecution of Criminal Offenses.
- Assistance to State and Local Governments.
- Legal Representation, Enforcement of Federal Laws, and Defense of U.S. Interests.
- Immigration.
- Detention and Incarceration.
- Protection of the Federal Judiciary and Improvement of the Justice System.
- Management.

The Department also issued the first Annual Summary Performance Plan for FY 1999 and revised its internal processes to ensure that future 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 has been linked to the strategic goals. 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.

E. Year 2000 Issues

Department's State of Readiness. The strategy for addressing the Year 2000 within the Department is multi-faceted and consists of accountability, the involvement of the Chief Information Officer (CIO), a Year 2000 working group (WG), awareness and training, and the consolidation of departmental guidance. While the Department provides leadership, coordination and oversight responsibilities, responsibility for accountability rests with departmental components. The Attorney General has directed that component senior officials be personally involved in addressing the Year 2000 issue. Accordingly, each component has a designated senior official (DSO) for Year 2000 who has direct access to their component head.

The Department's CIO, the Assistant Attorney General for Administration, chairs meetings of the DSOs for Year 2000. In addition, the CIO uses an independent verification and validation (IV&V) contractor to help evaluate component organization's 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. Major mission critical systems, non-information technology items and data exchanges continue to be key issues.

The Department consolidated into a comprehensive package OMB reporting requirements, contingency plan guidelines, test plan guidelines, previously-issued material and documentation requirements for an independent verification and validation effort. This information, with a description of the roles and responsibilities of the Year 2000 Program Manager and of the Departmental components, provides a succinct overview for senior management of the Department's Year 2000 Program.

In February 1997, 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 December 1998, the Department has made significant progress in achieving this objective. Of the Department's 225 mission critical systems, 130 (58%) are compliant, 76 are undergoing repairs, 18 are in the process of replacement and 1 system will be retired. Of the 76 systems undergoing repair, 80% have been renovated. Some examples of progress within the components are; the Office of Justice Programs implemented all 26 of its mission critical systems; the Immigration and Naturalization Service renovated and validated all of its mission critical systems; 7 of 9 Antitrust Division systems have been implemented; the Justice Data Center renovated and tested its mission critical hardware and software, and the Drug Enforcement Administration continues to make progress in renovating the DEA Telecommunications Systems (DATS).

The Department anticipates 95% of its mission critical systems will be Year 2000 compliant by March 1999.

Costs to Address Year 2000 Issues. The Department has estimated the components will incur costs totaling \$92.8 million to address Year 2000 compliance issues. Of this amount, \$70 million is for mission critical

information technology systems and is primarily (72%) from three bureaus: FBI totaling \$26 million, DEA totaling \$8.7 million, and INS totaling \$15.6 million.

Contingency Plans. Continuity plans are an important part of the Year 2000 Program. The Department has concentrated on system-level contingency plans as opposed to continuity of business plans. Department component's are required to have contingency plans for each mission critical system. To date, Department components have submitted 82% of the required plans. As an example, the Bureau of Prisons has always had contingency plans in place, and is reviewing the plans factoring internal and external Year 2000 issues into the framework. The Justice Data Center developed a high-level continuity plan for its core business activities. The Drug Enforcement Administration identified its core business processes, listed threats, assigned business priorities, formulated risk mitigation strategies and developed triggers. The Department recognizes the requirement for a Department-wide Year 2000 continuity plan and is including this requirement in its Critical Infrastructure Protection Plan.

The Department is at minimal risk as it approaches Year 2000. This conclusion is based on the strong Year 2000 program in place, the significant progress made and planned efforts. A major aspect of this program is the mitigation of potential failures by renovating current systems even though they are scheduled to be replaced well ahead of Year 2000. For example, the Federal Bureau of Investigation's (FBI) National Crime Information System (NCIC) is being replaced with NCIC 2000 which has projected July 1999 to be operational. Nonetheless, NCIC has been renovated and tested for Year 2000 compliance. Similarly, FBI's Identification Automation System (IDAS) has been renovated and tested for Year 2000 compliance even though its replacement, the Integrated Automated Fingerprint Identification System (IAFIS), is on schedule to be operational in July 1999. The compliant version of NCIC and IDAS have been implemented. In the case of INTERPOL, the Department is renovating its current system at the expense of delaying the replacement effort.

Potentially, INS could incur losses in productivity and miscalculate dates in scheduling due to Year 2000 problems. However, this is unlikely since, as noted above, all of INS' mission critical systems have already been renovated and validated. In addition, these systems will be subject to an IV&V review.

F. 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.

REPORT OF INDEPENDENT ACCOUNTANTS

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

We were engaged to audit the accompanying consolidated balance sheet of the U.S. Department of Justice (the Department) as of September 30, 1998, 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 statements are the responsibility of the Department's management. We were not engaged to 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), and the Federal Prison System (FPS). These components represent \$18.5 billion (73.6%) of the Department's combined total assets and \$15.9 billion (77.0%) of its combined total costs. Other auditors were engaged to audit these financial statements and their reports have been furnished to us, and our report on the Department's balance sheet and related statements of net cost, changes in net position, budgetary resources, financing, and custodial activity, insofar as it relates to these components, is based solely on the reports of the other auditors.

As described in Note 1 to the Department's financial statements, management prepared these financial statements in accordance with the Office of Management and Budget (OMB) Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Because of limitations on the scope of our work, we disclaimed opinions on the financial statements of the U.S. Marshals Service (USM); the Offices, Boards and Divisions (OBDs); and the Assets Forfeiture Fund and Seized Asset Deposit Fund (AFF). Other auditors disclaimed opinions on the financial statements of the INS; on the statements of net cost, changes in net position, budgetary resources, and financing of the DEA and the OJP; and qualified their opinion on the financial statements of the FPS. The following six paragraphs describe limitations on the scope of our work and the work of other auditors that are significant to the Department's financial statements.

The INS has not established effective internal control to ensure the maintenance of appropriate accounting records and relevant documentation supporting certain balances and related disclosures contained in the INS' financial statements, and to ensure that transactions were accurately and completely recorded, as of and for the year ended September 30, 1998. Consequently, INS' auditors were not able to apply other auditing procedures to satisfy themselves as to the extent to which INS' financial statements are affected by this matter. The

INS' reported total assets of \$2.2 billion and total costs of \$3.7 billion constitutes 8.7% of the Department's combined total assets at September 30, 1998, and 18.1% of combined total costs for the year then ended.

Management of the OBDs was not able to demonstrate that advances made to state and local law enforcement agencies as part of the Community Oriented Policing Services Program were properly reported. We were not able to apply alternative audit procedures to determine if the OBDs' advances account balance, which represents \$432.3 million (38.1%) of the Department's combined advances account balance, was fairly stated.

We identified weaknesses in the AFF's financial accounting and disclosure of seized and forfeited property. We were not able to conclude whether forfeited property and related deferred revenue of \$127.8 million at September 30, 1998, and the related seized and forfeited activity disclosed in Note 8, were fairly stated. These amounts represent substantially all of the Department's seized and forfeited property account balances in the financial statements and notes.

We identified weaknesses in the processing and recording of accounts payable and related unexpended appropriations at the USM and the OBDs; and accounts payable and unliquidated obligations at the AFF. The affected components' accounts payable balances constitute \$1.4 billion (48.5%) of the Department's combined accounts payable balance and \$3.2 billion (26.0%) of its unexpended appropriations. Consequently, we were unable to conclude whether accounts payable and related costs, unexpended appropriations and unliquidated obligations, were fairly stated.

The auditors of the FPS were not able to satisfy themselves regarding \$100 million of transferred financing sources reflected in the statements of changes in net position and financing because these amounts could not be supported within the timeline established by the Department for preparing component level financial statements. As a result, the FPS' auditors were not able to determine the effect of this transfer on these statements.

Amounts reported in components' balance sheets as of September 30, 1997, enter into the determination of fiscal year 1998 net costs, changes in net position, budgetary resources, and the reconciliation of net costs to budgetary resources. It was not practicable for auditors of the INS, the DEA, the OJP, the USM, the AFF, and the OBDs to extend audit procedures during the audit of the components' fiscal year 1998 financial statements to satisfy themselves as to opening balances. As a result, auditors were unable to apply sufficient audit procedures to determine whether amounts reported in the components' fiscal year 1998 statements of net costs, changes in net position, budgetary resources, and financing were fairly stated.

Since we and the other auditors were unable to obtain sufficient evidence about the balances and disclosures discussed in the preceding six paragraphs, we are unable to express, and we do not express, an opinion on the Department's balance sheet or on its statements of net cost, changes in net position, budgetary resources, financing, and custodial activity.



Report of Independent Accountants
Page 3

The consolidating and combining information is presented for purposes of additional analysis of the Department's financial statements rather than to present the components' financial position as of September 30, 1998, or their net costs, changes in net position, budgetary resources, and financing for the fiscal year then ended. For the reasons described in the preceding paragraph, we are unable to, and do not, express an opinion on whether the consolidating and combining information is fairly stated.

Effective for the fiscal year ended September 30, 1998, as further discussed in Note 1, the Department adopted OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, and Statements of Federal Financial Accounting Standards incorporated by reference within OMB Bulletin No. 97-01.

The information in the "Management's Overview" section 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*. This information has not been subjected to auditing procedures; accordingly, we express no opinion on this information.

In accordance with *Government Auditing Standards*, we have also issued separate reports dated February 15, 1999 on our consideration of the Department's internal controls and on the Department's compliance with laws and regulations.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

February 15, 1999
Arlington, Virginia

REPORT OF INDEPENDENT ACCOUNTANTS ON INTERNAL CONTROLS

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

We were engaged to audit the consolidated balance sheet of the U.S. Department of Justice (the Department) as of September 30, 1998, 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 15, 1999. In that report, we disclaimed an opinion on the Department's financial statements because certain amounts reported could not be substantiated. The control weaknesses that resulted in the need to disclaim our opinion on the Department's financial statements are elaborated upon in this report.

We were not engaged to 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, and the Federal Prison System. These components represent \$18.5 billion (73.6%) of the Department's combined total assets and \$15.9 billion (77.0%) of its combined total costs. Other auditors were engaged to audit these financial statements and their reports have been furnished to us, and our report on the Department's internal controls, insofar as it relates to these components, is based solely on the reports of the other auditors. The table below summarizes the 31 reportable conditions auditors identified at the components and the audit opinions on the nine components' balance sheets.

Table 1: The Nine Department of Justice Component Audits

Department Component	Reportable Conditions	Material Weaknesses	Balance Sheet Audit Opinion
Drug Enforcement Administration (DEA)	3	1	Unqualified
Federal Bureau of Investigation (FBI)	3	0	Unqualified
Office of Justice Programs (OJP)	2	1	Unqualified
Working Capital Fund (WCF)	1	0	Unqualified
Federal Prison System (FPS)	1	0	Qualified
Assets Forfeiture Fund and Seized Asset Deposit Fund (AFF)	1	2	Disclaimed
Immigration and Naturalization Service (INS)	4	5	Disclaimed
Offices, Boards and Divisions (OBDs)	2	2	Disclaimed
United States Marshals Service (USM)	1	2	Disclaimed
Total	18	13	

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.

In planning our engagement to audit 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 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 internal control that are considered to be reportable conditions under standards established by the American Institute of Certified Public Accountants and Office of Management and Budget (OMB) Bulletin No. 98-08 *Audit Requirements for Federal Financial Statements*. 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

The table below summarizes the material weaknesses and reportable conditions identified by component auditors that we believe affect the Department's financial statements:

Table 2: Department-wide Material Weaknesses and Reportable Conditions

Material Weakness (M) Or Reportable Condition (R)	O B D	U S M	A F F	F B I	D E A	O J P	I N S	F P S	W C F
Material Weakness for the Department: Many of the Department components did not have policies or procedures in place or were not following them to ensure that financial transactions were recorded in accordance with Federal accounting standards.	M	M	M	R	R	M	M		
Reportable Condition for the Department: Improvements are needed to strengthen controls over fund balance with Treasury.					M	R	M		R
Reportable Condition for the Department: Improvements are needed in general controls at the Department's data centers and weaknesses exist in component financial management systems.	R	M		R	R	R	M		
Reportable Condition for the Department: The components' fiscal year-end closing procedures must be improved to ensure financial information is consistently presented at the Department level and completed timely to allow the Department's consolidated financial statements to be completed and audited in accordance with the Government Management Reform Act.	R	R	R	R			R	R	

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 previous fiscal years' reports. Because of the frequency with which these conditions were found within the components, we recommend Department-wide corrective actions.

Many of the Department components did not have policies or procedures in place or were not following them to ensure that financial transactions were recorded in accordance with Federal accounting standards.

Financial reporting by the Federal government provides information for formulating policy and evaluating performance. Consistent financial reporting provides greater assurance that transactions are recorded and reported accurately, both for internal and external users of this information. The Federal Accounting Standards Advisory Board (FASAB) was established to recommend accounting standards for the Federal government after consideration of the financial and budgetary needs of oversight groups, executive agencies, and others.

Many of the Department's components do not have policies and procedures in place or were not following them to ensure that transactions are recorded in accordance with the FASAB's standards. We noted that seven component audit reports identified weaknesses in financial processing and reporting. These conditions are summarized below:

- ***Accounts payable and related expenses were not recorded properly.*** The auditors of the INS, the USM, the OBDs, and the AFF, reported that accounts payable and related expenses are recorded at the time orders for goods or services are placed, not when they are received. We noted that the Office of Community Oriented Policing Services (COPS) did not adequately test the accrual calculations for grants provided under the Violent Crime Control and Law Enforcement Act. In some instances, other auditors and we were not provided sufficient documentation supporting the accounts payable and related expenses. The auditors of the DEA reported that a search for unrecorded liabilities identified an additional \$4.5 million that should have been recorded in fiscal year 1998.
- ***Undelivered orders were not periodically reviewed to ensure obligations were valid.*** Amounts recorded as undelivered orders (unliquidated obligations) represent obligations of funds for goods or services that have not yet been received. We noted the OBDs, the USM, and the AFF did not periodically review the status of undelivered orders; and in some instances, we identified obligations that should have been de-obligated or should have been classified as delivered (accounts payable).
- ***Revenue may be recognized prematurely, deferred revenue may be misstated or sufficient documentation was not provided to determine if amounts are valid.*** We identified approximately \$36 million in unearned revenue the OBDs had reported as earned. An adjustment for this amount was posted in the OBDs component financial statements. We were unable to determine if the USM recognized revenues properly because sufficient documentation to support the performance of services was not provided by the end of our fieldwork. We also noted that approximately half of the USM's receivables we tested were unbilled; consequently, alternative audit procedures could not

be performed. Auditors of the INS were not able to obtain sufficient evidence to support the reliability of controls surrounding the Performance Analysis System, which accumulates data necessary to calculate deferred revenue. In addition, deferred revenue is not posted to the general ledger. Federal accounting standards require revenue recognition when goods or services have been delivered. Deferred revenue is recorded when funds are received and should be reduced as services are performed.

- **Components' accounting for property and equipment, leases, leasehold improvements, and construction in process were not in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 6, Accounting for Property, Plant and Equipment.** Auditors of the DEA and the INS identified weaknesses in components' accounting for and control of property, plant and equipment (including leases, leaseholds and construction). Auditors reported that a system or consistently applied policy for capturing property costs was not in place to ensure all costs were accounted for and recorded properly. Auditors also reported that purchases of multi-unit equipment were not consistently recorded as one piece of property.
- **Components should improve accounting policies and procedures, controls over transaction processing and documentation, and performance measurement.** Auditors of the OJP identified several conditions that affect its ability to process accounting transactions in accordance with Federal accounting standards; including: (a) general ledger and account analysis were not consistently performed, (b) a lack of accrual-based proprietary accounting principles for transactions processed in the Crime Victims Fund, and (c) improper cut-off procedures in advances, reimbursement revenue, accounts payable, and accrued payroll account balances. Auditors of the INS reported that corrective actions have improved the processing of financial transactions; however, significant unsupported or misposted obligations and disbursements continue to exist. The INS' auditors also reported that management (a) did not identify key performance measures timely and (b) qualified their conclusion regarding the reliability of performance measures due to management's inability to fully assess and evaluate controls.
- **Components must improve the financial reporting of forfeited/seized property and evidence in accordance with SFFAS No. 3, Accounting for Inventory and Related Property.** We noted that seizing and custodial agencies did not properly complete physical inventories of seized and forfeited property according to guidelines developed by the AFF's management. As a result, forfeited/seized property physical inventories could not be relied upon to determine if the AFF's seized and forfeited property balances and note disclosures were fairly stated. Auditors of the FBI and the DEA reported that financial reporting of evidence and non-valued property (seized drugs) in accordance with SFFAS No. 3 needs to be strengthened.

- *The INS did not properly account for contingent liabilities in accordance with SFFAS No. 5, Accounting for Liabilities of the Federal Government.* Auditors of the INS identified that the INS under-reported accruals for environmental liabilities and over-reported accruals for other contingent liabilities.

The errors discussed above misstate amounts reported 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. Errors in reported revenues and expenses will also impact the reliability of performance measures that use revenues or costs in evaluating the efficiency of the Department's operations.

Recommendation

In the two previous fiscal years, some of the Department's components began implementation of new financial management systems, or modified existing systems to improve transaction processing. Improvements or modifications to financial management systems alone will not resolve the problems discussed above unless policies and procedures are revised to ensure that transactions are processed in accordance with Federal accounting standards. We recommend the Assistant Attorney General for Administration:

1. As first reported in Office of the Inspector General's Report No. 97-24B, issue a directive to the components emphasizing the proper procedures and accounting principles that should be followed when recording financial transactions in accordance with Federal accounting standards to ensure that components prepare financial statements consistent with the Department's consolidated financial reporting requirements.

Management Response: Concur. The Justice Management Division (JMD) will ensure that components produce financial statements consistent with the Department's consolidated financial statements, and the JMD will be responsible for resolving accounting and reporting issues.

Improvements are needed to strengthen 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' general ledger balances in fund balance with Treasury (cash) to the U.S. Department of the Treasury's accounting records. Auditors of four Department components reported that fund balance with Treasury was not adequately reconciled. These conditions are summarized below:

- ***INS did not adequately reconcile fund balance with Treasury and did not timely investigate or resolve significant reconciling items.*** INS reported a net difference of \$76 million at September 30, 1998 in its reconciliation of fund balance with Treasury. The auditors of the INS noted that some of the difference relates to general timing delays, unrecorded transactions, and other unidentified differences that the INS cannot support.
- ***The DEA should review and clear reconciling items expeditiously.*** Auditors reported that the DEA's Treasury clearing account balances increased by \$29 million during the fiscal year. Approximately 70% of the balance represent transactions that were processed through the Department of 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.
- ***Discrepancies were noted and fund balance with Treasury reconciliations were not adequately performed by the OJP.*** The OJP's auditors identified discrepancies between Treasury records and the OJP's general ledger that were primarily caused by problems with vendor number changes and other conditions identified in the OJP's accounting system. In addition, the auditors identified that reconciliations were not mathematically correct.
- ***The WCF has not been able to identify reconciling differences at the transaction level for an undisbursed appropriation account.*** The WCF auditors identified a difference of \$44 million between the Debt Management System and the Treasury. The WCF's financial statements reflect the balance reported by Treasury, not the balance reported in its own general ledger. Auditors reported that approximately 50% of the difference was subsequently identified at the transaction level.

Recommendation

2. As first reported in the Office of the Inspector General's Report No. 97-24B, we recommend the Assistant Attorney General for Administration ensure the INS, the DEA, the OJP, and the WCF perform timely reconciliations necessary to safeguard fund balance with Treasury and completely and accurately record transactions. 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.

Management Response: Concur. The components will implement corrective action plans that include milestone dates for critical procedures. The Department will closely monitor each component's progress towards completion of corrective actions.

Improvements are needed in general controls at the Department's data centers and weaknesses exist in component financial management systems.

We performed a limited general control review of the Department's data processing centers that support Department information systems (exclusive of the FBI) and a limited security penetration review of external access controls. The auditors of the FBI performed similar reviews of the FBI's data center. Finally, other auditors and we reviewed controls over components' financial management systems.

With respect to our data center review, we updated our understanding of the systems environment and performed selected testing on areas where weaknesses in system security; system design, development and modification; segregation of duties; systems software; and service interruption were identified during our reviews of fiscal years 1996 and 1997. Improvements have been made, however, we continue to identify weaknesses that should be addressed. These issues are summarized below:

- **Change control.** Procedures related to changes in system software and software products are not documented or consistently followed.
- **Business continuity plan.** The Department does not have a comprehensive Business Continuity Plan to recover primary systems environment, critical data processing applications or key business processes in the event of a disaster.
- **Policies and procedures.** The Department's written security policies and procedures are outdated and do not comprehensively define the roles and responsibilities of the entity's managers and the security administration function.
- **External access controls.** Our penetration testing identified areas in the Department's information systems security strategy and implementation that require improvement to reduce the risk of unauthorized access, destruction, and manipulation of sensitive information.

With respect to certain components' application systems and the FBI data processing center, other auditors and we identified deficiencies as 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 identified the following weaknesses that require management's attention: (a) direct access to mainframe financial systems is not controlled; (b) segregation of duties in programming, configuration management, and operations are not enforced;

(c) commingling network architecture between contractor and the INS-owned operating environments; and (d) security operations, risk assessments, computer security awareness, disaster recovery, and contingency plans lacked adequate monitoring. The auditors also identified weak physical security in shared facilities, unauditible data and source codes.

- ***Weaknesses in the general and application controls of the USM's Standardized Tracking Accounting and Reporting System (STARS) do not provide assurance that program and data files are protected from unauthorized access or modification and financial systems reporting capabilities are limited.*** We performed a general controls and application security review of STARS and reviewed whether prior year weaknesses in the Financial Management System (FMS) were corrected (STARS is used by headquarters and FMS is used by district offices). We noted the following: (a) there was no interagency agreement between the USM and the Department of Commerce's Office of Computer Services; (b) there were no written policies or procedures for granting user access/privileges to the UNIX system, or the STARS application that resides on the UNIX system; (c) an experienced database administrator was not designated to monitor the performance of the database or perform necessary maintenance; (d) the configuration of the system that runs the STARS application was inadequate to ensure that only authorized users can access the application programs and data files; (e) STARS was not adequately tested in a test or parallel-processing environment before implementation; (f) the USM did not have a formal change management process to assure operation continuity and orderly evolution of the application; (g) inadequate segregation of duties in the FMS; and (h) financial management and reporting capabilities are limited.
- ***The DEA should strengthen its general controls over information systems.*** Auditors reported that the DEA lacks: (a) an Incident Response Training Program for certain information systems; (b) a disaster recovery plan that includes alternate back-up sites and a plan that ensures information systems back-up tapes are stored off-site; and (c) access controls that ensure transferred or terminated employees are promptly removed from user access files. In the event of a disaster, the DEA may not be able to recover lost data or promptly resume normal operations.
- ***Security controls need to be strengthened over the OBDs' Financial Management Information System (FMIS).*** We noted that inadequate segregation of duties provides weak security administration in FMIS. Application programmers have update access to security tables and can also create access to their "own" module. As a result, application programming and security administration are not properly segregated. We also noted inadequate security policies and procedures to guide security administration, re-certification of user IDs, or the timely disabling of inactive or obsolete user IDs.
- ***The auditors of the OJP identified deficiencies in management controls over information resources.*** The auditors identified weak controls in procedures over access controls and noted that a software change management process was not implemented. Procedures for managing changes made to the network configuration and

telecommunications systems have not been developed. Finally, the auditors identified the following weaknesses: (a) an entity-wide security control review had not been performed for the last three years; (b) the lack of a documented annual financial system management plan; (c) an untested contingency plan; and (d) incomplete procedures that address entity-wide information resource security.

- ***The auditors of the FBI identified conditions that taken collectively compromise the agency's ability to ensure reliable financial reporting and compliance with laws and regulations.*** Weaknesses were identified in the FBI's information systems general control environment, including: (a) enhancements are needed in the entity-wide security program; (b) logical access controls that need improvement to ensure greater security over data resources; (c) a systems programming unit that lacks a formal change control process; and (d) the lack of a comprehensive, tested business continuity plan.

The control weaknesses identified by the auditors increase the risk that software programs and data processed on these systems are not adequately protected from unauthorized access. The Department of Justice Order 2640.2C "*Telecommunications and Automated Information Systems Security*" provides general guidelines for the implementation of security policies throughout the Department of Justice. The OMB Circular A-130, Appendix III, *Automated Information Security Programs*, requires Agencies to establish controls to assure adequate security for all information processed, transmitted, or stored in Federal automated information systems. The Department's order requires each system to have an access control policy and a security plan for all computer systems.

Recommendations

As first reported in the Office of the Inspector General's Report No. 97-24B, we recommend that the Assistant Attorney General for Administration ensure that management of the components implement programs that provide adequate security for general support systems and major applications, including the following:

3. For general support systems and specific agency applications (a) assign responsibility for security, (b) develop or modify system security plans, (c) review security controls, and (d) ensure management officials test and confirm the effectiveness of security plans.
4. Enhance or modify existing controls to ensure personnel security, technical, operation, and management controls are used to prevent and detect improper activities by authorized individuals. These controls include: (a) individual accountability controls that hold individuals responsible for their actions by identifying and authenticating users, (b) controls that restrict users' access to those functions necessary to perform their job, and (c) segregation of duties that divide the steps in critical processes among different individuals so that no one person is able to subvert a critical control.

5. Because of the sensitivity of the information at the Department's and the FBI's data centers and the Department's external access controls, auditors issued separate limited distribution reports to the Office of the Inspector General that describe the conditions they identified. We recommend the Assistant Attorney General for Administration implement the recommendations provided in each of those reports.

Management Response: Concur with recommendations No. 3, 4, and 5. The Department is committed to the implementation of corrective actions that will provide adequate security controls and protect sensitive information. The data centers and the components identified above will work with the Chief Information Officer to develop and implement corrective actions in response to the recommendations above.

The components' fiscal year-end closing procedures must be improved to ensure financial information is consistently presented at the Department level and completed timely to allow the Department's consolidated financial statements to be completed and audited in accordance with the Government Management Reform Act.

The Government Management Reform Act (GMRA) requires federal agencies to submit audited Department-wide financial statements to the OMB by March 1, 1999. To meet this deadline, the Assistant Attorney General for Administration and the Inspector General issued a joint memorandum to all nine of the 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.

In addition to the timeline, the Department's Justice Management Division (JMD) held financial statement working group meetings that provided informative discussions on financial statement preparation. Topics discussed included:

- The Department's consolidated financial reporting requirements.
- Form and content requirements for agency financial statements.
- Federal accounting standards, including four new standards effective in fiscal year 1998.
- Audit procedures that are typically applied, including, the timing, nature, and extent of audit procedures.

The working group was established, in part, in response to our prior fiscal year's Report on Internal Controls recommending the Department implement a strategic plan for financial reporting that would address: (a) resource needs; (b) timelines; (c) quality control; and (d) involvement of component financial and program managers. We believe the working group was a positive step to improve the financial reporting of the Department and encourage its continuance. However, other auditors and we continue to identify weaknesses at the component level that may affect the Department's ability to produce timely and consistent auditable financial statements. Auditors of the FPS, the INS, the FBI, the OBDs, the AFF and the USM identified the following conditions:

- ***Auditors observed that resource requirements might be insufficient to perform financial statement preparation in accordance with Federal accounting and reporting standards.*** Auditors observed that resources may not be adequate to ensure financial statement preparation is performed timely and accurately. Auditors noted that, in some cases, there was not a trained group of personnel dedicated solely to financial statement preparation. In addition, individuals involved in financial statement preparation often performed functions normally assigned to other individuals (for example, obtaining documentation to support account balances). Additional responsibilities placed on key personnel involved

with financial statement preparation increases the risk financial statements will not be completed accurately or timely.

- ***Information needed for the financial statement audit was often not received, or was not received timely, from program offices.*** Auditors reported that in some cases, documentation supporting the underlying accounting data was provided late or not provided at all. The components' finance offices often do not maintain the documentation needed to support the audit; accordingly, requests are made to program and field offices requesting this information. This information was often not provided, or was not provided timely in a format that could be used. As a result, the finance offices either requested the information again or prepared the requested information themselves. In many cases, the individuals assigned to resolve problems are the same individuals who prepare the statements. This does not allow the individual to perform a quality control review before the financial statements are submitted for audit. Thus, financial statements and notes contained errors or inadequate disclosures.
- ***Several components did not conform to Department financial reporting requirements when they prepared their component financial statements; consequently, sufficient evidence concerning the consistency and adequacy of the overall presentation and disclosure in the Department's financial statements could not be obtained before the deadlines established by the Department.*** The JMD provided financial reporting templates to all nine Department components describing the Department's consolidated financial statement reporting requirements. However, we noted that several components did not prepare financial statements according to these requirements. The JMD contacted the components in an attempt to resolve these inconsistencies and reclassified the components' reported amounts in the Department's combining statements and disclosures. Our reports on the Department's financial statements, internal controls, and compliance with laws and regulations are based solely on the audit reports of the components' auditors. Accordingly, we did not perform any procedures on the reclassifications made by the JMD to the Department's combining statements.

Spending additional time auditing and revising component financial statements after deadlines established by the Department would likely cause the Department to miss the GMRA's March 1, 1999 deadline. As a result, the Department's consolidated and combined financial statements contained amounts that were not consistently reported among the components.

Recommendations

As first reported in the Office of the Inspector General Report No. 98-07A, we continue to recommend that the Assistant Attorney for Administration begin work as soon as possible on the following recommendations to improve the components' and the Department's financial reporting processes:

6. Implement a strategic plan for financial reporting at the components that identifies, in detail, the procedures required to acquire documentation and prepare financial statements according to established timetables and the individuals who will perform these critical functions. The plan should address each critical phase (i.e., documentation requests, statement preparation, quality control reviews, etc.) and define the requirements to ensure components will enable the JMD to "consolidate" their information into a consistent, Department-wide financial statement presentation. We also recommend performing an interim financial close to ensure year-end closing procedures will be effective, including the preparation of Department pro-forma financial statements and note disclosures.
7. Ensure that program and field offices participate in the audit process. Component financial statements represent the operations and program activities of the entire agency, not just the finance offices. We encourage meeting soon after the fiscal year 1998 audit is completed (i.e., April) to discuss planning for the fiscal year 1999 audit and recommend that financial, program and operational managers attend to discuss audit plans, timelines and information needed.

Management Response: Concur with recommendations 6 and 7. Management will again develop a financial closing plan that details the responsibilities of each office and division. The plan will also identify critical dates that must be met, or if the dates cannot be met, contingent plans for directing resources to audit areas where positive results can be achieved. The Department will coordinate with the Office of the Inspector General to establish timetables that will meet the Department's reporting responsibilities, while at the same time, considering the appropriate resources that should be devoted to this process at the Department and component levels.

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 and 1997 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, 1998:

Report	Reportable Condition	Status
97-24B (1996)	<p><u>Material Weakness:</u> 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.</p> <p><u>Recommendation:</u> Correct existing errors in account balances and study cost benefits of facilitating a Department-wide property management system or procedures.</p>	In Process (c)
97-24B (1996)	<p><u>Material Weakness:</u> For fiscal year 1998, the accrual-based accounting concepts weaknesses was modified to report the inconsistent treatment of financial transactions in accordance with Federal Accounting Standards.</p> <p><u>Recommendation:</u> Emphasize the proper processing and recording of financial transactions in accordance with Federal accounting standards.</p>	In Process (a)
97-24B (1996)	<p><u>Material Weakness:</u> The Department must perform key reconciliations. For fiscal year 1997, this was reworded to emphasize reconciliation of fund balance with Treasury.</p> <p><u>Recommendation:</u> Perform reconciliations and resolve all differences on a timely basis.</p>	In Process (b)
97-24B (1996)	<p><u>Material Weakness:</u> Improved security is required at Departmental data centers and for component applications.</p> <p><u>Recommendation:</u> Implement corrective actions identified in data center reports and correct control deficiencies at the component level.</p>	In Process (b)

Report	Reportable Condition	Status
98-07A (1997)	<p><u>Material Weakness:</u> Financial accounting controls were not adequate to compile and report seized/forfeited property.</p> <p><u>Recommendation:</u> Improve financial accounting and reporting of seized/forfeited property and property held as evidence.</p>	In Process (c)
98-07A (1997)	<p><u>Reportable Condition:</u> Improved financial year-end closing procedures are needed to meet financial reporting deadlines of GMRA.</p> <p><u>Recommendations:</u> Implement a strategic plan that identifies the timelines and resources needed to prepare auditable consolidated financial statements.</p>	In Process
<p>a) The material weakness has been revised to state that accounting policies and procedures were not adequate to ensure financial transactions are performed in accordance with Federal accounting standards. This condition remains a material weakness.</p> <p>b) The condition has been downgraded to a reportable condition.</p> <p>c) For those conditions that remain for some of the components, they have been combined into the material weakness on compliance with Federal accounting standards.</p>		

Component auditors identified a number of other matters that they did not consider to be reportable conditions. A summarization of these matters will be communicated to components' management in separate management letters.

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 15, 1999
Arlington, Virginia

**REPORT OF INDEPENDENT ACCOUNTANTS
ON COMPLIANCE WITH LAWS AND REGULATIONS**

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

We were engaged to audit the consolidated balance sheet of the U.S. Department of Justice (the Department) as of September 30, 1998, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources, financing, and custodial activity, for the year then ended, and have issued our report thereon dated February 15, 1999. In that report, we disclaimed an opinion on the Department's financial statements because certain amounts reported could not be substantiated. We were not engaged to 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), and the Federal Prison System (FPS). These components represent \$18.5 billion (73.6%) of the Department's combined total assets and \$15.9 billion (77.0%) of its combined total costs. Other auditors were engaged to audit these financial statements and their reports have been furnished to us, and our report on the Department's compliance with laws and regulations, 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 reporting 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 Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, 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 other auditors' tests of components' compliance with laws and regulations, exclusive of FFMIA, disclosed instances of noncompliance with the following laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 98-08, as described below:

- *Prompt Pay Act* – Auditors of the DEA identified that interest of \$89,000 was not paid on approximately 2,200 vendor invoices. The auditors of the INS reported that one INS region was not paying interest on overdue Intergovernmental Service Agreements related to detained aliens.
- *Appropriation Law* – The INS auditors reported that one region established “contingency obligations” to cover unforeseen costs associated with other obligations. The auditors reported that there were no definite commitments that created a legal liability of the Government.
- *Illegal Immigration Reform and Immigration Responsibility Act* – INS’ auditors reported that system limitations prevent the INS from properly allocating individual deposits between two deposit accounts.

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

- Auditors of the OJP, the FBI, the FPS, the Offices, Boards and Divisions (OBDs), the U.S. Marshals Service (USM) and the Assets Forfeiture Fund and Seized Asset Deposit Fund (AFF) identified departures from certain requirements of Federal accounting standards, including those published by the Federal Accounting Standards Advisory Board.
- Auditors of the OJP, the FBI, the DEA, the INS, and the USM identified that component financial management systems do not meet Federal financial management system requirements; including: (1) the applicable provisions of OMB Circulars A-127, *Financial Management Systems*, and A-130, *Management of Federal Information Resources*, (2) certain requirements of the Joint Financial Management Improvement Program, and (3) applicable accounting standards of the U.S. Standard General Ledger.

All significant facts pertaining to the matters referred to above and recommended remedial actions are included in component auditors’ Reports on Internal Control. Other auditors and we believe these conditions are significant departures from Federal accounting standards and the Federal financial management systems requirements. 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.



Report on Compliance with Laws and Regulations
Page 3

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.

A handwritten signature in cursive script that reads "PriceWaterhouseCoopers LLP".

February 15, 1999
Arlington, Virginia

U.S. Department of Justice

**Principal Financial Statements
and Related Notes**

DEPARTMENT OF JUSTICE
Consolidated Balance Sheet
as of September 30, 1998

Dollars in Thousands

1998

Assets

Entity Assets

Intragovernmental

Fund Balance with U.S. Treasury (Note 2)	\$ 16,306,665
Investments (Note 4)	653,494
Advances and Prepayments	138,917
Accounts Receivable, Net (Note 5)	435,870
Interest Receivable	1,980
Other Assets (Note 6)	384

Governmental

Advances and Prepayments	996,881
Accounts Receivable, Net (Note 5)	94,400
Cash and Other Monetary Assets (Note 3)	24,529
Inventory and Related Property, Net (Note 7)	106,577
General Property, Plant and Equipment, Net (Note 10)	4,929,081
Forfeited Property, Net (Note 8)	127,816
Other Assets (Note 6)	702

Total Entity Assets

\$ 23,817,296

Non-Entity Assets

Intragovernmental

Fund Balance with U.S. Treasury (Note 2)	\$ 384,422
Investments (Note 4)	656,523
Accounts Receivable, Net (Note 5)	2
Advances and Prepayments	639

Governmental

Accounts Receivable, Net (Note 5)	6,490
Cash and Other Monetary Assets (Note 3)	82,097

Total Non-entity Assets

\$ 1,130,173

Total Assets

\$ 24,947,469

The accompanying notes are an integral part of these financial statements

**DEPARTMENT OF JUSTICE
Consolidated Balance Sheet
as of September 30, 1998**

Dollars in Thousands

1998

LIABILITIES

Liabilities Covered by Budgetary Resources

Intragovernmental Liabilities	
Accounts Payable	\$ 16,508
Debt (Note 11)	20,000
Other Intragovernmental Liabilities (Note 12)	146,143
Governmental Liabilities	
Accounts Payable	2,660,047
Accrued Payroll and Benefits	413,761
Deferred Revenue	661,840
Deposit/Suspense Fund	697,340
Cash, Securities, and US Treasury Bonds Held	180,521
Liability for Cash Held as Evidence	78,509
Unexpended Prior Year Surplus	5,916
Contingent Liabilities (Note 9)	75,000
Other Governmental Liabilities (Note 12)	29,234
Total Liabilities Covered by Budgetary Resources	\$ 4,984,819

Liabilities Not Covered by Budgetary Resources

Intragovernmental Liabilities	
Fine and Interest Payable to US Treasury	\$ 6,258
Undisbursed Civil and Criminal Debt Collections	160,419
Other Intragovernmental Liabilities (Note 12)	116,185
Governmental Liabilities	
Actuarial Liabilities	602,739
Lease Liabilities (Note 13)	94,944
Accrued Leave	493,828
Contingent Liabilities (Note 9)	106,877
Liability for Cash Held as Evidence	369
Other Governmental Liabilities (Note 12)	27,992
Total Liabilities Not Covered by Budgetary Resources	\$ 1,609,611
Total Liabilities	\$ 6,594,430

NET POSITION

Unexpended Appropriations (Note 17)	\$ 12,290,180
Cumulative Results of Operations	6,062,859
Total Net Position	\$ 18,353,039
Total Liabilities and Net Position	\$ 24,947,469

The accompanying notes are an integral part of these financial statements

DEPARTMENT OF JUSTICE
Consolidated Statement of Net Cost
for fiscal year ended September 30, 1998

Dollars in Thousands

1998

	Combined Total	Eliminations	Consolidated Total
Program Costs			
Investigation and Prosecution of Criminal Offenses			
Production			
Intragovernmental	\$ 1,152,301	\$ (327,979)	\$ 824,322
With the Public	4,147,922	-	4,147,922
Total	\$ 5,300,223	\$ (327,979)	\$ 4,972,244
Less Earned Revenues	(738,436)	327,979	(410,457)
Net Program Costs	\$ 4,561,787	\$ -	\$ 4,561,787
Assistance to Tribal, State, and Local Governments			
Production			
Intragovernmental	\$ 3,040,057	\$ (25,956)	\$ 3,014,101
With the Public	1,304,135	-	1,304,135
Total	\$ 4,344,192	\$ (25,956)	\$ 4,318,236
Less Earned Revenues	(124,776)	25,956	(98,820)
Net Program Costs	\$ 4,219,416	\$ -	\$ 4,219,416
Legal Representation, Enforcement of Federal Laws, and Defense of U.S. Interests			
Production			
Intragovernmental	\$ 481,040	\$ (80,535)	\$ 400,505
With the Public	890,037	-	890,037
Total	\$ 1,371,077	\$ (80,535)	\$ 1,290,542
Less Earned Revenues	(177,682)	80,535	(97,147)
Net Program Costs	\$ 1,193,395	\$ -	\$ 1,193,395
Immigration			
Production			
Intragovernmental	\$ 34,506	\$ (4,893)	\$ 29,613
With the Public	2,991,881	-	2,991,881
Total	\$ 3,026,387	\$ (4,893)	\$ 3,021,494
Less Earned Revenues	(770,884)	4,893	(765,991)
Net Program Costs	\$ 2,255,503	\$ -	\$ 2,255,503

The accompanying notes are an integral part of these financial statements

DEPARTMENT OF JUSTICE
Consolidated Statement of Net Cost
for fiscal year ended September 30, 1998

Dollars in Thousands

1998

	Combined Total	Eliminations	Consolidated Total
Program Costs			
Detention and Incarceration			
Production			
Intragovernmental	\$ 42,779	\$ (96,898)	\$ (54,119)
With the Public	5,368,031	-	5,368,031
Total	\$ 5,410,810	\$ (96,898)	\$ 5,313,912
Less Earned Revenues	(821,775)	96,898	(724,877)
Net Program Costs	\$ 4,589,035	\$ -	\$ 4,589,035
Protection of the Federal Judiciary and Improvement of the Justice System			
Production			
Intragovernmental	\$ 38,558	\$ (10,933)	\$ 27,625
With the Public	387,175	-	387,175
Total	\$ 425,733	\$ (10,933)	\$ 414,800
Less Earned Revenues	(141,320)	10,933	(130,387)
Net Program Costs	\$ 284,413	\$ -	\$ 284,413
Management			
Production			
Intragovernmental	\$ 498,843	\$ (607,256)	\$ (108,413)
With the Public	271,000	-	271,000
Total	\$ 769,843	\$ (607,256)	\$ 162,587
Less Earned Revenues	(694,519)	607,256	(87,263)
Net Program Costs	\$ 75,324	\$ -	\$ 75,324
Deferred Maintenance (Note 1)			
Net Cost of Operations (Note 21)	\$ 17,178,873	\$ -	\$ 17,178,873

The accompanying notes are an integral part of these financial statements

DEPARTMENT OF JUSTICE
Consolidated Statement of Changes in Net Position
for fiscal year ended September 30, 1998

Dollars in Thousands	1998
Net Cost of Operations (Note 21)	\$ (17,178,873)
Financing Sources (other than exchange revenues):	
Appropriations Used	16,434,346
Other nonexchange revenue	790,137
Imputed Financing (Note 15)	545,250
Transfers-in	280,158
Transfers-out	(131,654)
Rescissions	(100,000)
Other Financing Source	(4,133)
Allocation of Prior Year Surplus	(33,055)
Net Results of Operations	\$ 602,176
Prior Period Adjustments (Note 16)	293,405
Net Change in Cumulative Results of Operations	\$ 895,581
Increase (Decrease) in Unexpended Appropriations	1,636,099
Change in Net Position	\$ 2,531,680
Net Position-Beginning of Period (Note 16)	15,821,359
Net Position - End of Period	\$ 18,353,039

The accompanying notes are an integral part of these financial statements

DEPARTMENT OF JUSTICE
Combined Statement of Budgetary Resources
for fiscal year ended September 30, 1998

Dollars in Thousands	1998
-----------------------------	-------------

Budgetary Resources:

Budget Authority	
Appropriations	\$ 17,274,994
Net Transfers, Current Year Authority	1,651,943
Unobligated Balances - Beginning of Period	3,660,669
Net Transfers, Prior Year Balance, Actual	28,916
Spending Authority from Offsetting Collections	3,547,833
Adjustments	(247,349)
Total Budgetary Resources	\$ 25,917,006

Status of Budgetary Resources:

Obligations incurred	\$ 22,270,747
Unobligated Balances - Available	3,253,838
Unobligated Balances - Not Available	392,421
Total Status of Budgetary Resources	\$ 25,917,006

Outlays:

Obligations Incurred	\$ 22,270,747
Less: Spending Authority from Offsetting Collections and Adjustments	(3,775,067)
Obligated Balance, Net - Beginning of Period	10,381,610
Less: Obligated Balance, Net - End of Period	(12,377,886)
Total Outlays	\$ 16,499,404

The accompanying notes are an integral part of these financial statements

DEPARTMENT OF JUSTICE
Combined Statement of Financing
for fiscal year ended September 30, 1998

Dollars in Thousands

1998

Obligations and Nonbudgetary Resources

Obligations incurred	\$ 22,270,747
Less: Spending Authority from Offsetting Collections and Adjustments	(3,775,067)
Financing Imputed for Cost Subsidies	538,599
Revenue Not in the Entity's Budget	(4,119)
Transfers-in (out)	(99,666)
Property Transfers in, Net	33,947
Other Resources Used to Finance Operations	471,390

Total Obligations as Adjusted, and Nonbudgetary Resources

\$ 19,435,831

Resources That do not Fund Net Cost of Operations

Change in Amount of Goods, Services, and Benefits Ordered but not yet Received or Provided	\$ (2,055,185)
Change in Unfilled Customer Orders	53,747
Costs Capitalized on the Balance Sheet	(433,219)
Financing Sources That Fund Costs of Prior Periods	(230,332)
Other	(57,942)

Total Resources That do not Fund Net Cost of Operations

\$ (2,722,931)

Costs That do not Require Resources

Depreciation, Amortization and Bad Debt	\$ 264,338
Other	14,646

Total Costs That do not Require Resources

\$ 278,984

Financing Sources Yet to Be Provided

\$ 177,970

Net Cost of Operations (Note 21)

\$ 17,169,854

The accompanying notes are an integral part of these financial statements

DEPARTMENT OF JUSTICE
Combined Statement of Custodial Activity
for fiscal year ended September 30, 1998

Dollars in Thousands	1998
Revenue Activity	
Sources of Cash Collections:	
Civil and Criminal Debt Collections	\$1,148,775
Disposition of Collections:	
Transferred to Others:	
Federal Agencies	(963,203)
Public	(178,698)
Decrease in Amounts to be Transferred	18,893
Refunds	(1,240)
Retained by the WCF pursuant to Section 108 of P.L. 103-121	<u>(24,527)</u>
Net Custodial Revenue Activity (Note 22)	<u><u>\$0</u></u>

The accompanying notes are an integral part of these financial statements

U.S. Department of Justice
Notes to the Principal Financial Statements

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; Working Capital Fund; Offices, Boards and Divisions; United States Marshals Service; Office of Justice Programs; Drug Enforcement Administration; Federal Bureau of Investigation; Immigration and Naturalization Service; and the Federal Prison System.

- **Assets Forfeiture Fund and Seized Asset Deposit Fund (AFF/SADF)** are aimed at attacking and dismantling criminal organizations at all levels by seizing the assets of illicit organizations. Through this procedure, the Government can sharply curtail or eliminate these illicit operations. Forfeiture procedures occur through civil and criminal judicial cases, and through administrative means.
- **Working Capital Fund (WCF)** consolidates, under one financing arrangement, many common services of the Department's components to obtain economies of scale and efficiency of operations while avoiding a duplication of effort. The WCF provides certain administrative services where a determination has been made that these services can be provided more advantageously on a centralized basis.

Notes to the Principal Financial Statements
Annual Financial Statement FY 1998

- **Offices, Boards and Divisions** (OBDs) comprising several enforcement, litigating and policy-making components have a variety of missions and programs. Included among these components are the following:

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 Immigration Review
Executive Office for U.S. Trustees
Office of Intergovernmental Affairs
Office of Information and Policy
Office of Community Oriented Policing Services
National Drug Intelligence Center (NDIC)

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

- **United States Marshals Service** (USMS) protects the Federal judiciary and witnesses; executes warrants and court orders; manages seized assets; and maintains custody and provides transportation of unsentenced prisoners. Included under the USMS is the Support of U.S. Prisoners Program.

- **Office of Justice Programs (OJP)** is responsible for collecting statistical data and conducting analyses; identifying emerging criminal justice issues; developing and testing promising approaches to address these issues; evaluating program results; managing \$2.2 billion in discretionary grant program funds; and disseminating these findings and other information to State and Local governments. The five bureaus of the OJP are the Bureau of Justice Assistance, Bureau of Justice Statistics, National Institute of Justice, Office of Juvenile Justice and Delinquency Prevention, and the Office for Victims of Crime.
- **Drug Enforcement Administration (DEA)** is responsible for the development of overall Federal drug enforcement strategy, programs, planning, and evaluation and enforces the controlled substance laws of the United States.
- **Federal Bureau of Investigation (FBI)** is the principal investigative arm of the Department. The FBI is also authorized to provide other law enforcement agencies with cooperative services, such as fingerprint identification, laboratory examinations, police training, Uniform Crime Reports, and the National Crime Information Center.
- **Immigration and Naturalization Service (INS)** is responsible for carrying out national policy which provides for selective immigration and for controlled entry and stay of non-immigrants in order to promote the reunification of families, entry of immigrants possessing needed skills, temporary admission of specific classes of non-citizens, and refuge from persecution. INS is also responsible for preventing unlawful entry and employment of individuals ineligible for admission.
- **Federal Prison System (FPS)** includes three entities which comprise the FPS: the Bureau of Prisons (BOP), the Federal Prison Industries (FPI), and the Commissary Trust Fund (CTF). The BOP protects society by confining offenders in the controlled environments of prisons and community-based facilities that are safe, humane, and appropriately secure, and which provide work and other self-improvement opportunities to assist offenders in becoming law-abiding citizens. The FPI provides employment and training opportunities to inmates confined in Federal correctional facilities and provides market-priced, quality products and services to other Federal agencies. The CTF provides a means for inmates to purchase products and services which are not provided by Federal funds, e.g., personal grooming products, stamps, telephone, and laundry services.

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, dated October 16, 1996, as amended November 20, 1998. 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.

The Statements of Federal Financial Accounting Standards that were in effect as of September 30, 1998, were followed in the preparation of these financial statements. For those transactions that are not specifically addressed by these standards, the following hierarchy constitutes another comprehensive basis of accounting and was used to prepare these financial statements:

1. Individual standards agreed to by the Director of the OMB, the Comptroller General, and the Secretary of the Treasury, and published by OMB and the General Accounting Office.
2. Interpretations related to the Statements of Federal Financial Accounting Standards issued by OMB in accordance with the procedures outlined in OMB Circular A-134, "Financial Accounting Principles and Standards."
3. Requirements contained in applicable portions of OMB's Form and Content Bulletin No. 97-01.

Notes to the Principal Financial Statements
Annual Financial Statement FY 1998

4. Accounting principles published by authoritative standard setting bodies and other authoritative sources in the absence of other guidance and if the use of such accounting standards improves the meaningfulness 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 by donation, for example, taxes and duties.

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 CTF checks 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.

Notes to the Principal Financial Statements
Annual Financial Statement FY 1998

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 FPS, Department acquisitions of personal property \$25,000 and over are capitalized and depreciated, based on historical cost, using the straight-line method over the estimated useful lives of the assets. Equipment with an acquisition cost of less than \$25,000 is expensed when purchased. FPS capitalizes personal property acquisitions over \$5,000. Aircrafts are capitalized when the initial cost of acquiring those assets is \$100,000 or more. Real property, except for land, is capitalized when the cost of acquiring and /or improving the asset is \$100,000 or more and the asset has a useful life of two or more years. Land is capitalized regardless of the acquisition cost.

Deferred maintenance cost is deemed to be immaterial for consolidated purposes and is not recognized on the statement of net 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

Notes to the Principal Financial Statements
Annual Financial Statement FY 1998

there is no certainty that corresponding future appropriations will be enacted. Liabilities cannot be liquidated without legislation that provides resources to do so.

Information on the current and non-current portions of the liabilities have not been disclosed because this information was not available for all reporting entities at the time the statements were prepared.

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. INS also receives cash receipts that have not been deposited to the U.S. Treasury by year end. These balances are classified as a non-entity asset on the balance sheet and the corresponding intragovernmental liability is classified as not covered by budgetary resources. 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

Loans payable to the U.S. Treasury include a loan to the FPI. 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 million from the U.S. Treasury with a lump-sum maturity or optional renegotiation date of September 30, 1998.

L. Contingencies and Commitments

The Department is a party in various administrative proceedings, legal actions, and claims brought by or against it. In the opinion of management and legal counsel, the ultimate resolution of the majority of these proceedings, actions, and claims will not materially affect the financial position or results of operations of the Department. The majority of leased space occupied by the Department is leased by the General Services Administration (GSA). The Department may terminate leases with GSA, however, it is anticipated that the leases will continue in future years. A breakdown of future capital and operating lease payments is provided in Note 13.

M. Annual, Sick and Other Leave

Annual and compensatory leave is expended 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

Notes to the Principal Financial Statements
Annual Financial Statement FY 1998

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 expended 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 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 15 — Imputed Financing.

P. Accrued Unfunded Workers' Compensation Liability

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

Notes to the Principal Financial Statements
Annual Financial Statement FY 1998

is attributable to a job-related injury or occupational disease. Claims incurred for benefits for Department employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by the Department. The future workers' compensation liability has two components: (1) unpaid billings, and (2) an amount of estimated unbilled claims. The unbilled claims are estimated by applying actuarial procedures. The DOL calculated the liability of the Federal Government for future compensation benefits, which includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation costs. The liability was 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 agency. The Future Compensation Benefits 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 fiscal year in which the cost is actually billed to the Department.

Q. Deferred Revenue

Deferred revenue for the INS represents monies received to process applications for immigration, citizenship benefits, and naturalizations for which the application process was not complete at fiscal year end and the unexpired portion of decals issued.

Fees received by the DEA from registrants in the Diversion Control Program are for licenses that are renewed annually or triannually. The unearned portion of these fees is reported as deferred revenue and included in other governmental liabilities covered by budgetary resources on the accompanying balance sheet.

AFF/SADF records deferred revenue for forfeited property held for sale or placement into official use.

R. 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 1998. 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. INS established an intragovernmental allowance for doubtful accounts for all accounts over 365 days old. The AFF/SADF,

Notes to the Principal Financial Statements
Annual Financial Statement FY 1998

OBDs, 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.

S. 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.

T. Principles of Consolidation

The consolidated financial statements of the Department include the accounts of the AFF/SADF, WCF, OBDs, USMS, OJP, DEA, FBI, INS and FPS. 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 1998, as such, intra-entity transactions have not been eliminated.

U. Reclassification of Components' Balances

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

V. Reporting of Comparative Data

OMB 97-01, as amended, does not require the reporting of comparative data in FY 1998.

W. 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.

Notes to the Principal Financial Statements
Annual Financial Statement FY 1998

Note 2. Fund Balance with the U.S. Treasury (000)

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, 1998:

		<u>Entity</u>	<u>Non-Entity</u>	<u>Total</u>
1. Trust Funds	\$	4,073,450	\$180,187	\$4,253,637
2. Revolving Funds		716,704	161,280	877,984
3. Appropriated Funds		10,572,769	3,425	10,576,194
4. Other Fund Types		<u>943,742</u>	<u>39,530</u>	<u>983,272</u>
Total	\$	<u>16,306,665</u>	<u>\$384,422</u>	<u>\$16,691,087</u>

Note 3: Cash, Foreign Currency and Other Monetary Assets: (000)

		<u>Entity</u>	<u>Non-Entity</u>	<u>Total</u>
1. Cash	\$	14,201	\$1,079	\$15,280
2. Foreign Currency		83	0	83
3. Deposits in Transit		10,245	1	10,246
4. Other Monetary Assets		<u>0</u>	<u>81,017</u>	<u>81,017</u>
Total	\$	<u>24,529</u>	<u>\$ 82,097</u>	<u>\$106,626</u>

Note 4. Investments - Federal Securities, Net (000)

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, 1998:

	<u>Acquisition Cost</u>	<u>Unamortized Premium or Discount</u>	<u>Investments Net</u>	<u>Market Value Disclosure</u>
Intragovernmental Securities:				
Non-Marketable				
Par value	\$1,314,842	\$ (4,825)	\$1,310,017	\$1,310,734
Total	<u>\$1,314,842</u>	<u>\$ (4,825)</u>	<u>\$1,310,017</u>	<u>\$1,310,734</u>

Notes to the Principal Financial Statements
Annual Financial Statement FY 1998

Note 5. Accounts Receivable, Net (000)

Accounts Receivable, Net for all Department Treasury Symbols at September 30, 1998:

Gross Receivable	Entity	Non-Entity	Elimination	Total
Intragovernmental	\$ 690,414	\$ 2	\$ (253,590)	\$ 436,826
Governmental	120,462	16,482		136,944
Less: Allowance for Uncollectible Accounts	<u>(27,016)</u>	<u>(9,992)</u>	<u></u>	<u>(37,008)</u>
Net Receivables	<u>\$ 783,860</u>	<u>\$ 6,492</u>	<u>\$ (253,590)</u>	<u>\$ 536,762</u>

Note 6. Other Assets (000)

Intragovernment	Entity
1. Prototype Product Cost (FPS)	\$ 9
2. Assets in Transit (FPS)	78
3. Other Assets (FPS)	64
4. Other Deferred Prepaid Expenses	<u>233</u>
Total	\$ <u>384</u>

Government	
1. Bailment Property (FPS)	\$ <u>702</u>
Total Other Assets	\$ <u>1,086</u>

Note 7. Inventory and Related Property (000)

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.

Notes to the Principal Financial Statements
Annual Financial Statement FY 1998

FPS inventories consist of FPI and CTF inventories. The FPS inventories are stated at the lower of cost or market value using the moving average cost method, based on first-in, first-out for valuing raw material inventories. Recorded values of inventories are adjusted for the results of physical inventories conducted periodically for the FPS. Expenses are recorded by the FPS when inventories are sold. Inventory can be classified into either raw materials, work-in-process, or finished goods. Commissary inventories are stated at the latest acquisition cost which is adjusted using the Consumer Price Index for the year to approximate the value of the average cost of the Commissary inventory. 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.

Raw Materials and Factory Supplies		<u>Total 1998</u>
Inventory Held for Current Sale	\$	48,118
Excess, Obsolete and Unserviceable Inventory		<u>2,572</u>
Total Raw Materials and Factory Supplies		50,690
 Work-In-Process		
Inventory Held for Current Sale	\$	<u>25,295</u>
 Finish Goods		
Inventory Held for Current Sale	\$	28,863
Inventory Held in Reserve for Future Sale		340
Excess, Obsolete and Unserviceable Inventory		<u>65</u>
Total Finish Goods	\$	29,268
 Less Inventory Allowance		
Excess Inventory Allowance	\$	(3,031)
Operating Materials/Supplies Held for use		<u>4,355</u>
 Total Inventory	\$	<u><u>106,577</u></u>

Notes to the Principal Financial Statements
Annual Financial Statement FY 1998

Note 8. Seized and Forfeited Property (000)

Analysis of Changes 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. The following table represents the analysis of change of forfeited property for fiscal year 1998 (dollar value in thousands):

Forfeited Property Category		Beginning Balance (Restated)	Forfeited During FY 1998	Disposed During FY 1998	Ending Balance	Liens and Claims Net	Ending Balance of Liens
Financial & Other Monetary Instruments	Number	351	564	631	284	5	279
	Value	\$34,346	\$51,817	\$55,357	\$30,806	\$135	\$30,671
Real Property	Number	428	491	592	327	9	318
	Value	\$62,105	\$64,724	\$81,424	\$45,405	\$736	\$44,669
Personal Property	Number	6,063	26,618	26,994	5,687	429	5,258
	Value	\$55,885	\$97,115	\$102,348	\$50,652	\$1,066	\$49,586
Other	Number	334	237	427	144	2	142
	Value	\$5,316	\$11,573	\$13,980	\$2,909	\$19	\$2,890
Total	Number	7,176	27,910	28,644	6,442	445	5,997
	Value	\$157,652	\$225,229	\$253,109	\$129,772	\$1,956	\$127,816

* The number of items presented represents quantities calculated using many different units of measure.

Methods of disposition include sale (\$118,744), return to crime victims (\$48,280) and other (\$83,335) (including but not limited to, (a) liquidation of financial instruments; (b) property used; and (c) property released to a claimant in lieu of cash settlement). There is a variance between the analysis of change and methods of disposition of forfeited property numbers reported above.

Notes to the Principal Financial Statements
Annual Financial Statement FY 1998

Analysis of Changes 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 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. The following table represents the analysis of change of seized property for fiscal year 1998 (dollar value in thousands):

Seized Property Category		Beginning Balance (Restated)	Seized During FY 1998	Disposed During FY 1998	Ending Balance	Liens and Claims Net of Liens	Ending Balance
Financial & Other Monetary Instruments	Number	1,226	884	818	1,292	67	1,225
	Value	\$628,722	\$114,383	\$510,413	\$232,692	\$12,523	\$220,169
Real Property	Number	836	260	564	532	176	356
	Value	\$137,707	\$38,852	\$81,879	\$94,680	\$33,238	\$61,442
Personal Property	Number	9,100	32,213	30,031	11,282	3,267	8,015
	Value	\$125,671	\$147,139	\$133,485	\$139,325	\$33,936	\$105,389
Other	Number	428	276	306	398	28	370
	Value	\$14,781	\$10,855	\$12,960	\$12,676	\$4,791	\$7,885
Total	Number	11,590	33,633	31,719	13,504	3,538	9,966
	Value	\$906,881	\$311,229	\$738,737	\$479,373	\$84,488	\$394,885

Notes to the Principal Financial Statements
Annual Financial Statement FY 1998

Seized Property Non-Monetary		Beginning Balance	Seized During FY 1998	Disposed During FY 1998	Ending Balance
Evidence	Value	\$13,911	\$11,954	\$5,466	\$20,399
Property of Prisoners	Value		\$1		\$1
Abandoned Property	Value		\$16	\$9	\$7
Total	Value	\$13,911	\$11,971	\$5,475	\$20,407

Information on seizures and dispositions of monetary evidence was not presented by all of the component entities and is therefore, not reflected in the table above.

Methods of disposition include converted financial instrument (\$442,827), forfeiture (\$224,782), return to crime victims (\$51,928), and other (\$21,768) (including but not limited to, (a) liquidation of financial instruments; (b) property placed into use; (c) property in which USMS received "substitute res" (the monetary value of the property is substituted in place of the property) for the property; and (d) property released to a claimant in lieu of cash settlement). There is a variance between the analysis of change and methods of disposition of seized property numbers reported above.

Seized narcotics are held for evidence by seizing agencies, and are eventually destroyed. Seized narcotics do not impact the financial position of the Department, have no value, and are separately reported below:

Seized Narcotics held for Evidence

Drug Evidence (weight in kilograms)	Beginning Balance	Seized During FY 1998	Disposed During FY 1998	Ending Balance
Marijuana	36,590	247,821	200,069	84,342
Cocaine	210,977	35,979	44,731	202,225
Heroin	2,212	423	727	1,908
Other Narcotics	16,665	5,040	5,609	16,096
Total	266,444	289,263	251,136	304,571

Note 9. Contingencies and Commitments

INS is party to various administrative proceedings, legal actions, and claims brought by or against INS Management, the Office of General Counsel, the Procurement Office, the Human Resource Office and the Equal Employment Opportunity Office. 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. These proceedings and actions include suits alleging unlawful detention, false arrest, inadequate confinement conditions, and sexual harassment. Also, there are a number of cases filed by present and former INS employees alleging Equal Employment Opportunity abuse, and Fair Labor Standards Act (FLSA) overtime pay violations for criminal investigators. The estimated potential liability for these cases is \$68.2 million and was recorded in the financial statements as of September 30, 1998.

The FBI recorded a total of \$3.1 million in contingent liabilities, however, a breakdown of items was not available at the time the Department's statements were prepared.

FPS recorded a total of \$110 million in contingent liabilities. For FPS, BOP has undertaken new construction projects to accommodate the growing Federal inmate population and reduce the overcrowding in its current institutions. Also BOP, on behalf of FPI, is planning to invest \$14.4 million during the next three years for the construction of buildings and improvements. FPI is planning to invest \$45 million for the purchase of machinery and equipment and for the continued implementation of a new computer system. BOP is a party in legal proceedings related to contract termination and other legal matters. Possible total liability estimated for these legal matters range from \$110 million to \$170 million.

DEA recorded a total of \$.5 million in contingent liabilities. The DEA is involved in various administrative proceedings, legal actions, and claims brought by a variety of claimants. DEA legal counsel evaluates the probability that the DEA will ultimately be held responsible for any or all of the amounts claimed. An unfunded liability is established when material claim payments are determined to be probable. Settlements less than \$2,500 are paid from the DEA appropriations, and amounts greater than \$2,500 may be paid on behalf of the DEA by the U.S. Treasury Judgement Fund. Payments made by the Judgement Fund and reported to the DEA are recorded as an imputed expense and an offsetting imputed revenue source.

Notes to the Principal Financial Statements
Annual Financial Statement FY 1998

Note 10: General Property, Plant and Equipment, Net (000)

Items are generally depreciated using the straight line method. The Property, Plant and Equipment (PPE) balance as of September 30, 1998 was:

<u>PPE Type</u>	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Service Life</u>
Equipment	\$ 580,272	\$ 297,093	\$ 283,179	5 yrs
Aircraft	115,220	43,568	71,652	20 yrs
Capital Leases	107,831	18,680	89,151	5 yrs
Software	15,041	8,436	6,605	5 yrs
Land	129,560	0	129,560	N/A
Buildings	3,894,683	856,641	3,038,042	40-50 yrs
Structure & Facilities	423,378	111,137	312,241	40-50 yrs
Leasehold Improvements	139,532	42,686	96,846	2-5 yrs
Construction in Progress	772,936	0	772,936	N/A
Vehicles	163,530	36,956	126,574	5-8 yrs
Other Personal Property	<u>2,672</u>	<u>377</u>	2,295	10-20 yrs
Total	\$ <u>6,344,655</u>	\$ <u>1,415,574</u>	\$ <u>4,929,081</u>	

Note 11. 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 million from the U.S. Treasury with a lump-sum maturity or optional renegotiation date of September 30, 1998. 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 9.125 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 million. When this occurs, interest is calculated on the difference between the loan amount (\$20 million) and the FPI's cash balance.

The loan agreement provides for certain restrictive covenants and a prepayment penalty for debt retirements prior to 1998. 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, 1998.

Notes to the Principal Financial Statements
Annual Financial Statement FY 1998

Note 12. Other Liabilities (000)

Other Liabilities Covered by Budgetary Resources:

Intragovernmental Liabilities

Disbursements in Transit/Clearing	\$(13,665)
Advances from Others	115,901
Canceled Funding	7
Deposit Fund Liability	1,327
Liability for Other Cash	2,140
Unexpended Customer Cash Advances	39,807
Accrued FECA Liability	<u>626</u>
Total	<u>\$ 146,143</u>

With the Public

Actuarial FECA Liability	\$ 3,335
Liability for Inmate Telephone System Credits	1,280
Accrued Annual/Comp Leave	16,117
Environmental and Disposal Liabilities	8,129
Advances to Others	<u>373</u>
Total	<u>\$ 29,234</u>

Other Liabilities not Covered by Budgetary Resources

Intragovernmental

Accrued FECA Liability	\$115,216
Non-entity Liability	<u>969</u>
Total	<u>\$116,185</u>

With the Public

Environmental and Disposal Liabilities	\$ 8,600
Accrued FECA Liability	<u>19,392</u>
Total	<u>\$ 27,992</u>

Notes to the Principal Financial Statements
Annual Financial Statement FY 1998

Note 13. Leases

FBI reported capital leases for lease-to-own copiers of \$1.3 million. The lease terms range from three to five years with interest ranging from 1 to 12 percent.

FPS reported a 20-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 \$4.5 million. BOP paid a total of \$9 million in FY 1998.

USMS reported two capital leases. The lease on a hangar has an estimated cost of \$20.25 million over 20 years, with an estimated interest rate of 7 percent. The lease on a training center has an estimated cost of \$6 million over 16 years with an estimated interest rate of 6.5 percent.

Capital Leases (000)

	<u>Total</u>
Summary of Assets Under Capital Lease:	
Land & Buildings	\$ 105,433
Machinery & Equipment	2,398
Accumulated Amortization	18,680
	<u>\$ 89,151</u>

Unfunded Lease Liability - Future Payments Due:

<u>Fiscal Year</u>	<u>Building</u>	<u>Equipment</u>	<u>Total</u>
Year 1 (1999)	10,577	814	11,391
Year 2 (2000)	10,577	761	11,338
Year 3 (2001)	10,577	711	11,288
Year 4 (2002)	10,577	381	10,958
Year 5 (2003)	10,577	13	10,590
After year 5	<u>110,580</u>		<u>110,580</u>
Total	\$163,465	\$2,680	\$166,145
Less imputed			
Interest	<u>70,740</u>	<u>461</u>	<u>71,201</u>
Net Unfunded Capital Lease Payments	<u>\$92,725</u>	<u>\$ 2,219</u>	<u>\$94,944</u>

Notes to the Principal Financial Statements
Annual Financial Statement FY 1998

Operating Leases (000)

Future Operating Lease Payments Due:

<u>Fiscal Year</u>	<u>Buildings</u>
Year 1 (1999)	\$12,743
Year 2 (2000)	11,419
Year 3 (2001)	11,048
Year 4 (2002)	11,035
Year 5 (2003)	9,570
After Year 5	<u>15,649</u>
Total Future Lease Payments	<u>\$71,464</u>

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.

The FBI leases are for copying machines. Operating leases have been established between three and five years and total payments per lease is below the \$25,000 capitalization threshold.

FPS 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 \$1.15 million. In addition, many of the FPS 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 \$97.2 million for FY 1998. Of this amount, approximately \$95.4 million was for office space, parking facilities, and warehouses, \$1.12 million was for airplane hangars, and the remainder for office equipment and vehicles. As of September 30, 1998, 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.

Notes to the Principal Financial Statements
Annual Financial Statement FY 1998

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 1998 WCF rent charge was approximately \$7.9 million.

Note 14. Future Funding Requirements (000)

Future funding requirements are funding needs that will be met by future appropriations. For the Department, future funding requirements include accrued leave, actuarial liabilities and contingent liabilities. Unfunded expenses include future benefit costs: actuarial liabilities, accrued annual leave, accrued compensatory leave and contingent liabilities for the year presented.

The total unfunded liability amount of \$1,609,611 on the Balance Sheet does not equal the total financing sources yet to be provided on the Statement of Financing of \$177,970. Total financing sources yet to be provided on the Statement of Financing include only current unfunded expenses, while the unfunded liabilities included on the Balance Sheet represent both current and prior year unfunded expense amounts.

Note 15. Imputed Financing

The Statement of Federal Financial Accounting Standards Number Five (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. For FY 1998, approximately **\$545.2** million was reported for Imputed Financing, including \$16 million for payments made from the U.S. Treasury Judgment Fund.

Note 16. Prior Period Adjustments

For USMS, prior period adjustments recorded in FY 1998 totaled **\$225.6** million. The prior period adjustments are the result of corrections of prior year accounts receivable, accounts payable, advances, and property allowances.

Notes to the Principal Financial Statements
Annual Financial Statement FY 1998

INS reported prior period adjustments in FY 1998 that totaled **\$56.9** million resulting from corrections to capitalized property balances and fund balance reconciliation .

FPS reported a prior period adjustment in FY 1998 of **\$56.9** million resulting from adjustments to real property values and depreciation.

AFF/SADF reported a prior period adjustment in FY 1998 of **(\$28.8)** million resulting from adjustments to accounts payable.

OBDs reported a prior period adjustment of **(\$8.8)** million resulting from a reduction in prior year intragovernmental unbilled accounts receivable.

DEA and **FBI** reported prior period adjustments of **(\$3.6)** and **(\$4.4)** million respectively resulting from a reclassification of prior year expenditures and accounts receivable.

WCF reported a prior period adjustment of **(\$.4)** million which represents the unrecorded FY 1997 difference between the FECA benefits paid by the FECA Special Benefits Fund and the WCF's actual cash payments to the fund.

A difference of \$55.8 million exists between FY 1997 ending Net Position and FY 1998 beginning Net Position. This difference represents an adjustment to the FY 1997 intragovernmental elimination entry.

Note 17. Unexpended Appropriations (000)

	Trust Funds	Appropriated Funds	Total
Unobligated:			
Available	\$ 52,712	\$ 2,534,230	\$ 2,586,942
Unavailable	1	234,969	234,970
Undelivered Orders	<u>106,223</u>	<u>9,362,045</u>	<u>9,468,268</u>
Total	\$ <u>158,936</u>	\$ <u>12,131,244</u>	\$ <u>12,290,180</u>

Notes to the Principal Financial Statements
Annual Financial Statement FY 1998

Note 18. Consolidated Total Cost and Earned Revenue by Budget Function Code (000)

Total Cost by Budget Functional Code

Budget Functional Code		Gross Costs	Intra-DOJ Costs	Net Costs
National Defense	54	\$ 12,400		\$ 12,400
International Affairs	151	(979)		(979)
	152	15,009		15,009
	153	653		653
Total International Affairs		<u>\$ 14,683</u>	<u></u>	<u>\$ 14,683</u>
Medicare	571	\$ 23,168		\$ 23,168
Administration of Justice	751	9,933,379	913,978	9,019,401
	752	3,361,088	183,673	3,177,415
	753	3,635,928	30,853	3,605,075
	754	3,635,315	25,946	3,609,369
Total Administration of Justice		<u>\$ 20,565,710</u>	<u>\$ 1,154,450</u>	<u>\$ 19,411,260</u>
General Government	808	\$ 32,304		\$ 32,304
Total Cost		<u>\$20,648,265</u>	<u>\$1,154,450</u>	<u>\$19,493,815</u>

Total Earned Revenue by Budget Functional Code

Budget Functional Code		Gross Revenues	Intra-DOJ Revenues	Net Revenues
Administration of Justice	751	\$ 2,201,590	\$ 913,978	\$ 1,287,612
	752	503,412	183,673	319,739
	753	732,546	30,853	701,693
	754	31,844	25,946	5,898
Total Earned Revenue		<u>\$ 3,469,392</u>	<u>\$1,154,450</u>	<u>\$ 2,314,942</u>
NET COST OF OPERATIONS		<u>\$17,178,873</u>	<u>\$ -</u>	<u>\$17,178,873</u>

Notes to the Principal Financial Statements
Annual Financial Statement FY 1998

Note 19. Required Supplementary Stewardship Information (000)

The OJP Violent Offender Incarceration Program provides grants to the states to build or expand correctional facilities for violent offenders, for certain juvenile offenders, and for nonviolent offenders and criminal aliens to free prison space for violent offenders. The facilities built with these funds constitute an investment in nonfederal physical property.

**Outlays Under the Violent Offender Incarceration Program
for the Year Ended September 30, 1998:**

Cooperative Agreement Program Administered by the U.S. Marshals Service	\$ 25,000
Discretionary Grants to Indian Tribes	1,367
Formula Grants to States	<u>204,537</u>
Total Outlays	<u>\$230,904</u>

Note 20. Exchange Revenue

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

FPS receives 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 Federal Prison Industries. 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 **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 DEA include State and Local Task Force Participation, Joint Intragovernmental Agency Investigations, and the Assets Forfeiture Fund. The pricing policy of the exchange revenue is full cost for the controlled substances, and direct cost for all other revenues.

The **OBDs**, **OJP** and **USMS** receive exchange revenue from services rendered for legal activities provided to other Department of Justice Bureaus and other government agencies. The pricing policy for the exchange revenue is direct cost.

Notes to the Principal Financial Statements
Annual Financial Statement FY 1998

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

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

Note 21. Variance in Statement of Net Cost and Statement of Financing

The Statements of Budgetary Resources and Financing for the FPS exclude the FPI because the FPI does not receive budgetary appropriations. As a result, differences exist between certain line items that appear on the Statement of Budgetary Resources and Financing and the corresponding line items on the Balance Sheet, Statement of Net Costs, and Statement of Changes in Net Position. The line items affected are the Net Cost of Operations, Accounts Receivable, Accounts Payable, Earned Revenues, and Imputed Financing. The Office of Management and Budget (OMB) is aware of and has approved this presentation.

Note 22. 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.

U.S. Department of Justice
Consolidating and Combining Financial Statements

DEPARTMENT OF JUSTICE
Consolidating Balance Sheet
as of September 30, 1998

Dollars in Thousands	AFF/SADF	WCF	OBD	USMS	OJP	DEA	FBI	INS	FPS	Elimination	Consolidated
Assets											
Entity Assets											
Intragovernmental											
Fund Balance with U.S. Treasury (Note 2)	\$ 59,994	\$ 574,982	\$ 4,009,341	\$ 331,690	\$ 6,163,698	\$ 414,952	\$ 1,019,674	\$ 1,613,536	\$ 2,118,798	\$ -	\$ 16,306,665
Investments (Note 4)	453,498	-	106,473	-	-	-	-	-	93,523	-	653,494
Advances and Prepayments	-	-	1,318	-	96,104	34,429	149	-	6,917	-	138,917
Accounts Receivable, Net (Note 5)	6,246	68,551	261,352	46,107	-	69,768	147,107	13,447	76,882	(253,590)	435,870
Interest Receivable	-	-	1,120	-	-	-	-	-	860	-	1,980
Other Assets (Note 6)	-	-	-	-	-	-	-	-	384	-	384
Governmental											
Advances and Prepayments	\$2	\$15	\$431,007	\$23	\$517,543	\$12,241	\$31,905	\$216	\$3,929	-	\$996,881
Accounts Receivable, Net (Note 5)	-	-	81	-	-	39	14,125	61,567	18,588	-	94,400
Cash and Other Monetary Assets (Note 3)	-	-	56	31	-	10,312	11,734	1,562	834	-	24,529
Inventory and Related Property, Net (Note 7)	-	442	-	-	-	-	4,355	-	101,780	-	106,577
General Property, Plant and Equipment, Net (Note 10)	-	13,284	2,540	113,215	1,802	135,825	368,566	315,182	3,978,667	-	4,929,081
Forfeited Property, Net (Note 8)	127,816	-	-	-	-	-	-	-	-	-	127,816
Other Assets (Note 6)	-	-	-	-	-	-	-	-	702	-	702
Total Entity Assets	\$ 647,556	\$ 657,274	\$ 4,813,288	\$ 491,066	\$ 6,779,147	\$ 677,566	\$ 1,597,615	\$ 2,005,510	\$ 6,401,864	\$ (253,590)	\$ 23,817,296
Non-Entity Assets											
Intragovernmental											
Fund Balance with U.S. Treasury (Note 2)	\$ 861	\$ 160,419	-	\$ 10,028	\$ 3,425	-	\$ 2,559	\$ 180,187	\$ 26,943	\$ -	\$ 384,422
Investments (Note 4)	656,523	-	-	-	-	-	-	-	-	-	656,523
Accounts Receivable, Net (Note 5)	-	-	-	-	-	-	-	-	2	-	2
Advances and Prepayments	-	-	-	-	639	-	-	-	-	-	639
Governmental											
Accounts Receivable, Net (Note 5)	-	-	-	-	-	153	-	\$ 6,252	\$ 85	\$ -	\$ 6,490
Cash and Other Monetary Assets (Note 3)	38,380	-	-	-	-	1,102	42,269	339	7	-	82,097
Total Non-Entity Assets	\$ 695,764	\$ 160,419	\$ -	\$ 10,028	\$ 4,064	\$ 1,255	\$ 44,828	\$ 186,778	\$ 27,037	\$ -	\$ 1,130,173
Total Assets	\$ 1,343,320	\$ 817,693	\$ 4,813,288	\$ 501,094	\$ 6,783,211	\$ 678,821	\$ 1,642,443	\$ 2,192,288	\$ 6,428,901	\$ (253,590)	\$ 24,947,469

The accompanying notes are an integral part of these financial statements

DEPARTMENT OF JUSTICE
Consolidating Balance Sheet
as of September 30, 1998

	AFF/SADF	WCF	OBD	USMS	OJP	DEA	FBI	INS	FPS	Elimination	Consolidated
LIABILITIES											
Liabilities Covered by Budgetary Resources											
Intragovernmental Liabilities											
Accounts Payable	\$ 8,812	\$ 53,732	\$ 76,910	\$ 3,224	\$ 24,793	\$ 11,679	\$ 22,022	\$ 26,419	\$ 42,507	\$ (253,590)	\$ 16,508
Debt (Note 11)	-	-	(25,931)	-	66,026	2,959	62,656	-	20,000	-	20,000
Other Intragovernmental Liabilities (Note 12)	-	-	-	-	-	-	-	-	40,433	-	146,143
Governmental Liabilities											
Accounts Payable	106,383	51,418	1,080,758	144,488	734,086	63,593	100,117	133,044	246,160	-	2,660,047
Accrued Payroll and Benefits	-	2,244	72,888	18,148	1,842	35,331	98,506	98,368	86,434	-	413,761
Deferred Revenue	127,816	-	-	-	56,446	-	-	477,578	-	-	661,840
Deposit/Suspense Fund	657,383	-	-	10,028	-	1,811	1,234	-	26,884	-	697,340
Cash, Securities, and US Treasury Bonds Held	-	-	-	-	-	-	-	180,521	-	-	180,521
Liability for Cash Held as Evidence	38,380	-	-	-	-	-	40,129	-	-	-	78,509
Unexpended Prior Year Surplus	5,916	-	-	-	-	-	-	-	75,000	-	5,916
Contingent Liabilities (Note 9)	-	-	-	-	-	-	-	-	-	-	75,000
Other Governmental Liabilities (Note 12)	-	-	-	-	-	373	-	8,129	20,732	-	29,234
Total Liabilities Covered by Budgetary Resources	\$ 944,690	\$ 107,394	\$ 1,204,625	\$ 175,888	\$ 826,747	\$ 172,192	\$ 324,664	\$ 924,059	\$ 558,150	\$ (253,590)	\$ 4,984,819
Liabilities Not Covered by Budgetary Resources											
Intragovernmental Liabilities											
Fine and Interest Payable to US Treasury	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,258	\$ -	\$ -	\$ 6,258
Undisbursed Civil and Criminal Debt Collections	-	160,419	-	-	-	-	-	-	-	-	160,419
Other Intragovernmental Liabilities (Note 12)	-	511	5,508	-	-	969	19,630	41,530	48,037	-	116,185
Governmental Liabilities											
Actuarial Liabilities	-	1,941	20,569	36,933	182	81,176	82,350	185,468	194,120	-	602,739
Lease Liabilities (Note 13)	-	-	-	11,199	-	739	1,480	-	81,526	-	94,944
Accrued Leave	-	3,457	99,398	28,263	2,676	45,679	142,133	84,305	87,917	-	493,828
Contingent Liabilities (Note 9)	-	-	-	-	-	511	3,187	68,179	35,000	-	106,877
Liability for Cash Held as Evidence	-	-	-	-	-	369	-	-	-	-	369
Other Governmental Liabilities (Note 12)	-	-	-	-	-	19,392	-	8,600	-	-	27,992
Total Liabilities Not Covered by Budgetary Resources	\$ -	\$ 166,328	\$ 125,475	\$ 76,395	\$ 2,858	\$ 148,835	\$ 248,780	\$ 394,340	\$ 446,600	\$ -	\$ 1,609,611
Total Liabilities	\$ 944,690	\$ 273,722	\$ 1,330,100	\$ 252,283	\$ 829,605	\$ 321,027	\$ 573,444	\$ 1,318,399	\$ 1,004,750	\$ (253,590)	\$ 6,594,430
NET POSITION											
Unexpended Appropriations (Note 17)	-	-	2,988,211	211,991	5,018,341	338,212	944,859	1,145,972	1,642,594	-	12,290,180
Cumulative Results of Operations	398,630	543,971	494,977	36,820	935,265	19,582	124,140	(272,083)	3,781,557	-	6,062,859
Total Net Position	\$ 398,630	\$ 543,971	\$ 3,483,188	\$ 248,811	\$ 5,953,606	\$ 357,794	\$ 1,068,999	\$ 873,889	\$ 5,424,151	\$ -	\$ 18,353,039
Total Liabilities and Net Position	\$ 1,343,320	\$ 817,693	\$ 4,813,288	\$ 501,094	\$ 6,783,211	\$ 678,821	\$ 1,642,443	\$ 2,192,288	\$ 6,428,901	\$ (253,590)	\$ 24,947,469

The accompanying notes are an integral part of these financial statements

DEPARTMENT OF JUSTICE
Consolidating Statement of Net Cost
for fiscal year ended September 30, 1998

Dollars in Thousands	AFF/SADF	WCF	OBD	USMS	OJP	DEA	FBI	INS	FPS	Eliminations	Consolidated
Program Costs											
Investigation and Prosecution of Criminal Offenses											
Production											
Intragovernmental	\$ 45,608	\$ -	\$ 221,175	\$ -	\$ -	\$ 249,798	\$ 635,720	\$ -	\$ -	\$ (327,979)	\$ 824,322
With the Public	40,770	-	486,202	86,579	-	1,005,734	2,528,637	-	-	-	4,147,922
Total	86,378	-	707,377	86,579	-	1,255,532	3,164,357	-	-	(327,979)	4,972,244
Less Earned Revenues	(5,560)	-	(104,843)	(8,351)	-	(227,160)	(392,522)	-	-	327,979	(410,457)
Net Program Costs	\$ 80,818	\$ -	\$ 602,534	\$ 78,228	\$ -	\$ 1,028,372	\$ 2,771,835	\$ -	\$ -	\$ -	\$ 4,561,787
Assistance to Tribal, State, and Local Governments											
Production											
Intragovernmental	\$ 84,667	\$ -	\$ 7,735	\$ -	\$ 2,826,080	\$ 59,879	\$ 61,696	\$ -	\$ -	\$ (25,956)	\$ 3,014,101
With the Public	75,688	-	835,512	-	-	147,533	245,402	-	-	-	1,304,135
Total	160,355	-	843,247	-	2,826,080	207,412	307,098	-	-	(25,956)	4,318,236
Less Earned Revenues	-	-	(663)	-	(31,824)	(70)	(92,219)	-	-	25,956	(98,820)
Net Program Costs	\$ 160,355	\$ -	\$ 842,584	\$ -	\$ 2,794,256	\$ 207,342	\$ 214,879	\$ -	\$ -	\$ -	\$ 4,219,416
Legal Representation, Enforcement of Federal Laws, and Defense of U.S. Interests											
Production											
Intragovernmental	\$ -	\$ -	\$ 470,195	\$ -	\$ -	\$ -	\$ 10,845	\$ -	\$ -	\$ (80,535)	\$ 400,505
With the Public	-	-	845,274	1,625	-	-	43,138	-	-	-	890,037
Total	-	-	1,315,469	1,625	-	-	53,983	-	-	(80,535)	1,290,542
Less Earned Revenues	-	-	(176,225)	(1,457)	-	-	-	-	-	80,535	(97,147)
Net Program Costs	\$ -	\$ -	\$ 1,139,244	\$ 168	\$ -	\$ -	\$ 53,983	\$ -	\$ -	\$ -	\$ 1,193,395
Immigration											
Production											
Intragovernmental	\$ -	\$ -	\$ 34,506	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (4,893)	\$ 29,613
With the Public	-	-	96,078	-	-	-	-	2,895,803	-	-	2,991,881
Total	-	-	130,584	-	-	-	-	2,895,803	-	(4,893)	3,021,494
Less Earned Revenues	-	-	(1,201)	-	-	-	-	(769,683)	-	4,893	(765,991)
Net Program Costs	\$ -	\$ -	\$ 129,383	\$ -	\$ -	\$ -	\$ -	\$ 2,126,120	\$ -	\$ -	\$ 2,255,503

The accompanying notes are an integral part of these financial statements

DEPARTMENT OF JUSTICE
Consolidating Statement of Net Cost
for fiscal year ended September 30, 1998

Dollars in Thousands	AFF/SADF	WCF	OBD	USMS	OJP	DEA	FBI	INS	FPS	Eliminations	Consolidated
Detention and Incarceration											
Production											
Intragovernmental	\$ -	\$ -	\$ 8,587	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,192	\$ (96,898)	\$ (54,119)
With the Public	-	-	3,168	841,938	-	-	-	847,122	3,675,803	-	5,368,031
Total	-	-	11,755	841,938	-	-	-	847,122	3,709,995	(96,898)	5,313,912
Less Earned Revenues	-	-	(7,267)	(51,593)	-	-	-	(59,506)	(703,409)	96,898	(724,877)
Net Program Costs	\$ -	\$ -	\$ 4,488	\$ 790,345	\$ -	\$ -	\$ -	\$ 787,616	\$ 3,006,586	\$ -	\$ 4,589,035
Protection of the Federal Judiciary and Improvement of the Justice System											
Production											
Intragovernmental	\$ -	\$ -	\$ 36,374	\$ -	\$ -	\$ -	\$ 2,184	\$ -	\$ -	\$ (10,933)	\$ 27,625
With the Public	-	-	70,412	308,078	-	-	8,685	-	-	-	387,175
Total	-	-	106,786	308,078	-	-	10,869	-	-	(10,933)	414,800
Less Earned Revenues	-	-	(123,272)	(18,048)	-	-	-	-	-	10,933	(130,387)
Net Program Costs	\$ -	\$ -	\$ (16,486)	\$ 290,030	\$ -	\$ -	\$ 10,869	\$ -	\$ -	\$ -	\$ 284,413
Management											
Production											
Intragovernmental	\$ -	\$ 469,062	\$ 29,781	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (607,256)	\$ (108,413)
With the Public	-	152,956	118,044	-	-	-	-	-	-	-	271,000
Total	-	622,018	147,825	-	-	-	-	-	-	(607,256)	162,587
Less Earned Revenues	-	(615,914)	(78,605)	-	-	-	-	-	-	607,256	(87,263)
Net Program Costs	\$ -	\$ 6,104	\$ 69,220	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 75,324
Deferred Maintenance (Note 1)											
Net Cost of Operations (Note 21)	\$ 241,173	\$ 6,104	\$ 2,770,967	\$ 1,158,771	\$ 2,794,256	\$ 1,235,714	\$ 3,051,566	\$ 2,913,736	\$ 3,006,586	\$ -	\$ 17,178,873

The accompanying notes are an integral part of these financial statements

DEPARTMENT OF JUSTICE
Consolidating Statement of Changes in Net Position
for fiscal year ended September 30, 1998

Dollars in Thousands	AFF/SADF	WCF	OBD	USMS	OJP	DEA	FBI	INS	FPS	Consolidating
Net Cost of Operations (Note 21)	\$ (241,173)	\$ (6,104)	\$ (2,770,967)	\$ (1,158,771)	\$ (2,794,256)	\$ (1,235,714)	\$ (3,051,566)	\$ (2,913,736)	\$ (3,006,586)	\$ (17,178,873)
Financing Sources (other than exchange revenues):										
Appropriations Used	471,012	-	3,272,250	1,119,795	2,501,145	1,113,308	2,960,077	2,319,416	3,148,355	16,434,346
Other nonexchange revenue	-	-	6,454	-	312,671	-	-	-	-	790,137
Imputed Financing (Note 15)	-	3,196	70,046	24,239	2,447	43,585	173,007	106,911	121,819	545,250
Transfers-in	696	276,025	194	807	-	2,436	-	-	-	280,158
Transfers-out	(22,117)	(1,064)	-	-	-	-	-	(8,000)	(100,473)	(131,654)
Rescissions	-	(100,000)	-	-	-	-	-	-	-	(100,000)
Other Financing Source	-	-	-	-	-	-	-	-	(4,133)	(4,133)
Allocation of Prior Year Surplus	(33,055)	-	-	-	-	-	-	-	-	(33,055)
Net Results of Operations	\$ 175,363	\$ 172,053	\$ 577,977	\$ (13,930)	\$ 22,007	\$ (76,385)	\$ 81,518	\$ (495,409)	\$ 158,982	\$ 602,176
Prior Period Adjustments (Note 16)	(28,790)	(377)	(8,856)	225,562	-	(3,610)	(4,364)	56,908	56,932	293,405
Net Change in Cumulative Results of Operations	\$ 146,573	\$ 171,676	\$ 569,121	\$ 211,632	\$ 22,007	\$ (79,995)	\$ 77,154	\$ (438,501)	\$ 215,914	\$ 895,581
Increase (Decrease) in Unexpended Appropriations	-	-	336,964	(55,612)	978,309	41,721	(26,081)	273,717	87,081	1,636,099
Change in Net Position	\$ 146,573	\$ 171,676	\$ 906,085	\$ 156,020	\$ 1,000,316	\$ (38,274)	\$ 51,073	\$ (164,784)	\$ 302,995	\$ 2,531,680
Net Position-Beginning of Period (Note 16)	252,057	372,295	2,577,103	92,791	4,953,290	396,068	1,017,926	1,038,673	5,121,156	15,821,359
Net Position - End of Period	\$ 398,630	\$ 543,971	\$ 3,483,188	\$ 248,811	\$ 5,953,606	\$ 357,794	\$ 1,068,999	\$ 873,889	\$ 5,424,151	\$ 18,353,039

The accompanying notes are an integral part of these financial statements

DEPARTMENT OF JUSTICE
Combining Statement of Budgetary Resources
for fiscal year ended September 30, 1998

	AFF/SAF	WCF	OBD	USMS	OJP	DEA	FBI	INS	FPS	Combined
Budgetary Resources:										
Budget Authority										
Appropriations	\$ 471,012	\$ -	\$ 2,060,341	\$ 1,070,563	\$ 3,739,358	\$ 1,212,984	\$ 2,371,612	\$ 2,345,314	\$ 3,403,810	\$ 17,274,994
Net Transfers, Current Year Authority	89	-	1,607,097	-	-	-	-	-	44,757	1,651,943
Unobligated Balances - Beginning of Period	219,276	214,917	902,573	63,427	710,458	107,254	331,128	57,601	1,055,035	3,660,669
Net Transfers, Prior Year Balance, Actual	-	274,961	-	(6,160)	(10,665)	(13,480)	(38,124)	-	(177,616)	28,916
Spending Authority from Offsetting Collections	5,560	613,562	583,249	111,854	31,824	180,958	460,246	1,362,840	197,740	3,547,833
Adjustments	(40,323)	(362,109)	(505)	15,313	51,467	21,816	-	22,326	44,666	(247,349)
Total Budgetary Resources	\$ 654,614	\$ 741,331	\$ 5,152,755	\$ 1,254,997	\$ 4,522,442	\$ 1,509,532	\$ 3,724,862	\$ 3,788,081	\$ 4,568,392	\$ 25,917,006
Status of Budgetary Resources:										
Obligations incurred	\$ 373,474	\$ 633,292	\$ 4,394,000	\$ 1,212,340	\$ 3,690,905	\$ 1,455,305	\$ 3,418,851	\$ 3,713,719	\$ 3,378,861	\$ 22,270,747
Unobligated Balances - Available	261,890	102,187	597,542	34,414	830,584	33,697	284,173	63,499	1,045,852	3,253,838
Unobligated Balances - Not Available	19,250	5,852	161,213	8,243	953	20,530	21,838	10,863	143,679	392,421
Total Status of Budgetary Resources	\$ 654,614	\$ 741,331	\$ 5,152,755	\$ 1,254,997	\$ 4,522,442	\$ 1,509,532	\$ 3,724,862	\$ 3,788,081	\$ 4,568,392	\$ 25,917,006
Outlays:										
Obligations Incurred	\$ 373,474	\$ 633,292	\$ 4,394,000	\$ 1,212,340	\$ 3,690,905	\$ 1,455,305	\$ 3,418,851	\$ 3,713,719	\$ 3,378,861	\$ 22,270,747
Less: Spending Authority from Offsetting Collections and Adjustments	(25,132)	(626,425)	(583,249)	(127,386)	(83,291)	(263,750)	(460,247)	(1,362,840)	(242,747)	(3,775,067)
Obligated Balance, Net - Beginning of Period	219,357	187,246	3,035,032	289,719	3,873,208	263,992	747,605	1,029,148	736,303	10,381,610
Less: Obligated Balance, Net - End of Period	(179,173)	(191,982)	(3,604,492)	(289,063)	(4,849,191)	(314,384)	(636,934)	(1,270,478)	(842,189)	(12,377,886)
Total Outlays	\$ 388,526	\$ 2,131	\$ 3,241,291	\$ 1,085,610	\$ 2,631,631	\$ 1,141,163	\$ 2,869,275	\$ 2,109,549	\$ 3,030,228	\$ 16,499,404

The accompanying notes are an integral part of these financial statements

DEPARTMENT OF JUSTICE
Combining Statement of Financing
for fiscal year ended September 30, 1998

Dollars in Thousands	AFF/SADF	WCF	OBD	USMS	OJP	DEA	FBI	INS	FPS	Combined
Obligations and Nonbudgetary Resources										
Obligations incurred	\$ 373,474	\$ 633,292	\$ 4,394,000	\$ 1,212,340	\$ 3,690,905	\$ 1,455,305	\$ 3,418,851	\$ 3,713,719	\$ 3,378,861	\$ 22,270,747
Less: Spending Authority from Offsetting Collections and Adjustments	(25,132)	(626,425)	(583,249)	(127,386)	(83,291)	(263,750)	(460,247)	(1,362,840)	(242,747)	(3,775,067)
Financing Imputed for Cost Subsidies	-	3,196	70,046	24,239	2,447	43,585	173,007	106,912	115,167	538,599
Revenue Not in the Entity's Budget	-	(2)	(8,362)	-	-	-	156	3,681	408	(4,119)
Transfers-in (out)	-	-	-	807	-	-	-	-	(100,473)	(99,666)
Property Transfers in, Net	-	-	-	-	-	4,225	-	-	29,722	33,947
Other Resources Used to Finance Operations	-	-	-	-	-	(44,122)	-	477,580	37,932	471,390
Total Obligations as adjusted, and Nonbudgetary Resources	\$ 348,342	\$ 10,061	\$ 3,872,435	\$ 1,110,000	\$ 3,610,061	\$ 1,195,243	\$ 3,131,767	\$ 2,939,052	\$ 3,218,870	\$ 19,435,831
Resources That do not Fund Net Cost of Operations										
Change in Amount of Goods, Services, and Benefits Ordered but not yet Received or Provided	\$ (107,169)	\$ (543)	\$ (1,065,562)	\$ 34,842	\$ (763,139)	\$ (36,916)	\$ 25,063	\$ (42,462)	\$ (99,299)	\$ (2,055,186)
Change in Unfilled Customer Orders	-	-	27,966	-	-	-	25,781	-	-	53,747
Costs Capitalized on the Balance Sheet	-	(4,610)	38	(17,080)	(405)	74,736	(16,638)	(123,005)	(346,255)	(433,219)
Financing Sources That Fund Costs of Prior Periods	-	(1,608)	(69,886)	-	(176)	7,929	(149,186)	-	(17,405)	(230,332)
Other	-	-	-	(583)	(51,467)	(59,015)	-	-	53,123	(57,942)
Total Resources That do not Fund Net Cost of Operations	\$ (107,169)	\$ (6,761)	\$ (1,107,444)	\$ 17,179	\$ (815,187)	\$ (13,266)	\$ (114,980)	\$ (165,467)	\$ (409,836)	\$ (2,722,931)
Costs That do not Require Resources										
Depreciation, Amortization and Bad Debt	-	\$ 2,602	\$ 693	\$ 9,251	\$ (261)	\$ 13,222	\$ 23,911	\$ 67,411	\$ 147,509	\$ 264,338
Other	-	202	-	7,513	(357)	-	4,407	-	2,881	14,646
Total Costs That do not Require Resources	\$ -	\$ 2,804	\$ 693	\$ 16,764	\$ (618)	\$ 13,222	\$ 28,318	\$ 67,411	\$ 150,390	\$ 278,984
Financing Sources Yet to Be Provided	\$ -	\$ -	\$ 5,283	\$ 14,828	\$ -	\$ 40,515	\$ 6,461	\$ 72,740	\$ 38,143	\$ 177,970
Net Cost of Operations (Note 21)	\$ 241,173	\$ 6,104	\$ 2,770,967	\$ 1,158,771	\$ 2,794,256	\$ 1,235,714	\$ 3,051,566	\$ 2,913,736	\$ 2,997,567	\$ 17,169,854

The accompanying notes are an integral part of these financial statements

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 were 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 Assistant Attorney General for Administration issues a directive to the components that describes the proper procedures and accounting principles that should be followed when recording financial transactions in accordance with Federal accounting standards. Specifically, the correspondence should re-emphasize: proper recording of accruals, revenue recognition principles, proper recording of property including seized/forfeited property, and improved controls in transaction processing, documentation, and performance measurement. Please provide us with periodic updates on your efforts toward completion of corrective actions.
- 2. Closed.** We will follow up on this recommendation through our monitoring of the status of Recommendation Number 5 in our prior year's report (OIG Report Number 98-07A).
- 3. 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.
- 4. 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.
- 5. 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.

6. Resolved. This recommendation can be closed when the Assistant Attorney General for Administration provides us with a copy of the strategic plan for financial reporting. This plan should detail financial statement preparation guidelines, identify individuals who will perform critical functions, establish deadlines for each critical phase, and provide documentation requirements and consolidation instructions for each component to ensure the consolidated statements can be prepared on a consistent basis. Please also inform us of when an interim financial closing will be performed and the results thereof. An interim closing will help ensure year-end closing procedures will be effective, including the preparation of Department pro-forma financial statements and note disclosures.

7. Resolved. This recommendation can be closed when the Assistant Attorney General for Administration provides us with updates on planning undertaken to coordinate the Fiscal Year 1999 financial statement preparation and audit process. Careful consideration should be given to including all operational managers potentially affected by the audit, as well as financial and budget managers more directly affected by the financial statement preparation and audit process.