

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

The Federal Managers' Financial Integrity Act (Integrity Act) requires federal agencies to conduct ongoing evaluations regarding the adequacy of the systems of internal accounting and administrative control, and report yearly to the President all material weaknesses found through these evaluations. The Integrity Act also requires the heads of agencies to provide the President with yearly assurance that obligations and costs are in compliance with applicable law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to maintain accountability over the assets. To provide this report and assurance to the President, the Attorney General depends upon information from component heads regarding their management controls. Using this information, the Attorney General can then provide the appropriate level of assurance. For FY 2005, the Attorney General has provided qualified assurance that the Department's management controls and financial systems meet the objectives of Sections 2 and 4 of the Integrity Act.

MANAGEMENT CONTROLS PROGRAM IN THE DEPARTMENT OF JUSTICE

Managers must conform to specific management accountability and improvement policies when designing, planning, organizing, and carrying out their responsibilities in order to ensure the most efficient and effective operation of their programs. These policies address written guidance, delegation of authority and responsibility, hierarchical reporting of emerging management problems, personal integrity, quality data, separation of key duties and responsibilities, periodic comparisons of actual with recorded accountability of resources, routine assessment of programs with a high potential for risk, systematic review strategy to assess the effectiveness of program operations, and prompt management actions to correct significant problems or improve operations.

Management accountability systems must assure basic compliance with the objectives of the Integrity Act and the management control standards set by the Government Accountability Office (GAO). Quarterly, the Department's components review financial operations, systems, and controls, and report significant results to the Justice Management Division (JMD). Annually, the JMD reports this information to the Attorney General and must assure the Attorney General that the management systems incorporate at least the minimum control standards described in Department guidance. In addition, any inspection, audit, evaluation, peer or program review process, self-assessment, or equivalent, used by Departmental management to keep informed about needs and opportunities for improvement must incorporate these same standards into its methodology.

INTEGRITY ACT MATERIAL WEAKNESSES REPORTED TO THE PRESIDENT: FY 2005

Summary of Status of Weaknesses

PROGRAM MATERIAL WEAKNESSES	FIRST REPORTED	LAST TARGET	CURRENT TARGET
Information Technology Security Weaknesses in Financial Management Systems	2004	2005	2006

FINANCIAL SYSTEM MATERIAL WEAKNESSES	FIRST REPORTED	LAST TARGET	CURRENT TARGET
Financial Systems Compliance	2001	On-going	On-going
Accounting Standards Compliance	2002	2005	2006
Financial Reporting Process	2005	2006	2006

Financial Systems. Weaknesses cited in the financial statement audits, nonconformances with OMB Circulars No. A-127 and A-130, technological changes, and the need to better support critical financial operations and agency programs contribute to the necessity to modernize DOJ financial systems and improve internal controls. Additionally, the need to standardize DOJ business practices and deliver more timely and useful information to program and financial decision makers remains a key objective. To meet these objectives, the Attorney General has made improving our financial systems and performance one of the Department's top priorities.

To address the fragmented multi-system current environment and to address immediate noncompliance issues, the Department is committed to adopting a single unified financial management system. Because of remaining weaknesses in financial applications and related controls, the Department provides qualified reasonable assurance that our financial systems, taken as a whole, meet the systems objectives in Section 4 of the Integrity Act. We are again reporting a separate material weakness specifically on financial systems compliance in our Section 4 certification. A related finding, pertaining to broader information technology systems access and other security issues with financial systems, is reported as a Section 2 material weakness.

Unified Financial Management System Program. Financial systems performance, data quality, and data availability for leadership decision-making is made more difficult because of the fragmented systems environment across the Department. Replacing the seven legacy systems with a standardized core financial system that meets federal standards is our goal. The Department's Unified Financial Management System (UFMS) Program Management Office has gathered core financial requirements, awarded a commercial off the shelf (COTS) solicitation, awarded the COTS contract to CGI-AMS, Inc., and developed reengineered business processes. The Product Acceptance Testing was completed and the CGI-AMS software was officially accepted by the government during the second quarter of FY 2005. During third quarter FY 2005, the Department released a Request for Quotation for integration and implementation services to support the deployment of the UFMS. Contract award is anticipated for the first quarter of FY 2006. The Department continues to work with the Office of Management and Budget (OMB) on the systems development and risk management related to the system.

Financial Controls. For FY 2005, the Department's Integrity Act Section 4 certification reports three financial systems related material weaknesses. The first weakness is the fragmented status of the Department's legacy financial systems, the need to adopt unified practices and a unified system, and the short term need to address a host of weaknesses with information systems general and application controls. The second weakness relates to noncompliance with federal accounting standards. In particular, repeat internal control weaknesses were noted regarding adherence to certain accrual accounting practices, obligation reporting, grant accounting, construction, and property accounting. In one component audit, significant weaknesses were identified in the fundamental funds control structure of the organization, including issues with adherence to proper use of appropriations, adequacy of financial documentation for obligation records, and the control of obligation/deobligation entries. In this particular area, the lack of full adherence to proper accounting standards resulted in the failure to fully comply with applicable laws and regulations governing agency financial practices. A third weakness relates to the Department's inability to routinely produce timely and accurate financial reports within required deadlines. Corrective action plans for the immediate information systems controls, the accounting standards issues, and reporting capabilities are underway and will be accelerated in FY 2006.

Management Controls Corrective Action Efforts. With the receipt of the FY 2005 consolidated audit report, it is evident that repeat material weaknesses in internal controls are clustering in a small number of components while other components continue to make significant strides in eliminating remaining control issues. In fact, 100 percent of the material weaknesses in controls identified by the auditors in FY 2005 reside in four of the ten audited Department components. Ten material weaknesses existed at the component level in FY 2004, and the same components had ten material weaknesses in FY 2005, with a slightly changing mix of weaknesses within the components. Accordingly, given the repeat nature of the weaknesses in a few entities,

the Attorney General is directing a focused effort to aggressively detect and correct those clustered control weaknesses during FY 2006 via a two-pronged approach to corrective action. To address the clustered weaknesses in the four components, the Chief Financial Officer will be coordinating targeted corrective action teams at each of the four components with material weaknesses. Senior departmental financial managers will, where appropriate, be deployed to impacted components to assist with the improvement efforts. Concurrently, to provide better assurance over controls Departmentwide, the Department formally established an internal evaluation and review group at the close of FY 2005. This group will have the express mission of reviewing the adequacy of the financial management and related controls across the Department, and is also responsible for carrying out the Department's related management assurance program compliance as required by OMB Circular A-123. While the remaining internal controls weaknesses are significant, the Department is committed to aggressively working to install improved controls during FY 2006 in order to remediate the identified accounting and systems related weaknesses and to eliminate any noncompliance with laws and regulations.

Accomplishments. In FY 2005, the Department earned an unqualified opinion on its consolidated financial statements. All ten of the components that produced standalone financial statements received unqualified opinions. Last year, the Department statements were disclaimed due to problems with one component's grant balances and information system weaknesses. Importantly, during FY 2005 the Department did extensive corrective work on those balances and was able to restate the FY 2003 and FY 2004 financial reports for the Office of Justice Programs. Unqualified opinions were rendered on those restated financial reports. The Bureau of Alcohol, Tobacco, Firearms and Explosives also reissued its FY 2004 statements, correcting an accounts payable issue from last year, and earned an unqualified opinion on its reissued FY 2004 financial statements. These actions enabled the Department to earn an unqualified opinion on its restated FY 2004 consolidated financial statements. These efforts were undertaken by the Department because of our commitment to providing full accountability for the tax dollars we receive.

Two DOJ components, the DEA and Federal Prison Industries (FPI), had no internal control weaknesses cited in their auditors' reports. Four other components had no material weaknesses. The Department continues to make progress moving towards reports which completely eliminate internal control material weaknesses and reportable conditions. These actions are helping position the Department to move towards "green" status under the President's Management Agenda, Improving Financial Management scorecard.

The Department met the OMB accelerated deadlines for consolidated financial statements again this year. Throughout FY 2005, DOJ continued to emphasize the importance in meeting year-end requirements including key dates for the FY 2005 audit and critical deadlines for submission of financial data to the Department of the Treasury. Ensuring the deadline would be met required planning and coordinating and included early issuance of the annual Financial Statements Requirement and Preparation Guide to bureau components, including a detailed timeline of major events and interim milestones. Other factors included quarterly confirmations of intra-Departmental business activity and preparation of a draft Performance and Accountability Report that was circulated for comments on May 27, 2005. The Department continues to conduct internal reviews of targeted material weaknesses and corrective actions, and will be following the aforementioned two-pronged approach for addressing control weaknesses in FY 2006.

Section 2: Internal Controls

Report Year	# of Issues First Reported in Year	# of Issues Corrected in Year	# of Issues Pending at End of Year
Prior Years	59	49	10
2003	0	8	2
2004	1	2	1
2005	0	0	1
Total	60	59	n/a

Section 4: Financial Management Systems

Report Year	# of Issues First Reported in Year	# of Issues Corrected in Year	# of Issues Pending at End of Year
Prior Years	44	40	4
2003	0	2	2
2004	0	0	2
2005	1	0	3
Total	45	42	n/a

INTEGRITY ACT SECTION 2 – Program Material Weaknesses

In FY 2005, the Department has one Integrity Act Section 2 Material Weakness to report.

Information Technology Security Weaknesses in Financial Management Systems. Financial audits continue to find significant weaknesses in internal controls related to information technology (IT) security. Consolidated financial statement audit reviews revealed a range of deficiencies in the component financial and financial-mixed IT systems. Material weaknesses were noted within several major components, including the FBI, USMS, OJP, and ATF. Control weaknesses cited include: access controls, specifically noting failure to ensure adequate separation of duties; application software development and change controls; service continuity; system software; and application controls. In addition to the system controls issues, the differing levels of data quality and compatibility across seven different core systems impedes financial reporting and the timely availability of key cost and performance information for management decision making. The Department is also addressing the need to consolidate certain asset management systems. Accordingly, the Department again has decided that this weakness rises to an Integrity Act Section 2 material weakness.

While not reported as a material weakness, the Department continues to address issues related to its overall IT systems enterprise architecture (EA). An on-going Office of the Inspector General review is examining whether the Department is effectively managing its IT investments and developing appropriate EA. Preliminary results indicate that the Department is actively developing and implementing frameworks to support EA. In August 2005, a new Deputy Chief Information Officer (CIO) for Policy and Planning Staff was hired to oversee the Department's IT Investment Management and EA programs. Furthermore, in September 2005, a Chief Enterprise Architect was hired to lead the Department's EA Program Management

Office. The Department is working to ensure that investments in IT are well planned and aligned with the Department's overall IT strategy and EA, and that components build IT systems that are interoperable with other component systems. Given the magnitude of these investments, the Department will continue to monitor the planning, development, completion and updating of both Departmental and component-level EAs.

INTEGRITY ACT SECTION 4 – Financial System Material Weaknesses

In FY 2005, the Department has three Section 4 Material Weaknesses pertaining to its accounting operations, practices, and systems.

DOJ Financial Systems Compliance. Financial Systems weaknesses in access controls, segregation of duties, entity-wide security, configuration management, remote access, backup and related contingency procedures, information officer organizational structures, and documentation were the primary systems compliance issues identified in the financial systems reviews this year. The most serious weaknesses clustered in four of the ten audited components. Compliance issues were noted with OMB Circulars A-127 and A-130, and the GAO's Federal Information Systems Controls Audit Manual and other applicable standards. Material weaknesses in information systems controls were noted at the FBI, ATF, OJP, and USMS. The affected components, as well as those components with lesser reportable conditions in information system controls, will address the weaknesses in their legacy systems as part of targeted corrective action plans in FY 2006. Long term corrective actions will be accomplished as part of the Department's UFMS project discussed previously.

Accounting Standards Compliance. In FY 2005, the Department was pleased that the DEA and FPI received audit reports without any reported weaknesses in internal control. Four other entities, the OBDs, WCF, AFF, and BOP again finished the year without internal control material weaknesses. These entities are showing significant progress eliminating or reducing internal control findings in their operations. However, four components reported material weaknesses in complying with federal accounting standards. OJP has remaining issues pertaining to the accounting for grants and non-grant obligations, including the timely and accurate monitoring and closeout of grants. While substantial progress has been made in refining the accuracy of the OJP grant accrual estimation process, ongoing work is needed to ensure that the variability associated with grantee expense activity is mitigated. Additionally, new subsidiary reconciliation procedures and adjusting entry procedures must be fully followed in the future. The reporting of the FBI's property finding was downgraded from a material weakness to a reportable condition; however, weaknesses were reported in the FBI's financial reporting process related to timeliness of deobligations, accounts payable accrual methodology, advances to others, documentation of policies and procedures, and monitoring and resolution of internal audit findings. For the USMS, the Department identified weaknesses in the overall internal control structure, including controls that are intended to ensure proper use of appropriations, proper documentation and recordation of obligations, and related issues with compliance with laws and regulations, including prompt payment and erroneous payment programs. The Department notified USMS during the course of the year that it must correct entries that improperly charged the USMS construction appropriation and the Department's Fees and Expenses of Witness appropriation for salaries and expenses. Weaknesses for USMS also include inadequate communications between offices with funds control responsibilities, inadequate controls over construction and property accounting, poor coordination with GSA for timely asset recordation, timeliness of financial reporting, quality controls over statement preparation, and adequacy of supporting documentation for accounting deobligations. The Department is pursuing corrective action plans with the aforementioned components and expects to substantially meet federal accounting and systems standards by September 2006.

Financial Reporting Process. While the Department again met OMB's 45 day reporting deadline, and most components met the quarterly reporting deadlines, report preparation issues remained this year in several components, notably the FBI, OJP and USMS. Significant improvement was seen at the OJP as restated reports were issued for FY 2003 and FY 2004 and unqualified opinions were rendered on the restated reports. OJP implemented new procedures for preparing financial statements, calculating its grant accruals, preparing and documenting journal vouchers, and conducting reconciliations of the general and subsidiary ledgers this

year. However, the FY 2005 process revealed additional quality control procedures are still needed, and further corrective action is underway. Preparation issues were also in evidence at USMS and FBI, including issues with quality controls over statement compilation processes.

LEGAL COMPLIANCE

The Department is committed to ensuring its financial activities are carried out in full compliance with applicable laws and regulations. To ensure this responsibility is carried out, senior Department financial managers direct annual reviews of financial operations and programs, and provide assurance to the Attorney General that Department activities are compliant with laws and regulations. The JMD, under the direction of the Chief Financial Officer, directs an annual review of operations and controls pursuant to the Integrity Act.

For FY 2005, the Independent Auditors cited FBI, OJP, ATF, and USMS for noncompliances in meeting certain requirements of the federal accounting standards. These included deficiencies in timely recording of certain property transactions, inconsistencies in the financial reporting processes (e.g., grants management, reimbursable agreement-related revenue), and adherence to proper internal controls in the financial systems environment. In order to achieve full compliance with the FFMIA, the Department will continue to pursue corrective action plans and mitigate immediate risks in each of the affected components.

IMPROPER PAYMENTS: Summary of Implementation Efforts for FY 2005

The Improper Payment Information Act (IPIA) requires a risk assessment in all programs to identify those that are susceptible to significant erroneous payments. Significant erroneous payments are defined by the OMB as annual erroneous payments in a program exceeding both 2.5 percent of program payments and \$10 million. Based on Department-wide risk assessments, except for USMS, comprised of Independent Audit Reports, Internal Control Reviews, Inspector General Reviews, and Recovery Audit Activities, the DOJ has determined that there are no significant risk programs in the Bureaus reviewed in which improper payments exceed both 2.5 percent of program payments and \$10 million. The USMS did not establish a program to assess, identify, and track improper payments, nor has it implemented a Recovery Audit Program.

The Assistant Attorney General for Administration (AAG/A) is responsible for developing Department-wide policies and procedures for assessing program risks, actions to reduce erroneous payments, and initiating a recovery audit program. The AAG/A has advised all Bureaus of the IPIA and Recovery Audit Program requirements and that they are mandatory.

The DOJ has mandated Department-wide implementation of recovery audits. The DOJ has a task order with FedSource, Department of the Treasury, for the services of an audit recovery firm to perform recovery audit activities. The Offices, Boards and Divisions, OJP, BOP, and FPI have ordered services under this task order. Additionally, DOJ staff are performing recovery audit activities simultaneously with the audit recovery firm. Some components are using internal monitoring programs. See Appendix E for IPIA reporting details.