

Management Assurances

Federal Managers' Financial Integrity Act of 1982

The FMFIA (or the Integrity Act) provides the statutory basis for management's responsibility for and assessment of accounting and administrative internal controls. Such controls include program, operational, and administrative areas, as well as accounting and financial management. The Integrity Act requires federal agencies to establish controls that reasonably ensure that obligations and costs are in compliance with applicable laws; 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. The Integrity Act also requires the agency head to annually assess and report on the effectiveness of internal controls that protect the integrity of federal programs (FMFIA Section 2) and whether financial management systems conform to related requirements (FMFIA Section 4).

Guidance for implementing the Integrity Act is provided through OMB Circular A-123. In addition to requiring agencies to provide an assurance statement on programmatic internal controls and financial management systems, the Circular requires agencies to provide an assurance statement on the effectiveness of internal control over financial reporting.

FMFIA Assurance Statement

Department of Justice management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of FMFIA. In accordance with OMB Circular A-123, the Department conducted its annual assessment of internal controls over program operations, which includes compliance with applicable laws and regulations, and conformance with financial management systems requirements. Based on the results of the assessment for the year ended September 30, 2006, the Department of Justice provides a qualified statement of assurance. The assessment identified a material weakness involving the need to reduce the Bureau of Prisons (BOP) crowding rate, currently at 36 percent over the rated capacity. In addition, the Department's two previously reported non-conformances involving the need to improve general controls over information systems supporting financial processes and the lack of a single integrated financial management system remain.

Except for the material weakness and non-conformances, the internal controls over program operations and financial management systems meet the objectives of FMFIA. Details of the exceptions are provided in the section *Summary of Material Weaknesses, Non-Conformances, and Corrective Action Plans*. Other than the exceptions noted, the internal controls were operating effectively, and no other material weaknesses or non-conformances were found in the design or operation of the controls.

In accordance with Appendix A of OMB Circular A-123, the Department conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations. Based on the results of the assessment for the period ending June 30, 2006, the Department provides a qualified statement of assurance. The assessment identified that the material weakness involving the need to further improve the Department's accounting and financial reporting procedures remains.

Except for the material weakness, the internal control over financial reporting was operating effectively, and no other material weaknesses were found in the design or operation of the controls. Details of the exception are provided in the section *Summary of Material Weaknesses, Non-Conformances, and Corrective Action Plans*.

As stated in my introductory message, the Department of Justice is committed to strong program and fiscal management as we continue our mission of fighting terrorism and crime. We are dedicated to improving the Department's internal controls and look forward to further progress in this important area.



Alberto R. Gonzalez
Attorney General

November 9, 2006

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act (FFMIA) is designed to improve financial and program managers' accountability, provide better information for decision-making, and improve the efficiency and effectiveness of federal programs. The FFMIA requires agencies to have financial management systems that substantially comply with the federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level. The Federal Information Security Management Act states that to be substantially compliant with FFMIA, there are to be no significant deficiencies in information security policies, procedures, or practices.

FFMIA Compliance Determination

During FY 2006, the Department assessed its financial management systems for compliance with FFMIA. Because of the Department's two systems non-conformances, as mentioned previously in the *FMFIA Assurance Statement* section, the Department is not substantially compliant with FFMIA. Nonetheless, the Department's financial management strategy is dedicated to ensuring that its financial management systems provide reliable and consistent financial data for decision-making purposes. As part of this strategy, the Department continues to remediate systems weaknesses. Remediation efforts are focused on establishing corrective action plans that appropriately address root causes, ensuring corrective actions are sufficiently and completely implemented as soon as practicable, expanding annual OMB Circular A-123 assessments to ensure they are adequate to detect and timely correct control deficiencies, and intensifying the monitoring and validation of component corrective actions and OMB A-123 assessments. Corrective action plans addressing the systems non-conformances are available in Part IV of this document.

In addition to remediating systems weaknesses, the Department continues to implement an agency-wide integrated financial management system. In FY 2006, system implementation efforts included issuing task orders for Integration and Implementation services and a contract for Independent Verification and Validation services. Efforts also continued on updating the system baseline configuration. System implementation will begin at selected components in FY 2007 and will be operational in FY 2008. Department-wide implementation is expected to be complete in FY 2012. The integrated system will improve operating efficiency and financial controls, provide management with more timely information, and eliminate the weaknesses identified in information system controls.