

# U.S. DEPARTMENT OF JUSTICE ANNUAL FINANCIAL STATEMENT FISCAL YEAR 2010

## 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, 2010, and September 30, 2009. Under the direction of the Office of the Inspector General (OIG), KPMG LLP performed the Department's audit in accordance with U.S. generally accepted government auditing standards. The audit resulted in an unqualified opinion on the FY 2010 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 2009, the Department also received an unqualified opinion on its financial statements (OIG Report No. 10-05).

KPMG LLP also issued reports on internal control and on compliance and other matters. For FY 2010, the *Independent Auditors' Report on Internal Control over Financial Reporting* identified one significant deficiency, which is an improvement over the prior year, where the auditors reported two significant deficiencies. The FY 2010 significant deficiency related to a few 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; and the Bureau of Alcohol, Tobacco, Firearms and Explosives' funds management controls. The chart at the end of our discussion illustrates the FYs 2010 and 2009 financial statement results for the Department and the nine reporting components.

As reflected in the chart, the Department has continued to show improvement in addressing major weaknesses identified in the OIG's previous annual financial statement audits. For example, at the component level the number of significant deficiencies has decreased from eight in FY 2009 to four in FY 2010. Nevertheless, 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 2010 *Independent Auditors' Report on Compliance and Other Matters*, the auditors identified no instances of non-compliance with applicable laws and regulations, and the *Federal Financial Management Improvement Act of 1996*.

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, 2010, and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with U.S. generally accepted government auditing standards.

<b>Comparison of FY 2010 and FY 2009 Audit Results</b>										
<b>Reporting Entity</b>	<b>Auditors' Opinion On Financial Statements</b>		<b>Number of Material Weaknesses<sup>1</sup></b>				<b>Number of Significant Deficiencies<sup>2</sup></b>			
			<b>Financial</b>		<b>Information Systems</b>		<b>Financial</b>		<b>Information Systems</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Consolidated DOJ	U <sup>3</sup>	U	0	0	0	0	1	1	0	1
AFF/SADF	U	U	0	0	0	0	1	1	0	0
OBDs	U	U	0	0	0	0	0	1	0	0
USMS	U	U	1	1	0	0	0	0	0	1
OJP	U	U	0	0	0	0	0	1	0	0
DEA	U	U	0	0	0	0	0	1	0	0
FBI	U	U	0	0	0	0	0	0	1	0
ATF	U	U	0	0	0	0	1	0	0	0
BOP	U	U	0	0	0	0	0	0	0	1
FPI	U	U	0	0	0	0	0	1	0	0
<b>Component Totals</b>			<b>1</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>5</b>	<b>1</b>	<b>2</b>

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

<sup>1</sup> A material weakness is a deficiency (see below), 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.

<sup>2</sup> A significant deficiency is a deficiency, or 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 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.

<sup>3</sup> 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 U.S. generally accepted accounting principles.