OFFICE OF THE INSPECTOR GENERAL COMMENTARY AND SUMMARY

This audit report contains the Annual Financial Statement of the U.S. Department of Justice for the fiscal year ended September 30, 2001. The Department of Justice is responsible for enforcing criminal and civil laws, ensuring public safety against foreign and domestic threats, providing leadership in preventing and controlling crime, seeking just punishment for those guilty of unlawful behavior, and ensuring fair and impartial administration of justice for all Americans. In fiscal year (FY) 2001, the Department had approximately 130,000 employees and total budgetary resources of approximately $32.3 billion.

Under the direction of the Office of the Inspector General (OIG), PricewaterhouseCoopers LLP performed the FY 2001 consolidated Department audit and three of the ten component audits. Three other independent public accounting firms performed the remaining seven component audits, upon which PricewaterhouseCoopers LLP relied when issuing the report on the consolidated financial statements. The Department received an unqualified opinion on all of its FY 2001 financial statements. This was an improvement over FY 2000 when the Department received an unqualified opinion on its balance sheet and statement of custodial activity and a qualified opinion on its remaining statements.

Similar to FY 2000, the Department had to expend tremendous manual efforts and costs in preparing its financial statements for FY 2001. Because the Department lacks automated systems to readily support ongoing accounting operations, financial statement preparation, and the audit process, many tasks had to be performed manually. For example, in order to determine deferred revenue at year end, the Immigration and Naturalization Service again had to count manually approximately five million immigration applications. In addition, because some components' program management systems are not integrated with their financial accounting systems, manual reconciliations between the two systems were required in order to support amounts reported on the financial statements. Significant costly and time-intensive manual efforts will continue to be necessary for the Department and its components to produce financial statements until automated, integrated processes and systems are implemented that readily produce the necessary information. The OIG's concern about these conditions is increased by the accelerated submission dates that the Office of Management and Budget has established for future audited financial statements. For FY 2002, the annual financial statements, which must also be part of the Department's Performance and Accountability Report, are due one month earlier than in FY 2001. In addition, the Department will have to prepare interim financial statements as of March 31 for FY 2002, and quarterly financial statements for FY 2003. Consequently, these accelerated submission dates, coupled with the Department's reliance on manual processes, will further challenge the Department and its components' ability to routinely and timely prepare financial statements.

With regard to the FY 2001 consolidated financial statements, all three material weaknesses previously reported in FY 1999 and FY 2000 at the Department level remain as material weaknesses in FY 2001. However, some of the Department components showed improvement. In FY 2001, the components had a total of 13 material weaknesses (versus 15 in FY 2000) and

12 reportable conditions (versus 23 in FY 2000). In addition, the previously reported weakness involving fund balance with Treasury is no longer a reportable condition at the Department level. The table on the following page compares the FY 2001 and the FY 2000 audit results for the Department consolidated audit as well as for the ten individual component audits.

The first material weakness at the Department level occurred because seven of ten components did not record all of their financial transactions in accordance with generally accepted accounting principles. This weakness reflected problems with the accounting and reporting of liabilities, revenue, property, and inventories in particular.

The second material weakness resulted from weaknesses in six of ten components' financial management systems' general and application controls. Additionally, in the consolidated Report on Compliance with Laws and Regulations, the auditors identified five Department components that were not compliant with the Federal Financial Management Improvement Act of 1996 (FFMIA), which specifically addresses the adequacy of federal financial management systems. Last year, this material weakness also included general control issues cited at the Department's data processing centers and the FBI's information systems control environment. However, for FY 2001 these general controls were reviewed pursuant to the Government Information Security Reform Act, and the detailed results of the reviews are included in two separate reports. A separate report on the FBI information systems control environment will be issued in support of the FY 2001 DOJ consolidated financial statement audit.

The third material weakness arose because six Department components did not have effective financial statement preparation processes to ensure financial statements were completed in conformance with the Department's requirements. Additional issues relating to intra-governmental transactions and the consolidation process were also noted.

In addition to the previously mentioned FFMIA system-related deficiencies, the consolidated Report on Compliance with Laws and Regulations cited one other instance of component noncompliance with the Debt Collection Improvement Act.

Comparison of FY 2001 and FY 2000 Audit Results						
Reporting Entity	**Auditors' Opinion On Financial Statements**		**Number of Material Weaknesses**[1]		**Number of Reportable Conditions**[2]	
	2001	**2000**	**2001**	**2000**	**2001**	**2000**
Consolidated Department of Justice	Unqualified[3]	Qualified[4, 5]	3	3	0	1
Assets Forfeiture Fund and Seized Asset Deposit Fund	Unqualified	Unqualified	0	0	0	2
Federal Bureau of Prisons	Unqualified	Unqualified	0	0	0	3
Drug Enforcement Administration	Unqualified	Unqualified	4	4	1	2
Federal Bureau of Investigation	Unqualified	Unqualified	3	2	1	1
Federal Prison Industries, Inc.	Unqualified	Unqualified[6]	2	5	2	1
Immigration and Naturalization Service	Unqualified	Qualified[5]	3	3	1	3
Offices, Boards and Divisions	Unqualified	Unqualified	0	0	2	2
Office of Justice Programs	Unqualified	Unqualified	0	0	3	3
U.S. Marshals Service	Unqualified	Unqualified	1	1	2	3
Working Capital Fund	Unqualified	Unqualified	0	0	0	3
		Component Totals	13	15	12	23

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

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

[3] 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.

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

[5] Qualified on Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing. Unqualified on other financial statements.

[6] Originally reported as qualified, but qualification subsequently removed during FY 2001 audit.