



Office of the Inspector General
U.S. Department of Justice



Audit of the Federal Bureau of Investigation Annual Financial Statements Fiscal Year 2014

**FEDERAL BUREAU OF INVESTIGATION
ANNUAL FINANCIAL STATEMENTS
FISCAL YEAR 2014**

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

This audit report contains the Annual Financial Statements of the Federal Bureau of Investigation (FBI) for the fiscal years (FY) ended September 30, 2014, and September 30, 2013. Under the direction of the Office of the Inspector General (OIG), KPMG LLP performed the FBI's audit in accordance with auditing standards generally accepted in the United States of America. The FY 2014 audit resulted in an unmodified opinion on the financial statements. An unmodified opinion means that the financial statements are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles. For FY 2013, the FBI also received an unmodified opinion on its financial statements (OIG Audit Report No. 14-10).

KPMG LLP also issued reports on internal control over financial reporting and on compliance and other matters. The auditors did not identify any material weaknesses, nor did they report any significant deficiencies in the FY 2014 *Independent Auditors' Report on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. No instances of non-compliance or other matters were identified during the audit that are required to be reported under *Government Auditing Standards*, in the FY 2014 *Independent Auditors' Report on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. Additionally, KPMG LLP's tests disclosed no instances in which the FBI financial management systems did not substantially comply with 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 *Government Auditing Standards*, was not intended to enable us to express, and we do not express, an opinion on the FBI's financial statements, conclusions about the effectiveness of internal control, conclusions on whether the FBI's financial management systems substantially complied with the *Federal Financial Management Improvement Act of 1996*, or conclusions on compliance and other matters. KPMG LLP is responsible for the attached auditors' reports dated November 4, 2014, and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with auditing standards generally accepted in the United States of America.

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**AUDIT OF THE
FEDERAL BUREAU OF INVESTIGATION
ANNUAL FINANCIAL STATEMENTS
FISCAL YEAR 2014**

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U.S. DEPARTMENT OF JUSTICE

FEDERAL BUREAU OF INVESTIGATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)



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**U.S. DEPARTMENT OF JUSTICE
FEDERAL BUREAU OF INVESTIGATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

MISSION

The Federal Bureau of Investigation (FBI or Bureau) is a component of the United States (U.S.) Department of Justice (DOJ or the Department) and a member of the U.S. Intelligence Community (IC). The mission of the FBI is to protect and defend the U.S. against terrorist and foreign intelligence threats, to uphold and enforce the criminal laws of the U.S., and to provide leadership and criminal justice services to federal, state, municipal, and international agencies and partners.

The FBI priorities guide how the FBI addresses its wide range of responsibilities. In executing the following priorities, the FBI produces and uses intelligence to protect the nation from threats and to bring justice to those who violate the law. The first eight priorities are listed in order of precedence. The final two are all-encompassing functions that support the Bureau's mission and objectives. The ten priorities are:

1. Protect the U.S. from terrorist attack;
2. Protect the U.S. against foreign intelligence operations and espionage;
3. Protect the U.S. against cyber-based attacks and high-technology crimes;
4. Combat public corruption at all levels;
5. Protect civil rights;
6. Combat transnational and national criminal organizations and enterprises;
7. Combat major white-collar crime;
8. Combat significant violent crime;
9. Support federal, state, local, and international partners; and
10. Upgrade technology to successfully perform the FBI's mission.

The methodology by which the FBI allocates gross costs and earned revenue across the three Strategic Goals (SGs or Goals) is consistent with the methodology used to allocate the FBI's budget to the three SGs in the Fiscal Year (FY) 2015 Authorization and Budget Request to Congress. The three SGs are:

Goal 1: Prevent Terrorism and Promote the Nation's Security Consistent with the Rule of Law;

Goal 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law; and

Goal 3: Ensure and Support the Fair, Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels.

Priorities 1 through 3 support Goal 1, priorities 3 through 8 support Goal 2, and priorities 9 and 10 support all three Goals.



Management's Discussion and Analysis

ORGANIZATION STRUCTURE

Along with the FBI's headquarters (HQ or Headquarters) located in Washington, D.C., the FBI operates 56 field offices and approximately 360 resident agencies across the U.S. and its territories. The FBI also operates more than 60 Legal Attaché (Legat) offices and more than 20 sub-offices in 70 foreign countries worldwide.

As the FBI has grown, some Headquarters' functions have moved to other locations. The Criminal Justice Information Services Division (CJIS) is located in Clarksburg, West Virginia. The Laboratory Division, Operational Technology Division, Training Division, and Critical Incident Response Group are located in Quantico, Virginia. Major FBI facilities include the Engineering Research Facility and the FBI Laboratory, both at Quantico, Virginia; a fingerprint identification complex in Clarksburg, West Virginia including the new Biometrics Technology Center; and the Hazardous Devices School and the new Terrorist Explosive Device Analytical Center at Redstone Arsenal in Huntsville, Alabama. Other specialized facilities, such as the Regional Computer Forensic Laboratories, are located at various locations across the country.

FBI HQ provides centralized operational, policy, and administrative support to investigations and programs conducted throughout the U.S. and in foreign countries. Under the direction of the FBI Director and Deputy Director, the HQ functions are organized among five branches headed by Executive Assistant Directors and several supporting divisions managed by the Associate Deputy Director. Each field office is overseen by a Special Agent in Charge or an Assistant Director in Charge. Resident agencies are managed by Supervisory Special Agents.

In FY 2014, the FBI's appropriated staffing level consisted of 13,043 Special Agents, 3,046 Intelligence Analysts, and 18,867 professional staff along with an additional 3,187 reimbursable positions.

FINANCIAL STRUCTURE

For purposes of executing its budget, the FBI's funds are organized into the following categories: appropriated single year, multi-year, and no-year Salaries and Expense funds; appropriated no-year Construction funds; and no-year Violent Crime Reduction Program trust funds. These funds include new appropriations, transfers of appropriations from other federal agencies, and the carry-over of prior years' unobligated balances for multi-year and no-year appropriated funds. The FBI also receives reimbursable funding from other agencies for services rendered.



Management's Discussion and Analysis

FY 2014 RESOURCE INFORMATION

Table 1 presents the sources of financing for FBI resources distinguished by Earned Revenue, Budgetary Financing Sources, and Other Financing Sources. Table 2 describes how the FBI spent its resources, divided across Strategic Goals 1, 2, and 3.

**Table 1. Source of FBI Resources
(Dollars in Thousands)**

Source	FY 2014	FY 2013	Change%
Earned Revenue	\$ 1,108,282	\$ 1,330,118	(17%)
Budgetary Financing Sources			
Appropriations Received	8,343,284	8,276,009	1%
Appropriation Transferred-In/Out	(34,706)	(134,901)	74%
Nonexchange Revenue	29	2	1350%
Transfers-In/Out Without Reimbursement	(1,651)	(7,329)	77%
Other Adjustments and Other Budgetary Financing Sources	-	(730,365)	100%
Other Financing Sources			
Transfers-In/Out Without Reimbursement	112,458	(7,803)	1541%
Imputed Financing from Costs Absorbed by Others	294,644	256,974	15%
Other Financing Sources	(8,193)	(6,166)	(33%)
Total	\$ 9,814,147	\$ 8,976,539	9%

**Table 2. How FBI Resources are Spent
(Dollars in Thousands)**

Strategic Goal (SG)	FY 2014	FY 2013	Change%
SG 1: Prevent Terrorism and Promote the Nation's Security Consistent with the Rule of Law			
Gross Cost	\$ 5,091,986	\$ 5,011,528	
Less: Earned Revenue	310,145	473,594	
<i>Net Cost</i>	\$ 4,781,841	\$ 4,537,934	5%
SG 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law			
Gross Cost	\$ 3,047,534	\$ 3,029,264	
Less: Earned Revenue	302,436	343,140	
<i>Net Cost</i>	\$ 2,745,098	\$ 2,686,124	2%
SG 3: Ensure and Support the Fair, Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels			
Gross Cost	\$ 918,839	\$ 1,053,013	
	495,701	513,384	
<i>Net Cost</i>	\$ 423,138	\$ 539,629	(22%)
Total Gross Cost	\$ 9,058,359	\$ 9,093,805	
Less: Total Earned Revenue	1,108,282	1,330,118	
Total Net Cost of Operations	\$ 7,950,077	\$ 7,763,687	2%



ANALYSIS OF FINANCIAL STATEMENTS

The FBI's financial statements received unmodified audit opinions for FYs 2014 and 2013. These financial statements were prepared from the accounting records of the FBI in conformity with U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board and presentation guidelines in the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*.

Assets: Total Assets was \$6.8 billion as of September 30, 2014, an increase of \$763 million, or 13 percent, from the previous year's Total Assets of \$6.1 billion. This increase is primarily due to increases in Fund Balance with Treasury and Intragovernmental Accounts Receivables. Fund Balance with Treasury increased in FY 2014 by \$583 million, or 20 percent, which is primarily due to the restoration of FY 2013 sequestered funds. Appropriated funding to the FBI in FY 2014 increased to approximately \$8.3 billion.

Intragovernmental Accounts Receivable increased \$69 million, or 21 percent, due to increases in the number of customers and new agreements. The increase in Total Assets is partially offset by a decrease in Cash and Monetary Assets of \$28 million, or 33 percent. The decrease is attributed to decreases in Imprest Funds and Seized Monetary Instruments resulting from a return of Unified Financial Management System (UFMS) contingency plan enhancement funding and an improved seized evidence reporting process, respectively.

Liabilities: Total Liabilities was \$1.2 billion as of September 30, 2014, representing no significant change from the previous fiscal year's Total Liabilities of \$1.2 billion. Other Intragovernmental Liabilities increased \$33 million, or 58 percent, from the previous year, which is primarily due to increases in Advances from Others and Employer Contributions and Payroll Taxes Payable. Advances from Others increased \$26 million driven by increases in funding for advance-type agreements and liquidation of existing agreements occurring at a slower pace than in FY 2013. Employer Contributions and Payroll Taxes Payable increased \$5 million due to a one-day increase in the number of days included in the payroll accrual, as compared to FY 2013.

Net Position: Total Net Position was \$5.6 billion as of September 30, 2014, an increase of \$756 million, or 16 percent, from the previous fiscal year's Total Net Position of \$4.9 billion. The increase is primarily due to increases in Unexpended Appropriations, which increased \$818 million, or 45 percent, as a result of budget cuts and transfers-out due to sequestration in FY 2013.

Net Cost of Operations: Total Net Cost of Operations was \$8.0 billion for FY 2014, an increase of \$186 million, or two percent, from Total Net Cost of Operations of \$7.8 billion for FY 2013. The increase is primarily due to a decrease in Intragovernmental Earned Revenues caused by an overall decrease in reimbursable revenue across various divisions.

Budgetary Resources: Total Budgetary Resources was \$10.8 billion for FY 2014, an increase of \$709 million, or seven percent, from Total Budgetary Resources of \$10.1 billion in FY 2013. The increase is primarily due to increases in Appropriations of \$926 million, which is partially offset by a decrease in Recoveries of Prior Year Unpaid Obligations of \$160 million. Recoveries of Prior Year Unpaid Obligations decreased in comparison to FY 2013 due to UFMS conversion preparation efforts.

FY 2014 Financial Highlights

Performance measures included in previous FBI Management's Discussion and Analysis (MD&A) documents may have changed as a result of new information that was unavailable prior to submitting previous financial reports. Due to the requirement to disclose performance data in the MD&A before the close of the data entry period, reports of certain FY 2014 performance measures should be considered tentative and are annotated accordingly. Other subsequent changes to prior-year data may have occurred due to factors beyond the control of the FBI's data collection systems (e.g., convictions overturned on appeal). For previously estimated measures, the FBI reviewed and revised certain FY 2013 performance data from the



Management's Discussion and Analysis

FY 2013 MD&A. The FBI's FY 2015 Authorization and Budget Request to Congress documented these revisions. For FY 2014 MD&A performance estimates, the final results will be reflected in the FY 2016 President's Budget.

Strategic Goal 1, Prevent Terrorism and Promote the Nation's Security Consistent with the Rule of Law, includes the FBI's counterterrorism (CT) and counterintelligence (CI) investigations, intelligence collection and analysis, computer intrusions investigations, and the Weapons of Mass Destruction (WMD) program. In FY 2014, Goal 1 Net Cost was \$4.8 billion, a net increase of five percent from FY 2013.

Strategic Goal 2, Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law, includes the majority of the FBI's criminal investigative programs and programs supporting state and local law enforcement. Investigations under Goal 2 include: organized crime, drugs, violent crime, white-collar crime, and cyber crime. In FY 2014, Goal 2 Net Cost was \$2.7 billion, a net increase of two percent from FY 2013.

Strategic Goal 3, Ensure and Support the Fair, Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels, includes the FBI's Integrated Automation Fingerprint Identification Systems, Next Generation Identification, the National Instant Criminal Background Check System, the Law Enforcement National Data Exchange, and other criminal justice services that the FBI offers to law enforcement agencies and local communities. In FY 2014, Goal 3 Net Cost was \$0.4 billion, a net decrease of 22 percent from FY 2013. This change is primarily attributed to a decrease in overall expenses for divisions rather than a shift in FBI priorities. Due to the hiring freeze and sequestration in FY 2013, the divisions in Strategic Goal 3 started FY 2014 with a decreased funded staffing level compared to FY 2013. In addition, due to the U.S. Government (USG) shutdown and the potential for continued sequestration in FY 2014, the FBI did not award many of its contracts until late in the fiscal year. Consequently, expenses for these new obligations will not be incurred until FY 2015.



FY 2014 REPORT ON SELECTED RESULTS

STRATEGIC GOAL 1: Prevent Terrorism and Promote the Nation's Security Consistent with the Rule of Law *60 percent of the FBI's Net Cost supports this Goal.*

PROGRAM: Counterterrorism

Background/Program Objectives: The FBI is committed to disrupting and preventing terrorism, from thwarting those intending to conduct a terrorist act to investigating financiers of terrorist operations. All CT investigations are managed at Headquarters by the Counterterrorism Division (CTD). CTD provides a centralized, comprehensive, and intelligence-driven approach to addressing both international and domestic terrorism-related matters.

Performance Measure: Number of Terrorism Disruptions

FY 2014 data will serve as a baseline for this new measure.

FY 2013 Actual Performance: Not Available

FY 2014 Target: 50

FY 2014 Actual Performance: 214

Discussion of FY 2014 Results:

The FBI exceeded its annual target for the number of terrorism disruptions effected through CT investigations. The FBI is committed to stopping terrorism of any kind at any stage as evidenced by its transformation into a proactive agency. To fulfill DOJ's mission of defeating terrorism, the FBI focuses resources on targeting and disrupting terrorist threats and groups by leveraging its workforce and ensuring the use of the latest technology to thwart emerging trends. Key to its success in terrorism disruption is CT agent training, which resumed normal levels in FY 2014 due to a restored budget.

PROGRAM: Counterintelligence

Background/Program Objectives: Foreign espionage strikes at the heart of U.S. national security, impacting political, military, and economic arenas. The foreign intelligence threat to the U.S. is expanding, becoming more complex and less predictable. While traditional threats to national defense, military operations and policy, intelligence, and science and technology remain, many intelligence threats are expanding their targets to include the burgeoning population of cleared defense contractors. Other sectors affecting U.S. security, most notably sensitive economic information and emerging proprietary technology, are also threatened. Concurrently, foreign threats now have sophisticated networks of governmental and non-governmental entities using a wide array of intelligence collection platforms and engaging in long-term efforts to obtain sensitive information and threaten the security of the U.S.

To facilitate its counterespionage mission, the FBI focuses resources on protecting the nation from foreign espionage attempts by leveraging the Strategic Partnership Coordination (SPC) Program and targeting the highest priority threats as determined by the National Intelligence Priorities Framework (NIPF). The intent of this measure is to evaluate the impact of CI outreach initiatives against the FBI's counterespionage strategic objectives.



Management's Discussion and Analysis

Performance Measure: Percentage of Counterespionage Actions and Disruptions against National Counterintelligence Priorities that Result from FBI Outreach

FY 2014 data will serve as a baseline for this new measure.

FY 2013 Actual Performance: Not Available

FY 2014 Target: 10%

FY 2014 Actual Performance: 7.3%

Discussion of FY 2014 Results:

In FY 2014, espionage remained one of the CI program's most significant threats. In addition to traditional tradecraft used to access economic, national security, and proprietary information, the FBI continued to disrupt and monitor more advanced methods to infiltrate organizations. Of the CI program's total law enforcement actions and disruption activities, espionage-related threats accounted for more than 13 percent of the FBI's total CI accomplishments against NIPF-sponsored actors or entities. These accomplishments included approximately 40 arrests, 12 convictions, and nearly 30 indictments. More than seven percent of the espionage-related accomplishments resulted from FBI outreach (as opposed to other investigative activities or intelligence production).

The FBI relies heavily on its coordination with the U.S. IC, other government agencies, international partners, and public as well as private entities. These relationships increase intelligence collection, identify emerging threats, and disrupt priority threats. As a result of the CI program's SPC Program, the FBI organized regular CI working group meetings, formed alliances with the academic and business sectors, and conducted thousands of briefings to organizations vulnerable to foreign intelligence intrusions. These programs led to more than 3,600 referrals, nearly 1,300 leads, and the establishment of more than 200 tripwires. Tripwires are proactive warning processes established to provide indicators of an emerging threat.

While the FBI lagged its FY 2014 target by nearly three percent, the CI program demonstrated significant progress toward converting its outreach into productive foreign intelligence collection and investigations. In FY 2014, the SPC Program increased its outreach efforts, and approximately 10 percent of total CI investigative activities and five percent of total accomplishments were directly predicated by outreach. In addition, strategic partnerships contributed to the dissemination of approximately 2,700 finished intelligence products. As hostile foreign intelligence services use more sophisticated techniques to breach key economic, national security, and technology sectors, it is essential the FBI develop more robust partnerships outside the intelligence and law enforcement communities. In FY 2015, threat-prioritized strategic outreach will remain an important initiative for the CI program. Further, the CI program will address the emerging threat of foreign nation states increasingly using commercial enterprises to achieve their desired intelligence collection and operational capabilities.

PROGRAM: Cyber

Background/Program Objectives: Under the Next Generation Cyber Initiative, Cyber Division (CyD) realigned its focus on the greatest cyber threat to our national security: intrusions into government and private computer networks. To facilitate its mission of countering cyber threats, the FBI will focus its resources on targeting and disrupting the top cyber threat actors, leveraging its workforce, as well as developing and utilizing the latest technology to counter emerging trends.

In order to protect government and private computer networks from cyber intrusion, the CyD focuses resources on effectively disrupting and/or dismantling threat actors. Disruptions are milestones in the process



Management's Discussion and Analysis

of dismantling a group or organized criminal enterprise. Disruptions force an organization to adopt unfamiliar patterns or to use less experienced personnel creating opportunities for additional disruptions, and building momentum for the ultimate goal of the dismantlement of the organization. Dismantlements mean that the targeted organization's leadership, financial base and supply network has been destroyed, such that the organization is incapable of operating and/or reconstituting itself.

Performance Measure: Number of Computer Intrusion Program Disruptions and Dismantlements

FY 2014 data will serve as a baseline for this new measure.

FY 2013 Actual Performance: Not Available

FY 2014 Target: 100

FY 2014 Actual Performance: 2,492

Discussion of FY 2014 Results:

Throughout FY 2014, CyD successfully executed its mission by identifying, pursuing, and defeating cyber adversaries targeting U.S. global interests. CyD substantially exceeded its baseline performance target in disrupting and dismantling the top cyber threat actors because of significant, coordinated operational activity. For example, in May 2014, the FBI New York Field Office announced the results of the largest law enforcement cyber action in U.S. history. This takedown was of a particularly insidious computer malware known as Blackshades, which was sold and distributed to thousands of people in more than 100 countries and was used to infect more than half a million computers worldwide. As a result of this takedown, 40 FBI field offices conducted approximately 100 interviews, executed more than 100 e-mail and physical search warrants, and seized more than 1,900 domains used by Blackshades' users to control victims' computers. This year-end performance reflects the FBI's increased operational capability to interrupt and eliminate cyber actors from engaging in activities that pose a threat to our national security.

During FY 2014, CyD, in coordination with other law enforcement agencies and members of the IC, gathered evidence of computer intrusion techniques, patterns of criminal activity, and copies of malicious software. When possible, the FBI notified victims of computer intrusions, which enabled them to protect themselves against such tactics. In many circumstances victims were unaware their networks had been compromised. The FBI's information sharing and analysis capabilities have ensured that computer intrusion information and other information about cyber threats are also shared with other agencies in support of their independent cyber-related missions.



STRATEGIC GOAL 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law *35 percent of the FBI's Net Cost supports this Goal.*

PROGRAM: Criminal Enterprises

Background/Program Objectives: The FBI's criminal enterprise investigations, managed by the Criminal Investigative Division at FBI Headquarters, focus on violent gangs, drug trafficking organizations (DTOs), and other organized violent criminal actors.

Gangs/Criminal Enterprises – Consolidated Priority Organization Target (CPOT) DTOs

In FY 2003, DOJ developed a single national list of criminal enterprises engaged in major drug trafficking and money laundering organizations. This list of targets, the CPOT list, is updated periodically and reflects the most significant international narcotic suppliers (and related money-laundering organizations), poly-drug traffickers, clandestine drug manufacturers and producers, and major drug transporters supplying the U.S.

The FBI has developed a comprehensive counter-drug strategy designed to investigate and prosecute illegal drug traffickers and distributors, reduce drug related crime and violence, provide assistance to other law enforcement agencies, and strengthen international cooperation. The strategy focuses the FBI's counter-drug resources on identified CPOT organizations associated primarily with Colombian, Mexican, and Caribbean drug trafficking organizations with the most adverse impact on U.S. national interests.

Performance Measure: CPOT-linked DTOs Dismantled

FY 2013 Revised Performance: 40

FY 2014 Target: 20

FY 2014 Actual Performance: 31

Discussion of FY 2014 Results:

The FBI met and exceeded its target for this measure in FY 2014. It is anticipated that the FBI will continue to achieve greater efficiency linking cases to CPOTs which were not previously identified or documented, allowing higher documented production.

The FBI is also a partner on the Organized Crime Drug Enforcement Task Force (OCDETF) strike forces. This partnership fosters the intelligence sharing and coordination necessary to achieve an intelligence-driven, multi-agency strategic enforcement approach to investigations. The OCDETF Executive Office has established co-located strike forces in key cities around the country. These strike forces serve a dual purpose through aggressively targeting CPOT and high-level trafficking organizations and function as a central point of contact for OCDETF agents and prosecutors nationwide by gathering intelligence and disseminating investigative leads throughout the country. The OCDETF strike forces advance drug trafficking investigations by bringing together the resources and expertise of OCDETF's participating investigative agents and prosecutors. By coordinating these efforts, the participants eliminate superfluous efforts and save valuable resources.

To fully engage field offices in support of the FBI's initiative to increase CPOT linkages, the Transnational Organized Crime - Western Hemisphere/OCDETF unit provided communications outreach and instruction to the field offices by utilizing the Regional OCDETF Coordinators, OCDETF Program Analysts as well as the substantive units at Headquarters. In addition, the OCDETF Unit focused more resources toward CPOT-linked investigations thereby increasing CPOT links and subsequent disruptions and dismantlements. Through continued education efforts with field offices, as well as the correlation of CPOT linking to the approval of case funding requests, the Bureau continues to increase OCDETF cases and case linkages.



Management's Discussion and Analysis

Performance Measure: CPOT-linked DTOs Disrupted

FY 2013 Actual Performance: 139

FY 2014 Target: 40

FY 2014 Actual Performance: 150

Discussion of FY 2014 Results:

The FBI met and exceeded its target for this measure in FY 2014. It is anticipated that the FBI will continue to achieve greater efficiency linking cases to CPOTs which were not previously identified or documented, allowing higher documented production.

Violent Gang Criminal Enterprises (VGCEs)

The mission of the FBI's Violent Gang Program is to address the VGCE threat in the U.S. by aggressively identifying, prioritizing, and targeting the most violent street and prison gangs whose activities constitute criminal enterprises. In January 1992, the FBI established the Safe Streets Violent Crime Initiative to attack gang and drug-related violence through the establishment of long-term, proactive, and coordinated teams of federal, state, and local law enforcement officers and prosecutors. The teams are manifested in Violent Gang Safe Streets Task Forces (VGSSTFs). As of September 30, 2014, the 160 VGSSTFs managed by the FBI were comprised of approximately 839 FBI Special Agents and 1,440 state, local, and other federal law enforcement officials.

Through VGSSTFs, the FBI pursues violent gangs through sustained, proactive, and coordinated investigations and prosecutes gang members for a number of violations that include, but are not limited to, racketeering, drug conspiracy, and firearms violations. The Safe Streets Task Forces (SSTFs) concept expands cooperation and communication among federal, state, and local law enforcement agencies, increasing productivity and avoiding duplication of investigative efforts. SSTFs combine short-term, street-level enforcement activity with sophisticated investigative techniques such as undercover operations and Title III wire taps to root out, prosecute, and disrupt and dismantle the entire gang, from the street-level enforcers and dealers to crew leaders and the gang's command structure.

State and local officers bring an unparalleled level of expertise and knowledge regarding local gangs, gang members, and violent offenders operating in their department's area of responsibility. This knowledge, combined with FBI resources, ensures VGSSTFs are successful in disrupting and dismantling the most violent gangs.

Performance Measure: Number of Gangs/Criminal Enterprise Dismantlements (non-CPOT)

FY 2013 Actual Performance: 251

FY 2014 Target: 99

FY 2014 Actual Performance: 167

Discussion of FY 2014 Results:

The FBI met and exceeded its target for this measure in FY 2014 through sustained, pro-active, coordinated investigations utilizing sophisticated techniques and technological advances. Combining short term, street-level enforcement activity with investigative techniques such as consensual monitoring, financial analysis and Title III wire intercepts, the FBI made significant achievements against the gang and criminal enterprise threat in FY 2014.



Management's Discussion and Analysis

PROGRAM: White-Collar Crime (WCC)

Background/Program Objectives: The FBI's WCC program investigates criminals and criminal enterprises that seek illicit gains through fraud and guile. Illegal activities investigated include corporate, health care, securities and commodities, financial institution, mortgage, government (defense procurement and other areas), insurance, mass marketing, and bankruptcy fraud; environmental crimes; and money laundering.

U.S. citizens and businesses lose billions of dollars each year to criminals engaged in non-violent fraudulent enterprises. The globalization of economic and financial systems, technological advances, declining corporate and individual ethics, and the sophistication of criminal organizations have resulted in annual increases in the number of illegal acts characterized by deceit, concealment, or violations of trust. These crimes contribute to a loss of confidence in financial institutions, public institutions, and industry.

Performance Measure: Number of Criminal Enterprises Engaging in White-Collar Crimes Dismantled

FY 2013 Revised Performance: 458

FY 2014 Target: 368

FY 2014 Actual Performance: 464

Discussion of FY 2014 Results:

The FBI met and exceeded its target for this measure in FY 2014 through proactive investigative techniques and technological advances. Increased utilization of advanced techniques not commonly utilized in past WCC cases enabled significant investigative achievements against WCC threat actors.

STRATEGIC GOAL 3: Ensure and Support the Fair, Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels 5 percent of the FBI's Net Cost supports this Goal.

The FBI has no required reportable performance measures for Strategic Goal 3.



ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Federal Managers' Financial Integrity Act of 1982

The Federal Managers' Financial Integrity Act of 1982 (Integrity Act or FMFIA) provides the statutory basis for management's responsibility for and assessment of internal accounting and administrative 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 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. The Integrity Act also requires agencies to annually assess and report on the internal controls that protect the integrity of federal programs (FMFIA Section 2) and whether financial management systems conform to related requirements (FMFIA Section 4).

Internal Controls Program

Management of the FBI is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of the FMFIA. In accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*, the FBI conducted its annual assessment of the effectiveness of internal controls to support effective and efficient programmatic operations, reliable financial reporting, and compliance with applicable laws and regulations (FMFIA Section 2). The FBI also assessed whether its financial management systems conform to financial systems requirements (FMFIA Section 4). Based on the results of the assessments, the FBI provided reasonable assurance that its internal controls and financial management systems met the objectives of the FMFIA, with the exception of the reportable condition summarized below. A Corrective Action Plan was established to institute programs and/or controls to eliminate this condition.

FMFIA Section 2 – Reportable Conditions

The FBI designated one item under Section 2 as a reportable condition:

- **National Security Letters (NSLs):** In March 2007, the Office of the Inspector General (OIG) reported that the FBI's use of NSLs grew dramatically and shifted in focus since the enactment of the Patriot Act and that NSLs served as an indispensable investigative tool. The OIG found issues with the FBI's tracking, reporting, and guidance regarding NSL usage. A March 2008 follow-up review assessed the FBI's corrective actions and indicated the FBI and Department had made significant progress in implementing the 2007 recommendations. Improvements included strengthening the controls and automated workflow governing the request, review, and approval of NSLs; field office monthly reconciliations of NSL usage; and improving the database used to track NSL use. The FBI's actions to remediate the March 2007 OIG findings were completed by June 2007. The FBI agreed to each of the recommendations proposed in the 2008 report and implemented the proposed changes where appropriate. Several of the recommendations, however, were rendered moot by the FBI's implementation of the NSL Subsystem. The FBI continues to dedicate personnel and resources to ensure appropriate use of NSLs.

OMB Circular A-123, Appendix A – Internal Control Over Financial Reporting

In FY 2014, the FBI documented and assessed its significant business processes according to the requirements of DOJ's Implementation Plan for compliance with OMB Circular A-123, *Management's Responsibility for Internal Control*, revised December 21, 2004. The revised Circular A-123 re-examined internal control requirements for federal agencies in light of the requirements for publicly-traded companies implemented by the Sarbanes-Oxley Act of 2002. The full Circular A-123, *Appendix A: Internal Control Over Financial Reporting* assessment covered all processes deemed to be significant to the FBI and the DOJ.



Management's Discussion and Analysis

These processes were: Budget and Funds Management; Revenue and Receivables Management; Procurement; Property Management; Treasury and Fund Balance with Treasury; Human Resources; Financial Reporting; and Information Systems. The results of the assessment indicated no material weaknesses in the FBI's internal control over financial reporting as of June 30, 2014.

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 (FFMIA or Act) was designed to improve federal financial and program managers' accountability, provide better information for decision-making, and improve the efficiency and effectiveness of federal programs. FFMIA requires agencies to have financial management systems that substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger (USSGL) at the transaction level. Furthermore, the Act requires independent auditors to report on agency compliance with the three requirements in the financial statement audit report. 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

On October 7, 2013, the FBI deployed DOJ's UFMS which enabled the Bureau to fully comply with all FFMIA requirements by utilizing the USSGL at the transaction level and integrating business data and activities through the elimination of subsystems such as the Available Funds File, the Procurement Module of FMS, and the Reimbursable Agreement Management System. UFMS was designed to meet the Bureau's specific business requirements, while at the same time meet DOJ's goal of standardizing processes across the Department.

Legal Compliance

Except as discussed above, the FBI is not aware of any additional instances of material noncompliance with laws or regulations identified in OMB guidance, or with any laws or regulations that have a direct and material effect on the FBI's financial statements.

IMPROPER PAYMENTS INFORMATION ACT OF 2002, AS AMENDED

In accordance with OMB Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*, and the Departmental guidance for implementing the Improper Payments Information Act of 2002 (IPIA), as amended, the Department implemented a top-down approach to assess the risk of significant improper payments across all five of the Department's mission-aligned programs, and to identify and recapture improper payments through a payment recapture audit program. The approach promotes consistency across the Department and enhances internal control related to preventing, detecting, and recovering improper payments. Because of the OMB requirement to assess risk and report payment recapture audit activities by agency programs, the results of the Department's risk assessment and recapture activities are reported at the Department-level only.

In accordance with the Departmental approach for implementing IPIA, as amended, the FBI assessed its activities for susceptibility to significant improper payments and conducted its payment recapture audit program. The FBI provided the results of both the risk assessment and payment recapture audit activities to the Department for the Department-level reporting in the FY 2014 Agency Financial Report.



POSSIBLE FUTURE EFFECTS OF EXISTING EVENTS AND CONDITIONS

Factors and Future Trends Affecting Federal Bureau of Investigation Programs' Goal Achievement

The Changing Threat

Over the past decade, the FBI has overhauled its CT operations, expanded its intelligence capabilities, modernized its business practices and technology, and improved coordination with its partners. However, the U.S. continues to face significant challenges to national security from increasingly sophisticated internal and external threats. The U.S. faces terrorism threats from religious extremists including the major threat of homegrown violent extremists using increasingly diverse methods of member recruitment and development. The WMD threat continues to grow and poses significant danger to the U.S. and its allies. The foreign intelligence threat to the U.S. continues to increase as foreign powers seek to establish economic, military and political preeminence, and to position themselves to compete with the U.S. in economic and diplomatic arenas. Cyber remains a major threat and the U.S. continues to face a range of criminal, terrorist and nation-state actor threats. The WCC program addresses the major threats in public corruption: corporate, securities and commodities, mortgage and other financial institutions, health care fraud; money laundering; and other complex financial crimes. Criminal threats continue in areas such as gang violence, transnational organized crime, civil rights, crimes against children, Indian country, fugitives, transportation crimes, and Southwest border.

Significant advances in global technological markets over the past few years have increased the risk of the FBI's technical capabilities falling significantly behind those of our adversaries. To avert this risk and to enhance the FBI's capabilities to combat rapidly changing cyber threats, the FBI is in the process of implementing its Next Generation Cyber Initiative. The Initiative will more strategically focus the efforts of the FBI's CyD on the greatest cyber threat – intrusions into government and industry computers and networks.

Not all threats to the U.S. come from abroad. Beginning in FY 2012, the FBI and the broader IC dedicated significant time and resources to the Insider Threat. Executive Order (EO) 13587, *Structural reforms to improve the security of classified networks and the responsible sharing and safeguarding of classified networks*, identifies DOJ and the Office of the Director of National Intelligence as lead agencies to ensure compliance with the EO mandates across the IC. Due to this EO, the FBI leads the initiative in developing policies and standards; assisting the USG components with implementing effective insider threat programs; conducting assessments of existing programs; and producing and sharing training materials with all USG agencies and partners.

The Gang Threat

Gangs are expanding, evolving and posing an increasing threat to communities nationwide. Gangs continue to commit criminal activity, recruit new members in urban, suburban, and rural regions across the U.S., and develop criminal associations that expand their influence over criminal enterprises, particularly street-level drug sales. The most notable emerging trends have been the overall increase in gang membership, and the expansion of criminal street gangs' control of street-level drug sales and collaboration with rival gangs and other criminal organizations. Prison gangs, by proxy of street gangs, contribute significantly to crime on the streets.

Gangs are sophisticated criminal networks with members who are violent, distribute wholesale quantities of drugs, and develop and maintain close working relationships with members and associates of transnational criminal/DTOs. They are becoming more violent while engaging in less typical and lower-risk crime, such as prostitution and WCC. Per the 2013 National Gang Survey, the most common crimes include burglaries, prostitution, robbery, drug trafficking, extortion, and theft. Furthermore, gangs are more adaptable, organized,



Management's Discussion and Analysis

sophisticated, and opportunistic exploiting new and advanced technology as a means to recruit, communicate discretely, target rivals, and perpetuate criminal activity.

Constrained Budget Environment

While the threats facing the U.S. continue to evolve, the FBI and the rest of the federal government must operate within resource constraints. Due to the high national debt, and the overall state of the economy, federal spending is being closely scrutinized. In accordance with Administration guidance, the FBI has taken many steps to effectively operate within its resource constraints. The FBI continues to identify opportunities to modernize operations and to automate and streamline processes. Such innovations include:

- Implementation of new space allocation standards which reduce office sizes, consolidate special purpose rooms, and reduce the anticipated growth factor for facilities. The FBI also reduced the standard furniture workstation size and is currently in the process of researching and acquiring standard benching workstations to further increase space density.
- Consolidation of FBI public access phone lines scattered across the country to one central location, freeing up personnel in the field offices to meet unaddressed operational requirements.
- Adjustment of the FBI's fleet replacement and usage policies.
- Contractor conversions into less expensive government positions.

Strategy Management System (SMS)

As a large, complex, and diverse agency with a dual law enforcement and national security mission, the FBI established a clear, long-term strategy and strategic framework to achieve its mission and ensure the organization is positioned to address both current and future threats.

Based on the widely utilized Balanced Scorecard methodology, the FBI SMS—implemented in 2006—is the management tool that the FBI Director and senior leaders use to manage the FBI strategy and evaluate progress towards the FBI's goals. SMS focuses the FBI on the following questions: What are the strategic choices that the FBI has to make over the next three to five years? Are FBI resources aligned to its highest priorities and greatest risks? Which capabilities and internal processes does the FBI need to enhance? What new training and technology must the FBI provide to its people so they can accomplish the dual mission?

SMS has four key components: Strategic Shifts (FBI vision), Strategy Map (FBI strategic objectives), strategic measures and targets, and priority initiatives. SMS enables all Bureau employees to speak the same language with regard to strategic planning and execution. Today, SMS is used to help drive program management, budget, inspection, and overall accountability for performance.

Unified Financial Management System

Following a successful year-long pilot deployment to a limited set of users during FY 2013, UFMS was deployed Bureau-wide, making FY 2014 the first year in which UFMS was the system of record for all financial transactions at the FBI.

The enterprise-wide deployment of UFMS represents the culmination of several years of work to replace the FBI's previous system, FMS, with a modern, FFMIA-compliant financial and acquisition management system. Implementation of UFMS has brought the FBI's financial and acquisitions management performance in line with current technology and innovative business practices, resulting in improved service to FBI agents, decision makers, and other customers.

Using UFMS, the FBI processed over one million financial and procurement transactions in FY 2014. In addition to the standard UFMS accounting reports, the FBI has also developed and deployed a number of management reports and dashboards using the FBI's Financial Reporting Application (FRA) tool to analyze and present UFMS data in ways that assist FBI managers in financial decision-making. During FY 2015, the



Management's Discussion and Analysis

FBI will concentrate on functional and performance upgrades to UFMS; enhance the reporting and analysis functions available to UFMS users and FBI managers through upgrades to UFMS; deploy a major FRA upgrade and additional FRA reports; and increase data analytic capabilities through technologies such as data warehousing.

Asset Management System (AMS)

The FBI's enterprise-wide asset tracking and reporting system, AMS, completed its second full year of use in FY 2014. AMS recorded inventory for 617,149 accountable assets in FY 2014, including the receipt of approximately 58,000 new assets. This system has proven to be a stable, high-performing system that has improved the accuracy of inventory processes and controls. In preparation for the annual inventory of assets, the FBI upgraded the commercial-off-the-shelf software system that is used by AMS.

The FBI will continue to incrementally improve AMS by implementing new functionality requested by users, correcting any errors as they are discovered, and adding capabilities, such as integration with the FBI's e-discovery tool and facilities management software, that will reduce administrative burdens associated with asset management.

Records Management Division (RMD) User Fee Collections for National Name Check Program (NNCP)

Consistent with guidance in OMB Circular A-25, the FBI evaluates the user fee structure at least every two years, or as prompted by major program changes. The FBI's RMD completed fee study was approved during FY 2014. The updated fee structure will go into effect in early FY 2015. In addition, the NNCP will incur significant costs as it continues to implement improvements in information technology to improve the efficiency and effectiveness of the NNCP.

Criminal Justice Information Services Division User Fee Collections for Criminal History Record Information (CHRI)

Consistent with guidance in OMB Circular A-25, the FBI has recently completed the evaluation of the FBI CJIS User Fee Rate Schedule. CJIS continues to experience increased demand for CHRI checks for non-criminal justice purposes. As a result, CJIS is in the process of adjusting the fee schedule to reflect the impact of the increased volume on the per transaction costs in FY 2015.

LIMITATIONS OF THE FINANCIAL STATEMENTS

- The financial statements have been prepared to report the financial position and results of operations of the FBI, pursuant to the requirements of 31 U.S.C. 3515(b).
- While the statements have been prepared from the books and records of the FBI in accordance with U.S. generally accepted accounting principles for federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.
- The statements should be read with the realization that they are for a component of the USG, a sovereign entity.

U.S. DEPARTMENT OF JUSTICE

FEDERAL BUREAU OF INVESTIGATION

INDEPENDENT AUDITORS' REPORTS



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Independent Auditors' Report on the Financial Statements

Inspector General
U.S. Department of Justice

Director
Federal Bureau of Investigation
U.S. Department of Justice

We have audited the accompanying consolidated financial statements of the U.S. Department of Justice Federal Bureau of Investigation (FBI), which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02, require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



Independent Auditors' Report on the Financial Statements
Page 2

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Justice Federal Bureau of Investigation as of September 30, 2014 and 2013, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The Combined Schedule of Spending is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2014 on our consideration of the FBI's internal control over financial reporting, and our report dated November 4, 2014 on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the FBI's internal control over financial reporting and compliance.

KPMG LLP

Washington, D.C.
November 4, 2014

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Independent Auditors' Report on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Inspector General
U.S. Department of Justice

Director
Federal Bureau of Investigation
U.S. Department of Justice

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*, the consolidated financial statements of the U.S. Department of Justice Federal Bureau of Investigation (FBI), which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 4, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2014, we considered the FBI's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FBI's internal control. Accordingly, we do not express an opinion on the effectiveness of the FBI's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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. A material weakness is a deficiency, or a 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. A significant deficiency is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Independent Auditors' Report on Internal Control over Financial Reporting
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*
Page 2

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the FBI's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the FBI's internal control. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
November 4, 2014



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Independent Auditors' Report on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Inspector General
U.S. Department of Justice

Director
Federal Bureau of Investigation
U.S. Department of Justice

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*, the consolidated financial statements of the U.S. Department of Justice Federal Bureau of Investigation (FBI), which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended and the related notes to the consolidated financial statements, and have issued our report thereon dated November 4, 2014.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the FBI's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 14-02.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which the FBI's financial management systems did not substantially comply with the (1) federal financial management system requirements, (2) applicable federal accounting standards, and (3) application of the United States Government Standard General Ledger at the transaction level.



Independent Auditors' Report on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*
Page 2

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the FBI's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the FBI's compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
November 4, 2014

U.S. DEPARTMENT OF JUSTICE

FEDERAL BUREAU OF INVESTIGATION

PRINCIPAL FINANCIAL STATEMENTS AND RELATED NOTES



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**U.S. Department of Justice
Federal Bureau of Investigation
Consolidated Balance Sheets
As of September 30, 2014 and 2013**

Dollars in Thousands	2014	2013
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with U.S. Treasury (Note 3)	\$ 3,479,026	\$ 2,896,019
Accounts Receivable (Note 5)	388,269	319,723
Other Assets (Note 9)	14,489	22,779
Total Intragovernmental	3,881,784	3,238,521
Cash and Monetary Assets (Note 4)	57,551	85,326
Accounts Receivable, Net (Note 5)	36,498	24,088
Inventory and Related Property, Net (Note 6)	9,748	7,263
General Property, Plant and Equipment, Net (Note 8)	2,852,468	2,713,644
Advances and Prepayments	11,887	18,423
Other Assets (Note 9)	42	-
Total Assets	\$ 6,849,978	\$ 6,087,265
LIABILITIES (Note 10)		
Intragovernmental		
Accounts Payable	\$ 172,566	\$ 188,580
Accrued Federal Employees' Compensation Act Liabilities	32,827	31,303
Other Liabilities (Note 14)	90,814	57,541
Total Intragovernmental	296,207	277,424
Accounts Payable	298,023	323,056
Actuarial Federal Employees' Compensation Act Liabilities	200,670	191,516
Accrued Payroll and Benefits	101,066	84,948
Accrued Annual and Compensatory Leave Liabilities	269,900	273,017
Environmental and Disposal Liabilities (Note 11)	11,407	10,451
Seized Cash and Monetary Instruments (Note 13)	33,616	46,371
Contingent Liabilities (Note 15)	11,147	8,420
Other Liabilities (Note 14)	7,761	7,669
Total Liabilities	\$ 1,229,797	\$ 1,222,872
NET POSITION		
Unexpended Appropriations	\$ 2,640,676	\$ 1,822,476
Cumulative Results of Operations	2,979,505	3,041,917
Total Net Position	\$ 5,620,181	\$ 4,864,393
Total Liabilities and Net Position	\$ 6,849,978	\$ 6,087,265



**U.S. Department of Justice
Federal Bureau of Investigation
Consolidated Statements of Net Cost
For the Fiscal Years Ended September 30, 2014 and 2013**

Dollars in Thousands

	FY	Gross Costs			Less: Earned Revenues			Net Cost of Operations (Note 16)
		Intra-governmental	With the Public	Total	Intra-governmental	With the Public	Total	
Goal 1	2014	\$ 1,610,242	\$ 3,481,744	\$ 5,091,986	\$ 302,342	\$ 7,803	\$ 310,145	\$ 4,781,841
	2013	\$ 1,361,909	\$ 3,649,619	\$ 5,011,528	\$ 457,250	\$ 16,344	\$ 473,594	\$ 4,537,934
Goal 2	2014	751,137	2,296,397	3,047,534	297,393	5,043	302,436	2,745,098
	2013	829,830	2,199,434	3,029,264	342,743	397	343,140	2,686,124
Goal 3	2014	284,534	634,305	918,839	330,135	165,566	495,701	423,138
	2013	254,103	798,910	1,053,013	358,899	154,485	513,384	539,629
Total	2014	\$ 2,645,913	\$ 6,412,446	\$ 9,058,359	\$ 929,870	\$ 178,412	\$ 1,108,282	\$ 7,950,077
	2013	\$ 2,445,842	\$ 6,647,963	\$ 9,093,805	\$ 1,158,892	\$ 171,226	\$ 1,330,118	\$ 7,763,687

Goal 1 Prevent Terrorism and Promote the Nation's Security Consistent with the Rule of Law
 Goal 2 Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law
 Goal 3 Ensure and Support the Fair, Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal and International Levels



U.S. Department of Justice
Federal Bureau of Investigation
Consolidated Statements of Changes in Net Position
For the Fiscal Years Ended September 30, 2014 and 2013

Dollars in Thousands	2014	2013
Unexpended Appropriations		
Beginning Balances	\$ 1,822,476	\$ 2,151,355
Budgetary Financing Sources		
Appropriations Received	8,343,284	8,276,009
Appropriations Transferred-In/Out	(34,706)	(134,901)
Other Adjustments	-	(730,365)
Appropriations Used	(7,490,378)	(7,739,622)
Total Budgetary Financing Sources	<u>818,200</u>	<u>(328,879)</u>
Unexpended Appropriations	<u>\$ 2,640,676</u>	<u>\$ 1,822,476</u>
Cumulative Results of Operations		
Beginning Balances	\$ 3,041,917	\$ 2,830,304
Budgetary Financing Sources		
Appropriations Used	7,490,378	7,739,622
Nonexchange Revenues	29	2
Transfers-In/Out Without Reimbursement	(1,651)	(7,329)
Other Financing Sources		
Transfers-In/Out Without Reimbursement	112,458	(7,803)
Imputed Financing from Costs Absorbed by Others (Note 17)	294,644	256,974
Other Financing Sources	(8,193)	(6,166)
Total Financing Sources	<u>7,887,665</u>	<u>7,975,300</u>
Net Cost of Operations	<u>(7,950,077)</u>	<u>(7,763,687)</u>
Net Change	(62,412)	211,613
Cumulative Results of Operations	<u>\$ 2,979,505</u>	<u>\$ 3,041,917</u>
Net Position	<u>\$ 5,620,181</u>	<u>\$ 4,864,393</u>



**U.S. Department of Justice
Federal Bureau of Investigation
Combined Statements of Budgetary Resources
For the Fiscal Years Ended September 30, 2014 and 2013**

Dollars in Thousands	2014	2013
Budgetary Resources:		
Unobligated Balance, Brought Forward, October 1	\$ 1,124,439	\$ 1,099,469
Recoveries of Prior Year Unpaid Obligations	197,730	358,191
Other Changes in Unobligated Balances	<u>(38,515)</u>	<u>(16,230)</u>
Unobligated Balance from Prior Year Budget Authority, Net	1,283,654	1,441,430
Appropriations (discretionary and mandatory)	8,345,443	7,419,644
Spending Authority from Offsetting Collections (discretionary and mandatory)	<u>1,178,873</u>	<u>1,237,756</u>
Total Budgetary Resources	<u>\$ 10,807,970</u>	<u>\$ 10,098,830</u>
Status of Budgetary Resources:		
Obligations Incurred (Note 18)	\$ 9,486,728	\$ 8,974,391
Unobligated Balance, End of Year:		
Apportioned	1,110,032	831,392
Unapportioned	<u>211,210</u>	<u>293,047</u>
Total Unobligated Balance, End of Year	<u>1,321,242</u>	<u>1,124,439</u>
Total Status of Budgetary Resources	<u>\$ 10,807,970</u>	<u>\$ 10,098,830</u>
Change in Obligated Balance:		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1	\$ 2,425,794	\$ 3,072,245
Obligations Incurred	9,486,728	8,974,391
Outlays, Gross	(8,930,952)	(9,262,651)
Recoveries of Prior Year Unpaid Obligations	<u>(197,730)</u>	<u>(358,191)</u>
Unpaid Obligations, End of Year	<u>2,783,840</u>	<u>2,425,794</u>
Uncollected Payments:		
Uncollected Payments from Federal Sources, Brought Forward, October 1	(617,526)	(568,468)
Change in Uncollected Customer Payments from Federal Sources	10,911	(49,058)
Uncollected Customer Payments from Federal Sources, End of Period	<u>(606,615)</u>	<u>(617,526)</u>
Memorandum (non-add) Entries:		
Obligated Balance, Start of Year	<u>\$ 1,808,268</u>	<u>\$ 2,503,777</u>
Obligated Balance, End of Year	<u>\$ 2,177,225</u>	<u>\$ 1,808,268</u>
Budgetary Authority and Outlays, Net:		
Budgetary Authority, Gross (discretionary and mandatory)	\$ 9,524,316	\$ 8,657,400
Less: Actual Offsetting Collections (discretionary and mandatory)	1,189,784	1,188,698
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	<u>10,911</u>	<u>(49,058)</u>
Budgetary Authority, Net (discretionary and mandatory)	<u>\$ 8,345,443</u>	<u>\$ 7,419,644</u>
Outlays, Gross (discretionary and mandatory)	\$ 8,930,952	\$ 9,262,651
Less: Actual Offsetting Collections (discretionary and mandatory)	<u>1,189,784</u>	<u>1,188,698</u>
Outlays, Net (discretionary and mandatory)	7,741,168	8,073,953
Less: Distributed Offsetting Receipts	<u>3,360</u>	<u>(3,938)</u>
Agency Outlays, Net (Discretionary and mandatory)	<u>\$ 7,737,808</u>	<u>\$ 8,077,891</u>



**U.S. DEPARTMENT OF JUSTICE
FEDERAL BUREAU OF INVESTIGATION
NOTES TO THE FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT AS NOTED)**

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Federal Bureau of Investigation (FBI or Bureau), established in 1908, is an integral part of the Department of Justice (DOJ or the Department). The mission of the FBI is to protect and defend the United States (U.S.) against terrorist and foreign intelligence threats, to uphold and enforce the criminal laws of the U.S., and to provide leadership and criminal justice services to federal, state, local, and international agencies and partners. The Bureau also provides assistance to other federal, state, and local law enforcement agencies and the public at large. Assistance includes forensic services, training law enforcement officials, background investigations, name checks, fingerprint analyses, and cooperative criminal investigations.

The accompanying financial statements of the FBI include the following funds under the administrative and/or operational control of the FBI: appropriated single year, multi-year, and no-year Salaries and Expense (S&E) funds; appropriated no-year Construction (CNST) funds; and no-year Violent Crime Reduction Program (VCRP) trust funds. These funds include new appropriations, transfers of appropriations from other federal agencies, and the carry-over of prior years' unobligated balances for multi-year and no-year appropriated funds. The FBI also receives reimbursable funding from other agencies for services rendered.

B. Basis of Presentation

These financial statements have been prepared from the books and records of the FBI in accordance with U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board and presentation guidelines in the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. These financial statements are different from the financial reports prepared pursuant to OMB directives used to monitor and control the use of the FBI's budgetary resources. To ensure that the FBI financial statements are meaningful at the entity level and to enhance reporting consistency within the Department, Other Assets and Other Liabilities as defined by OMB Circular A-136 have been disaggregated on the balance sheet. These include from Other Assets, Advances and Prepayments with the Public; and from Other Liabilities, Accrued Federal Employees' Compensation Act Liabilities, Accrued Payroll and Benefits, Accrued Annual and Compensatory Leave Liabilities, Seized Cash and Monetary Instruments, and Contingent Liabilities.

C. Basis of Consolidation

The consolidated/combined financial statements include the accounts of the FBI. All significant proprietary intra-entity transactions and balances have been eliminated in consolidation. The Statements of Budgetary Resources are combined statements for Fiscal Years (FYs) 2014 and 2013, and as such, intra-entity transactions have not been eliminated. The consolidated financial statements do not include centrally administered assets and liabilities of the federal government



Notes to the Principal Financial Statements

1. Summary of Significant Accounting Policies (continued)

as a whole, such as General Services Administration (GSA) owned property and equipment, and borrowings from the public by the U.S. Department of the Treasury (Treasury), which may in part be attributed to the FBI.

D. Basis of Accounting

Transactions are recorded on the accrual and budgetary bases of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recorded when incurred, regardless of when cash is exchanged. Under the budgetary basis, however, funds availability is recorded based upon legal considerations and constraints. As a result, certain line items on the proprietary financial statements may not equal similar line items on the budgetary financial statements.

E. Non-Entity Assets

Non-entity assets represent assets temporarily controlled and administered by the FBI, but not available to the FBI as a financing source for operations. The FBI withholds state and local income taxes from taxable travel and transfer related expenses from FBI employees for subsequent disbursement to the applicable taxing authorities. Undisbursed withholdings at fiscal year-end are recorded as non-entity assets on the balance sheet with an offsetting liability. Cash temporarily held by the FBI as evidence for legal proceedings is also included on the balance sheet as a non-entity asset with an offsetting liability.

F. Fund Balance with U.S. Treasury and Cash

Fund balances with the Treasury primarily represent appropriated, revolving, and trust funds available to pay current liabilities and finance future authorized purchases of goods and services. Receipts are processed by commercial banks for deposit to individual accounts maintained at the Treasury. Treasury and other Treasury-designated disbursing officers process cash receipts and disbursements as directed by authorized FBI certifying officers. The FBI field offices and legal attachés maintain imprest and emergency funds to accommodate law enforcement cash requirements occurring outside normal banking system operating hours.

G. Accounts Receivable

Accounts receivable are established for reimbursable expenses incurred by the FBI in providing goods and services ordered by other entities. Intragovernmental accounts receivable represent amounts due from federal entities and agencies. Other receivables represent amounts due from state and local governments, individuals, and other non-federal entities.

The Allowance for Uncollectible Accounts calculation methodology is a percentage based on outstanding receivables weighted against the collections rate of those receivables. An analytical review is conducted annually to update the percentage applied to outstanding receivables. An invoice is deemed delinquent if it is unpaid after 30 days. Intragovernmental receivables are considered fully collectible.



Notes to the Principal Financial Statements

1. Summary of Significant Accounting Policies (continued)

H. Inventory and Related Property

Operating materials and supplies consist of fuel, ammunition, spare aircraft parts, and office supplies. Operating materials and supplies are valued at acquisition cost. Supplies and materials are for entity use only, and are not for sale.

I. General Property, Plant, and Equipment

DOJ Financial Management Policy Memorandum (FMPM) 13-12, *Capitalization of General Property, Plant and Equipment and Internal Use Software*, was issued in FY 2013 with an effective date for reporting periods ending after September 30, 2014. Early implementation of the policy's increased capitalized thresholds was encouraged beginning October 1, 2012. For financial statement purposes, the primary changes relate to the capitalization thresholds for real property including leasehold improvements, personal property, and internal use software (IUS) which resulted in a decrease to the overall Property, Plant, and Equipment (PP&E) balance in FY 2013.

Below are the capitalization thresholds:

Type of Property	Threshold
Real Property	\$250
Personal Property	\$50
Aircraft	\$100
Internal Use Software	\$5,000

With the exception of land, all general PP&E is capitalized when the cost of acquiring or improving the property meets the capitalization thresholds noted in the table above and has a useful life of two or more years. All general PP&E is depreciated or amortized, based on historical cost, using the straight-line method over the estimated useful life of the asset. The FBI calculates a salvage value of 10 percent or less for capitalized property. Land is capitalized regardless of its acquisition cost and is never depreciated.

Expenditures for property and equipment with an acquisition cost or individual asset recognition value less than the applicable threshold are charged to operating expenses as incurred. The FBI uses work-in-process (WIP) accounts to capitalize expenditures associated with on-going leasehold improvement projects, the on-going construction of facilities and equipment, and the development of IUS that meet FBI's capitalization thresholds. Upon completion of the project(s), the applicable costs are transferred from WIP to a depreciable asset.

While the FBI owns some land, buildings, and other structures, it leases its headquarters building, field office buildings, and warehouse space from the GSA. The FBI also leases office space from non-governmental entities, both in the U.S. and abroad.



1. Summary of Significant Accounting Policies (continued)

J. Advances and Prepayments

Advances and prepayments classified as assets include funds disbursed to finance operations that exceed the total expenditures incurred. This amount also includes advances of funds to federal employees for official travel, and the balance of travel advances in excess of travel expenses claimed on reimbursement vouchers. When authorized by procurement regulations, payments made in advance of the FBI's receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenditures/expense when the related goods and services are received. Advances and prepayments involving other federal agencies are classified as *Other Assets* on the balance sheet.

K. Seized Property

All property seized for forfeiture, including property with evidentiary value, is reported by the DOJ Assets Forfeiture Fund and Seized Asset Deposit Fund. The FBI has an established reporting threshold of \$1 or more for Personal Property seized for evidentiary purposes. The FBI reports each seized personal property evidence record as a single unit of measure.

Cash in the custody of the FBI for evidentiary purposes is recognized as an asset on the balance sheet with an offsetting liability. Non-monetary valuable property held as evidence is disclosed in Note 7 at the appraised or fair market value at the time of the seizure and is not adjusted to any subsequent increases and decreases in estimated fair market value. It is not recognized as an asset on the balance sheet.

Quantities of illegal drugs and firearms held as evidence are disclosed in Note 7 in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property*, and Federal Financial Accounting and Auditing Technical Release No. 4, *Reporting on Non-Valued Seized and Forfeited Property*. Reported quantities of drugs include only substances over one kilogram (KG) that are laboratory-analyzed and confirmed.

L. Liabilities

Liabilities represent the amount of monies or other resources likely to be paid by the FBI as the result of a transaction or an event that has already occurred. However, absent proper budget authority, the FBI cannot pay a liability. Liabilities for which an appropriation has not been enacted are considered unfunded liabilities. As a result, there is no certainty that corresponding future appropriations will be enacted to liquidate these unfunded liabilities.

M. Contingencies and Commitments

The FBI is party to various administrative proceedings, legal actions, and claims. The balance sheet includes an estimated liability for those legal actions where management and the Chief Counsel consider adverse decisions "probable" and amounts are reasonably estimable. Legal actions where management and the Chief Counsel consider adverse decisions "probable" or "reasonably possible" and the amounts are reasonably estimable are disclosed in Note 15, Contingencies and Commitments. However, there are cases where amounts have not been accrued or disclosed because the amounts of the potential loss cannot be estimated or the likelihood of an unfavorable outcome is considered "remote."



Notes to the Principal Financial Statements

1. Summary of Significant Accounting Policies (continued)

N. Annual, Sick, and Other Leave

Annual leave and compensatory leave are expensed as earned with an offsetting liability. Liabilities are reduced as leave is taken. At the end of each fiscal quarter, the balance in the accrued annual leave liability account is adjusted to reflect valuation at current pay rates. To the extent current-year or prior-year appropriations are not available to fund annual and compensatory leave that is earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

O. Interest on Late Payments

Pursuant to the Prompt Payment Act of 1999 (31 U.S.C. 3901-3907), the FBI pays interest to commercial concerns for payments made after the payment due date. The payment due date is generally 30 days after the receipt of a valid invoice by the designated activity, or 30 days after the receipt and acceptance of the goods or services, whichever is later. Interest is computed on the principal amount due at the rate of interest established by the Secretary of the Treasury, and published in the Federal Register, for interest payments under section 12 of the Contract Disputes Act of 1978 (41 U.S.C. 611). Interest is paid for the period beginning one day after the principal payment due date and ending on the date on which the principal payment is made.

P. Retirement Plans

With few exceptions, employees of the Department are covered by one of the following retirement programs:

- 1) Employees hired before January 1, 1984, are covered by the Civil Service Retirement System (CSRS). The FBI contributes 7.0 percent of the gross pay for regular employees and 7.5 percent for law enforcement officers.
- 2) Employees hired January 1, 1984 or later, are covered by the Federal Employees Retirement System (FERS).
 - a) Employees hired January 1, 1984 through December 31, 2012, are covered by the FERS. The FBI contributes 11.9 percent of the gross pay for regular employees and for agents 26.3 percent for law enforcement officers.
 - b) Employees hired January 1, 2013 through December 31, 2013, are covered by the Federal Employees Retirement System-Revised Annuity Employees (FERS-RAE) System. The FBI contributes 9.6 percent of the gross pay for regular employees and 24.0 percent for law enforcement officers.
 - c) Employees hired January 1, 2014 or later are covered by the Federal Employees System-Further Revised Annuity Employees (FERS-FRAE). The FBI contributes 9.6 percent of the gross pay for regular employees and 24.0 percent for law enforcement officers.

The accompanying financial statements report expenses incurred by the FBI for required contributions made to retirement accounts administered by the Office of Personnel Management (OPM). All employees are eligible to contribute to the Federal Thrift Savings Plan (TSP). For employees covered by the FERS, FERS-RAE and FERS-FRAE, a TSP account is automatically



1. Summary of Significant Accounting Policies (continued)

established to which the FBI is required to contribute an additional 1.0 percent of gross pay and match employee contributions up to 4.0 percent. The FBI is not authorized to make automatic or matching contributions to the TSP for employees covered by the CSRS. The FBI's financial statements do not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, which may be applicable to its employees. Such reporting is the responsibility of OPM. SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, requires employing agencies to recognize the cost of pensions and other retirement benefits during their employees' active years of service. Refer to Note 17, Imputed Financing from Costs Absorbed by Others, additional details.

The FBI recognizes an additional expense and an offsetting imputed financing source for FBI Pension and Other Retirement Benefits Expense not covered by employee and FBI contributions; this expense is ultimately paid by OPM. Refer to Note 17, Imputed financing from Costs Absorbed by Others, additional details.

Q. Federal Employee Compensation Benefits

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of any employee whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for FBI employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by the FBI.

The total FECA liability has two components: (1) unpaid billings and (2) an amount of estimated unbilled claims. Unpaid billings represent claims already paid by the DOL, which have not yet been reimbursed by the FBI. There is generally a two-year delay in the processing of the DOL payments through DOJ to the FBI. The FBI reports the unpaid billings as Accrued FECA Liabilities.

Unbilled claims are estimated by the DOL by applying actuarial projections to incurred (both reported and unreported) claims. The DOL calculates the actuarial liability of the federal government for future compensation benefits, which includes the expected liability for death, disability, medical, and miscellaneous approved compensation costs. The liability is determined using the paid-losses extrapolation method calculated over the next 37-year period. This method uses historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. The projected annual benefit payments were discounted to present value. The resulting federal government liability is then distributed by the DOL to the respective departments.

DOJ calculates and distributes each bureau's respective portion of the total DOJ actuarial liability that is recorded for reporting purposes only. The Actuarial FECA Liability constitutes an extended estimate of future costs that will be obligated against budgetary resources the fiscal year in which the cost is actually paid to DOL by DOJ and, subsequently, by the FBI.

R. Intragovernmental Activity

Intragovernmental cost and exchange revenue represents transactions made between two reporting entities within the federal government. Costs and exchange revenues with the public represent transactions made between the reporting entity and a non-federal entity. The



1. Summary of Significant Accounting Policies (continued)

classification of revenue or cost as “intragovernmental” or “with the public” is defined on a transaction-by-transaction basis. The purpose of this classification is to enable the federal government to prepare consolidated financial statements, not to match public and intragovernmental revenue with the costs incurred to produce public and intragovernmental revenue.

S. Revenues and Other Financing Sources

The FBI receives funding to support its programs and executes its assigned mission from three primary sources: (1) annual, no-year, and multi-year appropriations by the U.S. Congress; (2) appropriated funds transferred to the FBI; and (3) reimbursable program funding. Appropriated funds (appropriated to the FBI or appropriated to other federal entities and transferred to the FBI for execution) represent the majority of the FBI’s operating budget.

A source of revenue to the FBI are fees authorized by law for providing fingerprint-based and name-based Criminal History Record Information checks and other identification services submitted by authorized users for noncriminal justice purposes, including employment and licensing. The fee is based on full-cost recovery, determined by using an activity-based cost model. By law, the FBI may set such fees at a level to include an additional amount to establish a fund to defray expenses for the automation of fingerprint identification and criminal justice information services and associated costs. Fee schedules are announced in the Federal Register following a public comment period. The FBI is not authorized to charge fees for fingerprint identification and criminal justice information services for law enforcement purposes.

Other financing sources to the FBI include assets transferred to the FBI without reimbursement and imputed financing for: (1) FBI pension and other benefits expenses not covered by employee and FBI contributions and which are ultimately paid by OPM; and (2) expenses for legal claims paid out of the Treasury Judgment Fund on behalf of the FBI.

Appropriations are recognized as financing sources when the goods and services authorized to be paid from the appropriations have been received and accepted, or when program or administrative expenses have been incurred. Revenue from reimbursable activities is recognized when it is earned, i.e. when the goods or services ordered have been delivered or rendered to the ordering entity. The FBI also earns revenue from the sale of assets, principally vehicles.

T. Funds from Dedicated Collections

SFFAS No. 27, *Identifying and Reporting Funds from Dedicated Collections*, as amended defines ‘funds from dedicated collections’ as being financed by specifically identified revenues, provided to the government by non-federal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the government’s general revenues. The three required criteria for a fund from dedicated collections are:

1. A statute committing the federal government to use specifically identified revenues and/or other financing sources that are originally provided to the federal government by a non-federal source only for designated activities, benefits, or purposes;



Notes to the Principal Financial Statements

1. Summary of Significant Accounting Policies (continued)

2. Explicit authority for the funds to retain revenues and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
3. A requirement to account for and report on the receipt, use, and retention of the revenues and/or other financing sources that distinguishes the fund from the federal government's general revenues.

There are no funds that meet the definition of funds from dedicated collections.

U. Tax Exempt Status

As an agency of the federal government, the FBI is exempt from all income taxes imposed by any governing body whether it is a federal, state, commonwealth, local, or foreign government.

V. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

W. Reclassifications

The FY 2013 financial statements were reclassified to conform to the FY 2014 Departmental and OMB financial statement presentation requirements. The reclassifications had no material effect on the total assets, liabilities, net position, change in net position or budgetary resources previously reported.

X. Subsequent Events

Subsequent events and transactions occurring after September 30, 2014 through the date of the auditors' opinion have been evaluated for potential recognition or disclosure in the financial statements. The date of the auditors' opinion also represents the date that the financial statements were available to be issued.



Notes to the Principal Financial Statements

2. Non-Entity Assets

Non-entity assets are assets that are held by the FBI but are not available for its use.

As of September 30, 2014 and 2013		
	2014	2013
Intragovernmental		
Fund Balance with U.S. Treasury	\$ 21	\$ 2,550
With the Public		
Cash and Monetary Assets	38,230	52,113
Total Non-Entity Assets	38,251	54,663
Total Entity Assets	6,811,727	6,032,602
Total Assets	<u>\$ 6,849,978</u>	<u>\$ 6,087,265</u>

3. Fund Balance with U.S. Treasury

As of September 30, 2014 and 2013		
	2014	2013
Fund Balances		
General Funds	\$ 3,479,029	\$ 2,899,382
Other Fund Types	(3)	(3,363)
Total Fund Balances with U.S. Treasury	<u>\$ 3,479,026</u>	<u>\$ 2,896,019</u>
Status of Fund Balances		
Unobligated Balance - Available	\$ 1,110,032	\$ 831,392
Unobligated Balance - Unavailable	211,210	293,047
Obligated Balance not yet Disbursed	2,177,225	1,808,268
Other Funds (With)/Without Budgetary Resources	(19,441)	(36,688)
Total Status of Fund Balances	<u>\$ 3,479,026</u>	<u>\$ 2,896,019</u>

The General Funds amount includes the remaining funds resulting from budget authority to pay valid obligations. Other Fund Types amount includes deposit, clearing, and suspense accounts temporarily held with Treasury until such time they are required for use.

Unobligated Balance - Available includes current year apportionments that may be used for new obligations. Unobligated Balance - Unavailable includes amounts appropriated in prior fiscal years that are no longer available to fund new obligations, but can be used for upward and/or downward adjustments for existing obligations. Additionally, this line includes amounts received that are restricted to future use and as a result are not apportioned for current use. Obligated Balance not yet Disbursed includes obligations of appropriated funds and obligations related to reimbursable activity. Other Funds (With)/Without Budgetary Resources includes deposit, clearing, and suspense accounts.



Notes to the Principal Financial Statements

4. Cash and Monetary Assets

As of September 30, 2014 and 2013		
	2014	2013
Cash		
Undeposited Collections	\$ (118)	\$ (119)
Imprest Funds	19,439	33,329
Other Cash	4,614	5,745
Total Cash	<u>23,935</u>	<u>38,955</u>
Monetary Assets		
Seized Monetary Instruments	<u>33,616</u>	<u>46,371</u>
Total Cash and Monetary Assets	<u>\$ 57,551</u>	<u>\$ 85,326</u>

Undeposited Collections includes various in-transit accounts where account activities have been processed in the FBI's Unified Financial Management System, but not deposited in the bank and reported to Treasury via the Classification Transactions and Accountability Report (formerly SF-224) monthly submission. The Undeposited Collections balance represents timing differences in the recording of transactions between the FBI and Treasury.

Imprest Funds reflects monies dedicated for operational support, such as petty cash and emergency funds.

Other Cash consists of project generated proceeds.

Seized Monetary Instruments represents cash evidence obtained during FBI investigations held pending release to the rightful owners.



5. Accounts Receivable, Net

As of September 30, 2014 and 2013	2014	2013
Intragovernmental		
Accounts Receivable	\$ 388,269	\$ 319,723
With the Public		
Accounts Receivable	37,429	24,099
Allowance for Uncollectible Accounts	(931)	(11)
Total With the Public	36,498	24,088
Total Accounts Receivable, Net	\$ 424,767	\$ 343,811

Intragovernmental receivables are based on services provided to other federal agencies for activities such as name checks, requests for international travel, and training. The significant types of receivables reported in With the Public include the Non-Federal User Fee Program and the National Name Check Program. These customers are typically state and local government agencies conducting background checks on individuals.

6. Inventory and Related Property, Net

As of September 30, 2014 and 2013	2014	2013
Operating Materials and Supplies		
Held for Current Use	\$ 9,748	\$ 7,263

7. Seized Property, Net

Analysis of Change in Seized Property:

Seized Monetary Instruments (see also Notes 4 and 13) includes cash held by the FBI as evidence for legal proceedings, and is reported on the balance sheet as an asset, with an offsetting liability. Non-monetary evidence includes art, jewelry, and other valuables (see Note 1.K). According to DOJ guidelines, evidence items subject to forfeiture are not disclosed by the seizing agency.

The item counts and financial value of non-monetary valuable property in the custody of the FBI as of September 30, 2014 and 2013, excluding forfeited property for evidentiary purposes, and activity during each fiscal year are summarized in the following charts in accordance with SFFAS No. 3, *Accounting for Inventory and Related Property*.



Notes to the Principal Financial Statements

7. Seized Property, Net (continued)

Drug evidence is presented in accordance with Federal Financial Accounting and Auditing Technical Release No. 4, *Reporting on Non-Valued Seized and Forfeited Property*. Analyzed drug evidence represents actual laboratory-tested classification and weight in KG. Since enforcement of the controlled substances laws and regulations of the U.S. is incidental to the mission of the FBI, only individual seizures exceeding one KG in weight are reported.

“Other” primarily consists of substances, both controlled and non-controlled as defined per the Controlled Substances Act, other than cocaine, heroin, marijuana, or methamphetamine. The actual drug weight may vary from seizure weight due to changes in moisture content over time.

Unanalyzed drug evidence is not reported by the FBI because it is neither weighed nor confirmed by laboratory chemists. Seized drug evidence must be analyzed and confirmed through laboratory testing to be placed in one of the five categories of drugs above.

“Disposals” occur when evidence is either returned to the owner or destroyed in accordance with federal guidelines.

For the Fiscal Year Ended September 30, 2014						
Seized Property Category		Beginning Balance	Adjustments**	Seizures	Disposals	Ending Balance
Seized for Evidence						
Seized Monetary Instruments	Value	\$ 46,371	\$ (16,544)	\$ 15,709	\$ (11,920)	\$ 33,616
Personal Property	Number	1,118	(728)	27	(67)	350
	Value	\$ 27,422	\$ (19,174)	\$ 883	\$ (2,037)	\$ 7,094
Non-Valued Firearms	Number	28,917	(2,039)	3,284	(2,635)	27,527
Drug Evidence						
Cocaine	KG	6,362	(1,943)	152	(160)	4,411
Heroin	KG	414	(283)	15	(13)	133
Marijuana	KG	3,326	(2,116)	19	(209)	1,020
Methamphetamine	KG	873	(303)	106	(37)	639
Other	KG	1,032	(858)	-	(21)	153
Total Drug Evidence		12,007	(5,503)	292	(440)	6,356

**Adjustments include property status and valuation changes received after, but properly credited to, prior fiscal years. Valuation changes include updates and corrections to an asset’s value recorded in a prior year.



Notes to the Principal Financial Statements

7. Seized Property, Net (continued)

For the Fiscal Year Ended September 30, 2013						
Seized Property Category		Beginning Balance	Adjustments**	Seizures	Disposals	Ending Balance
Seized for Evidence						
Seized Monetary Instruments	Value	\$ 45,262	\$ (5,828)	\$ 23,324	\$ (16,387)	\$ 46,371
Personal Property	Number	1,359	-	188	(429)	1,118
	Value	\$ 29,732	\$ (69)	\$ 6,262	\$ (8,503)	\$ 27,422
Non-Valued Firearms	Number	29,705	(2,372)	4,373	(2,789)	28,917
Drug Evidence						
Cocaine	KG	6,230	949	178	(995)	6,362
Heroin	KG	425	4	12	(27)	414
Marijuana	KG	3,556	168	25	(423)	3,326
Methamphetamine	KG	677	54	221	(79)	873
Other	KG	998	14	27	(7)	1,032
Total Drug Evidence		11,886	1,189	463	(1,531)	12,007

**Adjustments include property status and valuation changes received after, but properly credited to, prior fiscal years. Valuation changes include updates and corrections to an asset's value recorded in a prior year.

Method of Disposition of Seized Property:

During FYs 2014 and 2013, \$4,491 and \$12,271, respectively, were returned to parties with a bonafide interest, and \$9,466 and \$12,619, respectively, were either released to a designated party or transferred to the appropriate federal entity under forfeiture or abandonment proceedings. Non-valued property was primarily disposed of through destruction.



Notes to the Principal Financial Statements

8. General Property, Plant and Equipment, Net

As of September 30, 2014				
	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Useful Life</u>
Land and Land Rights	\$ 8,167	\$ -	\$ 8,167	N/A
Construction in Progress	389,733	-	389,733	N/A
Buildings, Improvements, and Renovations	662,635	(316,747)	345,888	10-50 years
Other Structures and Facilities	41,401	(18,850)	22,551	10-50 years
Aircraft	302,584	(84,894)	217,690	5-30 years
Boats	10,287	(3,312)	6,975	5-25 years
Vehicles	128,111	(92,557)	35,554	2-25 years
Equipment	742,092	(439,303)	302,789	2-25 years
Leasehold Improvements	633,338	(268,005)	365,333	3-10 years
Internal Use Software	1,508,209	(431,558)	1,076,651	3-10 years
Internal Use Software in Development	81,137	-	81,137	N/A
Total	<u>\$ 4,507,694</u>	<u>\$ (1,655,226)</u>	<u>\$ 2,852,468</u>	

During FY 2014, the FBI purchased \$84,702 in capital property from federal sources and \$351,273 from the public.

As of September 30, 2013				
	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Useful Life</u>
Land and Land Rights	\$ 8,432	\$ -	\$ 8,432	N/A
Construction in Progress	354,207	-	354,207	N/A
Buildings, Improvements, and Renovations	631,806	(293,766)	338,040	10-50 years
Other Structures and Facilities	35,828	(16,969)	18,859	10-50 years
Aircraft	264,388	(68,916)	195,472	5-30 years
Boats	6,841	(2,697)	4,144	5-25 years
Vehicles	124,426	(85,602)	38,824	2-25 years
Equipment	726,491	(434,793)	291,698	2-25 years
Leasehold Improvements	578,526	(207,104)	371,422	3-10 years
Internal Use Software	1,198,114	(313,551)	884,563	3-10 years
Internal Use Software in Development	207,983	-	207,983	N/A
Total	<u>\$ 4,137,042</u>	<u>\$ (1,423,398)</u>	<u>\$ 2,713,644</u>	

During FY 2013, the FBI purchased \$52,213 in capital property from federal sources and \$326,142 from the public.



Notes to the Principal Financial Statements

9. Other Assets

As of September 30, 2014 and 2013		
	2014	2013
Intragovernmental		
Advances and Prepayments	\$ 14,489	\$ 22,779
Other Assets With the Public	42	-
Total Other Assets	<u>\$ 14,531</u>	<u>\$ 22,779</u>

10. Liabilities not Covered by Budgetary Resources

As of September 30, 2014 and 2013		
	2014	2013
Intragovernmental		
Accrued FECA Liabilities	\$ 32,827	\$ 31,303
Other Unfunded Employment Related Liabilities	193	189
Total Intragovernmental	<u>33,020</u>	<u>31,492</u>
With the Public		
Actuarial FECA Liabilities	200,670	191,516
Accrued Annual and Compensatory Leave Liabilities	269,900	273,017
Environmental and Disposal Liabilities (Note 11)	11,407	10,451
Contingent Liabilities (Note 15)	11,147	8,420
Total With the Public	<u>493,124</u>	<u>483,404</u>
Total Liabilities not Covered by Budgetary Resources	526,144	514,896
Total Liabilities Covered by Budgetary Resources	703,653	707,976
Total Liabilities	<u>\$ 1,229,797</u>	<u>\$ 1,222,872</u>

Liabilities not Covered by Budgetary Resources reports the receipt of goods and services, or eligible events in the current or prior periods, for which funds to pay the liabilities have not been made available through appropriations to the FBI.



11. Environmental and Disposal Liabilities

In accordance with the Federal Accounting Standard Advisory Board’s (FASAB) Statements of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, Federal Financial Accounting and Auditing Technical Release No. 2, *Environmental Liabilities Guidance*, and Federal Financial Accounting and Auditing Technical Release No. 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment* federal agencies are required to recognize liabilities for environmental cleanup costs when the future outflow or sacrifice of resources is probable and reasonably estimable.

As environmental-related cleanup costs are paid, the liabilities are reduced. Additionally, estimates will be revised periodically to account for material changes due to inflation, technology, and applicable laws and regulations. Any material changes in the estimated total cleanup costs will be expensed when estimates are revised and the liability balance adjusted.

As of September 30, 2014 and 2013		
	2014	2013
Firing Ranges		
Future Funded Expenses	\$ 831	\$ -
Asbestos		
Beginning Balance, Brought Forward	\$ 10,451	\$ 10,219
Abatements	(110)	-
Inflation Adjustment	2	-
Future Funded Expenses	233	232
Asbestos Liability	\$ 10,576	\$ 10,451
Total Environmental and Disposal Liabilities	\$ 11,407	\$ 10,451

Section 112 of the Clean Air Act requires the U.S. Environmental Protection Agency (EPA) to develop and enforce regulations to protect the general public from exposure to airborne contaminants known to be hazardous to human health. On March 31, 1971, the EPA identified asbestos as a hazardous pollutant, and on April 6, 1973, the EPA first promulgated the Asbestos National Emissions Standards for Hazardous Air Pollutants.

The FBI exercises due care in determining the presence of contamination in adherence to the law, rules and regulations, and policies of the Clean Air Act. The Facilities and Logistics Service Division, responsible for managing and maintaining FBI and non-FBI owned facilities, has identified FBI-owned facilities in Quantico that contain hazardous friable and non-friable asbestos. The facilities have a useful life of 50 years. The estimated total asbestos liability of \$11,614 is based on the square footage of the facilities that may be contaminated. This value divided by the useful life and multiplied by the number of years in service, less any current year abatements, and adjusted for inflation is the estimated cleanup liability. The estimated asbestos cleanup liability is increased each quarter by recording future funded expenses for the asbestos cleanup costs.



11. Environmental and Disposal Liabilities (continued)

EPA's Statement on National Guidance EPA-902-B-01-001 discusses the potential environmental impacts of firing ranges. The Facilities and Logistics Service Division, responsible for managing and maintaining FBI and non-FBI owned facilities, has identified FBI-owned range facilities in Quantico and El Toro that contain possible contamination issues based on the Federal Financial Accounting and Auditing Technical Release No. 2, *Environmental Liabilities Guidance* and EPA-902-B-01-001. Due care requires the agency to exert a reasonable effort to identify the presence or likely presence of contamination. Since no remedial investigation/feasibility study (RI/FS) has been completed and there are no comparable sites, remediation costs are not considered reasonably estimable at this time. Technical Release No. 2, *Environmental Liabilities Guidance* then requires the agency to recognize the anticipated cost of conducting a future study, plus any other identifiable costs, as a future environmental and disposal liability.

The estimated total firing range liability of \$831 is based on the estimated costs to conduct a RI/FS, site sampling, and sample analysis at both range facilities in order to determine if contamination is present and what the potential future environmental impacts would be. The estimated firing range cleanup liability will be updated once the RI/FS is complete.

There are no other potentially responsible parties to the environmental liability and there are no unrecognized amounts to disclose as of September 30, 2014.



Notes to the Principal Financial Statements

12. Leases

The majority of space occupied by the FBI is leased from the GSA. The rental cost is based on the area occupied at the commercial rate per square foot, negotiated by the GSA along with appropriate GSA fees. The majority of the leases are cancelable; however, if tenant improvement (TI) costs are amortized in the lease and the FBI terminates prior to the end of the amortized period, the FBI will be responsible for the unpaid TI costs.

Typically, the minimum lease term for a Resident Agency (RA) is 5 years and the maximum is 15 years. The minimum lease term for a field office is 15 years and the maximum is 20 years. Some new leases for field offices and RAs will be noncancelable.

The FBI currently anticipates relocating 7 field offices between FY 2015 and FY 2019. When field offices relocate, often from space leased for 20 years or longer, the rental rates increase significantly to accommodate the FBI's growth in workforce, space needs, and specialized security requirements.

As of September 30, 2014			
Future Noncancelable Operating Lease Payments			
<u>Fiscal Year</u>	<u>Land and Buildings</u>	<u>Machinery and Equipment</u>	<u>Total</u>
2015	195,328	21,351	216,679
2016	203,343	4,464	207,807
2017	221,211	4,598	225,809
2018	223,423	4,736	228,159
2019	217,915	-	217,915
After 2019	1,902,351	-	1,902,351
Lease Payments	<u>\$ 2,963,571</u>	<u>\$ 35,149</u>	<u>\$ 2,998,720</u>

13. Seized Cash and Monetary Instruments

Seized Cash and Monetary Instruments represents liabilities for seized assets held by the FBI pending disposition. The Seized Cash and Monetary Instruments as of September 30, 2014 and 2013 are \$33,616 and \$46,371, respectively.



Notes to the Principal Financial Statements

14. Other Liabilities

All Other Liabilities are current and presented in the following table:

As of September 30, 2014 and 2013	2014	2013
Intragovernmental		
Employer Contributions and Payroll Taxes Payable	\$ 31,375	\$ 26,637
Other Post-Employment Benefits Due and Payable	113	104
Other Unfunded Employment Related Liabilities	193	189
Advances from Others	59,514	33,621
Liability for Clearing Accounts	(764)	(3,161)
Liability for Non-Entity Assets Not Reported on the Statement of Custodial Activity	383	151
Total Intragovernmental	90,814	57,541
With the Public		
Advances from Others	1,239	1,884
Liability for Nonfiduciary Deposit Funds and Undeposited Collections	(25)	-
Liability for Clearing Accounts	761	35
Custodial Liabilities	-	5
Other Liabilities	5,786	5,745
Total With the Public	7,761	7,669
Total Other Liabilities	\$ 98,575	\$ 65,210

15. Contingencies and Commitments

	Accrued Liabilities	Estimated Range of Loss	
		Lower	Upper
As of September 30, 2014			
Probable	\$ 11,147	\$ 11,147	\$ 19,007
Reasonably Possible		13,119	16,944
As of September 30, 2013			
Probable	\$ 8,420	\$ 8,420	\$ 14,010
Reasonably Possible		8,059	11,287



Notes to the Principal Financial Statements

16. Net Cost of Operations by Suborganization

The methodology by which the FBI allocates gross costs and earned revenue across the three Strategic Goals (SGs or Goal) is consistent with the methodology used to allocate the FBI's budget to the three SGs in the FY 2015 Authorization and Budget Request to Congress. The tables below and on the next page break out costs and revenue by these three SGs, as well as by FBI appropriation. These funds include new appropriations, transfers of appropriations from other federal agencies, and the carry-over of prior years' unobligated balances for multi-year and no-year appropriated funds.

For the Fiscal Year Ended September 30, 2014				
	Suborganizations			Consolidated
	CNST	VCRP	S&E	
Goal 1: Prevent Terrorism and Promote the Nation's Security Consistent with the Rule of Law				
Gross Cost	\$ 45,256	\$ -	\$ 5,046,730	\$ 5,091,986
Less: Earned Revenue	-	-	310,145	310,145
Net Cost of Operations	45,256	-	4,736,585	4,781,841
Goal 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law				
Gross Cost	25,419	-	3,022,115	3,047,534
Less: Earned Revenue	-	-	302,436	302,436
Net Cost of Operations	25,419	-	2,719,679	2,745,098
Goal 3: Ensure and Support the Fair, Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels				
Gross Cost	8,119	-	910,720	918,839
Less: Earned Revenue	-	-	495,701	495,701
Net Cost of Operations	8,119	-	415,019	423,138
Net Cost of Operations	\$ 78,794	\$ -	\$ 7,871,283	\$ 7,950,077



Notes to the Principal Financial Statements

16. Net Cost of Operations by Suborganization (continued)

For the Fiscal Year Ended September 30, 2013	Suborganizations			Consolidated
	CNST	VCRP	S&E	
Goal 1: Prevent Terrorism and Promote the Nation's Security Consistent with the Rule of Law				
Gross Cost	\$ 60,012	\$ -	\$ 4,951,516	\$ 5,011,528
Less: Earned Revenue	-	-	473,594	473,594
Net Cost of Operations	60,012	-	4,477,922	4,537,934
Goal 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law				
Gross Cost	546	-	3,028,718	3,029,264
Less: Earned Revenue	-	-	343,140	343,140
Net Cost of Operations	546	-	2,685,578	2,686,124
Goal 3: Ensure and Support the Fair, Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels				
Gross Cost	173	-	1,052,840	1,053,013
Less: Earned Revenue	-	-	513,384	513,384
Net Cost of Operations	173	-	539,456	539,629
Net Cost of Operations	\$ 60,731	\$ -	\$ 7,702,956	\$ 7,763,687

17. Imputed Financing from Costs Absorbed by Others

Imputed Inter-Departmental Financing Sources are the unreimbursed (i.e. non-reimbursed and under-reimbursed) portion of the full costs of goods and services received by the FBI from a providing federal entity that is not part of the DOJ. In accordance with SFFAS No. 30, *Inter-Entity Cost Implementation Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*, the material Imputed Inter-Departmental financing sources recognized by the FBI are the cost of future benefits for the Federal Employees Health Benefits Program (FEHB), the Federal Employees Group Life Insurance Program (FEGLI), and the federal pension plans that are paid by other federal entities, and any unreimbursed payments made from the Treasury Judgment Fund on behalf of the FBI. The Treasury Judgment Fund was established by Congress and funded at 31 U.S.C. 1304 to pay in whole or in part the court judgments and settlement agreements negotiated by the Department on behalf of agencies, as well as certain types of administrative awards. Interpretation of Federal Financial Accounting Standards No. 2, *Accounting for Treasury Judgment Fund Transactions*, requires agencies to recognize liabilities and expense when unfavorable litigation outcomes are probable and the amount can be estimated and will be paid by the Treasury Judgment Fund.

SFFAS No. 5 requires that employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS No. 5 requires OPM to provide cost factors necessary to calculate cost. OPM actuaries calculate the value of pension benefits expected to be paid in the future, and then determine the total funds to be contributed by and for covered employees, such that the amount calculated would be sufficient to fund the projected pension benefits. The cost factors are as follows:



Notes to the Principal Financial Statements

17. Imputed Financing from Costs Absorbed by Others (continued)

	Category	Cost Factor (%)
Civil Services	Regular Employees	32.8
Retirement System (CSRS)	Regular Employees Offset	24.4
	Law Enforcement Officers	56.4
	Law Enforcement Officers Offset	48.8

Federal Employees Retirement System (FERS)	Regular Employees	15.1
	Regular Employees - Revised Annuity Employees (RAE)	15.7
	Regular Employees - Future Revised Annuity Employees (FRAE)	15.7
	Law Enforcement Officers	33.3
	Law Enforcement Officers - RAE	33.9
	Law Enforcement Officers - FRAE	33.9

The cost to be paid by other agencies is the total calculated future costs, less employee and employer contributions. In addition, other retirement benefits, which include health and life insurance that are paid by other federal entities, must also be recorded.

Imputed Intra-Departmental Financing Sources as defined in SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, are the unreimbursed portion of the full costs of goods and services received by the FBI from a providing entity that is part of the DOJ. Recognition is required for those transactions determined to be material to the receiving entity. The determination of whether the cost is material requires considerable judgment based on the specific facts and circumstances of each type of good or service provided. SFFAS No. 4 also states that costs for broad and general support need not be recognized by the receiving entity, unless such services form a vital and integral part of the operations or output of the receiving entity. Costs are considered broad and general if they are provided to many, if not all, reporting components and not specifically related to the receiving entity's output. The FBI does not have any imputed intra-departmental financing sources.

For the Fiscal Years Ended September 30, 2014 and 2013		
	2014	2013
Imputed Inter-Departmental Financing		
Treasury Judgment Fund	\$ 3,151	\$ 2,165
Health Insurance	155,306	159,877
Life Insurance	699	726
Pension	135,488	94,206
Total Imputed Financing	<u>\$ 294,644</u>	<u>\$ 256,974</u>



18. Information Related to the Statement of Budgetary Resources

Apportionment Categories of Obligations Incurred:

The apportionment categories are determined in accordance with the guidance provided in Part 4, *Instructions on Budget Execution*, of OMB Circular A-11, *Preparation, Submission and Execution of the Budget*. Category A represents resources apportioned for calendar quarters. Category B spending includes funds appropriated for digital technology upgrades and construction funding for projects, such as: the FBI’s Secure Work Environment Program, Biometrics Technology Center, Terrorist Explosive Device Analytic Center, and the training facility at Quantico, Virginia. Category B also includes mortgage fraud investigations, operations along the U.S. southwest border, Department of State funding, Hurricane Sandy supplemental, Law Enforcement Wireless Communication funding, and supplemental “bridged” funding including Overseas Contingency Operations, Render Safe mission, and FBI Laboratory requirements.

	<u>Direct Obligations</u>	<u>Reimbursable Obligations</u>	<u>Total Obligations Incurred</u>
For the Fiscal Year Ended September 30, 2014			
Obligations Apportioned Under:			
Category A	\$ 8,179,605	\$ 1,103,553	\$ 9,283,158
Category B	196,181	7,389	203,570
Total	<u>\$ 8,375,786</u>	<u>\$ 1,110,942</u>	<u>\$ 9,486,728</u>
For the Fiscal Year Ended September 30, 2013			
Obligations Apportioned Under:			
Category A	\$ 7,567,756	\$ 1,211,577	\$ 8,779,333
Category B	189,592	5,466	195,058
Total	<u>\$ 7,757,348</u>	<u>\$ 1,217,043</u>	<u>\$ 8,974,391</u>

Status of Undelivered Orders:

Undelivered Orders (UDO) represent the amount of goods and/or services ordered, which have not been actually or constructively received. This amount includes any orders which may have been prepaid or advanced but for which delivery or performance has not yet occurred.

As of September 30, 2014 and 2013	<u>2014</u>	<u>2013</u>
UDO Obligations Unpaid	\$ 2,179,546	\$ 1,812,667
UDO Obligations Prepaid/Advanced	26,343	41,204
Total UDO	<u>\$ 2,205,889</u>	<u>\$ 1,853,871</u>



18. Information Related to the Statement of Budgetary Resources (continued)

Legal Arrangements Affecting Use of Unobligated Balances:

Unobligated balances represent the cumulative amount of budget authority that is not obligated and that remains available for obligation based on annual legislative requirements and other enabling authorities, unless otherwise restricted. The use of unobligated balances is restricted based on annual legislation requirements and other enabling authorities. Funds are appropriated on an annual, multi-year, and no-year basis. Appropriated funds shall expire on the last day of availability and are no longer available for new obligations. Unobligated balances in unexpired fund symbols are available in the next fiscal year for new obligations unless some restrictions have been placed on those funds by law. Amounts in expired fund symbols are not available for new obligations, but may be used to adjust previously established obligations.

Statement of Budgetary Resources vs. the Budget of the United States Government:

The Statement of Budgetary Resources versus the Budget of the U.S. Government as of September 30, 2013 is presented below.

The reconciliation as of September 30, 2014 is not presented because the submission of the Budget of the United States Government (Budget) for FY 2016, which presents the execution of the FY 2014 Budget, occurs after publication of these financial statements. The DOJ Budget Appendix can be found on the OMB website (<http://www.whitehouse.gov/omb/budget>) and will be available in early February 2015.

Expired Funds and Offsetting Receipts are reported in the FBI's Statement of Budgetary Resources, but not reported in the Budget. The principal component of the amounts presented on the Other line are attributed to rounding.

For the Fiscal Year Ended September 30, 2013 (Dollars in Millions)				
	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources (SBR)	\$ 10,099	\$ 8,974	\$ (4)	\$ 8,078
Funds not Reported in the Budget				
Expired Funds	(397)	(104)	-	-
Offsetting Receipts	-	-	4	(4)
Other	1	1	-	-
Budget of the United States Government	<u>\$ 9,703</u>	<u>\$ 8,871</u>	<u>\$ -</u>	<u>\$ 8,074</u>

19. Net Custodial Revenue Activity

For the fiscal years ended September 30, 2014 and 2013, the FBI collected \$5,405 and \$872, respectively, in restitution payments, seized abandoned cash, and project generated proceeds. These collections were incidental to the FBI's mission. Since the FBI does not have statutory authority to use these funds, the FBI remits these funds upon receipt to the U.S. Treasury's General Fund. As of September 30, 2014 and 2013, the FBI had custodial liabilities of \$0 and \$5, respectively.



Notes to the Principal Financial Statements

20. Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing)

For the Fiscal Years Ended September 30, 2014 and 2013

	2014	2013
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	\$ 9,486,728	\$ 8,974,391
Less: Spending Authority from Offsetting Collections and Recoveries	1,376,603	1,595,947
Obligations Net of Offsetting Collections and Recoveries	8,110,125	7,378,444
Less: Offsetting Receipts	3,360	(3,938)
Net Obligations	8,106,765	7,382,382
Other Resources		
Transfers-In/Out Without Reimbursement	112,458	(7,803)
Imputed Financing from Costs Absorbed by Others (Note 17)	294,644	256,974
Other	(8,193)	(6,166)
Net Other Resources Used to Finance Activities	398,909	243,005
Total Resources Used to Finance Activities	8,505,674	7,625,387
Resources Used to Finance Items not Part of the Net Cost of Operations		
Net Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not Yet Provided	(408,499)	271,868
Resources That Fund Expenses Recognized in Prior Periods (Note 21)	(3,117)	(7,514)
Budgetary Offsetting Collections and Receipts That do not Affect Net Cost of Operations	3,385	(3,938)
Resources That Finance the Acquisition of Assets	(438,460)	(378,308)
Other Resources or Adjustments to Net Obligated Resources That do not Affect Net Cost of Operations	(3,371)	(1,592)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(850,062)	(119,484)
Total Resources Used to Finance the Net Cost of Operations	\$ 7,655,612	\$ 7,505,903
Components That Will Require or Generate Resources in Future Periods (Note 21)	\$ 5,814	\$ 15,622
Depreciation and Amortization	344,961	252,726
Revaluation of Assets or Liabilities	12,642	(11,122)
Other	(68,952)	558
Total Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period	294,465	257,784
Net Cost of Operations	\$ 7,950,077	\$ 7,763,687



Notes to the Principal Financial Statements

21. Explanation of Differences Between Liabilities not Covered by Budgetary Resources and Components of Net Cost of Operations Requiring or Generating Resources in Future Periods

Liabilities that are not covered by realized budgetary resources and for which there is no certainty that budgetary authority will be realized, such as the enactment of an appropriation, are considered liabilities not covered by budgetary resources. These liabilities totaling \$526,144 and \$514,896 as of September 30, 2014 and 2013, respectively, are discussed in Note 10, Liabilities not Covered by Budgetary Resources. Decreases in these liabilities result from current year budgetary resources that were used to fund expenses recognized in prior periods. Increases in these liabilities represent unfunded expenses that were recognized in the current period. These increases along with the change in the portion of exchange revenue receivables from the public, which are not considered budgetary resources until collected, represent components of current period net cost of operations that will require or generate budgetary resources in future periods. The changes in liabilities not covered by budgetary resources and receivables generating resources in future periods are comprised of the following:

For the Fiscal Years Ended September 30, 2014 and 2013	2014	2013
Resources that Fund Expenses Recognized in Prior Periods		
Decrease in Accrued Annual and Compensatory Leave Liabilities	\$ (3,117)	\$ (4,057)
Other		
Decrease in Contingent Liabilities	-	(3,368)
Decrease in Other Unfunded Employment Related Liabilities	-	(89)
Total Other	-	(3,457)
Total Resources that Fund Expenses Recognized in Prior Periods	<u>\$ (3,117)</u>	<u>\$ (7,514)</u>
Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods		
Increase in Environmental and Disposal Liabilities	\$ 956	\$ 232
(Increase)/Decrease in Exchange Revenue Receivable from the Public	923	1,521
Other		
Increase in Actuarial FECA Liabilities	9,154	15,094
Increase in Accrued FECA Liabilities	1,524	202
Increase in Contingent Liabilities	2,727	-
Increase in Other Unfunded Employment Related Liabilities	4	-
(Increase)/Decrease in Surcharge Revenue Receivable from Other Federal Agencies	(9,474)	(1,427)
Total Other	3,935	13,869
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	<u>\$ 5,814</u>	<u>\$ 15,622</u>

U.S. DEPARTMENT OF JUSTICE

FEDERAL BUREAU OF INVESTIGATION

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)





**U.S. Department of Justice
Federal Bureau of Investigation
Combining Statement of Budgetary Resources
By Major Appropriation
For the Fiscal Year Ended September 30, 2014**

Dollars in Thousands	<u>CNST</u>	<u>VCRP</u>	<u>S&E</u>	<u>TOTAL</u>
Budgetary Resources:				
Unobligated Balance, Brought Forward, October 1	\$ 76,565	\$ -	\$ 1,047,874	\$ 1,124,439
Recoveries of Prior Year Unpaid Obligations	7,712	-	190,018	197,730
Other Changes in Unobligated Balances	-	-	(38,515)	(38,515)
Unobligated Balance from Prior Year Budget Authority, Net	84,277	-	1,199,377	1,283,654
Appropriations (discretionary and mandatory)	97,482	-	8,247,961	8,345,443
Spending Authority from Offsetting Collections (discretionary and mandatory)	4,184	-	1,174,689	1,178,873
Total Budgetary Resources	\$ 185,943	\$ -	\$ 10,622,027	\$ 10,807,970
Status of Budgetary Resources:				
Obligations Incurred	\$ 119,784	\$ -	\$ 9,366,944	\$ 9,486,728
Unobligated Balance, End of Year:				
Apportioned	66,157	-	1,043,875	1,110,032
Unapportioned	2	-	211,208	211,210
Total Unobligated Balance - End of Year	66,159	-	1,255,083	1,321,242
Total Status of Budgetary Resources	\$ 185,943	\$ -	\$ 10,622,027	\$ 10,807,970
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	\$ 279,003	\$ -	\$ 2,146,791	\$ 2,425,794
Obligations Incurred	119,784	-	9,366,944	9,486,728
Outlays, Gross	(138,403)	-	(8,792,549)	(8,930,952)
Recoveries of Prior Year Unpaid Obligations	(7,712)	-	(190,018)	(197,730)
Unpaid Obligations, End of Year	252,672	-	2,531,168	2,783,840
Uncollected Payments:				
Uncollected Payments from Federal Sources, Brought Forward, October 1	-	-	(617,526)	(617,526)
Change in Uncollected Customer Payments from Federal Sources	-	-	10,911	10,911
Uncollected Customer Payments from Federal Sources	-	-	(606,615)	(606,615)
Memorandum (non-add) Entries:				
Obligated Balance, Start of Year	\$ 279,003	\$ -	\$ 1,529,265	\$ 1,808,268
Obligated Balance, End of Year	\$ 252,672	\$ -	\$ 1,924,553	\$ 2,177,225
Budgetary Authority and Outlays, Net:				
Budgetary Authority, Gross (discretionary and mandatory)	\$ 101,666	\$ -	\$ 9,422,650	\$ 9,524,316
Less: Actual Offsetting Collections (discretionary and mandatory)	4,184	-	1,185,600	1,189,784
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	-	-	10,911	10,911
Budgetary Authority, Net (discretionary and mandatory)	\$ 97,482	\$ -	\$ 8,247,961	\$ 8,345,443
Outlays, Gross (discretionary and mandatory)	\$ 138,403	\$ -	\$ 8,792,549	\$ 8,930,952
Less: Actual Offsetting Collections (discretionary and mandatory)	4,184	-	1,185,600	1,189,784
Outlays, Net (discretionary and mandatory)	134,219	-	7,606,949	7,741,168
Less: Distributed Offsetting Receipts	-	-	3,360	3,360
Agency Outlays, Net (discretionary and mandatory)	\$ 134,219	\$ -	\$ 7,603,589	\$ 7,737,808



**U.S. Department of Justice
Federal Bureau of Investigation
Combining Statement of Budgetary Resources
By Major Appropriation
For the Fiscal Year Ended September 30, 2013**

Dollars in Thousands	<u>CNST</u>	<u>VCRP</u>	<u>S&E</u>	<u>TOTAL</u>
Budgetary Resources:				
Unobligated Balance, Brought Forward, October 1	\$ 96,689	\$ -	\$ 1,002,780	\$ 1,099,469
Recoveries of Prior Year Unpaid Obligations	19,030	-	339,161	358,191
Other Changes in Unobligated Balances	-	-	(16,230)	(16,230)
Unobligated Balance from Prior Year Budget Authority, Net	115,719	-	1,325,711	1,441,430
Appropriations (discretionary and mandatory)	75,229	-	7,344,415	7,419,644
Spending Authority from Offsetting Collections (discretionary and mandatory)	266	-	1,237,490	1,237,756
Total Budgetary Resources	\$ 191,214	\$ -	\$ 9,907,616	\$ 10,098,830
Status of Budgetary Resources:				
Obligations Incurred	\$ 114,649	\$ -	\$ 8,859,742	\$ 8,974,391
Unobligated Balance, End of Year:				
Apportioned	76,536	-	754,856	831,392
Unapportioned	29	-	293,018	293,047
Total Unobligated Balance - End of Year	76,565	-	1,047,874	1,124,439
Total Status of Budgetary Resources	\$ 191,214	\$ -	\$ 9,907,616	\$ 10,098,830
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	\$ 316,771	\$ -	\$ 2,755,474	\$ 3,072,245
Obligations Incurred	114,649	-	8,859,742	8,974,391
Outlays, Gross	(133,387)	-	(9,129,264)	(9,262,651)
Recoveries of Prior Year Unpaid Obligations	(19,030)	-	(339,161)	(358,191)
Unpaid Obligations, End of Year	279,003	-	2,146,791	2,425,794
Uncollected Payments:				
Uncollected Payments from Federal Sources, Brought Forward, October 1	-	-	(568,468)	(568,468)
Change in Uncollected Customer Payments from Federal Sources	-	-	(49,058)	(49,058)
Uncollected Customer Payments from Federal Sources	-	-	(617,526)	(617,526)
Memorandum (non-add) Entries:				
Obligated Balance, Start of Year	\$ 316,771	\$ -	\$ 2,187,006	\$ 2,503,777
Obligated Balance, End of Year	\$ 279,003	\$ -	\$ 1,529,265	\$ 1,808,268
Budgetary Authority and Outlays, Net:				
Budgetary Authority, Gross (discretionary and mandatory)	\$ 75,495	\$ -	\$ 8,581,905	\$ 8,657,400
Less: Actual Offsetting Collections (discretionary and mandatory)	266	-	1,188,432	1,188,698
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	-	-	(49,058)	(49,058)
Budgetary Authority, Net (discretionary and mandatory)	\$ 75,229	\$ -	\$ 7,344,415	\$ 7,419,644
Outlays, Gross (discretionary and mandatory)	\$ 133,387	\$ -	\$ 9,129,264	\$ 9,262,651
Less: Actual Offsetting Collections (discretionary and mandatory)	266	-	1,188,432	1,188,698
Outlays, Net (discretionary and mandatory)	133,121	-	7,940,832	8,073,953
Less: Distributed Offsetting Receipts	-	-	(3,938)	(3,938)
Agency Outlays, Net (discretionary and mandatory)	\$ 133,121	\$ -	\$ 7,944,770	\$ 8,077,891

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U.S. DEPARTMENT OF JUSTICE

FEDERAL BUREAU OF INVESTIGATION

OTHER INFORMATION
(UNAUDITED)



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U.S. Department of Justice
Federal Bureau of Investigation
Combined Schedules of Spending
For the Fiscal Years Ended September 30, 2014 and 2013

Dollars in Thousands	2014	2013
What Money is Available to Spend?		
Total Resources	\$ 10,807,970	\$ 10,098,830
Less Amount Available but Not Agreed to be Spent	1,110,032	831,392
Less Amount Not Available to be Spent	211,210	293,047
Total Amounts Agreed to be Spent	<u>\$ 9,486,728</u>	<u>\$ 8,974,391</u>
How was the Money Spent?		
Personnel Compensation and Benefits		
1100 Personnel Compensation	\$ 3,520,180	\$ 3,577,452
1200 Personnel Benefits	1,468,061	1,435,752
1300 Former Personnel	14,016	428
Other Program Related Expenses		
2100 Travel and Transportation of Persons	167,395	186,036
2200 Transportation of Things	14,319	21,543
2300 Rent, Communications, and Utilities	1,066,053	912,170
2400 Printing and Reproduction	3,615	3,235
2500 Other Contractual Services	2,303,156	2,200,697
2600 Supplies and Materials	165,794	142,420
3100 Equipment	677,934	417,398
3200 Land and Structures	82,857	73,210
4100 Grants, Subsidies, and Contributions	300	-
4200 Insurance Claims and Indemnities	3,048	3,858
4300 Interest and Dividends	-	192
Total Amounts Agreed to be Spent	<u>\$ 9,486,728</u>	<u>\$ 8,974,391</u>
Who did the Money go to?		
For Profit	\$ 2,515,424	\$ 3,837,613
Government	2,505,574	91,577
Employees	3,520,180	4,912,151
Grants	300	-
Other	945,250	133,050
Total Amounts Agreed to be Spent	<u>\$ 9,486,728</u>	<u>\$ 8,974,391</u>

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