

U.S. DEPARTMENT OF JUSTICE ANNUAL FINANCIAL STATEMENT FISCAL YEAR 2009

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 years (FY) ended September 30, 2009, and September 30, 2008. Under the direction of the Office of the Inspector General (OIG), KPMG LLP performed the Department's audit. The audit resulted in an unqualified opinion on the FY 2009 financial statements. An unqualified opinion means that the financial statements present fairly, in all material respects, the financial position and the results of the entity's operations in conformity with U.S. generally accepted accounting principles. For FY 2008, the Department also received an unqualified opinion on its financial statements.

KPMG LLP also issued reports on internal control and on compliance and other matters. For FY 2009, the *Independent Auditors' Report on Internal Control over Financial Reporting* identified two significant deficiencies, both of which were repeat issues. Weaknesses in the general controls over the financial management system related to access controls and configuration management were reported at two of the Department's nine reporting components 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 funds management controls; the Assets Forfeiture Fund and Seized Asset Deposit Fund's seized and forfeited property reporting controls; the Office of Justice Programs' recording of budgetary upward and downward adjustments; the Drug Enforcement Administration's timely deobligation of funds; the Federal Prisons Industries' inventory count controls; and the Offices, Boards and Divisions' consideration of economic factors in funding analysis journal entries. The chart at the end of our discussion illustrates the FYs 2009 and 2008 financial statement results for the Department and the nine reporting components.

As reflected in the chart, the Department has continued to make progress in its financial management systems and has continued to address major weaknesses identified in the OIG's previous annual financial statement audits. For example, at the component level the number of significant deficiencies decreased from 14 in FY 2008 to 8 in FY 2009. The Department and its components deserve credit for these substantial 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 2009 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 U.S. 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 9, 2009, and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

Comparison of FY 2009 and FY 2008 Audit Results										
Reporting Entity	Auditors' Opinion On Financial Statements		Number of Material Weaknesses¹				Number of Significant Deficiencies²			
			Financial		Information Systems		Financial		Information Systems	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Consolidated DOJ	U ³	U	0	0	0	0	1	1	1	1
OBDs	U	U	0	0	0	0	1	1	0	0
AFF/SADF	U	U	0	0	0	0	1	3	0	1
FBI	U	U	0	0	0	0	0	1	0	0
DEA	U	U	0	0	0	0	1	0	0	0
OJP	U	U	0	0	0	0	1	1	0	1
USMS	U	U	1	1	0	0	0	1	1	1
BOP	U	U	0	0	0	0	0	0	1	1
FPI	U	U	0	0	0	0	1	0	0	1
ATF	U	U	0	0	0	0	0	1	0	0
Component Totals			1	1	0	0	5	8	2	5

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)

¹ A material weakness is a significant deficiency (see below), or combination of deficiencies, that results in more than a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected by the Department's internal control on a timely basis.

² A significant deficiency is a deficiency, or combination of deficiencies, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. 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.

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.