

**OFFICE OF JUSTICE PROGRAMS
ANNUAL FINANCIAL STATEMENT
FISCAL YEAR 2004
As Restated**

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

This audit report contains the single year presentation of the Office of Justice Programs (OJP) restated Annual Financial Statement for the fiscal year ended September 30, 2004. Under the direction of the Office of the Inspector General (OIG), the audit was performed by KPMG LLP (KPMG) and resulted in an unqualified opinion for FY 2004. An unqualified opinion means that the financial statements present fairly, in all material respects, the financial position and the results of operations.

This audit was a re-audit of OJP's FY 2004 financial statements. As such the KPMG audit report is presented as a single year stand alone audit report for FY 2004 only. The original audit report for FY 2004 dated October 27 and November 12, 2004, resulted in a disclaimer of opinion (Office of Inspector General Report 05-17). A disclaimer of opinion means that the auditors were unable to express an opinion on the financial statements. PricewaterhouseCoopers LLP (PwC) performed the original audit and identified material weaknesses in internal controls over computerized information systems used to input and process grant data. As a result PwC was not able to rely on those controls and was unable to complete the audit within the required timeframes. KPMG LLP, the original auditors for FY 2003, subsequently withdrew their unqualified opinion for FY 2003 based on the substantial uncertainties raised during the FY 2004 audit, and also reissued it as a disclaimer of opinion.

The Department of Justice (DOJ) immediately initiated efforts to have both the FY 2003 and 2004 OJP financial statements re-audited, with work commencing in January 2005. To accomplish this, significant corrective actions were initiated by OJP under the direct oversight of the DOJ's Chief Financial Officer and his staff. Because of these efforts, OJP was successful in re-obtaining an unqualified opinion on its FY 2003 and FY 2004 financial statements. However, it required many months of work requiring an extraordinary amount of effort going back to the basics of OJP's policies, procedures, controls, accrual methodologies, and data quality. First, there

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

Despite the unqualified opinion for FY 2004, significant issues still exist at OJP, as evidenced by the three material weaknesses reported by KPMG for FY 2004. The first material weakness relates to the grant advance and payable estimation processes. While the auditors found that OJP has made progress in these areas, the auditors continued to find excessive data validity, completeness, and calculation errors in grant data underlying the advance and payable amounts. As part of this finding, the auditors recommended that OJP improve its grant monitoring procedures. The second material weakness relates to financial reporting, monitoring, analysis, and documentation. The auditors found that OJP still needs to improve its financial statement preparation process, specifically its posting of final adjusting journal entries. The auditors also noted that OJP does not have policies and procedures in place for financial system queries that are necessary to reconcile the cost posting module to the general ledger balances and has not maintained adequate support for all transactions. The third material weakness relates to the general and application controls for electronic data processing. The auditors found weaknesses in all of the Government Accountability Office's *Federal Information System Controls Audit Manual* areas of entity-wide security program, access controls, change controls, system software, service continuity, and application controls. The auditors also reported a reportable condition on the grant and non-grant de-obligation process.

In its Report on Compliance and Other Matters, KPMG reported that OJP's financial management systems were not in compliance with the Federal Financial Management Improvement Act of 1996 with regard to federal financial management systems requirements and applicable federal accounting standards. KPMG also reported non-compliance with Office of Management Budget Circular A-50, *Audit Follow-up and Resolution Policy*, and the Inspector General Act of 1978, *Prompt Management Decisions and Implementation of Audit Recommendations*, on timeliness of follow-up actions; the Prompt Payment Act on incorrect calculation of interest

payments; and the Improper Payments Information Act on completeness of risk assessments.

The OIG reviewed KPMG's report and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on OJP's financial statements, conclusions about the effectiveness of internal control, or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor's report dated August 26, 2005, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.