

## ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

The Federal Managers' Financial Integrity Act (Integrity Act) requires federal agencies to conduct ongoing evaluations of 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. The Attorney General can provide qualified assurance that the Department's management controls and financial systems met 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 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 2004

#### Summary of Status of Weaknesses

PROGRAM MATERIAL WEAKNESSES	FIRST REPORTED	LAST TARGET	CURRENT TARGET
Information Technology Security Weaknesses in Financial Management Systems (DOJ)	2004	2005	2005
Management of Information Technology Investments (FBI)	2002	2004	<b>DOWN-GRADED to Program Concern</b>
Computer Security Implementation (DOJ)	2002	2004	<b>CLOSED</b>
FINANCIAL SYSTEM MATERIAL WEAKNESSES	FIRST REPORTED	LAST TARGET	CURRENT TARGET
Financial Systems Compliance (DOJ)	2001	On-going	On-going
Accounting Standards Compliance (DOJ)	2002	2004	2005

**Financial systems.** For DOJ as a whole, the need to address 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. The Attorney General has made improving our financial systems and performance one of the Department's top priorities.

To address the immediate noncompliance issues, and to improve the long-term financial management infrastructure in the Department, we are committed to moving away from the fragmented multi-system environment we operate in today, and will adopt a single unified financial management system. While the Department reduced the system-related material weaknesses in this year's audit reports, and we can provide 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 access and other security issues with financial systems is also reported as a Section 2 material weakness.

**Unified Financial Management System Program.** The Attorney General identified a unified financial system as part of the ten goals for revamping the Department's management. The ability to improve the Department's financial management performance is directly related to our capacity to rely on core financial systems. Consequently, the Department is committed to implementing a Joint Financial Management Improvement Program (JFMIP) certified core financial system that will provide managers with accurate and timely financial data required to make critical program decisions. The Department selected CGI-AMS, Inc., as the commercial "off-the-shelf" (COTS) Financial Management System (FMS) product provider. DOJ components are scheduled to begin implementation in FY 2006. The Department's Unified Financial Management System (UFMS) Program Management Office has gathered core financial requirements, awarded a COTS solicitation, and issued a draft integration and implementation solicitation, and awarded the COTS contract to CGI-AMS, Inc, and continued to reengineer business processes, etc. The Product Acceptance Testing (PAT) will be completed in the first quarter of FY 2005. The Department continues to make progress and anticipates the award of a contract for integration and implementation work during FY 2005.

**Financial Controls.** The Department's Integrity Act Section 4 certification for FY 2004 reported two financial systems material weaknesses. One is the status of the Department's financial systems and the need to adopt a unified financial system. Another is noncompliance with federal accounting standards. In particular, weaknesses were noted in adherence to certain accrual accounting practices, obligation reporting, grant accounting, and property accounting. Additional concerns were surfaced with the Department's ability to adequately staff its financial operations and financial statement reporting functions, particularly in light of the earlier reporting deadlines. Corrective action plans for accounting improvements and staffing are underway. A host of financial system control findings and general access and related findings pertaining to information systems controls are being addressed through short-term corrective actions and ultimately through the implementation of the Department's unified financial management system. During FY 2005, components will continue to provide training, enhance current procedures, and improve business practices.

**Corrective Actions.** Components have developed corrective action plans designed to eliminate any Integrity Act material weaknesses and the internal control weaknesses reported in the financial audits. These plans are reviewed by the Chief Financial Officer, and are subject to the Chief Financial Officer's direction and guidance. As plans were in effect to reduce audit material weaknesses, there were no changes in the reduction of component level financial statement audit material weaknesses, which were nine in FY 2002 and nine (three belonged to the former Immigration and Naturalization Service) in FY 2003. For FY 2004, six weaknesses were corrected and seven new weaknesses were reported. The major focus of the Department's FY 2005 corrective action process will be to eliminate component procedural weaknesses in business practices and financial operations, to eliminate remaining financial statement preparation weaknesses, and diminish the general controls findings related to legacy systems. The Attorney General's financial management improvement goal for FY 2005 clearly articulates this expectation.

**Accomplishments.** While the Department has not yet received a “green” rating in financial management on the President’s Management Agenda scorecard, Department components have continued to make improvements to their financial management controls. The Department aggressively managed to meet the OMB accelerated deadlines for FY 2004. To improve financial management performance, the Department continues its process to acquire a new Departmentwide core financial system. To issue accurate and timely financial information, the Department continues to make significant progress in implementing the Hyperion Financial Management (HFM) tool. During FY 2004, the Department tested the HFM text data load requirement and performed parallel testing of selected accounting data. As a result of these tests, Hyperion developed minor enhancements to improve the functionality of the software. Modifications and parallel testing will likely continue through the end of the year. Additionally, the Department plans to deploy HFM in a web-enabled environment and allow component access by the first quarter of FY 2005. The Department also continued to provide oversight and other guidance to accelerate quarterly and year-end closeouts and performed interim testing. The Department continues to improve its overall financial statement preparation guidance and the process for effecting detailed elimination reconciliations between Department components and external agency trading partners.

## **INTEGRITY ACT SECTION 2 – Program Material Weaknesses**

In FY 2004, the Department has one Integrity Act Section 2 Material Weakness to report.

**Information Technology Security Weaknesses in Financial Management Systems.** DOJ financial audits continue to find significant weaknesses in internal controls related to IT security. Consolidated financial statement audit reviews revealed a range of deficiencies in the component financial and financial-mixed IT system. Material weaknesses and reportable conditions were noted at several major components, including the FBI, USMS, OJP, BOP, ATF, and the OBDs. 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.

## **INTEGRITY ACT SECTION 4 – Financial System Material Weaknesses**

In FY 2004, the Department has two Section 4 Material Weaknesses pertaining to its accounting operations and practices.

**DOJ Financial Systems Compliance.** For DOJ as a whole, the need to address weaknesses cited in the financial statement audits noted above, nonconformance’s 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. The Attorney General identified a unified financial system as part of the ten goals for revamping the Department’s financial management. The unified system will be a commercial, “off the shelf” (COTS) Financial Management System product certified by the Joint Management Improvement Program (JFMIP) as meeting core federal financial management system requirements. In March 2004, the contract for the COTS was awarded to CGI-AMS, Inc. The focus of the UFMS program over the next quarter will be completion of the Product Acceptance Testing (PAT) and to target other compensating controls for preparation of the initial implementation of a unified accounting system across DOJ.

**DOJ Accounting Standards Compliance.** The DOJ audit report on the FY 2003 consolidated financial statements identified the FBI; OBDs; WCF; USMS; and the AFF as having material weaknesses in their compliance with certain federal accounting standards. These findings were related to weaknesses in business processes, financial transaction recording, and reporting, including seized asset accounting. In FY 2004, the OBDs, WCF, and AFF eliminated their material weaknesses, although remnant reportable conditions concerning accrual accounting exist in the OBDs and WCF. In FY 2004, the auditors reported a total of ten material weaknesses across the components. The FBI auditors reported two material weaknesses, one concerning financial reporting practices and one concerning property accounting. FBI made a host of

improvements in its accounting and reporting practices this past year and will continue to pursue further improvements to address the reporting weaknesses in FY 2005. Several material weaknesses were identified for OJP in FY 2004. These weaknesses included a lack of effective internal controls within its control environment, inadequate financial management systems controls, weaknesses in its grant accounting, particularly the grant accrual process, weaknesses in documenting certain accounting entries, and weaknesses applying generally accepted accounting principles. OJP, with the Department's assistance and oversight, is aggressively pursuing corrective actions to correct its weaknesses and controls. Also, ATF received a qualified opinion this year due to weaknesses in its accounts payable accrual practices. ATF anticipates the elimination of this weakness in FY 2005. The USMS received a material weakness regarding improper segregation of duties in its financial systems environment, in addition to a material weakness for its general systems controls environment. During FY 2005, USMS will continue to improve and strengthen in both of these areas. Additional reportable conditions in accrual accounting, obligation management, systems controls, and other standards were reported in several components as well. The Department is pursuing corrective action plans and expects to substantially meet federal accounting and systems standards by July 2005.

### 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	55	47	8
2002	4	2	10
2003	0	8	2
2004	1	2	1
<b>Total</b>	<b>60</b>	<b>59</b>	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	43	39	4
2002	1	1	4
2003	0	2	2
2004	0	0	2
<b>Total</b>	<b>44</b>	<b>42</b>	n/a

## 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 2004, 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), and adherence to proper internal controls in the financial systems environment. In order to achieve full compliance with the FFMI, the Department will continue to pursue corrective action plans in each of the affected components.

### **IMPROPER PAYMENTS: Summary of Implementation Efforts for FY 2004**

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% of program payments and \$10 million. Based on department-wide risk assessments comprised of Independent Audit Reports, Internal Control Reviews, Inspector General Reviews, and Recovery Audit Activities, the DOJ has determined there are no significant risk programs in which improper payments exceed both 2.5% of program payments and \$10 million.

The Assistant Attorney General for Administration (AAGA) 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 AAGA has advised all Bureaus of the IPIA and Recovery Audit Program requirements.

The DOJ has mandated Department-wide implementation of recovery audits. DOJ has a task order with FedSource, Department of the Treasury, for the services of PRG Schultz to perform recovery audits activities. The OBD, OJP, BOP, and FPI have ordered services under this task order. The Justice Management Division and BOP have successfully piloted Recovery Audit Programs since the end of last fiscal year. Additionally, DOJ staff are performing recovery audit activities simultaneously with PRG Schultz. See Appendix E for IPIA reporting details.