

**OFFICE OF JUSTICE PROGRAMS
ANNUAL FINANCIAL STATEMENT
FISCAL YEAR 2003
As Restated**

**OFFICE OF THE INSPECTOR GENERAL
COMMENTARY AND SUMMARY**

This audit report contains the single year presentation of the Office of Justice Programs (OJP) restated Annual Financial Statement for the fiscal year ended September 30, 2003. Under the direction of the Office of the Inspector General (OIG), the audit was performed by KPMG LLP (KPMG) and resulted in an unqualified opinion for FY 2003. An unqualified opinion means that the financial statements present fairly, in all material respects, the financial position and the results of operations.

This audit was a re-audit of OJP's FY 2003 financial statements. As such the KPMG audit report is presented as a single year stand alone audit report for FY 2003 only. The original audit report for FY 2003 dated November 25, 2003, resulted in an unqualified opinion. However, during the FY 2004 audit, performed by PricewaterhouseCoopers LLP, substantial uncertainty was raised about the FY 2003 audit results. This caused KPMG, the auditors for FY 2003, to conclude that additional procedures needed to be performed to resolve the uncertainties. As a result, KPMG withdrew its original FY 2003 unqualified audit opinion and reissued a disclaimer of opinion in its audit report dated November 12, 2004. KPMG noted in its withdrawal that it was restricted from performing the additional procedures. The restriction to which this refers, and the only restriction on KPMG performing additional procedures, was that there was insufficient time to perform these additional procedures before November 15, 2004, the due date mandated by the Office of Management and Budget for all federal agencies' Performance and Accountability Reports.

The Department of Justice (DOJ) immediately initiated efforts to have the OJP FY 2003 financial statements re-audited, with work commencing in January 2005. To accomplish this, significant corrective actions were initiated by OJP under the direct oversight of the DOJ's Chief Financial Officer and his staff. Because of these efforts, OJP was successful in re-obtaining an unqualified opinion on its FY 2003 financial statements. However, it required many months of work requiring an extraordinary

amount of effort going back to the basics of OJP policies, procedures, controls, accrual methodologies, and data quality. First, there was a complete review of policies, procedures, and controls. Then, data quality was addressed, including reconciliations of subsystems to the general ledger. OJP also had to improve its ability to monitor data quality and results of grant accrual calculations. Grant accrual methodologies were developed, tried, refined, and further refined. Information technology policies and procedures also underwent a massive review, and the DOJ's Chief Information Officer and his staff increased their involvement in ensuring OJP's corrective actions were planned and successfully accomplished.

Despite the unqualified opinion for FY 2003, significant issues still exist at OJP, as evidenced by the two material weaknesses reported by KPMG. The first material weakness relates to the grant advance and payable estimation processes. While the auditors found that OJP has made progress in these areas, the auditors continued to find excessive data input errors, a failure on OJP's part to refine the grant accrual methodology for known grantee errors, inadequate documentation for journal vouchers and financial processes, and insufficient management review of transactions. The second material weakness relates to financial reporting, monitoring, analysis, and documentation. The auditors found that OJP still needs to improve its financial statement preparation process, including account analysis, reconciliation procedures, and maintaining adequate support for transactions. The auditors also reported two reportable conditions on the grant closeout process and general and application controls for electronic data processing.

In its Report on Compliance and Other Matters, KPMG reported that OJP's financial management systems were not in compliance with the Federal Financial Management Improvement Act of 1996 with regard to federal financial management systems requirements and applicable federal accounting standards.

The OIG reviewed KPMG's report 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 OJP's financial statements, conclusions about the effectiveness of internal control, or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor's report dated May 25, 2005, and the conclusions expressed in the report. However, our review disclosed

no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.