



UNITED STATES MARSHALS SERVICE ANNUAL FINANCIAL STATEMENTS FISCAL YEAR 2011

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

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February 2012

UNITED STATES MARSHALS SERVICE ANNUAL FINANCIAL STATEMENTS FISCAL YEAR 2011

OFFICE OF THE INSPECTOR GENERAL COMMENTARY AND SUMMARY

This audit report contains the Annual Financial Statements of the United States Marshals Service (USMS) for the fiscal years (FY) ended September 30, 2011, and September 30, 2010. Under the direction of the Office of the Inspector General (OIG), Cotton & Company LLP performed USMS's audit in accordance with U.S. generally accepted government auditing standards. The audit resulted in an unqualified opinion on the FY 2011 financial statements. An unqualified opinion means that the financial statements present fairly, in all material respects, the financial position and the results of the entity's operations in conformity with U.S. generally accepted accounting principles. For FY 2010, the USMS also received an unqualified opinion on its financial statements (OIG Report No. 11-10).

Cotton & Company LLP also issued reports on internal control over financial reporting and on compliance and other matters. The auditors identified one material weakness in internal control in the FY 2011 *Independent Auditors' Report on Internal Control over Financial Reporting*. The material weakness related to inadequate funds management controls. Financial and compliance controls are not adequate to ensure that obligation transactions are executed and recorded in accordance with laws and regulations, and that related undelivered orders and accounts payable balances are accurate and complete.

Additionally, in the FY 2011 *Independent Auditors' Report on Compliance and Other Matters*, the auditors noted that USMS's financial management systems did not substantially comply with federal financial management system requirements and applicable federal accounting standards as required by the *Federal Financial Management Improvement Act of 1996*.

The OIG reviewed Cotton & Company LLP's reports and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on USMS's financial statements,

conclusions about the effectiveness of internal control, conclusions on whether USMS's financial management systems substantially complied with the *Federal Financial Management Improvement Act of 1996*, or conclusions on compliance with laws and regulations. Cotton & Company LLP is responsible for the attached auditors' reports dated November 8, 2011, and the conclusions expressed in the reports. However, our review disclosed no instances where Cotton & Company LLP did not comply, in all material respects, with U.S. generally accepted government auditing standards.

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U.S. DEPARTMENT OF JUSTICE

UNITED STATES MARSHALS SERVICE

MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)



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Management's Discussion and Analysis (Unaudited)**

The United States Marshals Service (USMS) is the nation's oldest Federal law enforcement agency and operates under very broad statutory authorities (28 U.S.C. 564 and 566). These authorities provide the USMS with a great deal of discretion in performing its complex missions. All of the USMS duties and responsibilities emanate from these statutory authorities.

MISSION

The mission of the USMS is to ensure that the Federal judicial process functions in a fair and efficient manner. To execute this mission, the USMS organizes its workload and allocates resources into five mission areas:

- **Judicial and Courthouse Security** – The USMS protects Federal judges, jurors, and other participants in the Federal judicial process. This mission encompasses personnel security (security protective detail for a judge or prosecutor) and building security (security equipment to monitor and protect a Federal courthouse facility). The USMS assesses and investigates all inappropriate communication and threats to the Federal judiciary. The USMS also participates on Joint Terrorism Task Forces and shares threat intelligence information with other agencies.
- **Fugitive Apprehension** – The USMS is authorized to locate and apprehend Federal, state, and local fugitives both within and outside the U.S. under 28 U.S.C. 566(e)(1)(B). Fugitive apprehension includes warrants involving: escaped Federal prisoners; Federal probation, parole and bond default violators; and fugitives based on warrants generated during drug investigations. This mission also includes investigating and apprehending those who violate the Adam Walsh Child Protection and Safety Act.
- **Prisoner Security and Transportation** – The USMS is responsible for processing prisoners in the cellblock, providing security for the cellblock area, transporting prisoners by ground or air, and inspecting non-Federal jails used to house Federal detainees. The USMS is responsible for producing in-custody prisoners for court proceedings, which involves moving prisoners between judicial districts and detention facilities.
- **Protection of Witnesses** – The USMS provides for the security, health and safety of protected government witnesses and their immediate dependents whose lives are in danger as a result of their testimony against drug traffickers, terrorists, organized crime members, and other major criminals.
- **Tactical Operations** – The USMS conducts special missions in situations involving crisis response, homeland security, and other national emergencies requiring a coordinated tactical response.

USMS missions comprise crosscutting activities that are implemented throughout the country and several foreign office locations. USMS missions correspond with all three Department of Justice (DOJ) strategic goals as described in DOJ's *FY 2007-2012 Strategic Plan*.

ORGANIZATION STRUCTURE

The USMS headquarters (HQ) is located in Arlington, Virginia, with 94 district offices operating in over 400 Federal courts and other locations throughout the United States and its territories. The USMS organizational chart and district office locations are contained in Attachments 1 and 2. Specific courthouse locations can be found on the USMS internet web site at:



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www.usmarshals.gov. The decentralized organizational structure ensures that the USMS is able to respond to law enforcement challenges in an efficient and effective manner.

FINANCIAL STRUCTURE

The financial structure of the USMS is decentralized, allowing each district and HQ program office to exercise control over its respective budgetary accounts. The Financial Services Division (FSD) at HQ assists district and HQ program offices by providing oversight and monitoring of commitments, obligations, payments, outlays and budget allocations. The USMS reports on the following accounts:

Salaries and Expenses Appropriation (S&E)

The USMS S&E Appropriation is used for necessary general operating expenses. This funding encompasses payroll, rent, utilities, travel, supplies, and equipment purchases. Funding is appropriated by Congress on an annual basis and, within the amounts made available to the USMS, may include specific no-year or multi-year budget authority. Once enacted, funds are apportioned by the Office of Management and Budget (OMB) and DOJ to the USMS.

Construction Appropriation

The Construction Appropriation is a no-year account that is appropriated annually to the USMS. In FY 2010, the USMS received multi-year funding in addition to the no-year account. In FY 2011, the USMS began using additional Southwest Border multi-year construction funding. This funding is to plan, construct, renovate, equip, and maintain any space controlled, occupied, or utilized by the USMS in U.S. courthouses and other buildings. Once enacted, funds are apportioned by OMB and DOJ to the USMS.

Justice Prisoner and Alien Transportation System Revolving Fund

The Justice Prisoner and Alien Transportation System (JPATS) was established in 1995 by combining the aircraft fleets of several DOJ components. Initially this program was funded within the USMS S&E Appropriation. In 1998, OMB established the JPATS Revolving Fund in order to finance flight operations and maintenance through customer funding rather than by direct appropriations. In FY 2010, the Federal Bureau of Prisons (BOP), the Office of the Federal Detention Trustee (OFDT), and the Department of Homeland Security (DHS) Immigration and Customs Enforcement (ICE) were the three primary Federal customers who were billed based on flight hours utilized. In FY 2011, ICE ended its participation in JPATS. The USMS transportation requirements are funded using annual reimbursable agreements between the USMS and OFDT. OFDT's funding source is its Detention Appropriation.

Reimbursable Agreement Authority with OFDT

OFDT was established in 2003 as an oversight organization responsible for coordinating detention and transportation requirements on behalf of the DOJ. OFDT issues detention funding to the USMS through reimbursable agreements, using OFDT's Detention Appropriation. The Detention Appropriation is a no-year authority that is appropriated annually by Congress to the OFDT.

Allocation Transfer Authority from the Administrative Office of the U.S. Courts (AOUSC)

AOUSC receives an annual Court Security Appropriation that includes allocation transfer authority to the USMS. AOUSC transfers funds to the USMS each year using a non-expenditure transfer authorization (SF-1151). The funds are used to pay the wages, supplies, and equipment for Court Security Officers (CSO) who provide security at Federal courthouses and other facilities that have



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Federal court operations. Funds are also used to obtain and install security equipment to screen and monitor visitors and packages that enter Federal courthouses.

ANALYSIS OF FINANCIAL STATEMENTS

Assets: The USMS's Balance Sheet as of September 30, 2011 shows \$1,013.8 million in total assets, a decrease of \$98.7 million (8.9%) over the previous year's total assets of \$1,112.5 million. The largest assets include Fund Balance with U.S. Treasury (FBWT) and General Property, Plant, and Equipment in the combined amounts of \$826.5 million and \$942.6 million as of September 30, 2011 and 2010, respectively. This comprised 81.5% and 84.7% of total assets as of September 30, 2011 and 2010, respectively.

The FBWT represents all funds the USMS has on account with the U.S. Treasury to make expenditures and pay liabilities. These funds are expended to support numerous programs and activities so that the USMS may accomplish its primary mission of protecting the Federal judicial process.

The General Property, Plant, and Equipment net balance represents property and leasehold improvement items with a cost basis greater than \$25,000 (\$100,000 for airplanes and leasehold improvements) less accumulated depreciation/amortization. As of September 30, 2011, the General Property, Plant, and Equipment net balance was \$264.2 million. As of September 30, 2010, the General Property, Plant, and Equipment net balance was \$257.9 million.

Liabilities: Total USMS liabilities were \$591.6 million as of September 30, 2011, a decrease of \$55.0 million (8.5%) over the previous year's total liabilities of \$646.6 million. The largest liability is Accounts Payable with the Public, which equaled \$354.2 million and \$406.3 million, as of September 30, 2011 and 2010, respectively. This comprised 59.9% and 62.8% of total liabilities, as of September 30, 2011 and 2010, respectively. The USMS provides secure confinement and housing at non-Federal (state, local, and private) detention facilities for Federal prisoners prior to judicial proceedings. Accounts Payable with the Public are impacted by the fluctuation of the Federal prisoner population housed at these facilities.

Net Cost of Operations: The USMS's Statement of Net Cost presents the gross and net cost by strategic goal. The net cost of USMS operations totaled \$1,627.8 million for the year ended September 30, 2011, an increase of \$115.7 million (7.6%) from the previous year's net cost of operations of \$1,512.1 million. The increase is primarily due to the higher costs associated with housing, transporting, and providing medical care for prisoners that were in USMS custody prior to final sentencing.

Budgetary Resources: The USMS's FY 2011 Statement of Budgetary Resources shows \$3,322.8 million in total budgetary resources, an increase of \$57.3 million (1.8%) from the previous year's total budgetary resources of \$3,265.5 million. The increase is primarily due to the increased cost of doing business as well as increased reimbursable appropriations.

Net Outlays: The USMS's FY 2011 Statement of Budgetary Resources shows \$1,654.8 million in net outlays, an increase of \$260.8 million (18.7%) from the previous year's total net outlays of \$1,394.0 million. The increase is primarily a result of increased outlays for prisoner costs as well as the increase in the costs of doing business in FY 2011.



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

Source	FY 2011	FY 2010	Change%
Earned Revenue	\$1,583,960	\$1,514,103	4.6%
Budgetary Financing Sources			
Appropriations Received	1,142,388	1,190,039	-4.0%
Appropriations Transferred-In/Out	388,191	393,936	-1.5%
Other Adjustments and Other Budgetary Financing Sources	(2,285)	0	Not Applicable
Other Financing Sources			
Transfers-In/Out Without Reimbursement	162	186	-12.9%
Imputed Financing From Costs Absorbed by Others	55,646	38,441	44.8%
Total	\$3,168,062	\$3,136,705	1.0%

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

Strategic Goal (SG)	FY 2011	FY 2010	Change%
SG 1. Prevent Terrorism and Promote the Nation's Security			
Gross Cost	\$6,484	\$5,159	
Less: Earned Revenue	-	-	
<i>Net Cost</i>	\$6,484	\$5,159	25.7%
SG 2. Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People			
Gross Cost	\$30,396	\$4,872	
Less: Earned Revenue	-	-	
<i>Net Cost</i>	\$30,396	\$4,872	523.9%
SG 3. Ensure the Fair and Efficient Administration of Justice			
Gross Cost	\$3,174,846	\$3,016,174	
Less: Earned Revenue	1,583,960	1,514,103	
<i>Net Cost</i>	\$1,590,886	\$1,502,071	5.9%
Total Gross Cost	\$3,211,726	\$3,026,205	
Less: Total Earned Revenue	1,583,960	1,514,103	
<i>Total Net Cost of Operations</i>	\$1,627,766	\$1,512,102	7.6%



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2011 FINANCIAL HIGHLIGHTS

The DOJ *FY 2007-2012 Strategic Plan* includes three strategic goals. The USMS receives funding through direct appropriations (S&E and Construction), transfers from AOUSC and others, and a variety of reimbursable sources that support the following three strategic goals:

Strategic Goal 1, Prevent Terrorism and Promote the Nation's Security, includes activities that strengthen partnerships to prevent, deter, and respond to terrorist incidents. The Goal 1 costs include payroll and operating costs for the Office of Protective Intelligence (OPI) and payroll costs for deputies working with the Federal Bureau of Investigation (FBI) Joint Terrorism Task Forces. The USMS expended net program costs of \$6.5 million for the fiscal year ending September 30, 2011 and \$5.2 million for the fiscal year ending September 30, 2010 on Strategic Goal 1.

Strategic Goal 2, Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People, includes activities related to fugitive investigation and apprehension efforts that prevent, suppress, and intervene in crimes against children. When the Adam Walsh Child Protection and Safety Act was enacted in 2006, the Attorney General gave the USMS primary enforcement responsibility. The Goal 2 costs include payroll and operating costs related to the Sex Offender Apprehension Program (SOAP). The USMS expended net program costs of \$30.4 million for the fiscal year ending September 30, 2011 and \$4.9 million for the fiscal year ending September 30, 2010 on Strategic Goal 2. The increase of \$25.5 million is due to additional SOAP mission focus in FY 2011 and the related organizational and structural costs realized by the USMS.

Strategic Goal 3, Ensure the Fair and Efficient Administration of Justice, includes activities that protect the Federal judiciary and other participants in Federal proceedings, and ensure the apprehension of fugitives from justice. The USMS expended net program costs of \$1,590.9 million for the fiscal year ending September 30, 2011 and \$1,502.1 million for the fiscal year ending September 30, 2010 on Strategic Goal 3.

PERFORMANCE INFORMATION

Data Reliability and Validity

The USMS views data reliability and validity as critically important to plan and assess performance. As such, this document includes a discussion of data validation, verification, and any identified data limitations for each performance measure presented. The USMS ensures that data reported meets the following criteria:

At a minimum, performance data are considered reliable if transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management. Performance data need not be perfect to be reliable, particularly if the cost and effort to secure the best performance data possible will exceed the value of any data so obtained.



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FY 2011 REPORT ON SELECTED RESULTS

The USMS performance measure, "Ensure Judicial Proceedings are not Interrupted due to Inadequate Security," supports two DOJ strategic goals. This measure will be replaced in FY 2012 with a new measure. The two strategic goals are:

STRATEGIC GOAL 1: Prevent Terrorism and Promote the Nation's Security – *Less than 1% of the USMS Net Costs support this Goal. The programs that support this goal are Protective Intelligence and Joint Terrorism Task Forces.*

STRATEGIC OBJECTIVE 1.2: Strengthen partnerships to prevent, deter, and respond to terrorist incidents.

STRATEGIC GOAL 3: Ensure the Fair and Efficient Administration of Justice – *Nearly 98% of the USMS Net Costs support this Goal. The programs that support this goal are Judicial and Courthouse Security, Prisoner Security and Transportation, Protection of Witnesses, and Tactical Operations.*

STRATEGIC OBJECTIVE 3.1: Protect judges, witnesses, and other participants in Federal proceedings, and ensure the appearance of criminal defendants for judicial proceedings or confinement.

PROGRAMS (Protective Intelligence, Joint Terrorism Task Forces, Judicial and Courthouse Security, Prisoner Security and Transportation, Protection of Witnesses, and Tactical Operations):

Background/Program Objectives: The USMS maintains the integrity of the Federal judicial process by: 1) ensuring that each Federal judicial facility is physically safe and free from any intrusion intended to subvert court proceedings; 2) guaranteeing that all Federal judges, prosecutors, government witnesses, jurors, and other participants are secure during court proceedings; and 3) maintaining the custody, protection and safety of prisoners brought to court for any type of criminal court proceeding. The USMS measures the number of judicial proceedings that are interrupted due to inadequate security.



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Table 3. Performance Measure

Ensure Judicial Proceedings are not Interrupted due to Inadequate Security*

Number of Judicial Proceedings Interrupted Due to Inadequate Security	
FY 2002 Actual Performance:	N/A
FY 2003 Actual Performance:	1
FY 2004 Actual Performance:	0
FY 2005 Actual Performance:	0
FY 2006 Actual Performance:	0
FY 2007 Actual Performance:	2
FY 2008 Actual Performance:	1
FY 2009 Actual Performance:	2
FY 2010 Actual Performance:	0
FY 2011 Target Performance:	0
FY 2011 Actual Performance:	0

** This measure will be replaced in FY 2012 with a new measure.*

Discussion of FY 2011 Results: The USMS met its FY 2011 target of zero interrupted judicial proceedings.

Data Definition: An “interruption” occurs when a judge is removed from the courtroom as a result of a potentially dangerous incident or when court proceedings are suspended until additional Deputy U.S. Marshals are assigned to guarantee the safety of the judge, witness, and other participants.

Data Collection and Storage: The USMS Communications Center collects Weekly Activity Reports and Incident Reports from the districts. These reports have been collected by the USMS Communications Center via email since FY 2003.

Data Validation and Verification: Before data is disseminated agency-wide, the USMS Communications Center verifies the information with HQ operational program managers to ensure accuracy.

Data Limitations: This measure was not tracked or reported until FY 2003.



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The USMS performance measure “Number and percent of primary Federal felony fugitives apprehended or cleared” supports two DOJ strategic goals. (Note: The title of this performance measure has been refined to match USMS Budget Submissions.) The two strategic goals are:

STRATEGIC GOAL 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People – *Nearly 2% of the USMS Net Costs support this Goal. The program that supports this goal is the Sex Offender Apprehension Program.*

STRATEGIC OBJECTIVE 2.3: Prevent, suppress, and intervene in crimes against children.

STRATEGIC GOAL 3: Ensure the Fair and Efficient Administration of Justice – *Nearly 98% of the USMS Net Costs support this Goal. The program that supports this goal is the Fugitive Apprehension Program.*

STRATEGIC OBJECTIVE 3.2: Ensure the apprehension of fugitives from justice.

PROGRAMS (Fugitive Apprehension Program and Sex Offender Apprehension Program):

Background/Program Objectives: The USMS has seven Regional Fugitive Task Forces (RFTF) and approximately 82 district-based warrant squads that handle the warrant workload. A fugitive is considered “apprehended” if the fugitive is physically arrested or a Federal detainer is lodged against the prisoner while in custody of another Federal, state, or local law enforcement agencies or correctional institution; a fugitive is considered “cleared” if the fugitive is arrested, has a detainer issued, or the warrant is dismissed. A detainer is considered “lodged” while in process, and is considered “issued” when served to the prisoner and filed by the agency or institution. The RFTFs and district warrant squads rely on interagency fugitive task forces involving hundreds of Federal, state, and local law enforcement officers. Combining resources enables the USMS to focus on the most violent fugitives. In addition to domestic activities, the USMS is the lead agency responsible for extraditing (or deporting) U.S. fugitives that have fled to foreign countries back into this country. The USMS also apprehends foreign fugitives within the U.S. who are wanted abroad.

As part of the fugitive apprehension mission, the USMS has been designated by the Attorney General as the lead agency for locating and apprehending non-compliant sex offenders and others who violate the provisions of the Adam Walsh Child Protection and Safety Act. A non-compliant sex offender is any person who fails to comply with Federal registration requirements.



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**Table 4. Performance Measure:
Number and Percent of Primary Federal Felony Fugitives Apprehended or Cleared***

Performance Measure:	Primary Federal Felony Fugitives Apprehended or Cleared	
	Number	Percent
FY 2002 Actual Performance:	25,054	53%
FY 2003 Actual Performance:	27,278	54%
FY 2004 Actual Performance:	29,140	55%
FY 2005 Actual Performance:	30,434	55%
FY 2006 Actual Performance:	30,192	54%
FY 2007 Actual Performance:	33,437	55%
FY 2008 Actual Performance:	34,393	55%
FY 2009 Actual Performance:	32,860	52%
FY 2010 Actual Performance:	32,864	50%
FY 2011 Target Performance:	34,000	56%
FY 2011 Actual Performance:	34,629	52%

* The title of this performance measure has been refined to match USMS Budget Submissions.

Discussion of FY 2011 Results: The USMS revised the previously reported figure for the FY 2010 performance measure from 36,126 and 56% to 32,864 and 50%. The change is a result of an update to reflect final data/information. For FY 2011, the USMS exceeded its target of 34,000 primary Federal felony fugitives apprehended or cleared by apprehending or clearing 34,629 primary Federal felony fugitives in FY 2011. This resulted in 52% of total primary Federal felony fugitives apprehended or cleared which is more than half of all warrants on hand or received during FY 2011. The target of 56% apprehended or cleared was not met due to the dynamic and increasing level of the underlying number of fugitives. Among those arrested, 3,913 were for crimes of homicide, 4,958 were gang members, and 12,793 were sex offenders. In addition, in FY 2011, the USMS had 885 fugitives extradited and /or deported to the United States from other countries.

The seven operating Regional Fugitive Task Forces (RFTF), in addition to the 75 district task forces, are directing their investigative efforts toward reducing the number of violent crimes. These crimes include terrorist activities, organized crime, drugs, and gang violence. The Regional Fugitive Task Forces and District Fugitive Task Forces combined led to the arrest of 85,691 state and local fugitive felons in FY 2011. The USMS initiated 2,808 Federal investigations into the failure of sex offenders to meet their registration requirements.



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Data Definition: A “primary” Federal felony fugitive means that the USMS has the lead apprehension responsibility. The USMS has primary jurisdiction to investigate fugitive matters involving:

- escaped Federal prisoners,
- probation, parole, and bond default violators,
- warrants generated by the DEA and referred to the USMS,
- any other Federal warrant referred by another Federal agency without arrest powers, and
- any warrant referred by state and local agencies.

A fugitive is considered apprehended or cleared if the fugitive is arrested, has a detainer issued, or the warrant is dismissed. The percent cleared is calculated by dividing the number of cleared fugitives by the sum of received fugitives (fugitives who had a warrant issued during the fiscal year) and on-hand fugitives (fugitives who had an active warrant at the beginning of the fiscal year).

Data Collection and Storage: The USMS maintains a centralized Warrant Information Network (WIN) within the Justice Detainee Information System (JDIS) to collect warrant information, investigative leads, and other criminal information. Upon receipt of a warrant from a Federal judge, Deputy U.S. Marshals query the FBI’s National Crime Information Center (NCIC) through WIN to look for previous criminal information.

Data Validation and Verification: Warrant and fugitive data are verified by a random sampling of NCIC records generated by the FBI. The USMS coordinates with district offices to verify that warrants are validated against the signed court records. The USMS is able to enhance fugitive investigative efforts by sharing data with other agencies, such as the Social Security Administration, DEA, Department of Agriculture, Department of Defense, Department of State, and a variety of state and local task forces around the country.

Data Limitations: WIN data is accessible to all USMS districts and is updated as new information is collected and thus there may be a lag in reporting of data.



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ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

USMS Major Systems

Justice Unified Telecommunications Network (JUTNet): The backbone infrastructure that supports all the systems that operate within the USMS.

Warrant Information Network (WIN): Tracks Federal fugitive warrants, task force warrants, collateral lead information, and case management information.

Standardized Tracking, Accounting and Reporting System (STARS): The primary financial management system of the USMS.

The USMS is planning to migrate STARS functions to the DOJ Unified Financial Management System (UFMS) in FY 2013. UFMS has been designed and developed to allow some of the components of the DOJ to integrate their operations into one system from which they will process all financial and procurement activity.

JPATS Management Information System (JMIS): Draws information from multiple JPATS-specific programs and databases in order to produce financial and managerial information.

Justice Detainee Information System 8 (JDIS 8): JDIS 8 combines all the information from JDIS and WIN. JDIS 8 has been designed to automate and integrate the information captured during the prisoner booking process and subsequent USMS custody details, with warrant and investigative information utilized to track fugitives.

The 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 FMFIA 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 § 2) and whether financial management systems conform to related requirements (FMFIA § 4).

Guidance for implementing the Integrity Act is provided through OMB Circular A-123. In addition to requiring agencies to provide an assurance statement on the effectiveness of programmatic internal controls and conformance with financial systems requirements, the Circular requires agencies to provide an assurance statement on the effectiveness of internal control over financial reporting. The Department requires components to provide both of the assurance statements in order to have the information necessary to prepare the agency assurance statements.

FMFIA Assurance Statement

Management of the USMS is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of FMFIA. The USMS assessed its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for*



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Internal Control, as required by Section 2 of FMFIA. The USMS also assessed whether its financial management systems conform to government-wide requirements, as required by Section 4 of FMFIA. Based on the results of the assessment, the USMS can provide reasonable assurance that its internal control over financial reporting was operating effectively as of June 30, 2011, with the exception of the reportable condition summarized below.

Based on the results of the internal control testing, the USMS Senior Assessment Team believes progress has been made to remediate the previously reported material weakness to the level of a reportable condition. While progress has been demonstrated, it is strongly believed that this area requires continued focus to improve funds management controls and demonstrate sustained progress to prevent this deficiency from rising to the level of material weakness again. The USMS Senior Assessment Team will monitor and validate continued corrective action.

The reportable condition exists in the area of controls over the processing and recording of obligations, undelivered orders, and accounts payable. Specifically, deficiencies existed in the following areas:

- Obligations are recorded accurately and timely in the financial system and amounts for invalid or residual balances are de-obligated on a timely basis;
- Accruals are accurately and timely recorded with a justified methodology; and
- Obligations and transactions are appropriately supported and authorized by an approving official to prevent unauthorized commitments.

Other than the exception noted, internal control over financial reporting was operating effectively as of June 30, 2011, and no material weakness or other reportable conditions were found in the design or operations of the controls.

Internal Controls Program

USMS management continues to support and commit resources to Departmental component internal control programs. The objective of the USMS's internal control program is to provide reasonable assurance that operations are effective, efficient, and comply with applicable laws and regulations; financial reporting is reliable; and assets are safeguarded against waste, loss, and unauthorized use. USMS management identifies issues of concern through a network of oversight councils and internal review teams. These include the USMS Office of Inspections, the Department's OMB Circular A-123 Senior Assessment Team, and the Justice Management Division's Internal Review and Evaluation Office and Quality Control and Compliance Group. USMS management also considers reports issued by the Office of the Inspector General in its evaluation of internal control.

The USMS commitment to management excellence, accountability, and compliance with applicable laws and regulations is evidenced by efforts to establish reasonable controls and make sound determinations on corrective actions.

Legal Compliance

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act (FFMIA) 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



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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 (FISMA) 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

USMS management assessed its financial management systems for compliance with FFMIA and determined that the systems were not fully compliant in FY 2011.

- The USMS's financial management system, STARS, does not meet Federal financial management systems requirements established in OMB Circular A-127, *Financial Management Systems*, because STARS lacks integrated subsidiary records to support certain material account balances. USMS must rely on manually prepared subsidiary ledgers and manual processes to generate financial reports.
- The USMS's posting of undelivered orders and accounts payable transactions has some departure from Federal accounting standards (promulgated by the Federal Accounting Standards Advisory Board) and the form and content provisions of OMB Circular A-136, *Financial Reporting Requirements*.

POSSIBLE FUTURE EFFECTS OF EXISTING EVENTS AND CONDITIONS

USMS financial statements document existing, currently-known events, conditions and trends. Through the agency financial transactions, one can learn how the USMS has used its appropriated resources to meet its strategic goals. What is not evident are the anticipated future demands that will be placed upon the USMS in FY 2012 and beyond.

Current trends, including an increased focus on illegal immigration and the impact of the current economic recession, may alter the resources needed by the USMS in order to fulfill its law enforcement mission in FY 2012 and beyond. Illegal immigration has become a key issue across the country as many states have recently passed laws that will increase the demand on law enforcement to apprehend and adjudicate persons living in the country illegally. As a key agency involved in Southwest Border law enforcement activities, the USMS will play a pivotal role in the evolving legal environment. Further, the downturn in the economy may place additional demands on USMS operations as fluctuations in criminal activity tend to occur in times of economic distress.

IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT IMPLEMENTATION

In accordance with OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, and the Departmental guidance for implementing the Improper Payments Elimination and Recovery Act (IPERA), 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



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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 IPERA, the USMS assessed its activities for susceptibility to significant improper payments. The USMS also conducted its payment recapture audit program in accordance with the Departmental approach. The USMS provided the results of both the risk assessment and payment recapture audit activities to the Department for the Department-level reporting in the FY 2011 Performance and Accountability Report.

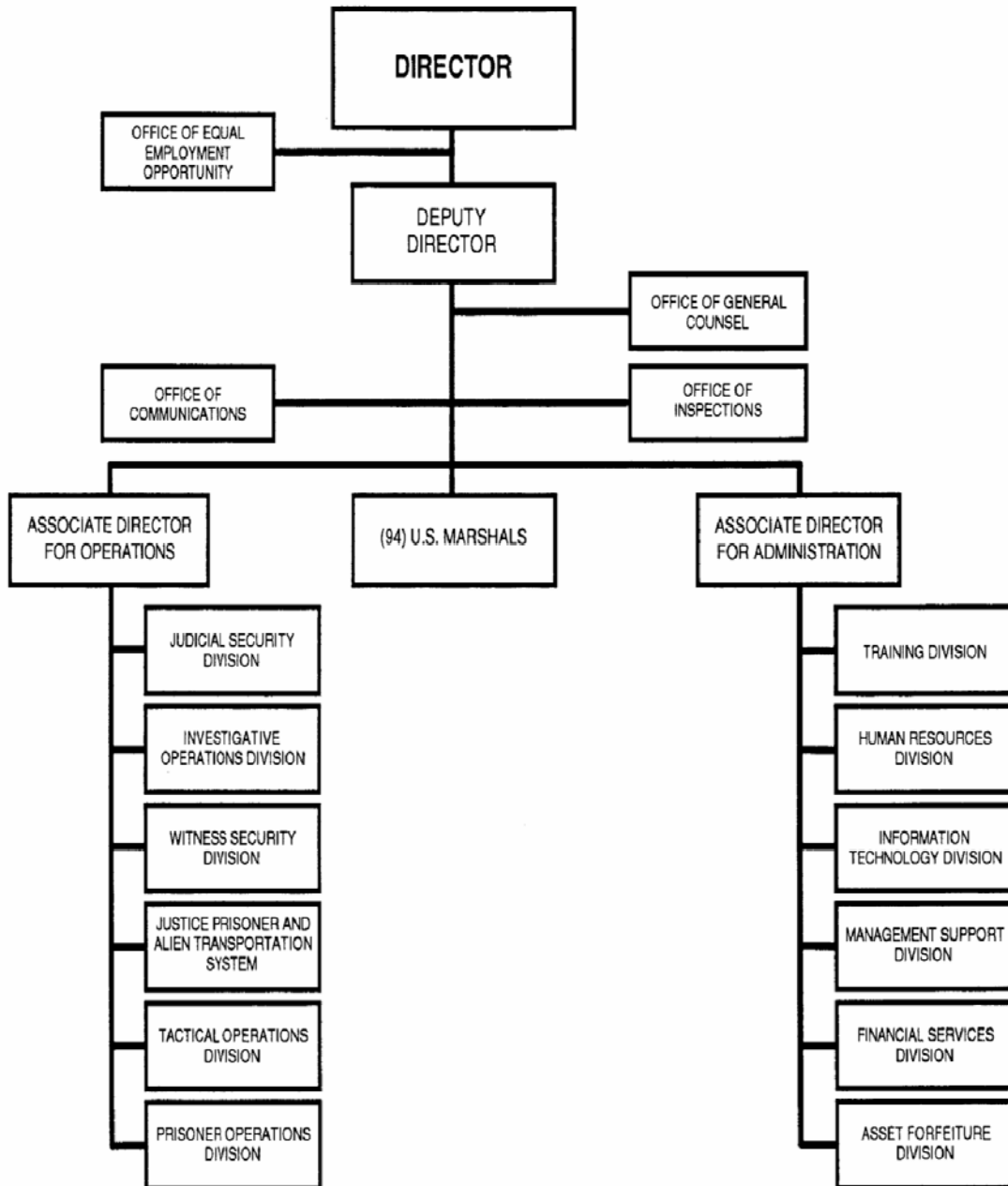
LIMITATIONS OF THE FINANCIAL STATEMENTS

- USMS financial statements have been prepared to report the financial position and results of agency operations, pursuant to the requirements of 31 U.S.C. 3515(b).
- While the statements have been prepared from the books and records of the USMS 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 U.S. government, a sovereign entity.



U.S. Department of Justice
United States Marshals Service
Management's Discussion and Analysis (Unaudited) – Attachment 1

UNITED STATES MARSHALS SERVICE



U.S. DEPARTMENT OF JUSTICE

UNITED STATES MARSHALS SERVICE

INDEPENDENT AUDITORS' REPORTS



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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

Acting Inspector General
United States Department of Justice

Director
United States Marshals Service
United States Department of Justice

We have audited the accompanying Consolidated Balance Sheets of the United States Marshals Service (USMS), a component of the United States Department of Justice (DOJ), as of September 30, 2011 and 2010, and the related Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and Combined Statements of Budgetary Resources for the years then ended. These financial statements are the responsibility of USMS's management. Our responsibility is to express an opinion on these 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of USMS's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

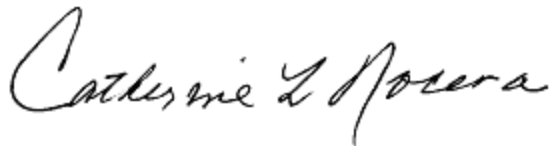
In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the United States Department of Justice, United States Marshals Service as of September 30, 2011 and 2010, and its consolidated net costs, consolidated changes in net position, and combined budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America and OMB Circular No. A-136, *Financial Reporting Requirements*, require that the *Management's Discussion and Analysis* and the *Combining Statements of Budgetary Resources* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board and OMB, who consider it to be an essential part of financial reporting for placing the basic 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 financial statements, and other knowledge we obtained during our audit of the basic 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.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 8, 2011, on our consideration of USMS's internal control over financial reporting and on our tests of its compliance with certain provisions of applicable laws and regulations. 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* and should be read in conjunction with this report in assessing the results of our audits.

COTTON & COMPANY LLP

A handwritten signature in black ink that reads "Catherine L. Nocera". The signature is written in a cursive, flowing style.

Catherine L. Nocera, CPA, CISA
Partner

November 8, 2011
Alexandria, Virginia



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Acting Inspector General
United States Department of Justice

Director
United States Marshals Service
United States Department of Justice

We have audited the Consolidated Balance Sheets of the United States Marshals Service (USMS), a component of the United States Department of Justice (DOJ), as of September 30, 2011 and 2010, and the related Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and Combined Statements of Budgetary Resources for the years then ended, and have issued our report thereon dated November 8, 2011. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

USMS's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our fiscal year 2011 audit, we considered USMS's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of USMS's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of USMS's internal control over financial reporting or on management's assertion on internal control included in *Management's Discussion and Analysis*. We limited our internal control testing to only those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*, such as controls relevant to ensuring efficient operations.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, in our fiscal year 2011 audit, we identified certain deficiencies in internal control over financial reporting that, when combined, we consider to be a material weakness.

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 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. We consider the following deficiency in USMS's internal control over financial reporting to be a material weakness.

USMS's response to the finding identified in our audit is included after each recommendation. We did not audit USMS's response and, accordingly, we express no opinion on it.

FUNDS MANAGEMENT CONTROLS NEED IMPROVEMENT (MATERIAL WEAKNESS) (REPEAT)

The USMS does not have adequate financial and compliance controls to ensure that obligation transactions are executed and recorded in accordance with laws and regulations, and that related undelivered orders and accounts payable balances are accurate and complete. During fiscal year 2010, the USMS created the Audit Coordination and Remediation (ACR) team, which serves as the audit liaison, recommends and implements funds management process improvements, and advises the Financial Services Division on remediation strategies. The ACR team developed a Corrective Action Plan (CAP) to address the previously reported material weakness related to undelivered orders and accounts payable. The ACR team directed testing of undelivered orders and accounts payable and provided training, assistance, and guidance to USMS personnel throughout the review process. The USMS made significant progress in developing and documenting standard operating procedures for processing various types of transactions. The procedures, however, were not finalized and/or consistently implemented in all of the USMS's district and headquarters offices during fiscal year 2011. In addition, although district and headquarters office personnel completed training, the procedures have not been in place long enough for district or program office personnel to apply them in an operational environment, and in a routine manner. Accordingly, we identified a significant number of errors during fiscal year 2011 testing.

A. UNDELIVERED ORDERS

We selected and reviewed undelivered order transactions during interim and year-end testing. We noted significant accounting errors and instances of noncompliance, which resulted in the following known and likely misstatements.

UNDELIVERED ORDERS FISCAL YEAR 2011 TEST RESULTS			
Sample Population	Number of Errors/ Transactions Tested	Known Errors	Likely Misstatement¹
Headquarters and District Offices (March 31, 2011)	43/170	\$6.1 million net overstatement	\$16.6 million net overstatement
Headquarters (June 30, 2011)	32/148	\$7.4 million net overstatement	\$10.8 million net overstatement
Headquarters and District Offices (September 30, 2011)	13/76	\$2.7 million net overstatement	\$18.6 million net overstatement

¹ Each transaction tested has a unique weight in relation to the total population; therefore, the likely misstatement will not be in linear proportion to the known errors.

The accounting errors and instances of non-compliance are discussed below.

Headquarters and District Offices (March 31, 2011)

- Eleven undelivered order transactions were overstated by \$688 thousand because the USMS did not record an accrual for goods and services received as of March 31, 2011.
- One undelivered order transaction was overstated by \$1.457 million because the obligation for the reimbursable work authorization was recorded in the Standardized Tracking Accounting and Reporting System (STARS) before the General Services Administration (GSA) accepted the project.

- Three undelivered order transactions were overstated by a net \$3.174 million because of errors made when calculating the provider listing accruals.
- One undelivered order transaction was understated by \$1.596 million because the USMS incurred costs in excess of amounts obligated and did not increase obligations incurred when it recorded the accounts payable accrual.
- Twelve undelivered order transactions were overstated by a net \$278 thousand because the USMS:
 - made errors in calculating accounts payable accruals;
 - did not adjust previously recorded accounts payable accruals to reflect the actual invoice amounts;
 - did not either accrue or deobligate remaining undelivered order amounts for obligations in which the period of performance had expired or the contract was completed;
 - recorded amounts in STARS in excess of amounts supported by the underlying source documents; or
 - did not reverse a September 30, 2010 Purchase Card Information System (PCIS) accrual prior to recording the actual payment.
- Seven undelivered order transactions were overstated by a net \$1.617 million because the USMS did not record an accrual for goods and services received as of March 31, 2011. In addition, four of these transactions did not have sufficient funds obligated to cover the goods and services provided through March 31, 2011. For one transaction, the USMS did not post an accrual because of limitations with the current purchase-card accrual process, which does not capture instances in which the USMS has received goods or services but payment has not been initiated by the vendor providing the goods or services.
- Eight undelivered order transactions were overstated by a net \$484 thousand because the USMS:
 - did not reduce the remaining undelivered order balances when the medical services were received and the re-priced amount was accrued;
 - did not cancel a PCIS obligation when the payment was made against the fleet card obligation rather than the PCIS card obligation;
 - made posting errors when recording three transactions;
 - recorded a high-level IPAC payment by reducing accounts payable even though an accounts payable had not been recorded to accrue the goods or services;
 - processed medical services payments in error against the wrong obligation; or
 - did not either fully accrue or deobligate remaining balances on an obligation for which the period of performance had expired.

Headquarters (June 30, 2011)

- Ten undelivered order transactions were overstated by \$1.098 million because the USMS did not record an accrual for goods and services received as of June 30, 2011.
- Five undelivered order transactions were overstated by a net \$1.590 million because the USMS:
 - did not obligate the full value of the contract;
 - obligated more than the amounts supported by contract modifications; or
 - recorded the entire agreement to one document number, yet also recorded portions of the agreement to other document numbers, resulting in duplicate recorded obligations.
- Four undelivered order transactions were overstated by \$2.669 million because the period of performance had expired, the contract was cancelled, or the project was complete as of June 30, 2011, and remaining undelivered order amounts had not been deobligated.
- Six undelivered order transactions were overstated by a net \$1.840 million because of errors made when calculating the provider listing accruals.

- Seven undelivered order transactions were overstated by a net \$171 thousand because the USMS:
 - made errors when calculating accounts payable accruals;
 - could not support or reconstruct how the accrual was calculated;
 - made an error when processing a correcting entry;
 - made a payment against the obligation in error; or
 - paid a travel voucher twice and had not yet recorded the refund in STARS.

Headquarters and District Offices (September 30, 2011)

- Four undelivered order transactions for court security officer services were overstated by \$1.664 million because the USMS:
 - did not deobligate remaining balances for obligations for which the period of performance had expired;
 - did not accrue for all services received because either sufficient funding was not available or costs were disputed in error; or
 - obligated amounts in excess of the approved task order because funding was moved from one obligation to another, and recorded payments against the wrong obligation.
- One undelivered order transaction for prisoner medical costs was understated by \$47 thousand because the USMS accrued more than amounts supported by source documents.
- Eight undelivered order transactions were overstated by a net \$1.048 million because the USMS:
 - obligated the amount allocated on the workplan for the project, rather than amounts supported by the purchase order;
 - did not accrue for goods and services provided through September 30, 2011;
 - did not adjust its estimated accruals to equal the invoiced amounts when the invoices were received and paid; or
 - made an error when updating the obligation amount in STARS when estimated relocation costs were recalculated.

B. DELIVERED ORDERS – OBLIGATIONS UNPAID (ACCOUNTS PAYABLE)

We selected and reviewed accounts payable transactions during interim and year-end testing. We noted significant accounting errors and instances of noncompliance, which resulted in the following known and likely misstatements.

DELIVERED ORDERS – OBLIGATIONS UNPAID			
Sample Population	Number of Errors/Transactions Tested	Known Errors	Likely Misstatement²
Headquarters and District Offices (March 31, 2011)	23/90	\$5.2 million net understatement	\$39.9 million net understatement
Headquarters (June 30, 2011)	14/58	\$1.6 million net understatement	\$3.4 million net understatement
Headquarters and District Offices (September 30, 2011)	19/79	\$142 thousand net overstatement	\$19 thousand net understatement

² Each transaction tested has a unique weight in relation to the total population; therefore, the likely misstatement will not be in linear proportion to the known errors. In addition, a known net overstatement may project to a likely net understatement.

The accounting errors and instances of non-compliance are discussed below.

Headquarters and District Offices (March 31, 2011)

- Three accounts payable transactions were understated by a net \$3.196 million because the USMS made errors when calculating the provider listing accrual.
- Eight accounts payable transactions were understated by a net \$856 thousand because the USMS:
 - did not record an accrual for all goods and services received as of March 31, 2011, and/or did not adjust previously recorded estimated accounts payable to reflect actual invoice amounts; or
 - made errors when calculating the accruals.
- Eight accounts payable transactions for prisoner housing and transportation were understated by a net \$207 thousand because the USMS:
 - did not have sufficient funds obligated to cover the goods and services provided through March 31, 2011, and did not adequately support four transactions because it did not maintain the USM-268a, Jail Utilization Report, showing the estimated prisoner housing costs for a particular month;
 - could not support or reconstruct how it calculated the accounts payable;
 - did not accrue for all services received because sufficient funding was not obligated; or
 - did not adjust its estimated accruals to equal the invoiced amounts when the invoices were received and paid.
- Four accounts payable transactions for court security officer services were understated by a net \$871 thousand because the USMS:
 - incorrectly reduced the accounts payable balance rather than the undelivered order balance when correcting an error in the undelivered order balance; or
 - did not accrue for all services received because sufficient funding was either not allocated for obligation, or was not yet obligated in STARS.

Headquarters (June 30, 2011)

- Two accounts payable accruals were understated by \$1.122 million because the USMS made errors when calculating the provider listing accruals.
- Twelve accounts payable transactions were understated by a net \$505 thousand because the USMS:
 - did not accrue for all goods or services received as of June 30, 2011;
 - did not adjust previously recorded accounts payable to reflect actual invoice amounts;
 - made errors when calculating the accrual estimates; or
 - recorded an accrual for postage meter machines that had not been received as of June 30, 2011.

Headquarters and District Offices (September 30, 2011)

- Seven accounts payable transactions for court security officer services were understated by a net \$297 thousand because the USMS:
 - either did not accrue or only partially accrued for services received in September because sufficient funding was not allocated for obligation;
 - accrued more than what was supported by sources documents;
 - accrued the remaining undelivered order balance rather than the amount estimated for services received; or
 - accrued amounts under an obligation that had been fully paid as of September 30, 2011.

- Ten accounts payable transactions for prisoner housing services were overstated by a net \$342 thousand because the USMS:
 - did not adequately support the amounts accrued, which differed from amounts supported by the USMS 268a reports;
 - made an error when recording the monthly accrual; or
 - did not adjust its estimated accrual to equal the actual invoice amount when the invoice was received.

- Two accounts payable transactions for prisoner medical costs were overstated by \$97 thousand because the USMS did not adequately support its accrued amounts, which differed from estimated amounts based on invoices received from medical providers.

Statement of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government*, paragraphs 22 and 23, state that a liability and the corresponding expense should be recognized during the period when an exchange transaction takes place.

Title 31 U.S.C. §1501(a) states:

An amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of: (1) a binding agreement . . .; (2) a loan agreement . . .; (3) an order required by law to be placed with an agency; (4) an order issued under a law authorizing purchases without advertising . . .; (5) a grant or subsidy payable . . .; (6) a liability that may result from pending litigation; (7) employment or services of persons or expenses of travel under law; (8) services provided by public utilities; or (9) other legal liability of the Government against an available appropriation or fund.

OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, states that an obligation is a legally binding agreement that will result in outlays that will occur either immediately or in the future. An obligation is incurred when an order is placed or a contract is signed that requires the Government to make payments to the public or to another Government agency.

The USSGL defines an undelivered order as “the amount of goods and/or services ordered which have not been actually or constructively received.”

USMS Directive 5.1, *Accounting for Commitments and Obligations*, states, “no amount shall be recorded as an obligation unless supported by documentary evidence of transactions authorized by law.” It also states that “program managers are responsible for the accurate and timely accounting of their workplans’ commitments and obligations,” and requires program managers to “ensure that a monthly review of their workplan obligation(s) is performed.”

RECOMMENDATIONS

We recommend the USMS:

1. Continue coordinated efforts among the ACR team, Financial Services Division, and USMS program offices to finalize and consistently implement policies and procedures for recording obligations and deobligations in a timely manner, and to ensure that accruals for goods and services provided but not paid for are properly calculated, recorded timely, and adequately supported. *(Updated)*

Management Response:

USMS concurs. In FY 2011, Program Office document reviews were conducted on a scheduled basis and key controls were tested that ensured USMS policies and procedures were followed. Each document was cross-checked, and supporting documentation was reviewed to trace the individual transaction through the financial process steps.

In FY 2012, the Open obligation review procedures will continue to be built on to ensure consistency and accuracy of reporting. The ACR team will continue to serve as an audit liaison, and will recommend and implement improvements in the funds management process.

2. Enhance supervisory review and approval controls, including review of source documentation, calculations, and posting logic for accounts payable, obligations, and deobligation transactions. *(Repeat)*

Management Response:

USMS concurs. In FY 2011, the Audit Coordination and Remediation (ACR) Team reviewed each open obligation submission that required supervisory review and approval. Communications were provided to the District Office Chief Deputy U.S. Marshal, the Administrative Officer (AO), and USMS key stakeholders on the detailed findings of the District Office monthly testing. For Program Offices, feedback was provided to the individual Program Office budget staffs.

In FY 2012, USMS Management will continue to ensure that enhanced supervisory reviews and approval controls are performed quarterly, and discrepancies resolved timely.

3. Review and update policies and procedures for the use of purchase cards to pay recurring charges, including procedures to ensure that accruals are recorded for goods and services received, and that there is an adequate audit trail to support undelivered order and accounts payable balances. *(Updated)*

Management Response:

USMS concurs. Purchase card procedures will continue to be reviewed for coordination and standardization of efforts across Headquarters Program Offices and the USMS will continue its reviews to utilize PCIS per existing policies.

USMS Management current policies and practices were successfully implemented throughout the USMS district offices. In addition, extensive training workshops were conducted on various topics including recording of goods and services received, as well as providing enhanced detective controls to support undelivered orders and accounts payable balances.

4. Continue efforts to review and modify financial management and accounting processes at district and headquarters program offices to: identify process, knowledge, and training gaps affecting the execution of and adherence to USMS directives, policies and procedures; implement corrective action to address the identified gaps; and develop and implement procedures for maintaining source documentation that can be easily retrieved for review and audit purposes. *(Repeat)*

Management Response:

USMS concurs. In FY 2011, USMS Management made extensive progress in the design and implementation of a control environment, greatly assisting in the continuous reviews and monitoring of accounting processes at district and headquarters program offices. The successful implementation of preventive and detective controls strengthened the new processes and procedures for funds management, illustrated in the results for the accounts payable testing completed in the fourth quarter. Building on this success in FY 2012 will become a cornerstone for continuous improvements for future audits.

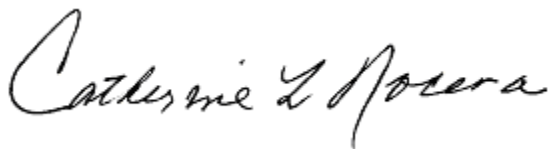
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OMB Bulletin No. 07-04 requires us to compare material weaknesses disclosed during our audit with the material weaknesses reported by the USMS in its Federal Managers' Financial Integrity Act (FMFIA) assessment for the audit period. We noted that the USMS did not report a material weakness related to funds management controls in its fiscal year 2011 FMFIA assessment, which is submitted to the DOJ for aggregation into the DOJ's overall FMFIA assessment.

We provide the current status of open recommendations from prior years in the following Exhibit.

This report is intended solely for the information and use of USMS's management, DOJ Office of the Inspector General, OMB, U.S. Government Accountability Office, and the U.S. Congress; it is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP



Catherine L. Nocera, CPA, CISA
Partner

November 8, 2011
Alexandria, Virginia

STATUS OF PRIOR YEARS' FINDINGS AND RECOMMENDATIONS

As required by *Government Auditing Standards* issued by the Comptroller General of the United States, and by OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended, we have reviewed the status of prior years' findings and recommendations. The following table provides our assessment of the progress the USMS has made in correcting the previously identified significant deficiencies. We also provide the Office of the Inspector General report number where the deficiency was reported, our recommendation for improvement, and the status of the recommendation as of the end of fiscal year 2011.

Report	Significant Deficiency	Recommendation	Status
Annual Financial Statement Fiscal Year 2008 Report No. 09-13	Funds Management Controls Need Improvement	Recommendation No. 4: Coordinate efforts among the Office of Procurement, the Office of Budget, and the program offices to identify all unauthorized commitments and ensure that ratifications are completed in a timely manner. In addition, we recommend that the USMS provide Federal Acquisition Regulation training to appropriate personnel to minimize instances of unauthorized commitments in the future.	Completed
Annual Financial Statement Fiscal Year 2010 Report No. 11-10	Funds Management Controls Need Improvement	Recommendation No. 1: Enhance the ACR team's efforts to ensure that accruals for goods and services provided but not paid for are properly calculated, recorded timely, and adequately supported, and that undelivered orders are valid. Efforts should include, (a) Development and documentation of accrual policies and procedures, including methodologies for specific types of accrual transactions; (b) Development and documentation of policies and procedures for conducting periodic reviews of undelivered orders and accounts payable balances and process controls; (c) Review, assessment, and recommendations for improving the control environment and control activities; (d) Continued training of headquarters and district office personnel; (e) Continued emphasis on periodic testing of undelivered orders and accounts payable transactions to identify and correct misstatements; and (f) Documentation of control and substantive test results, including completed checklists; evidence of supervisory review and approval for corrective actions; evidence that corrective action was taken; and performance metrics	In Process (Updated by Fiscal Year 2011 Recommendation No. 1)

Report	Significant Deficiency	Recommendation	Status
Annual Financial Statement Fiscal Year 2010 Report No. 11-10	Funds Management Controls Need Improvement	(such as transaction population, sample size, error rate, and corrective actions), so that progress can be measured and resources can be shifted and prioritized accordingly.	
		Recommendation No. 2: Enhance supervisory review and approval controls, including review of source documentation, calculations, and posting logic for accounts payable, obligations, and deobligation transactions.	In Process (Fiscal Year 2011 Recommendation No. 2)
		Recommendation No. 3: Enhance procedures to ensure that obligations are recorded timely after the period of continuing resolution ends, and develop procedures to ensure that appropriate “availability of funds” clauses are included in all agreements that are not fully obligated.	Completed
		Recommendation No. 4: Develop procedures to ensure that purchase card accruals are recorded for all goods and services received, regardless of whether the vendor has processed the payment for the goods or services.	In Process (Updated by Fiscal Year 2011 Recommendation No. 3)
		Recommendation No. 5: Review financial management and accounting processes in place at district offices to identify process, knowledge and training gaps affecting the execution of and adherence to the USMS directives and policies; implement corrective action to address the identified gaps; and develop and implement procedures for maintaining source documentation that can be easily retrieved for review and audit purposes.	In Process (Fiscal Year 2011 Recommendation No. 4)
		Recommendation No. 6: Fully implement procedures developed during fiscal year 2010 to ensure district office personnel utilize a consistent and reasonable methodology for recording prisoner medical obligations and accruals.	Completed



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND OTHER MATTERS

Acting Inspector General
United States Department of Justice

Director
United States Marshals Service
United States Department of Justice

We have audited the Consolidated Balance Sheets of the United States Marshals Service (USMS), a component of the United States Department of Justice (DOJ), as of September 30, 2011 and 2010, and the related Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and Combined Statements of Budgetary Resources for the years then ended, and have issued our report thereon dated November 8, 2011. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

USMS's management is responsible for complying with laws, regulations, and contract agreements applicable to the USMS. As part of obtaining reasonable assurance about whether USMS's fiscal year 2011 financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contract agreements, 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. 07-04, including the provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). 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 disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04, as described in the following paragraphs.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA) (REPEAT)

Under FFMIA, we are required to report whether USMS's financial management systems substantially comply with federal financial management system requirements, applicable federal accounting standards, and application of the United States Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

The results of our tests of FFMIA disclosed instances in which USMS's financial management systems did not substantially comply with the first and second requirements discussed in the preceding paragraph.

- **Federal Financial Management System Requirements:** USMS's financial management system, Standardized Tracking, Accounting, and Reporting System (STARS), does not meet federal financial

management systems requirements established in OMB Circular No. A-127, *Financial Management Systems*, because STARS lacks integrated subsidiary records to support certain material account balances. Accordingly, the USMS must rely on manually-prepared subsidiary ledgers and ad-hoc business processes to generate financial reports.

- **Federal Accounting Standards:** We identified significant departures from federal accounting standards promulgated by the Federal Accounting Standards Advisory Board in the areas of undelivered orders and accounts payable, as discussed in our Independent Auditors' Report on Internal Control over Financial Reporting.

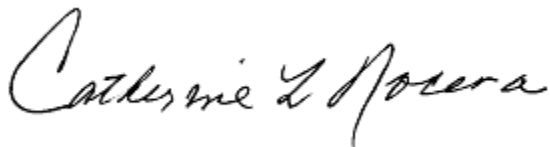
USMS's Chief Financial Officer is responsible for the financial management systems and the Chief Information Officer is responsible for information technology. We make no recommendation corresponding with the first criterion (Federal Financial Management System Requirements) because the USMS has stated that it will be migrating to a DOJ Unified Financial Management System, and costs to correct the FFMIA deficiencies in the current accounting system are not justified. Please refer to our Independent Auditors' Report on Internal Control over Financial Reporting for recommendations related to the second criterion (Federal Accounting Standards).

Management Response:

USMS Management concurs. STARS is an out-dated financial system with significant challenges with respect to FFMIA requirements. USMS is moving forward with the Department's Unified Financial Management System (UFMS), which should alleviate findings relative to Federal Financial Management System Requirements and Federal Accounting Standards.

This report is intended solely for the information and use of USMS's management, DOJ Office of the Inspector General, OMB, U.S. Government Accountability Office, and the U.S. Congress; it is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP



Catherine L. Nocera, CPA, CISA
Partner

November 8, 2011
Alexandria, Virginia

U.S. DEPARTMENT OF JUSTICE

UNITED STATES MARSHALS SERVICE

PRINCIPAL FINANCIAL STATEMENTS AND RELATED NOTES

See Independent Auditors' Report on Financial Statements



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U.S. Department of Justice
United States Marshals Service
Consolidated Balance Sheets
As of September 30, 2011 and 2010

Dollars in Thousands	2011	2010
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with U.S. Treasury (Note 3)	\$ 562,246	\$ 684,686
Accounts Receivable (Note 4)	168,560	149,713
Other Assets (Note 7)	15,506	17,212
Total Intragovernmental	746,312	851,611
Accounts Receivable (Note 4)	35	47
Inventory and Related Property (Note 5)	3,060	2,739
General Property, Plant and Equipment, Net (Note 6)	264,246	257,937
Advances and Prepayments	-	17
Other Assets (Note 7)	184	184
Total Assets	\$ 1,013,837	\$ 1,112,535
LIABILITIES (Note 8)		
Intragovernmental		
Accounts Payable	\$ 31,314	\$ 26,177
Accrued Federal Employees' Compensation Act Liabilities	15,912	15,725
Other Liabilities (Note 10)	26,609	24,344
Total Intragovernmental	73,835	66,246
Accounts Payable	354,200	406,268
Actuarial Federal Employees' Compensation Act Liabilities	86,365	83,490
Accrued Payroll and Benefits	33,239	30,525
Accrued Annual and Compensatory Leave Liabilities	43,940	42,138
Contingent Liabilities (Note 11)	-	17,000
Capital Lease Liabilities (Note 9)	-	946
Total Liabilities	\$ 591,579	\$ 646,613
NET POSITION		
Unexpended Appropriations	\$ 257,093	\$ 328,900
Cumulative Results of Operations	165,165	137,022
Total Net Position	\$ 422,258	\$ 465,922
Total Liabilities and Net Position	\$ 1,013,837	\$ 1,112,535

United States Marshals Service

The accompanying notes are an integral part of these financial statements.



**U.S. Department of Justice
United States Marshals Service
Consolidated Statements of Net Cost
For the Fiscal Years Ended September 30, 2011 and 2010**

Dollars in Thousands

	FY	Gross Costs			Less: Earned Revenues			Net Cost of Operations (Note 12)
		Intra-governmental	With the Public	Total	Intra-governmental	With the Public	Total	
Goal 1:	2011	\$ 6,484	\$ -	\$ 6,484	\$ -	\$ -	\$ -	\$ 6,484
	2010	\$ 5,159	\$ -	\$ 5,159	\$ -	\$ -	\$ -	\$ 5,159
Goal 2:	2011	30,396	-	30,396	-	-	-	30,396
	2010	4,872	-	4,872	-	-	-	4,872
Goal 3:	2011	546,964	2,627,882	3,174,846	1,581,441	2,519	1,583,960	1,590,886
	2010	523,823	2,492,351	3,016,174	1,511,198	2,905	1,514,103	1,502,071
Total	2011	<u>\$ 583,844</u>	<u>\$ 2,627,882</u>	<u>\$ 3,211,726</u>	<u>\$ 1,581,441</u>	<u>\$ 2,519</u>	<u>\$ 1,583,960</u>	<u>\$ 1,627,766</u>
	2010	<u>\$ 533,854</u>	<u>\$ 2,492,351</u>	<u>\$ 3,026,205</u>	<u>\$ 1,511,198</u>	<u>\$ 2,905</u>	<u>\$ 1,514,103</u>	<u>\$ 1,512,102</u>

Goal 1 Prevent Terrorism and Promote the Nation's Security

Goal 2 Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People

Goal 3 Ensure the Fair and Efficient Administration of Justice

United States Marshals Service

The accompanying notes are an integral part of these financial statements.



U.S. Department of Justice
United States Marshals Service
Consolidated Statements of Changes in Net Position
For the Fiscal Years Ended September 30, 2011 and 2010

Dollars in Thousands	2011	2010
Unexpended Appropriations		
Beginning Balances	\$ 328,900	\$ 222,502
Budgetary Financing Sources		
Appropriations Received	1,142,388	1,190,039
Appropriations Transferred-In/Out	388,191	393,936
Other Adjustments	(2,285)	-
Appropriations Used	(1,600,101)	(1,477,577)
Total Budgetary Financing Sources	(71,807)	106,398
Unexpended Appropriations	\$ 257,093	\$ 328,900
Cumulative Results of Operations		
Beginning Balances	\$ 137,022	\$ 132,920
Budgetary Financing Sources		
Appropriations Used	1,600,101	1,477,577
Other Financing Sources		
Transfers-In/Out Without Reimbursement	162	186
Imputed Financing from Costs Absorbed by Others (Note 13)	55,646	38,441
Total Financing Sources	1,655,909	1,516,204
Net Cost of Operations	(1,627,766)	(1,512,102)
Net Change	28,143	4,102
Cumulative Results of Operations	\$ 165,165	\$ 137,022
Net Position	\$ 422,258	\$ 465,922

United States Marshals Service

The accompanying notes are an integral part of these financial statements.



**U.S. Department of Justice
United States Marshals Service
Combined Statements of Budgetary Resources
For the Fiscal Years Ended September 30, 2011 and 2010**

Dollars in Thousands	2011	2010
Budgetary Resources		
Unobligated Balance, Brought Forward, October 1	\$ 133,375	\$ 75,661
Recoveries of Prior Year Unpaid Obligations	64,819	66,898
Budget Authority		
Appropriations Received	1,142,388	1,190,039
Spending Authority from Offsetting Collections		
Earned		
Collected	1,576,541	1,592,758
Change in Receivables from Federal Sources	16,620	(39,937)
Change in Unfilled Customer Orders		
Advance Received	(3,869)	4,475
Without Advance from Federal Sources	6,998	(18,314)
Subtotal Budget Authority	<u>2,738,678</u>	<u>2,729,021</u>
Nonexpenditure Transfers, Net, Actual	388,191	393,936
Permanently not Available	<u>(2,285)</u>	<u>-</u>
Total Budgetary Resources (Note 14)	<u>\$ 3,322,778</u>	<u>\$ 3,265,516</u>
Status of Budgetary Resources		
Obligations Incurred		
Direct	\$ 1,622,322	\$ 1,569,307
Reimbursable	1,610,059	1,562,834
Total Obligations Incurred (Note 14)	<u>3,232,381</u>	<u>3,132,141</u>
Unobligated Balance - Available		
Apportioned	<u>57,730</u>	<u>97,391</u>
Total Unobligated Balance - Available	57,730	97,391
Unobligated Balance not Available	<u>32,667</u>	<u>35,984</u>
Total Status of Budgetary Resources	<u>\$ 3,322,778</u>	<u>\$ 3,265,516</u>
Change in Obligated Balance		
Obligated Balance, Net - Brought Forward, October 1		
Unpaid Obligations	\$ 708,551	\$ 634,587
Less Uncollected Customer Payments from Federal Sources	<u>165,214</u>	<u>223,465</u>
Total Unpaid Obligated Balance, Net - Brought Forward, October 1	543,337	411,122
Obligations Incurred, Net	3,232,381	3,132,141
Less Gross Outlays	3,227,503	2,991,279
Less Recoveries of Prior Year Unpaid Obligations, Actual	64,819	66,898
Change in Uncollected Customer Payments from Federal Sources	(23,618)	58,251
Obligated Balance, Net - End of Period		
Unpaid Obligations	648,610	708,551
Less Uncollected Customer Payments from Federal Sources	<u>188,832</u>	<u>165,214</u>
Total Unpaid Obligated Balance, Net - End of Period	<u>\$ 459,778</u>	<u>\$ 543,337</u>
Net Outlays		
Gross Outlays	\$ 3,227,503	\$ 2,991,279
Less Offsetting Collections	<u>1,572,672</u>	<u>1,597,233</u>
Total Net Outlays (Note 14)	<u>\$ 1,654,831</u>	<u>\$ 1,394,046</u>

United States Marshals Service

The accompanying notes are an integral part of these financial statements.



**U.S. Department of Justice
United States Marshals Service
Notes to the Financial Statements
Dollars in Thousands, Except as Noted**

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The United States Marshals Service (USMS) is an entity of the Department of Justice (DOJ) and functions to facilitate the following DOJ strategic goals as presented in the DOJ Strategic Plan:

“Prevent Terrorism and Promote the Nation’s Security”

“Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People”

“Ensure the Fair and Efficient Administration of Justice”

The financial statements of the USMS have been prepared to reflect the activity of these core functions from operations in all 94 Districts and Headquarters.

The USMS receives funding needed to support its programs through Congressional appropriations. Both annual and multi-year appropriations are used, within statutory limits, for operating and capital expenditures. The USMS appropriations include Salaries and Expenses and Construction. The USMS also receives an appropriation transfer from the Administrative Office of the U.S. Courts (AOUSC) for court security. The USMS also has a Revolving Fund called the Justice Prisoner and Alien Transportation System (JPATS). The Federal Prisoner Detention program is entirely funded through a reimbursable agreement with the Office of the Federal Detention Trustee (OFDT).

B. Basis of Presentation

These financial statements have been prepared from the books and records of the USMS in accordance with United States generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) 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, which are used to monitor and control the use of USMS budgetary resources. To ensure that the USMS 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 Advances and Prepayments, Accrued Federal Employees’ Compensation Act Liabilities, Accrued Payroll and Benefits, Accrued Annual and Compensatory Leave Liabilities, Contingent Liabilities, and Capital Lease Liabilities.

C. Basis of Consolidation

The consolidated/combined financial statements include the accounts of the USMS. All significant proprietary intra-entity transactions and balances have been eliminated in consolidation. The Statements of Budgetary Resources are combined statements for Fiscal Years 2011 and 2010, and as such, intra-entity transactions have not been eliminated.

United States Marshals Service

These notes are an integral part of the financial statements.



**U.S. Department of Justice
United States Marshals Service
Notes to the Financial Statements
Dollars in Thousands, Except as Noted**

Note 1. Summary of Significant Accounting Policies (continued)

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 are comprised of deposit funds, which temporarily hold receipts for service of process fees and seized assets of pending civil cases.

F. Fund Balance with U.S. Treasury

Fund Balance with U.S. Treasury (FBWT) is the aggregate amount of the entity's accounts with the U.S. Treasury for which the entity is authorized to make expenditures and pay liabilities. FBWT also includes Other Fund Types (deposit funds). These are non-entity assets for which the entity is not authorized to make expenditures and pay liabilities. The Revolving Fund is a separate account involving reimbursement for JPATS prisoner movements.

G. Accounts Receivable

The USMS expects an immaterial amount of uncollectible Accounts Receivable based upon data from previous years. Most of the Accounts Receivable are due from other Federal agencies. As a result, an allowance for doubtful accounts was not established. Accounts Receivable written off are a result of management's specific identification of amounts determined to be uncollectible.

H. Inventory and Related Property

Operating inventory includes equipment and supplies used for the repair of airplanes. The USMS utilizes the first-in, first-out (FIFO) method as the basis for valuation of these items.

I. General Property, Plant, and Equipment

Acquisitions of \$25 and over (\$100 for airplanes and leasehold improvements) are capitalized and depreciated/amortized based on the historical cost using the straight-line method over the estimated useful lives of the assets, which range from 5 to 25 years. Other equipment is expensed when purchased or included in inventory if used for the repair of airplanes. Normal repairs and maintenance are expensed as incurred.

Total capital lease obligations are determined by calculating the present value of the lease payments at the inception of the lease. The interest rate used is the nominal discount rate in Appendix C of OMB Circular A-94, *Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs*, at the inception of the lease.

United States Marshals Service

These notes are an integral part of the financial statements.



**U.S. Department of Justice
United States Marshals Service
Notes to the Financial Statements
Dollars in Thousands, Except as Noted**

Note 1. Summary of Significant Accounting Policies (continued)

J. Advances and Prepayments

Advances and Prepayments consist of: (a) intragovernmental advances provided to Federal Prison Industries, Inc. for the equipping of vehicles and equipment and (b) travel advances issued to Federal employees for relocation travel costs.

K. Liabilities

Liabilities represent the amount of monies, or other resources, that are likely to be paid by the USMS as the result of a transaction or event that has already occurred. However, no liability can be paid by the USMS absent proper budget authority. Liabilities for which an appropriation has not been enacted are classified as liabilities not covered by budgetary resources, and there is no certainty that corresponding future appropriations will be enacted.

The USMS maintains liabilities with the Department of the U.S. Treasury for deposit funds, which temporarily hold receipts for service of process fees and seized assets of pending civil cases. These are included as a part of Other Liabilities on the Balance Sheet.

L. Contingencies and Commitments

The USMS 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 11, *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”.

M. Annual, Sick, and Other Leave

Accrued Annual and Compensatory Leave Liabilities are expected to be paid from future years' appropriations. Federal employees' annual leave is accrued as it is earned, and the accrual is reduced annually for actual leave taken and increased for leave earned. Each year, the accrued annual leave balance is adjusted to reflect the latest pay rates. Sick leave is expensed as taken.

N. Interest on Late Payments

The USMS on occasion incurs interest penalties on late payments. All such interest penalties are paid to the respective vendor in accordance with the guidelines mandated by the Prompt Payment Act, (P.L. 97-177), as amended.

O. Retirement Plans

With few exceptions, employees hired before January 1, 1984 are covered by the Civil Service Retirement System (CSRS) and employees hired on or after that date are covered by the Federal Employees Retirement System (FERS).



**U.S. Department of Justice
United States Marshals Service
Notes to the Financial Statements
Dollars in Thousands, Except as Noted**

Note 1. Summary of Significant Accounting Policies (continued)

For employees covered by the CSRS, the USMS contributes 7.0% of the employee's gross pay for normal retirement or 7.5% for law enforcement retirement. For employees covered by the FERS, the USMS contributes 11.7% of the employee's gross pay for regular employees, and 25.7% of the employee's gross pay for law enforcement retirement. All employees are eligible to contribute to the Federal Thrift Savings Plan (TSP). For those employees covered by the FERS, a TSP account is automatically established, and the USMS is required to contribute an additional 1.0% of gross pay to this account and match employee contributions up to an additional 4.0% of gross pay. No matching contributions are made to the TSP accounts established by the CSRS employees. The USMS does 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 the Office of Personnel Management (OPM).

P. Federal Employee Compensation Benefits

Federal Employees' Compensation Act (FECA) provides income and medical cost protection to cover Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The total FECA liability consists of an actuarial and an accrued portion as discussed below.

Actuarial Liability: The U.S. Department of Labor (DOL) calculates the liability of the Federal Government for future compensation benefits, which includes the expected liability for death, disability, medical, and other approved costs. The liability is determined using the paid-losses extrapolation method calculated over the next 37-year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. The projected annual benefit payments are discounted to present value. The resulting Federal Government liability is then distributed by agency. The Department's portion of this includes the estimated future cost of death benefits, workers' compensation, medical, and miscellaneous cost for approved compensation cases for its employees. The Department's liability is further allocated to the component reporting entities on the basis of actual payments made to the FECA Special Benefits Fund (SBF) for the three prior years as compared to the total Department's payments made over the same period.

The FECA actuarial liability is recorded for reporting purposes only. This liability constitutes an extended future estimate of cost, which will not be obligated against budgetary resources until the fiscal year in which the related funds are billed to the USMS. The cost associated with this liability may not be met by the USMS without further appropriation action.

Accrued Liability: The accrued FECA liability owed to the DOL is the difference between the FECA benefits paid by the FECA SBF and the agency's actual cash payments to the FECA SBF. For example, the FECA SBF will pay benefits on behalf of an agency through the current year. However, most agencies' actual cash payments to the FECA SBF for the



**U.S. Department of Justice
United States Marshals Service
Notes to the Financial Statements
Dollars in Thousands, Except as Noted**

Note 1. Summary of Significant Accounting Policies (continued)

current fiscal year will reimburse the FECA SBF for benefits paid through a prior fiscal year. The difference between these two amounts is the accrued FECA liability.

Q. Intragovernmental Activity

Intragovernmental costs and exchange revenue represent transactions made between two reporting entities within the Federal Government. Costs and earned revenues with the public represent exchange transactions made between the reporting entity and a non-Federal entity. The 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.

R. Revenues and Other Financing Sources

The USMS receives funding needed to support its programs through appropriations. Appropriations are recognized as a financing source when the funding is appropriated. The USMS also reports revenue earned for services performed on a reimbursable basis with other Federal agencies and components of the DOJ. The revenue for these services is earned when the work is performed. Moreover, the USMS reports appropriations transferred from other Federal entities as a financing source.

S. Earmarked Funds

Statement of Federal Financial Accounting Standards (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds* defines ‘earmarked funds’ as being financed by specifically identified revenues, 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 Federal Government’s general revenues. The three required criteria for an earmarked fund are:

1. A statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits, or purposes;
2. Explicit authority for the earmarked fund to retain revenues and 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 other financing sources that distinguishes the earmarked fund from the Federal Government’s general revenues.

At the USMS, there are no funds that meet the definition of an earmarked fund.



**U.S. Department of Justice
United States Marshals Service
Notes to the Financial Statements
Dollars in Thousands, Except as Noted**

Note 1. Summary of Significant Accounting Policies (continued)

T. Allocation Transfer of Appropriations

The USMS is a party to allocation transfers with another federal agency as a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. An exception to this general rule affecting the USMS includes the funds transferred from the Judicial Branch to the USMS for court security costs. Per OMB guidance, the USMS will report all activity relative to these allocation transfers in the USMS financial statements.

The USMS uses these allocation transfers to pay for costs associated with the protective guard services – Court Security Officers at United States courthouses and other facilities housing Federal court operations. These costs include their salaries (paid by contracts), equipment, and supplies. This transfer is performed on an annual basis.

U. Tax Exempt Status

As an agency of the Federal Government, the USMS 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 certain 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 2010 financial statements were reclassified to conform to the FY 2011 Departmental financial statement presentation requirements. The reclassifications had no material effect on total assets, liabilities, net position, change in net position or budgetary resources as previously reported.

X. Subsequent Events

Subsequent events and transactions occurring after September 30, 2011 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.



U.S. Department of Justice
United States Marshals Service
Notes to the Financial Statements
Dollars in Thousands, Except as Noted

Note 2. Non-Entity Assets

As of September 30, 2011 and 2010	2011	2010
Intragovernmental		
Fund Balance with U.S. Treasury	\$ 12,071	\$ 7,974
Total Non-Entity Assets	12,071	7,974
Total Entity Assets	1,001,766	1,104,561
Total Assets	<u>\$ 1,013,837</u>	<u>\$ 1,112,535</u>

Note 3. Fund Balance with U.S. Treasury

As of September 30, 2011 and 2010	2011	2010
Fund Balances		
Revolving Funds	\$ 33,882	\$ 30,803
General Funds	516,293	645,909
Other Fund Types	12,071	7,974
Total Fund Balances with U.S. Treasury	<u>\$ 562,246</u>	<u>\$ 684,686</u>
Status of Fund Balances		
Unobligated Balance - Available	\$ 57,730	\$ 97,391
Unobligated Balance - Unavailable	32,667	35,984
Obligated Balance not yet Disbursed	459,778	543,337
Other Funds (With)/Without Budgetary Resources	12,071	7,974
Total Status of Fund Balances	<u>\$ 562,246</u>	<u>\$ 684,686</u>

Other Funds (With)/Without Budgetary Resources and Other Fund Types include non-entity assets. Non-entity assets are comprised of deposit funds, which temporarily hold receipts for service of process fees and seized assets of pending civil cases.



**U.S. Department of Justice
United States Marshals Service
Notes to the Financial Statements
Dollars in Thousands, Except as Noted**

Note 4. Accounts Receivable

As of September 30, 2011 and 2010	2011	2010
Intragovernmental		
Accounts Receivable	\$ 168,560	\$ 149,713
With the Public		
Accounts Receivable	35	47
Total Accounts Receivable	<u>\$ 168,595</u>	<u>\$ 149,760</u>

Intragovernmental accounts receivable primarily consists of reimbursable revenue with OFDT.

Note 5. Inventory and Related Property

As of September 30, 2011 and 2010	2011	2010
Operating Materials and Supplies		
Held for Current Use	\$ 3,060	\$ 2,739

United States Marshals Service

These notes are an integral part of the financial statements.



U.S. Department of Justice
United States Marshals Service
Notes to the Financial Statements
Dollars in Thousands, Except as Noted

Note 6. General Property, Plant and Equipment, Net

As of September 30, 2011	Acquisition Cost	Accumulated Depreciation	Net Book Value	Useful Life
Construction in Progress	\$ 40,485	\$ -	\$ 40,485	N/A
Buildings, Improvements, and Renovations	3,422	(3,422)	-	12 years
Aircraft	27,327	(13,285)	14,042	7-25 years
Vehicles	30,142	(20,622)	9,520	5-10 years
Equipment	45,913	(25,163)	20,750	5-15 years
Assets Under Capital Lease	10,727	(10,727)	-	20 years
Leasehold Improvements	418,080	(238,631)	179,449	12 years
Total	<u>\$ 576,096</u>	<u>\$ (311,850)</u>	<u>\$ 264,246</u>	

As of September 30, 2010	Acquisition Cost	Accumulated Depreciation	Net Book Value	Useful Life
Construction in Progress	\$ 38,419	\$ -	\$ 38,419	N/A
Buildings, Improvements, and Renovations	3,422	(3,422)	-	12 years
Aircraft	27,327	(11,540)	15,787	7-25 years
Vehicles	27,647	(19,244)	8,403	5-10 years
Equipment	43,460	(22,924)	20,536	5-15 years
Assets Under Capital Lease	10,727	(10,190)	537	20 years
Leasehold Improvements	385,191	(210,936)	174,255	12 years
Total	<u>\$ 536,193</u>	<u>\$ (278,256)</u>	<u>\$ 257,937</u>	

The USMS purchased capitalized property from Federal sources and from the Public in the amounts of \$23,236 and \$24,371, respectively, for the fiscal year ended September 30, 2011 and \$24,187 and \$17,798, respectively, for the fiscal year ended September 30, 2010.

The USMS has no restrictions on the use or convertibility of general PP&E.



U.S. Department of Justice
United States Marshals Service
Notes to the Financial Statements
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Note 7. Other Assets

As of September 30, 2011 and 2010	2011	2010
Intragovernmental		
Advances and Prepayments	\$ 15,506	\$ 17,212
Other Assets With the Public	184	184
Total Other Assets	<u>\$ 15,690</u>	<u>\$ 17,396</u>

Other Assets With the Public is comprised of a collection of historical items such as jewelry, badges, and a carpet. The collection was appraised in November 2002 to provide the USMS with a basis for these items.

Note 8. Liabilities not Covered by Budgetary Resources

As of September 30, 2011 and 2010	2011	2010
Intragovernmental		
Accrued FECA Liabilities	\$ 15,912	\$ 15,725
Other Unfunded Employment Related Liabilities	77	91
Total Intragovernmental	<u>15,989</u>	<u>15,816</u>
With the Public		
Actuarial FECA Liabilities	86,365	83,490
Accrued Annual and Compensatory Leave Liabilities	43,940	42,138
Contingent Liabilities (Note 11)	-	17,000
Total With the Public	<u>130,305</u>	<u>142,628</u>
Total Liabilities not Covered by Budgetary Resources	146,294	158,444
Total Liabilities Covered by Budgetary Resources	<u>445,285</u>	<u>488,169</u>
Total Liabilities	<u>\$ 591,579</u>	<u>\$ 646,613</u>

Liabilities not Covered by Budgetary Resources result from the receipt of goods and services, or the occurrence of eligible events, for which appropriations, revenues, or other financing sources necessary to pay the liabilities have not yet been made available through Congressional appropriation.



**U.S. Department of Justice
United States Marshals Service
Notes to the Financial Statements
Dollars in Thousands, Except as Noted**

Note 9. Leases

As of September 30, 2011 and 2010		
	2011	2010
Capital Leases		
Summary of Assets Under Capital Lease		
Land and Buildings	\$ 10,727	\$ 10,727
Accumulated Amortization	(10,727)	(10,190)
Total Assets Under Capital Lease (Note 6)	\$ -	\$ 537

The USMS had one capital lease for an aircraft hangar in Oklahoma City, Oklahoma, which expired in FY 2011 and will not be renewed. The remaining lease obligation for the aircraft hangar was \$946 as of September 30, 2010.

Future Capital Lease Payments Due		
<u>Fiscal Year</u>		Land and Buildings
FY 2011 Net Capital Lease Liabilities		\$ -
FY 2010 Net Capital Lease Liabilities		\$ 946
	2011	2010
Net Capital Lease Liabilities Covered by Budgetary Resources	\$ -	\$ 946

The USMS has significant operating leases with the U.S. General Services Administration for the rental of office space and with commercial vendors for the use of aircraft. The USMS does not have any future noncancelable operating leases.

United States Marshals Service

These notes are an integral part of the financial statements.



**U.S. Department of Justice
United States Marshals Service
Notes to the Financial Statements
Dollars in Thousands, Except as Noted**

Note 10. Other Liabilities

As of September 30, 2011 and 2010	2011	2010
Intragovernmental		
Employer Contributions and Payroll Taxes Payable	\$ 11,908	\$ 9,902
Other Post-Employment Benefits Due and Payable	194	149
Other Unfunded Employment Related Liabilities	77	91
Advances from Others	2,359	6,228
Liability for Deposit Funds, Clearing Accounts and Undeposited Collections	12,071	7,974
Total Intragovernmental	26,609	24,344
Total Other Liabilities	\$ 26,609	\$ 24,344

Non-current liabilities consist of future employee related expenses, such as accrued retirement contributions, life insurance, and retiree health benefits.

Note 11. Contingencies and Commitments

Contingencies include various administrative proceedings, legal actions, and claims related to contract disputes and employee and prisoner claims; see Note 1.L for more details. For legal actions where management and the Chief Counsel consider adverse decisions “probable” or “reasonably possible” and the amounts are reasonably estimable, information is disclosed below. The amounts as of September 30, 2011 and 2010 are presented in the following table.

	Accrued Liabilities	Estimated Range of Loss	
		Lower	Upper
As of September 30, 2011			
Probable	\$ -	\$ -	\$ -
Reasonably Possible		5,000	10,000
As of September 30, 2010			
Probable	\$ 17,000	\$ 17,000	\$ 17,000
Reasonably Possible		5,000	10,000



**U.S. Department of Justice
United States Marshals Service
Notes to the Financial Statements
Dollars in Thousands, Except as Noted**

Note 12. Net Cost of Operations by Suborganization

For the Fiscal Year Ended September 30, 2011							
	Suborganizations						
	Justice Prisoner and Alien Transportation System	Court Security	Federal Prisoner Detention	All Other Funds	Eliminations	Consolidated	
Goal 1: Prevent Terrorism and Promote the Nation's Security							
Gross Cost	\$ -	\$ -	\$ -	\$ 6,484	\$ -	\$ 6,484	
Net Cost of Operations	-	-	-	6,484	-	6,484	
Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People							
Gross Cost	-	-	-	30,396	-	30,396	
Net Cost of Operations	-	-	-	30,396	-	30,396	
Goal 3: Ensure the Fair and Efficient Administration of Justice							
Gross Cost	60,547	387,973	1,484,911	1,244,300	(2,885)	3,174,846	
Less: Earned Revenue	65,370	-	1,484,911	36,564	(2,885)	1,583,960	
Net Cost of Operations	(4,823)	387,973	-	1,207,736	-	1,590,886	
Net Cost of Operations	\$ (4,823)	\$ 387,973	\$ -	\$ 1,244,616	\$ -	\$ 1,627,766	

For the Fiscal Year Ended September 30, 2010							
	Suborganizations						
	Justice Prisoner and Alien Transportation System	Court Security	Federal Prisoner Detention	All Other Funds	Eliminations	Consolidated	
Goal 1: Prevent Terrorism and Promote the Nation's Security							
Gross Cost	\$ -	\$ -	\$ -	\$ 5,159	\$ -	\$ 5,159	
Net Cost of Operations	-	-	-	5,159	-	5,159	
Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People							
Gross Cost	-	-	-	4,872	-	4,872	
Net Cost of Operations	-	-	-	4,872	-	4,872	
Goal 3: Ensure the Fair and Efficient Administration of Justice							
Gross Cost	115,839	384,981	1,365,000	1,184,942	(34,588)	3,016,174	
Less: Earned Revenue	116,490	-	1,365,000	67,201	(34,588)	1,514,103	
Net Cost of Operations	(651)	384,981	-	1,117,741	-	1,502,071	
Net Cost of Operations	\$ (651)	\$ 384,981	\$ -	\$ 1,127,772	\$ -	\$ 1,512,102	

United States Marshals Service

These notes are an integral part of the financial statements.



**U.S. Department of Justice
United States Marshals Service
Notes to the Financial Statements
Dollars in Thousands, Except as Noted**

Note 13. 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 USMS from a providing entity that is not part of the U.S. Department of Justice. 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 USMS are the cost of benefits for the Federal Employees Health Benefits Program (FEHB), the Federal Employees' Group Life Insurance Program (FEGLI), the Federal Pension plans that are paid by other Federal entities, and any un-reimbursed payments made from the Treasury Judgment Fund on behalf of the USMS. The Treasury Judgment Fund was established by the 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 Interpretation No. 2, *Accounting for Treasury Judgment Fund Transactions*, requires agencies to recognize liabilities and expenses when unfavorable litigation outcomes are probable and the amount can be estimated and will be paid by the Treasury Judgment Fund.

SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, 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. For employees covered by CSRS, the cost factors are 30.1% of basic pay for regular, 51.1% law enforcement officers, 23.5% regular offset, and 45.6% law enforcement officers offset. For employees covered by Federal Employees Retirement System (FERS), the cost factors are 13.8% of basic pay for regular and 29.8% for law enforcement officers.

The cost to be paid by other agencies is the total calculated future costs, less employee and employer contributions. In addition, the cost of 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 USMS from a providing entity that is part of 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 USMS does not have any imputed intra-departmental costs to be recognized.

United States Marshals Service

These notes are an integral part of the financial statements.



**U.S. Department of Justice
United States Marshals Service
Notes to the Financial Statements
Dollars in Thousands, Except as Noted**

Note 13. Imputed Financing from Costs Absorbed by Others (continued)

For the Fiscal Years Ended September 30, 2011 and 2010		
	<u>2011</u>	<u>2010</u>
Imputed Inter-Departmental Financing		
Treasury Judgment Fund	\$ 8,416	\$ 1,563
Health Insurance	28,496	25,166
Life Insurance	103	95
Pension	18,631	11,617
Total Imputed Inter-Departmental	<u>\$ 55,646</u>	<u>\$ 38,441</u>

**Note 14. Information Related to the Statement of Budgetary Resources
Apportionment Categories of Obligations Incurred:**

	<u>Direct Obligations</u>	<u>Reimbursable Obligations</u>	<u>Total Obligations Incurred</u>
For the Fiscal Year Ended September 30, 2011			
Obligations Apportioned Under			
Category A	\$ 1,593,791	\$ 1,610,059	\$ 3,203,850
Category B	28,531	-	28,531
Total	<u>\$ 1,622,322</u>	<u>\$ 1,610,059</u>	<u>\$ 3,232,381</u>
For the Fiscal Year Ended September 30, 2010			
Obligations Apportioned Under			
Category A	\$ 1,569,307	\$ 1,562,834	\$ 3,132,141
Category B	-	-	-
Total	<u>\$ 1,569,307</u>	<u>\$ 1,562,834</u>	<u>\$ 3,132,141</u>

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 represents resources apportioned for other time periods; for activities, projects, and objectives or for combination thereof.



**U.S. Department of Justice
United States Marshals Service
Notes to the Financial Statements
Dollars in Thousands, Except as Noted**

Note 14. Information Related to the Statement of Budgetary Resources (continued)

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, 2011 and 2010	2011	2010
UDO Obligations Unpaid	\$ 217,540	\$ 232,071
UDO Obligations Prepaid/Advanced	15,506	17,229
Total UDO	<u>\$ 233,046</u>	<u>\$ 249,300</u>

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 had 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 reconciliation as of September 30, 2011 is not presented, because the submission of the Budget of the United States Government for FY 2012, which presents the execution of the FY 2011 budget, occurs after publication of these financial statements. The Department of Justice Budget Appendix can be found on the OMB website (<http://www.whitehouse.gov/omb/budget>) and will be available in early February 2012.



**U.S. Department of Justice
United States Marshals Service
Notes to the Financial Statements
Dollars in Thousands, Except as Noted**

Note 14. Information Related to the Statement of Budgetary Resources (continued)

For the Fiscal Year Ended September 30, 2010: (Dollars in Millions)			
	<u>Budgetary Resources</u>	<u>Obligations Incurred</u>	<u>Net Outlays</u>
Statement of Budgetary Resources (SBR)	\$ 3,266	\$ 3,132	\$ 1,394
Funds not Reported in the Budget			
Expired Funds	(38)	(15)	-
USMS Court Security Funds	(418)	(398)	(380)
Rounding	(2)	(1)	-
Budget of the United States Government	<u>\$ 2,808</u>	<u>\$ 2,718</u>	<u>\$ 1,014</u>

The Court Security Funds are transfer appropriations from the Judiciary Branch (See Note 1.T). These transfers are accomplished through Nonexpenditure Transfer Authorizations.



U.S. Department of Justice
United States Marshals Service
Notes to the Financial Statements
Dollars in Thousands, Except as Noted

Note 15. Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing)

For the Fiscal Years Ended September 30, 2011 and 2010	2011	2010
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	\$ 3,232,381	\$ 3,132,141
Less: Spending Authority from Offsetting Collections and Recoveries	1,661,109	1,605,880
Obligations Net of Offsetting Collections and Recoveries	1,571,272	1,526,261
Net Obligations	1,571,272	1,526,261
Other Resources		
Transfers In/Out Without Reimbursement	162	186
Imputed Financing from Costs Absorbed by Others (Note 13)	55,646	38,441
Net Other Resources Used to Finance Activities	55,808	38,627
Total Resources Used to Finance Activities	1,627,080	1,564,888
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	19,383	(53,365)
Resources That Fund Expenses Recognized in Prior Periods (Note 16)	(17,014)	(1,250)
Resources That Finance the Acquisition of Assets	(47,928)	(42,574)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(45,559)	(97,189)
Total Resources Used to Finance Net Cost of Operations	\$ 1,581,521	\$ 1,467,699
Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period		
Components That Will Require or Generate Resources in Future Periods (Note 16)	\$ 4,876	\$ 6,002
Depreciation and Amortization	38,387	37,266
Revaluation of Assets or Liabilities	1,730	1,048
Other	1,252	87
Total Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period	46,245	44,403
Net Cost of Operations	\$ 1,627,766	\$ 1,512,102

United States Marshals Service

These notes are an integral part of the financial statements.



U.S. Department of Justice
United States Marshals Service
Notes to the Financial Statements
Dollars in Thousands, Except as Noted

Note 16. 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 not 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 \$146,294 and \$158,444 on September 30, 2011 and 2010, respectively, are discussed in Note 8, 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, 2011 and 2010		
	<u>2011</u>	<u>2010</u>
Resources that Fund Expenses Recognized in Prior Periods		
Other		
Decrease in Other Unfunded Employment Related Liabilities	\$ (14)	\$ -
Decrease in Contingent Liabilities	<u>(17,000)</u>	<u>(1,250)</u>
Total Other	<u>(17,014)</u>	<u>(1,250)</u>
Total Resources that Fund Expenses Recognized in Prior Periods	<u>\$ (17,014)</u>	<u>\$ (1,250)</u>
Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods		
Increase in Accrued Annual and Compensatory Leave Liabilities	\$ 1,802	\$ 3,207
(Increase)/Decrease in Exchange Revenue Receivable from the Public	12	99
Other		
Increase in Actuarial FECA Liabilities	2,875	2,176
Increase in Accrued FECA Liabilities	187	503
Increase in Other Unfunded Employment Related Liabilities	<u>-</u>	<u>17</u>
Total Other	<u>3,062</u>	<u>2,696</u>
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	<u>\$ 4,876</u>	<u>\$ 6,002</u>

United States Marshals Service

These notes are an integral part of the financial statements.

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U.S. DEPARTMENT OF JUSTICE

UNITED STATES MARSHALS SERVICE

REQUIRED SUPPLEMENTARY
INFORMATION

(UNAUDITED)



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**U.S. Department of Justice
United States Marshals Service
Required Supplementary Information
Combining Statement of Budgetary Resources
Broken Down by Major Appropriation
For the Fiscal Year Ended September 30, 2011**

Dollars in Thousands

2011

	Salaries & Expense	Court Security	Construction	Justice Prisoner and Alien Transportation System	Total
Budgetary Resources					
Unobligated Balance, Brought Forward, October 1	\$ 77,295	\$ 19,476	\$ 10,631	\$ 25,973	\$ 133,375
Recoveries of Prior Year Unpaid Obligations	47,890	12,445	2,077	2,407	64,819
Budget Authority					
Appropriations Received	1,125,763	-	16,625	-	1,142,388
Spending Authority from Offsetting Collections					
Eamed					
Collected	1,510,818	-	-	65,723	1,576,541
Change in Receivables from Federal Sources	16,950	-	-	(330)	16,620
Change in Unfilled Customer Orders					
Advance Received	(3,869)	-	-	-	(3,869)
Without Advance from Federal Sources	6,998	-	-	-	6,998
Subtotal Budget Authority	2,656,660	-	16,625	65,393	2,738,678
Nonexpenditure Transfers, Net, Actual	(6,820)	395,883	(872)	-	388,191
Permanently not Available	(2,252)	-	(33)	-	(2,285)
Total Budgetary Resources	\$ 2,772,773	\$ 427,804	\$ 28,428	\$ 93,773	\$ 3,322,778
Status of Budgetary Resources					
Obligations Incurred					
Direct	\$ 1,177,422	\$ 418,523	\$ 26,377	\$ -	\$ 1,622,322
Reimbursable	1,550,338	-	-	59,721	1,610,059
Total Obligations Incurred	2,727,760	418,523	26,377	59,721	3,232,381
Unobligated Balance - Available					
Apportioned	19,279	3,964	536	33,951	57,730
Total Unobligated Balance - Available	19,279	3,964	536	33,951	57,730
Unobligated Balance not Available	25,734	5,317	1,515	101	32,667
Total Status of Budgetary Resources	\$ 2,772,773	\$ 427,804	\$ 28,428	\$ 93,773	\$ 3,322,778
Change in Obligated Balance					
Obligated Balance, Net - Brought Forward, October 1					
Unpaid Obligations	\$ 527,443	\$ 132,491	\$ 34,653	\$ 13,964	\$ 708,551
Less: Uncollected Customer Payments from Federal Sources	156,080	-	-	9,134	165,214
Total Unpaid Obligated Balance, Net - Brought Forward, October 1	371,363	132,491	34,653	4,830	543,337
Obligations Incurred, Net	2,727,760	418,523	26,377	59,721	3,232,381
Less: Gross Outlays	2,737,148	407,018	20,694	62,643	3,227,503
Less: Recoveries of Prior Year Unpaid Obligations, Actual	47,890	12,445	2,077	2,407	64,819
Change in Uncollected Customer Payments from Federal Sources	(23,948)	-	-	330	(23,618)
Obligated Balance, Net - End of Period					
Unpaid Obligations	470,165	131,550	38,260	8,635	648,610
Less: Uncollected Customer Payments from Federal Sources	180,028	-	-	8,804	188,832
Total Unpaid Obligated Balance, Net - End of Period	\$ 290,137	\$ 131,550	\$ 38,260	\$ (169)	\$ 459,778
Net Outlays					
Gross Outlays	\$ 2,737,148	\$ 407,018	\$ 20,694	\$ 62,643	\$ 3,227,503
Less: Offsetting Collections	1,506,949	-	-	65,723	1,572,672
Total Net Outlays	\$ 1,230,199	\$ 407,018	\$ 20,694	\$ (3,080)	\$ 1,654,831



**U.S. Department of Justice
United States Marshals Service
Required Supplementary Information
Combining Statement of Budgetary Resources
Broken Down by Major Appropriation
For the Fiscal Year Ended September 30, 2010**

Dollars in Thousands

2010

	<u>Salaries & Expense</u>	<u>Court Security</u>	<u>Construction</u>	<u>Justice Prisoner and Alien Transportation System</u>	<u>Total</u>
Budgetary Resources					
Unobligated Balance, Brought Forward, October 1	\$ 43,468	\$ 7,037	\$ 1,115	\$ 24,041	\$ 75,661
Recoveries of Prior Year Unpaid Obligations	50,755	11,625	1,738	2,780	66,898
Budget Authority					
Appropriations Received	1,155,414	-	34,625	-	1,190,039
Spending Authority from Offsetting Collections Earned					
Collected	1,475,438	-	-	117,320	1,592,758
Change in Receivables from Federal Sources	(39,124)	-	-	(813)	(39,937)
Change in Unfilled Customer Orders					
Advance Received	4,475	-	-	-	4,475
Without Advance from Federal Sources	(18,314)	-	-	-	(18,314)
Subtotal Budget Authority	<u>2,577,889</u>	<u>-</u>	<u>34,625</u>	<u>116,507</u>	<u>2,729,021</u>
Nonexpenditure Transfers, Net, Actual	(5,201)	399,137	-	-	393,936
Permanently not Available	-	-	-	-	-
Total Budgetary Resources	<u>\$ 2,666,911</u>	<u>\$ 417,799</u>	<u>\$ 37,478</u>	<u>\$ 143,328</u>	<u>\$ 3,265,516</u>
Status of Budgetary Resources					
Obligations Incurred					
Direct	\$ 1,144,137	\$ 398,323	\$ 26,847	\$ -	\$ 1,569,307
Reimbursable	1,445,480	-	-	117,354	1,562,834
Total Obligations Incurred	<u>2,589,617</u>	<u>398,323</u>	<u>26,847</u>	<u>117,354</u>	<u>3,132,141</u>
Unobligated Balance - Available					
Apportioned	49,942	11,940	9,582	25,927	97,391
Total Unobligated Balance - Available	<u>49,942</u>	<u>11,940</u>	<u>9,582</u>	<u>25,927</u>	<u>97,391</u>
Unobligated Balance not Available	<u>27,352</u>	<u>7,536</u>	<u>1,049</u>	<u>47</u>	<u>35,984</u>
Total Status of Budgetary Resources	<u>\$ 2,666,911</u>	<u>\$ 417,799</u>	<u>\$ 37,478</u>	<u>\$ 143,328</u>	<u>\$ 3,265,516</u>
Change in Obligated Balance					
Obligated Balance, Net - Brought Forward, October 1					
Unpaid Obligations	\$ 466,546	\$ 125,632	\$ 25,920	\$ 16,489	\$ 634,587
Less: Uncollected Customer Payments from Federal Sources	213,518	-	-	9,947	223,465
Total Unpaid Obligated Balance, Net - Brought Forward, October 1	<u>253,028</u>	<u>125,632</u>	<u>25,920</u>	<u>6,542</u>	<u>411,122</u>
Obligations Incurred, Net	2,589,617	398,323	26,847	117,354	3,132,141
Less: Gross Outlays	2,477,965	379,839	16,376	117,099	2,991,279
Less: Recoveries of Prior Year Unpaid Obligations, Actual	50,755	11,625	1,738	2,780	66,898
Change in Uncollected Customer Payments from Federal Sources	57,438	-	-	813	58,251
Obligated Balance, Net - End of Period					
Unpaid Obligations	527,443	132,491	34,653	13,964	708,551
Less: Uncollected Customer Payments from Federal Sources	156,080	-	-	9,134	165,214
Total Unpaid Obligated Balance, Net - End of Period	<u>\$ 371,363</u>	<u>\$ 132,491</u>	<u>\$ 34,653</u>	<u>\$ 4,830</u>	<u>\$ 543,337</u>
Net Outlays					
Gross Outlays	\$ 2,477,965	\$ 379,839	\$ 16,376	\$ 117,099	\$ 2,991,279
Less: Offsetting Collections	1,479,913	-	-	117,320	1,597,233
Total Net Outlays	<u>\$ 998,052</u>	<u>\$ 379,839</u>	<u>\$ 16,376</u>	<u>\$ (221)</u>	<u>\$ 1,394,046</u>

U.S. DEPARTMENT OF JUSTICE

UNITED STATES MARSHALS SERVICE

APPENDIX



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**OFFICE OF THE INSPECTOR GENERAL
ANALYSIS AND SUMMARY OF ACTIONS
NECESSARY TO CLOSE THE REPORT**

The Office of the Inspector General (OIG) provided a draft of the *Independent Auditors' Report on Internal Control over Financial Reporting* to the United States Marshals Service (USMS). USMS's response is incorporated in the *Independent Auditors' Report on Internal Control over Financial Reporting* of this final report. The following provides the OIG analysis of the response and summary of actions necessary to close the report.

Recommendation Number:

1. **Resolved.** The USMS concurred with our recommendation. This recommendation can be closed when subsequent annual financial statement audit testing verifies that the USMS has coordinated efforts among the Audit Coordination and Remediation team, Financial Services Division, and USMS program offices to finalize and consistently implement policies and procedures for recording obligations and deobligations in a timely manner, and that the USMS has ensured that accruals for goods and services provided but not paid for are properly calculated, recorded timely, and adequately supported.
2. **Closed.** The status of corrective action related to this recommendation will be tracked through Recommendation No. 2 of the FY 2010 Annual Financial Statement Audit Report (OIG Report No. 11-10).
3. **Resolved.** The USMS concurred with our recommendation. This recommendation can be closed when subsequent annual financial statement audit testing verifies that the USMS has reviewed and updated policies and procedures for the use of purchase cards to pay recurring charges, including procedures to ensure that accruals are recorded for goods and services received, and that there is an adequate audit trail to support undelivered order and accounts payable balances.
4. **Closed.** The status of corrective action related to this recommendation will be tracked through Recommendation No. 5 of the FY 2010 Annual Financial Statement Audit Report (OIG Report No. 11-10).