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Independent Auditors' Report on Internal Control over Financial Reporting

Inspector General
U.S. Department of Justice

United States Attorney General
U.S. Department of Justice

We have audited the consolidated balance sheets of the U.S. Department of Justice (Department) as of September 30, 2009 and 2008, and the related consolidated statements of net cost and changes in net position and the combined statements of budgetary resources and custodial activity (hereinafter referred to as the "consolidated financial statements") for the years then ended, and have issued our report thereon dated November 9, 2009. We did not audit the financial statements of the U.S. Marshals Service as of and for the years ended September 30, 2009 and 2008. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our report, insofar as it related to the amounts included for the U.S. Marshals Service, was based solely on the report of the other auditors. As discussed in Note 26 to the consolidated financial statements, the Department changed its method of accounting for temporary rescissions of budgetary authority in fiscal year 2009.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

As stated above, we did not audit the fiscal year 2009 financial statements of the U.S. Marshals Service. Those financial statements were audited by other auditors whose reports thereon, including the other auditors' *Independent Auditors' Report on Internal Control over Financial Reporting*, have been furnished to us. Accordingly, our report on the Department's internal control over financial reporting, insofar as it relates to that component, is based solely on the report and findings of the other auditors.

The Department's management is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2009 audit, we considered the Department's internal control over financial reporting by obtaining an understanding of the Department's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. To achieve this purpose, we did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses.

A deficiency in internal control 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

In our fiscal year 2009 audit, we did not, nor did the report of the other auditors, identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we noted, and the report of the other auditors identified, deficiencies in internal control over financial reporting that we consider to be significant deficiencies and that are described in Exhibits I and II. Exhibit I is an overview of the significant deficiencies identified in the Department's component auditors' *Independent Auditors' Reports on Internal Control over Financial Reporting*, and includes an explanation of how these component-level significant deficiencies are reported at the Department level. Exhibit II provides the details of the Department-wide significant deficiencies. Exhibit III presents the status of prior years' findings and recommendations.

The Department's responses to the findings identified in our audit are presented in Exhibit II. We did not audit the Department's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management of the U.S. Department of Justice, the U.S. Department of Justice Office of the Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 9, 2009

EXHIBIT I

OVERVIEW OF SIGNIFICANT DEFICIENCIES

The following table summarizes the eight significant deficiencies identified by the Department's component auditors during fiscal year 2009. The component auditors also considered one of these significant deficiencies to be a material weakness. We analyzed the component-level material weakness and significant deficiencies to determine their effect on the Department's internal control over financial reporting and concluded that they comprise two Department-wide significant deficiencies.

Department Significant Deficiencies Noted During Fiscal Year 2009		DOJ	OBDS	AFF	FBI	DEA	OJP	ATF	USMS (1)	BOP	FPI
Improvements are needed in the Department's component financial systems' general controls.		S							S	S	
Improvements are needed in the components' internal controls to provide reasonable assurance that transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with generally accepted accounting principles.		S	S	S		S	S		M		S
Total Material Weaknesses Reported by Components' Auditors	FY 2009	1	0	0	0	0	0	0	1	0	0
	FY 2008	1	0	0	0	0	0	0	1	0	0
Total Significant Deficiencies Reported by Components' Auditors	FY 2009	7	1	1	0	1	1	0	1	1	1
	FY 2008	13	1	4	1	0	2	1	2	1	1

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

Legend:
(1) USMS's financial statements were audited by other auditors.

M – Material weakness
S – Significant deficiency

In Exhibit II we discuss in detail the Department-wide significant deficiencies noted above.

EXHIBIT II

SIGNIFICANT DEFICIENCIES

IMPROVEMENTS ARE NEEDED IN THE DEPARTMENT'S COMPONENT FINANCIAL MANAGEMENT SYSTEMS' GENERAL CONTROLS.

While the Department has made significant progress in addressing previously reported information systems (IS) significant deficiencies, the component entities' auditors continue to identify opportunities for improvement in the general controls designed and implemented to protect the integrity of IS data. Although the corrective actions taken by the Department and its component entities over the past year have resolved the significant deficiencies at three of the Department's five component entities with prior year IS-related significant deficiencies, the component auditors continue to report significant deficiencies at two component entities. These two component entities comprise 24 percent and 27 percent of the Department's total assets and total net cost of operations, respectively.

In performing procedures on the components' financial management information systems, we and the other auditors considered the Government Accountability Office's *Federal Information System Controls Audit Manual*; the Department's Order No. 2640.2F, *Information Technology Security*; OMB Circular No. A-130, *Management of Federal Information Resources*; and technical publications issued by the National Institute of Standards and Technology (NIST).

In support of the Department's fiscal year 2009 consolidated financial statement audit, we performed a review of the DOJ IS general controls environment that provides general control support for several DOJ components' financial applications. The Department's Operation Services Staff (OSS) has primary responsibility over the IS general controls environment and service delivery and support.

The following table depicts the IS general control weaknesses identified by the auditors at two of the Department's nine component entities for fiscal year 2009. Following the table, we present brief summaries of the specific conditions reported by the components' auditors.

General Control Weaknesses[1]	USMS	BOP
Access Controls	X	X
Configuration Management	X	X

[1] This table summarizes the IS significant deficiencies reported in the component auditors' *Independent Auditors' Reports on Internal Control over Financial Reporting*.

USMS – Improvements have been made; however, opportunities for further improvement continue to exist within the IS environment. Prior year issues remain open and new issues were identified during fiscal year 2009. Specifically, access controls and configuration management need to be strengthened. It should be noted that the configuration management significant deficiency was partly remediated prior to the end of the fiscal year. However, the significant deficiency was included in the component auditors' *Independent Auditors' Report on Internal Control over Financial Reporting*, in accordance with *Government Auditing Standards*.

BOP – Improvements continue to be made; however, access controls and configuration management weaknesses continue to exist in controlling access to financially-significant systems. It should be noted that the access controls significant deficiency was remediated prior to the end of the fiscal year. However, the significant deficiency was included in the component auditors' *Independent Auditors' Report on Internal Control over Financial Reporting*, in accordance with *Government Auditing Standards*.

The conditions identified by the component auditors increase the risk of unauthorized access, unauthorized modifications, unauthorized disclosure of data, unintentional errors, and unnecessary downtime.

Recommendation

We recommend the Department:

1. Require the components to submit and implement corrective action plans that address the weaknesses identified above. The corrective action plans should focus on correcting the deficiencies in access controls and configuration management discussed in the component auditors' *Independent Auditors' Reports on Internal Control over Financial Reporting*, to the extent that the significant deficiencies had not been remediated prior to the end of the fiscal year. The corrective action plans should also include a timeline that establishes when major events must be completed. The Department's CIO should monitor the components' efforts to correct deficiencies, hold them accountable for meeting the action plan timelines, and ensure the corrective actions are implemented adequately to address the noted deficiencies. *(Updated)*

Management Response:

DOJ management concurs. The Department's Chief Information Officer (CIO), working with the Chief Financial Officer and component program managers as well as their respective CIOs, have made substantial progress in eliminating prior year significant deficiencies in Assets Forfeiture Fund, the Office of Justice Programs and in Federal Prison Industries, Inc. (FPI). For the remaining two components with significant deficiencies, Bureau of Prisons and the U.S. Marshals Service, the Department's CIO will ensure that rigorous corrective action plans are developed to address the weaknesses identified. These plans will be validated and monitored quarterly by the Department's CIO to ensure corrective actions are institutionalized and program improvements made. In addition, the Department's CIO will ensure that all weaknesses identified in prior year audits are addressed and that enhancements in policies and standardization of practices are implemented to provide the best possible support for successful financial audits. The corrective action plans are a subset of the Department's overall capital Plans of Actions and Milestones and are available to the Office of the Inspector General and reported to OMB in the Department's quarterly Federal Information Security Management Act (FISMA) Reports.

IMPROVEMENTS ARE NEEDED IN THE COMPONENTS' INTERNAL CONTROLS TO PROVIDE REASONABLE ASSURANCE THAT TRANSACTIONS ARE PROPERLY RECORDED, PROCESSED, AND SUMMARIZED TO PERMIT THE PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

The Department and its component entities have made significant progress in addressing previously reported material weaknesses and significant deficiencies. However, several of the component entities' auditors continue to report significant deficiencies in internal controls that inhibit the preparation of financial statements in accordance with generally accepted accounting principles. Further improvement is needed in the component entities' internal controls designed to provide reasonable assurance that transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with generally accepted accounting principles.

The following component entity-level significant deficiencies comprise the Department-wide significant deficiency.

Funds Management Controls. The USMS does not have adequate financial and compliance controls to ensure that obligation transactions are executed and recorded in accordance with laws and regulations and the related undelivered orders and accounts payable balances are accurate and complete. The component auditors identified accounting errors and instances of noncompliance with accounting standards; OMB Circular No. A-11, *Preparation, Submission and Execution of the Budget*, and the United States Standard General Ledger, as follows:

Undelivered Orders (UDOs). As a result of their interim and year-end test work, the component auditors identified accounting errors related to the accuracy of undelivered orders balances. Included in the errors identified by the component auditors were (1) UDOs found to be invalid due to accounts payable accruals or deobligations not recorded after the period of performance had expired, (2) a UDO that was overstated due to the failure to establish an accounts payable upon receipt of the goods, (3) UDOs that were understated due to the failure to record an accrual at quarter-end, in addition to reimbursable agreements not fully obligated originally, (4) UDOs that were understated due to posting errors, and (5) UDOs that were understated due to errors made in calculating accruals based on intra-Departmental provider listings. As a result of these accounting errors, the USMS's undelivered orders balance was misstated at quarter-end, as follows: a net likely understatement of $43 million as of June 30, 2009, and net likely overstatements of $46 million and $9 million as of March 31, 2009 and September 30, 2009, respectively.

Delivered Orders – Obligations Unpaid (Accounts Payable). As a result of their interim and year-end testing of accounts payable, the component auditors identified accounting errors related to the USMS's accounts payable accrual estimates. Included in the errors identified by the component auditors were accounts payable that were incorrect due to: errors made in calculating accrual amounts or by failing to accrue for services received before quarter-end, posting errors, and failure to record goods or services received. As a result of these accounting errors, the USMS's accounts payable balance was misstated at quarter-end, as follows: net likely understatements of $3 million and $163 thousand, respectively, as of March 31, 2009 and June 30, 2009, and a net likely overstatement of $6 million as of September 30, 2009.

Unauthorized Commitments. The component auditors noted that the USMS made unauthorized commitments during the fiscal year in connection with projects related to security system monitoring, court security officers, guard services, and prisoner medical services and prescriptions. These unauthorized commitments resulted in 38 contract ratifications totaling $4 million. In addition, seven ratifications were in process pending receipt of additional documentation from the program offices. The *Federal Acquisition Regulation* prohibits agencies from entering into contracts unless the contracting officer ensures that all requirements of law, executive orders, regulations, and other applicable procedures have been satisfied. Unauthorized commitments could result in Anti-Deficiency Act violations if sufficient funds are not available to cover the unauthorized commitments.

Seized and Forfeited Property. The component auditors noted that the AFF's internal controls are in need of improvement with respect to the: (1) status and valuation of seized and forfeited assets, and (2) deletion of property records from the asset tracking system, as described below.

Internal Controls Related to Status and Valuation. In conducting interim and year-end tests of transactions recorded in the Consolidated Asset Tracking System (CATS), the component auditors identified various status and valuation errors, including: (1) seized property items that were either misclassified or improperly valued, (2) forfeited property items that were either misclassified or improperly valued, (3) seized cash not-on-deposit items that were either misclassified or improperly valued, and (4) forfeited property items recorded as "on-hand" that should have been classified as "disposed of".

As a result of the status and valuation errors noted above, the seized property balances were overstated by net likely amounts of $21 million and $600 thousand as of June 30, 2009 and September 30, 2009, respectively; the forfeited property balances were overstated by net likely amounts of $5 million and $871 thousand as of June 30, 2009 and September 30, 2009, respectively; and the seized cash not-on-deposit balance was overstated by a likely amount of $2 million as of June 30, 2009.

Internal Controls Related to the Deletion of Records from CATS. In conducting tests related to the deletion of property records from CATS, the component auditors noted that 8 out of 80 records were not supported by evidence of authorization prior to their removal from CATS. If not properly authorized, such deletions could result in misstatements in the notes to the AFF's financial statements.

Budgetary Upward and Downward Adjustments. The component auditors noted that improvements were needed in OJP's system and internal controls related to budgetary upward and downward adjustments. OJP's Financial Management Information System 2 (FMIS2) is not configured to immediately record upward and downward adjustments when changes are made to prior year obligations. As a result, OJP developed a process to record its upward and downward adjustments at a program level. When performing tests of OJP's "Recoveries of Prior Year Obligations Unpaid" line item on the Statement of Budgetary Resources, the component auditors identified recording errors that totaled approximately $71 million as of September 30, 2009. Of the $71 million, $52 million was related to correcting transactions that were misclassified as upward and downward adjustments. The remaining $19 million was related to re-postings of grant activity from one program to another or from direct to reimbursable funding. The upward and downward adjustments for these items should have been eliminated. Additionally, these errors were not detected during supervisory review.

As a result of these errors, "Recoveries of Prior Year Obligations Unpaid" and the "Obligations Incurred" line items on the FY 2009 Statement of Budgetary Resources were each initially overstated by approximately $71 million. OJP concurred and recorded an adjusting journal entry to correct $52 million of the overstatement and the remaining $19 million was recorded as an immaterial unadjusted audit difference.

Deobligation of Funds. The component auditors noted that improvements were needed in the DEA's financial management controls to ensure the timely deobligation of funds. The component auditors noted that the DEA's obligated funds that were certified as valid open obligations during the DEA's quarterly certification process included amounts that should have been deobligated because the funds were no longer needed. The component auditors' interim and year-end test results follow:

- During interim test work as of March 31, 2009, the component auditors selected a sample of 5 allowance holders (i.e., an individual responsible for the DEA's administrative division of budgetary resources) from a total population of 98 and identified 2 certifying officers who did not properly investigate all of the outstanding obligations on the report that they certified as being valid.

- During interim test work as of June 30, 2009, the component auditors selected a sample of 203 undelivered orders totaling $191 million from a population of 33,803 undelivered orders totaling $561 million and noted: (1) certain items were not deobligated within a reasonable timeframe after the period of performance had expired, (2) certain items for which the obligation amount recorded in the general ledger was greater than the supporting documentation, and (3) certain items for which invalid expenses were charged against the obligation and the total expenses incurred against the obligation were not properly recorded. As a result of the exceptions noted, the reported balance of obligated funds was misstated at quarter-end by a likely amount of $27 million.

- During the component auditors' year-end test work as of September 30, 2009, improvements were noted in that the actual error rate was acceptable and the dollar amounts associated with the errors were inconsequential.

The DEA's policy related to reconciliation of obligations states, "The quarterly obligation certification is a certification of the DEA's obligations and must be certified by the Allowance Manager. The certification is based on a quarterly reconciliation of the DEA's obligations… The Allowance Approver is responsible for reviewing the reconciliation prior to the Allowance Manager's certification."

The financial reporting and financial management effects of not deobligating funds that are no longer needed for the original purpose are that the reported balance of obligated funds and current or expired authority is misstated; inaccurate budgetary information could be submitted to the Department, OMB, or Congress; and, the existence of obligations in excess of required amounts or of invalid obligations can lead to under-utilization of budgetary resources.

Inventory Controls. The component auditors noted that the FPI's internal controls over inventory are in need of improvement. When testing the inventory cycle count process and the annual work-in-process (WIP) inventory counts, the component auditors noted that the inventory cycle count process lacked proper segregation of duties, was incorrectly performed, and lacked adequate documentation to support the weekly cycle count. In addition, the WIP inventory count process lacked proper segregation of duties and was incorrectly performed.

FPI policy states that inventory counts should be performed weekly (unless waived by the Controller) by qualified personnel who are not otherwise involved in inventory control or recordkeeping. Two-member teams are required to perform the physical inventory. Each member must count each item independently to ensure count integrity. Supervisory review of all inventory discrepancies and adjustments to the inventory records is required.

As a result of the weaknesses noted, differences in the quantities of stock in raw materials, sub-assembly, work in process, and finished goods from the quantities and amounts recorded in the ledger may not be identified in the inventory count process and the general ledger may not be adjusted accurately for the inventory count results.

Consideration of Economic Factors in Funding Analysis Journal Entries. The component auditors noted that improvements are needed in the OBDs' financial reporting process to ensure that consideration is given to current economic factors that affect the funding analysis journal entry. As a result of the component auditors' analysis of Cumulative Results of Operations in the OBDs' September 30, 2009, certified financial statements, it was noted that JMD failed to update the Audited Financial Statements (AFS) funding analysis journal entry related to the mix of earmarked funding between appropriated and reimbursable sources, to reflect the significant reduction in reimbursable revenue received; thus the financial statements submitted for external audit contained an error. Specifically, Unexpended Appropriations of Earmarked Funds was overstated, and Cumulative Results of Operations was understated, by $103 million.

Government Accountability Office, *Standards for Internal Control in the Federal Government*, states that:

- Internal control should provide reasonable assurance that the objectives of the agency are being achieved in the following categories:
    - Effectiveness and efficiency of operations including the use of the entity's resources.
    - Reliability of financial reporting, including reports on budget execution, financial statements, and other reports for internal and external use.
    - Compliance with applicable laws and regulations.
- Because governmental, economic, industry, regulatory, and operating conditions continually change, mechanisms should be provided to identify and deal with any special risks prompted by such changes.
- Accurate and Timely Recording of Transactions and Events: Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

The OBDs records journal entries as "on-top" adjustments within the AFS Microsoft Access database. The complexity of these journal entries is increased by both the number and different types of activities performed by the OBDs. OBDs management did not appropriately consider the current economic environment and the impact on the earmarked funding activity and related AFS journal entries.

Summary

Certain components' internal controls do not provide reasonable assurance that financial transactions are properly recorded, processed, summarized, and documented to permit the preparation of financial statements in accordance with generally accepted accounting principles. Improvements are still needed in the components' day-to-day adherence to standardized financial reporting policies, as set forth in the Department's *Financial Statement Requirements and Preparation Guide*, to provide for accuracy and consistency in the preparation of the component entities' and the Department's financial statements.

Recommendations:

We recommend the Department:

2. Monitor the corrective actions taken by the USMS to improve the condition of its funds management controls, in response to the specific recommendations made in the component auditor's *Independent Auditors' Report on Internal Control over Financial Reporting* issued in connection with the audit of the USMS's financial statements as of and for the year ended September 30, 2009. *(Updated)*

Management Response:

DOJ management concurs. The Justice Management Division will continue to work with the USMS to document and improve processes related to external reporting to include a reevaluation of their business processes and financial activities associated with accounts payable and undelivered orders. In FY 2010, the USMS' Office of Finance will continue to coordinate with relevant offices, external and internal, to ensure that advance reconciliations and analyses are performed at least quarterly and discrepancies resolved timely. The USMS' Financial Services Division will continue to work with the Office of Compliance Review to provide continuous training and other information necessary so independent review of open obligations can routinely be conducted to identify risks and recommend corrective actions to ensure compliance with accounting standards and regulations.

3. Assess the adequacy of the Department's accounting, internal control, and financial reporting policies in the areas of: (1) seized and forfeited property, (2) budgetary upward and downward adjustments, (3) deobligation of funds, (4) inventory controls, and (5) consideration of economic factors in the funding analysis journal entry process. Based on the results of this assessment, determine the need to issue new guidance and/or reiterate to components the existing policies for those areas in which the components' auditors identified significant deficiencies related to the recording of transactions and the preparation of financial statements in accordance with generally accepted accounting principles. Monitor the components' adherence to the Department's accounting and financial reporting policies and procedures throughout the year. *(Updated)*

Management Response:

DOJ management concurs. AFF will continue to work closely with asset forfeiture components to strengthen data entry and period end closing procedures to ensure that property and accounting systems reflect accurate information. In addition, data quality control teams will be used to help validate and review the accuracy of the entries. OJP will strengthen its controls over the upward and downward review process. DEA, in conjunction with the implementation of a new financial management system, the Unified Financial Management System (UFMS), has taken and will continue actions to strengthen controls over fiscal and operational processes. FPI will develop an aggressive corrective action plan that is targeted to adhering to proper segregation of duties regarding inventory count duties for cycle counts coupled with the need to maintain complete files documenting the performance and results of inventory counts, along with established analytics. The Offices, Boards and Divisions (OBDs) will ensure that a review process is in place which factors in the effect of changes in the current economic environment on funds unique to the OBDs and the financial statements.

4. Continue efforts to implement a Department-wide integrated financial management system that is in compliance with the United States Government Standard General Ledger, conforms to the financial management systems requirements established by the Financial Systems Integration Office (formerly the Joint Financial Management Improvement Program), and can accommodate the requirements of applicable Federal accounting standards. *(Repeat)*

Management Response:

DOJ management concurs. The UFMS initiative is a keystone to the Department's financial systems improvement planning for the future. UFMS is replacing the Department's multiple core financial management and procurement system with an integrated Commercial-Off-The-Shelf (COTS) solution, Momentum, provided by CGI, Federal Inc. Implementation of the UFMS will improve financial management and procurement operations through streamlining and standardizing business processes and procedures across all components. Progress in FY 2009 regarding the Department's implementation of its UFMS included: implementation of DEA in January 2009, deployment of the contract writing tool at the FBI, and use of the front-end procurement module for the Bureau of Prisons. To date, there are over 2,000 system users, with plans to deploy ATF on UFMS beginning in FY 2011. JMD senior leadership meets on a regular basis to discuss and address the challenges associated with the implementation of the UFMS across the Department (excluding FPI).

EXHIBIT III

STATUS OF PRIOR YEARS’ FINDINGS AND RECOMMENDATIONS

As required by *Government Auditing Standards* issued by the Comptroller General of the United States, and by OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended, we have reviewed the status of prior years’ findings and recommendations. The following table provides our assessment of the progress the DOJ has made in correcting the previously identified significant deficiencies. We also provide the Office of the Inspector General report number where the deficiency was identified, our recommendation for improvement, and the status of the recommendation as of the end of fiscal year 2009:

Report	Significant Deficiency	Recommendation	Status
Annual Financial Statement Fiscal Year 2007 Report No. 08-01	Improvements are needed in the components’ internal controls to provide reasonable assurance that transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with generally accepted accounting principles	**Recommendation No. 5:** Continue efforts to implement a Department-wide integrated financial management system that is in compliance with the United States Government Standard General Ledger, conforms to the financial management systems requirements established by the Financial Systems Integration Office (formerly the Joint Financial Management Improvement Program), and can accommodate the requirements of applicable Federal accounting standards.	In Process (FY 2009 Recommendation No. 4)
Annual Financial Statement Fiscal Year 2008 Report No. 09-06	Improvements are needed in the Department’s component financial management systems’ general and application controls	**Recommendation No. 1:** Require the components to submit and implement corrective action plans that address the weaknesses identified above. The corrective action plans should focus on correcting deficiencies in access controls, application change controls, segregation of duties, and system software weaknesses discussed in the component auditors’ reports on internal control over financial reporting. The corrective action plans should also include a timeline that establishes when major events must be completed. The Department’s CIO should monitor the components’ efforts to correct deficiencies, hold them accountable for meeting the action plan timelines, and ensure the corrective actions are implemented adequately to address the noted deficiencies.	In Process (Updated by FY 2009 Recommendation No. 1)

	Improvements are needed in the components' internal controls to provide reasonable assurance that transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with generally accepted accounting principles	**Recommendation No. 2:** Monitor the corrective actions taken by the USMS to improve the condition of its funds management controls, in response to the specific recommendations made in the component auditor's *Independent Auditors' Report on Internal Control* issued in connection with the audit of the USMS's financial statements as of and for the year ended September 30, 2008.	In Process (Updated by FY 2009 Recommendation No. 2)
		Recommendation No. 3: Assess the adequacy and completeness of the Department's accounting and financial reporting policies in the areas of: (a) accounts payable; (b) grant advances and obligations; (c) obligations and disbursements; (d) seized and forfeited property; (e) financial accounting and reporting and related quality assurance processes; and (f) preparation, review, and approval of journal entries. Based on the results of this assessment, determine the need to issue new guidance and/or reiterate to components the existing policies for those areas in which the components' auditors identified significant deficiencies related to the recording of transactions and the preparation of financial statements in accordance with generally accepted accounting principles. Monitor the components' adherence to the Department's accounting and financial reporting policies and procedures throughout the year.	In Process (Updated by FY 2009 Recommendation No. 3)