

# **U. S. DEPARTMENT OF JUSTICE ANNUAL FINANCIAL STATEMENT FISCAL YEAR 2008**

## **OFFICE OF THE INSPECTOR GENERAL COMMENTARY AND SUMMARY**

This audit report contains the Annual Financial Statement of the U.S. Department of Justice (Department) for the fiscal year (FY) ended September 30, 2008. Under the direction of the Office of the Inspector General (OIG), KPMG LLP performed the consolidated Department audit and eight of the nine component audits for FYs 2008 and 2007. Another independent public accounting firm, Cotton & Company LLP, performed the remaining component audit for the same periods, upon which KPMG LLP relied when issuing its report on the consolidated financial statements.

The Department received an unqualified opinion on its FYs 2008 and 2007 financial statements. This year, at the consolidated level the Department had two significant deficiencies, both of which were repeat issues. For FY 2008, weaknesses in the general and application controls over the financial management systems at five of the Department's nine reporting components were reported as a significant deficiency. The Department's other significant deficiency related to several serious but isolated financial reporting issues, including the U.S. Marshals Service's financial accounting and reporting quality-control and assurance, and funds management controls; the Bureau of Alcohol, Tobacco, Firearms and Explosives' accounts payable process; the Federal Bureau of Investigation's financial reporting process; the Office of Justice Programs' grant advance and payable estimation process, and grant de-obligation process; the Offices, Boards and Divisions' preparation, review, and approval of journal entries; and the Assets Forfeiture Fund and Seized Asset Deposit Fund's financial reporting environment, obligations and disbursements controls, and seized and forfeited property controls. The chart at the end of our discussion illustrates the FYs 2008 and 2007 financial statement audit results for the Department and the nine reporting components.

However, as also reflected in the chart, the Department has continued to make progress in its financial management systems and has continued to address the major problems identified in the OIG's previous annual financial statement audits. For example, at the component level the number of material weaknesses decreased from four in FY 2007 to one in FY 2008. The Department and its components deserve significant credit for these improvements.

Yet, it is important to note that the Department still does not have a unified financial management system to readily support ongoing accounting operations and preparation of financial statements. As discussed in past years, we believe the most important challenge facing the Department in its financial management is to successfully implement an integrated financial management system to replace the disparate and, in some cases, antiquated financial systems used by Department components.

In the FY 2008 consolidated Report on Compliance and Other Matters, the auditors identified no instances of significant non-compliance with applicable laws and regulations. Although some instances of non-compliance were reported at some of the components, the consolidated auditors determined that none of the component level non-compliance issues caused the Department as a whole to be in significant non-compliance.

The OIG reviewed KPMG LLP's reports and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an audit in accordance with United States generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an

opinion on the Department's financial statements, conclusions about the effectiveness of internal control, conclusions on whether the Department's financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996, or conclusions on compliance with laws and regulations. KPMG LLP is responsible for the attached auditors' reports dated November 12, 2008, and the conclusions expressed in the reports. However, our review, while still ongoing, disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

<b>Comparison of FY 2008 and FY 2007 Audit Results</b>										
<b>Reporting Entity</b>	<b>Auditors' Opinion On Financial Statements</b>		<b>Number of Material Weaknesses<sup>1</sup></b>				<b>Number of Significant Deficiencies<sup>2</sup></b>			
			<b>Financial</b>		<b>Information Systems</b>		<b>Financial</b>		<b>Information Systems</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Consolidated DOJ	U <sup>3</sup>	U	0	0	0	0	1	1	1	1
OBDs	U	U	0	0	0	0	1	2	0	1
AFF/SADF	U	U	0	0	0	0	3	2	1	1
FBI	U	U	0	0	0	1	1	0	0	0
DEA	U	U	0	0	0	0	0	0	0	1
OJP	U	U	0	0	0	0	1	2	1	1
USMS	U	U	1	2	0	0	1	0	1	1
BOP	U	U	0	0	0	0	0	0	1	1
FPI	U	U	0	0	0	0	0	0	1	1
ATF	U	U	0	1	0	0	1	0	0	1
<b>Component Totals</b>			<b>1</b>	<b>3</b>	<b>0</b>	<b>1</b>	<b>8</b>	<b>6</b>	<b>5</b>	<b>8</b>

Consolidated Department of Justice (Consolidated DOJ); Offices, Boards and Divisions (OBDs); Assets Forfeiture Fund and Seized Asset Deposit Fund (AFF/SADF); Federal Bureau of Investigation (FBI); Drug Enforcement Administration (DEA); Office of Justice Programs (OJP); U.S. Marshals Service (USMS); Federal Bureau of Prisons (BOP); Federal Prisons Industries, Inc. (FPI); Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF)

<sup>1</sup> A material weakness is a significant deficiency (see below), or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department's internal control.

<sup>2</sup> A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's consolidated financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control over financial reporting. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

<sup>3</sup> Unqualified opinion – An auditor's report that states the financial statements present fairly, in all material respects, the financial position and results of operations of the reporting entity, in conformity with generally accepted accounting principles.