UNITED STATES MARSHALS SERVICE ANNUAL FINANCIAL STATEMENTS FISCAL YEAR 2012

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

Audit Report 13-14
January 2013

UNITED STATES MARSHALS SERVICE
ANNUAL FINANCIAL STATEMENTS
FISCAL YEAR 2012

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, 2012, and September 30, 2011. Under the direction of the Office of the Inspector General (OIG), Cotton & Company LLP performed the USMS's audit in accordance with auditing standards generally accepted in the United States of America. The audit resulted in an unqualified opinion on the FY 2012 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 2011, the USMS also received an unqualified opinion on its financial statements (OIG Report No. 12-15).

Cotton & Company LLP also issued reports on internal control over financial reporting and on compliance and other matters. The auditors identified one significant deficiency in the FY 2012 *Independent Auditors' Report on Internal Control over Financial Reporting*, which is an improvement over the prior year, when the auditors reported one material weakness. The significant deficiency 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 2012 *Independent Auditors' Report on Compliance and Other Matters*, the auditors noted that the USMS's financial management systems did not substantially comply with federal financial management system requirements 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 *Government Auditing Standards*, was not intended to enable us to express, and we do not express, an opinion on the USMS's financial statements, conclusions about the effectiveness of internal control, conclusions on whether the 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 5, 2012, 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 auditing standards generally accepted in the United States of America.

UNITED STATES MARSHALS SERVICE
ANNUAL FINANCIAL STATEMENTS
FISCAL YEAR 2012

TABLE OF CONTENTS

This page left intentionally blank.

U.S. DEPARTMENT OF JUSTICE

UNITED STATES MARSHALS SERVICE

MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)

This page left intentionally blank.

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 USMS is to enforce Federal laws and provide support to virtually all elements of the Federal justice system by providing for the security of Federal court facilities and the safety of judges and other court personnel; apprehending fugitives; exercising custody of Federal prisoners and providing for their security and transportation to detention facilities; executing Federal court orders; managing and disposing of the assets seized and forfeited by Federal law enforcement agencies; and assuring the safety of protected government witnesses and their families. 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 because 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 the *DOJ Fiscal Years 2012-2016 Strategic Plan (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: 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, 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 fiscal year (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. The USMS transportation requirements are funded using annual reimbursable agreements between the USMS and the Office of the Federal Detention Trustee (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 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 Consolidated Balance Sheet as of September 30, 2012, shows $909.8 million in total assets, an decrease of $104 million (10.3 percent) from the previous year's total assets of $1,013.8 million. The largest assets include Fund Balance with U.S. Treasury (FBWT) and General Property, Plant, and Equipment in the combined amounts of $754.1 million and $826.5 million as of September 30, 2012 and 2011, respectively. This comprised 82.9 percent and 81.5 percent of total assets as of September 30, 2012 and 2011, respectively.

The FBWT represents all funds the USMS has on account with the U.S. Treasury to cover 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, 2012, the General Property, Plant, and Equipment net balance was $265.9 million. As of September 30, 2011, the General Property, Plant, and Equipment net balance was $264.2 million.

Liabilities: Total USMS liabilities were $480.8 million as of September 30, 2012, a decrease of $110.8 million (18.7 percent) from the previous year's total liabilities of $591.6 million. The largest liability is Accounts Payable with the Public, which equaled $244.0 million and $354.2 million, as of September 30, 2012 and 2011, respectively. This comprised 50.7 and 59.9 percent of total liabilities, as of September 30, 2012 and 2011, 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. Additionally, in anticipation of the migration to the Unified Financial Management System (UFMS) in FY 2013, USMS accelerated payments and made a concerted effort to reduce accounts payable balances.

Net Cost of Operations: The USMS's Consolidated Statements of Net Cost present the gross and net cost by strategic goal. The net cost of USMS operations remained stable totaling $1,648.1 million for the year ended September 30, 2012, an increase of $20.3 million (1.6 percent) from the previous year's net cost of operations of $1,627.8 million. However, Strategic Goal 1 costs were $4.8 million for the year ended September 30, 2012, a decrease of $1.7 million (26.1 percent) from the previous year's Strategic Goal 1 costs of $6.5 million. The decrease is primarily due to reduced spending within the Office of Protective Intelligence (OPI).

Budgetary Resources: The USMS's FY 2012 Combined Statements of Budgetary Resources show $3,286.6 million in total budgetary resources, which remained stable with a decrease of $36.2 million (1.1 percent) from the previous year's total budgetary resources of $3,322.8 million.

Net Outlays: The USMS's FY 2012 Combined Statements of Budgetary Resources show $1,673.5 million in net outlays, which also remained stable reflecting an increase of $18.7 million (1.1 percent) from the previous year's total net outlays of $1,654.8 million.

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

Source	FY 2012	FY 2011	Change%
Earned Revenue	$ 1,543,645	$ 1,583,960	(3%)
Budgetary Financing Sources			
Appropriations Received	1,189,000	1,142,388	4%
Appropriation Transferred-In/Out	416,211	388,191	7%
Other Adjustments and Other Budgetary Financing Sources	(2,200)	(2,285)	4%
Other Financing Sources			
Transfers-In/Out Without Reimbursement	58	162	(64%)
Imputed Financing from Costs Absorbed by Others	51,770	55,646	(7%)
Total	**$ 3,198,484**	**$ 3,168,062**	1%

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

Strategic Goal (SG)	FY 2012	FY 2011	Change%
SG 1: Prevent Terrorism and Promote the Nation's Security Consistent with the Rule of Law			
Gross Cost	$ 4,794	$ 6,484	
Net Cost	4,794	6,484	(26%)
SG 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law			
Gross Cost	$ 32,637	$ 30,396	
Net Cost	32,637	30,396	7%
SG 3: Ensure and Support the Fair, Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels			
Gross Cost	3,154,286	3,174,846	
Less: Earned Revenue	1,543,645	1,583,960	
Net Cost	1,610,641	1,590,886	1%
Total Gross Cost	3,191,717	3,211,726	
Less: Total Earned Revenue	1,543,645	1,583,960	
Total Net Cost of Operations	$ 1,648,072	$ 1,627,766	1%

2012 FINANCIAL HIGHLIGHTS

The *Strategic Plan* includes three strategic goals, which have been modified from the previous *Strategic Plan* to reflect the goals, objectives, and areas of emphasis of Attorney General Eric H. Holder, Jr. While the strategic goals are similar to those in the prior version, the current DOJ Strategic Plan places a stronger emphasis on rule of law, international partnerships, reinvigorating the traditional missions of DOJ, and restoring credibility to the Department. 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 Consistent with the Rule of Law, includes activities that strengthen partnerships to prevent, deter, and respond to terrorist incidents. The Goal 1 costs include payroll and operating costs for the 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 $4.8 million for the FY ending September 30, 2012 and $6.5 million for the FY ending September 30, 2011, on Strategic Goal 1.

Strategic Goal 2, Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law, 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 $32.6 million for the FY ending September 30, 2012 and $30.4 million for the FY ending September 30, 2011, on Strategic Goal 2.

Strategic Goal 3, Ensure and Support the Fair, Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels, includes 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 $1,610.6 million for the FY ending September 30, 2012 and $1,590.9 million for the FY ending September 30, 2011, on Strategic Goal 3.

PERFORMANCE INFORMATION

Data Reliability and Validity

The USMS views data reliability and validity as critically important in the planning and assessment of our 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.*

FY 2012 REPORT ON SELECTED RESULTS

STRATEGIC GOAL 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law – *2 percent of USMS's Net Costs support this Goal.*

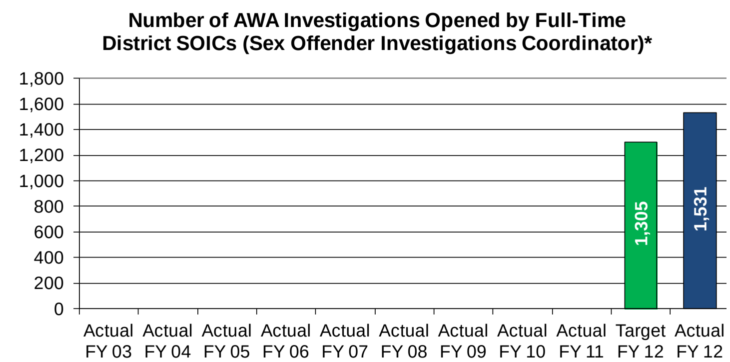
STRATEGIC OBJECTIVE 2.2: Prevent and intervene in crimes against vulnerable populations; uphold the rights of, and improve services to, America's crime victims.

PROGRAM: NEW MEASURE – Sex Offender Apprehension Program

Background/Program Objectives:
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 of 2006 (AWA). A non-compliant sex offender is any person who fails to comply with their registration requirements.

During FY 2009, the USMS, with guidance and direction from the DOJ Criminal Division, issued legal and investigative guidelines to assist in the investigations of violations of the AWA. The USMS continues to establish contacts with state and local law enforcement agencies, and registry officials to coordinate efforts to identify, apprehend, and prosecute non-compliant sex offenders. The USMS is also coordinating its enforcement efforts with INTERPOL National Central Bureau in Washington, D.C. to identify sex offenders engaging in international travel to ensure they comply with their registration.

Through the continued development of the National Sex



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

Data Definitions: This measure includes all AWA investigations that reach the level of the Attorney General's Guidelines for Conducting Domestic Investigations.

Data Collection and Storage: The USMS maintains the Justice Detainee Information System (JDIS) to collect warrant information, investigative leads, and other criminal information. Within JDIS, the Sex Offender Investigations Branch has created a criminal case management system for Adam Walsh Act (18 USC 2250) investigations. Upon receipt of a lead from state or local law enforcement about a potential Adam Walsh Act violation, Deputy U.S. Marshals query the FBI's National Crime Information Center (NCIC) and the International Justice and Public Safety Information Network (NLETS) through JDIS to look for previous criminal information. If appropriate, an Adam Walsh Act investigation is then opened in the JDIS case management system. These cases are reviewed according to USMS procedure and either elevated in status or closed as information is developed.

Data Validation and Verification: The USMS coordinates with district offices to verify that the warrants entered into JDIS are validated against the signed court records. Validation of other data within JDIS is validated by verifying the information using other source documents or systems (NCIC). Investigative case data is verified according to NCIC policy and procedures. The district offices work with sex offender registry officials to ensure that data is correct. The USMS is able to enhance fugitive investigative efforts by sharing data with other agencies such as the Social Security Administration, Department of Housing and Urban Development, Drug Enforcement Administration, Department of Agriculture, Department of Defense, Department of State, and a variety of task forces around the country.

Data Limitations: JDIS data, including the case management system, is accessible to all USMS districts and is updated as new information is collected; therefore, there may be a lag in reporting of data. As this is a new measure, the data was not tracked or reported before FY 2012.

Offender Targeting Center (NSOTC), the USMS assists other Federal departments and agencies with their battle against non-compliance. This includes assisting the Department of Defense with the location and apprehension of military sex offenders, along with Absence Without Leave personnel. Additionally, working with registry officials, Transportation Security Administration, INTERPOL, Diplomatic Security Service, and foreign governments, the NSOTC has become a central collection point for reporting international travel of offenders, and in tracking the return of offenders to the U.S. to assess the potential for non-compliance.

The NSOTC also houses the USMS's Behavioral Analysis Unit (BAU) that works to prioritize offenders for dangerousness, identify trends of offenders, conduct related research, and ensure the wellness of Federal, state, and local agents working in the field of sex offenders and sex offenses. Through the BAU, the USMS has fast become an important resource to law enforcement nationwide in the battle against non-compliance.

USMS also created a new performance measure to support this effort, "Number of AWA Investigations Opened by Full-Time District SOICs (Sex Offender Investigations Coordinator)" as illustrated on the previous page. The basis for the FY 2012 Target for this performance measurement was derived by first estimating the number of investigations deemed appropriate for each full-time SOIC to open in a fiscal year (which was determined to be 15); and subsequently multiplying that amount by the 87 full-time District SOICs in the field, totaling 1,305.

Performance Measure: Number of AWA Investigations Opened by Full-Time District SOICs (Sex Offender Investigations Coordinator)

FY 2003 Actual Performance:	Not Available
FY 2004 Actual Performance:	Not Available
FY 2005 Actual Performance:	Not Available
FY 2006 Actual Performance:	Not Available
FY 2007 Actual Performance:	Not Available
FY 2008 Actual Performance:	Not Available
FY 2009 Actual Performance:	Not Available
FY 2010 Actual Performance:	Not Available
FY 2011 Actual Performance:	Not Available
FY 2012 Target:	1,305
FY 2012 Actual Performance:	1,531

Discussion of FY 2012 Results: The USMS exceeded its FY 2012 target of 1,305 AWA Investigations, opened by full-time District SOICs. During FY 2012, the 87 full-time SOIC's opened a total of 1,531 investigations in efforts to identify, apprehend, and prosecute non-compliant sex offenders. In addition, the USMS, as a whole, opened a total of 3,169 AWA Investigations, received 646 Federal Warrants for AWA registration violations, of which 586 were cleared by USMS arrest.

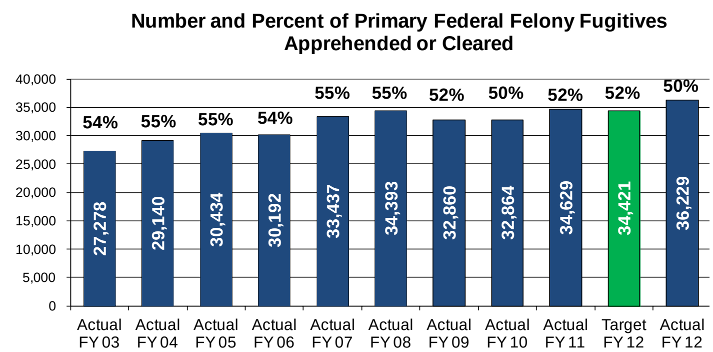
The title of this Performance Measure will be revised for FY 2013.

STRATEGIC GOAL 3: Ensure and Support the Fair Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels – *98 percent of USMS's Net Costs support this Goal*

STRATEGIC OBJECTIVE 3.2: Protect judges, witnesses, and other participants in Federal proceedings; apprehend fugitives; and ensure the appearance of criminal defendants for judicial proceedings or confinement.

PROGRAM: Fugitive Apprehension Program

Background/Program Objectives: The USMS has a long and distinguished history of providing assistance and expertise to other Federal, state, or local law enforcement agencies in support of violent crime reduction through fugitive investigations. These partnerships have evolved into the ultimate force multiplier in Federal law enforcement, and allow our task forces to focus on the most egregious state and local fugitives and ensure the greatest protection to the Public by maximizing the effectiveness of resources. The USMS uses a combination of Regional Fugitive Task Forces (RFTFs) and District Fugitive Task forces (DFTFs) to form a national network responsible for the apprehension of violent fugitive felons. The Presidential Threat Protection Act of 2000 initially established the USMS RFTF model. It consists of Federal, state, and local law enforcement authorities in designated regions of the United States, which are directed and coordinated by the USMS, for the purpose of locating and apprehending fugitives. In addition to domestic activities, the USMS is the lead agency responsible for extraditing (or deporting) U.S.



Data Definitions: 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.

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 FY) and on-hand fugitives (fugitives who had an active warrant at the beginning of the FY).

Data Collection and Storage: The USMS maintains 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 NCIC and NLETS through JDIS to look for previous criminal information.

Data Validation and Verification: Warrant and fugitive data are verified according to NCIC policy and procedures. 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: JDIS 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.

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 AWA. A non-compliant sex offender is any person who fails to comply with Federal registration requirements.

Performance Measure: Number and Percent of Primary Federal Felony Fugitives Apprehended or Cleared

FY 2003 Actual Performance:	27,278/54 percent
FY 2004 Actual Performance:	29,140/55 percent
FY 2005 Actual Performance:	30,434/55 percent
FY 2006 Actual Performance:	30,192/54 percent
FY 2007 Actual Performance:	33,437/55 percent
FY 2008 Actual Performance:	34,393/55 percent
FY 2009 Actual Performance:	32,860/52 percent
FY 2010 Actual Performance:	32,864/50 percent
FY 2011 Actual Performance:	34,629/52 percent
FY 2012 Target:	34,421/52 percent
FY 2012 Actual Performance:	36,229/50 percent

Discussion of FY 2012 Results: In FY 2012, the USMS apprehended or cleared 36,229 primary Federal felony fugitives, exceeding the target of 34,421. This resulted in 50 percent of total primary Federal felony fugitives apprehended or cleared which is half of the 72,001 warrants on hand or received during FY 2012. The target of 52 percent apprehended or cleared was not met due to the dynamic and increasing level of the underlying number of fugitives. Among those arrested, 3,934 (including State/Local) were for crimes of homicide, 4,917 (including State/Local) were gang members, and 12,976 (including State/Local) were sex offenders. In addition, in FY 2012, the USMS had 924 fugitives extradited and /or deported to the United States from other countries.

The seven operating RFTF, in addition to the 60 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 RFTF and DFTF combined led to the arrest of 86,016 state and local fugitive felons in FY 2012. The USMS initiated 3,208 Federal investigations into the failure of sex offenders to meet their registration requirements.

The title of this Performance Measure will be revised for FY 2013.

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 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 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 comply 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 controls and financial management systems that meet the objectives of FMFIA. The USMS assessed its internal controls 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 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 assessments, the USMS can provide reasonable assurance that its internal controls and financial managements systems meet the objectives of the FMFIA. Internal controls were operating effectively as of June 30, 2012, and the assessments identified no material weaknesses in the design or operation of the controls and no system non-conformances required to be reported.

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 Evaluations 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 (FFMIA)

The Federal Financial Management Improvement Act of 1996 (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 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 2012.

- 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.

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.

Current trends, including an increased focus on illegal immigration, the impact of the current economic recession, and a merger with the Office of the Federal Detention Trustee (OFDT) may alter the resources needed by the USMS in order to fulfill its law enforcement mission in FY 2013 and beyond.

Illegal Immigration

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.

Current Economic Conditions

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.

OFDT Merger

In FY 2013, the Department proposes merging OFDT with USMS. The merger will align the accountability of resources with the responsibility of Federal detention operations under a single command and control structure within the USMS leadership. The OFDT will become the Federal Prisoner Detention appropriation under the USMS.

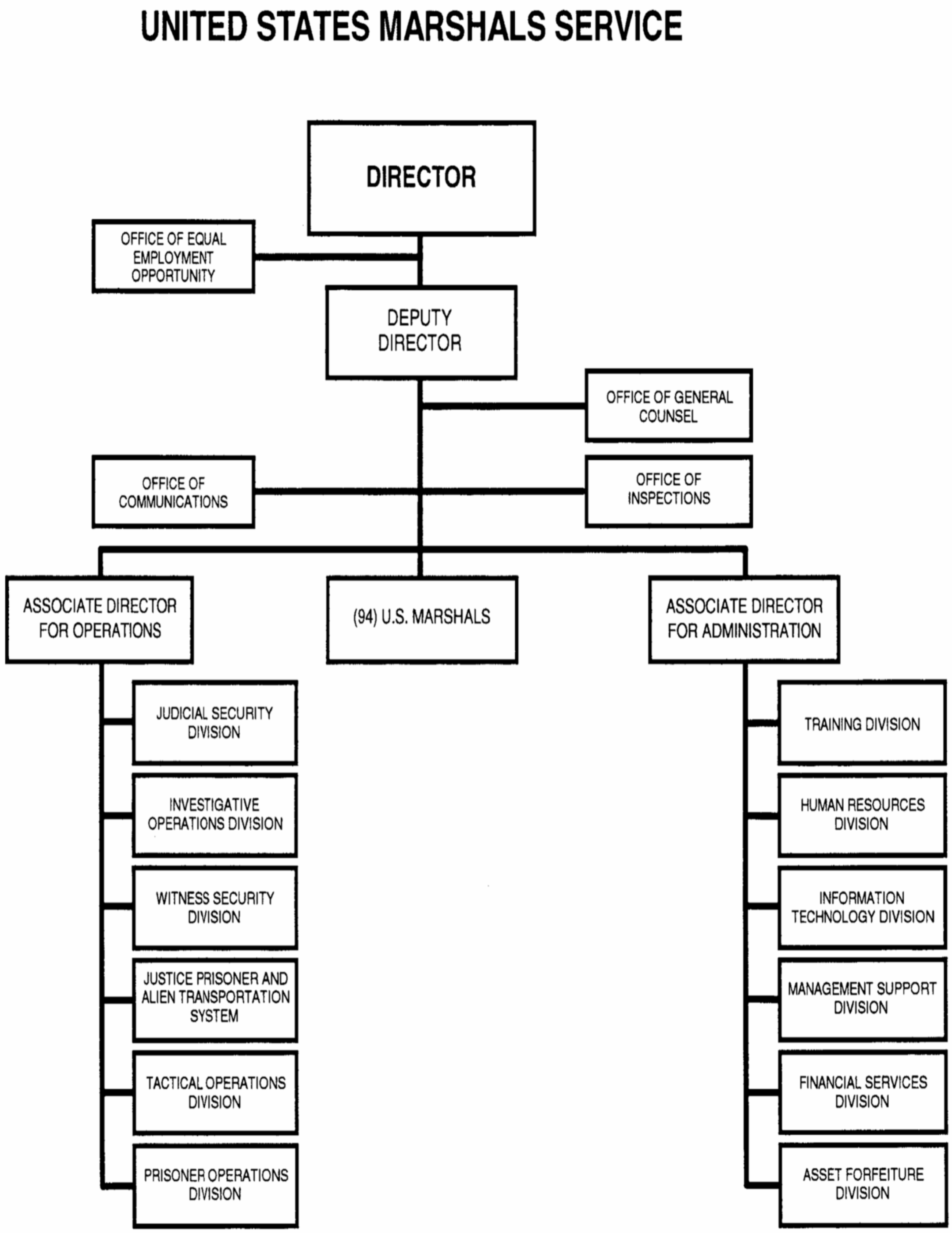
IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT IMPLEMENTATION

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 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.

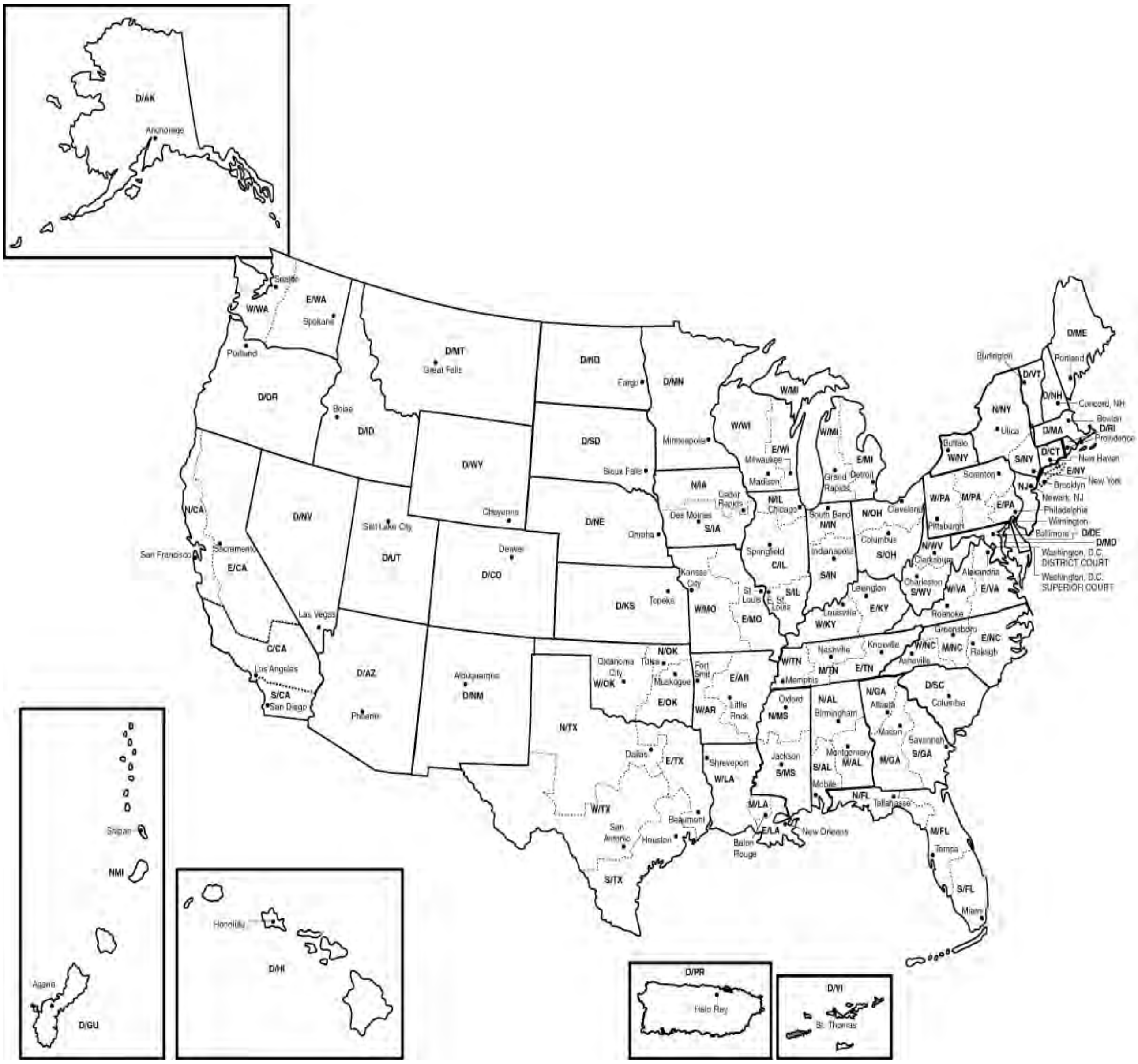
In accordance with the Departmental approach for implementing IPERA, the USMS assessed its activities for susceptibility to significant improper payments. The USMS also conducted its payment recapture audit program in accordance with the Departmental approach. The USMS provided the results of both the risk assessment and payment recapture audit activities to the Department for the Department-level reporting in the FY 2012 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.


UNITED STATES MARSHALS SERVICE
DIRECTOR
OFFICE OF EQUAL EMPLOYMENT OPPORTUNITY
DEPUTY DIRECTOR
OFFICE OF GENERAL COUNSEL
OFFICE OF COMMUNICATIONS
OFFICE OF INSPECTIONS
ASSOCIATE DIRECTOR FOR OPERATIONS
(94) U.S. MARSHALS
ASSOCIATE DIRECTOR FOR ADMINISTRATION
JUDICIAL SECURITY DIVISION
INVESTIGATIVE OPERATIONS DIVISION
WITNESS SECURITY DIVISION
JUSTICE PRISONER AND ALIEN TRANSPORTATION SYSTEM
TACTICAL OPERATIONS DIVISION
PRISONER OPERATIONS DIVISION
TRAINING DIVISION
HUMAN RESOURCES DIVISION
INFORMATION TECHNOLOGY DIVISION
MANAGEMENT SUPPORT DIVISION
FINANCIAL SERVICES DIVISION
ASSET FORFEITURE DIVISION

THE 94 USMS DISTRICT OFFICES



This page left intentionally blank.

U.S. DEPARTMENT OF JUSTICE

UNITED STATES MARSHALS SERVICE

INDEPENDENT AUDITORS' REPORTS

This page left intentionally blank.

Cotton & Company LLP
635 Slaters Lane
4th Floor
Alexandria, VA 22314

P: 703.836.6701
F: 703.836.0941
www.cottoncpa.com

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

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, 2012 and 2011, 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, 2012 and 2011, 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.

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

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 5, 2012, 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

Alan Rosenthal, CPA, CFE
Partner

November 5, 2012
Alexandria, Virginia

Cotton & Company LLP
635 Slaters Lane
4th Floor
Alexandria, VA 22314

P: 703.836.6701
F: 703.836.0941
www.cottoncpa.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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, 2012 and 2011, 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 5, 2012. 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 2012 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the second paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described below, that, when combined, we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance.

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 (SIGNIFICANT DEFICIENCY) (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 years 2010 and 2011, the USMS management, with the assistance of contractor personnel, developed a Corrective Action Plan to address the previously reported material weakness related to undelivered orders and accounts payable. USMS management 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. However, during fiscal year 2012, it was noted that the procedures were not finalized and/or consistently implemented in all of the USMS's district and headquarters offices. 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 number of errors during fiscal year 2012 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 with USMS procedures, which resulted in the following known and likely misstatements.

Undelivered Orders Fiscal Year 2012 Test Results			
Sample Population	Number of Errors/ Transactions Tested	Known Errors	Likely Misstatement[1]
Headquarters and District Offices (March 31, 2012)	24/187	\$20.0 million net understatement	\$16.8 million net understatement
Headquarters and District Offices (June 30, 2012)	33/189	\$3.5 million net overstatement	\$4.4 million net overstatement
Headquarters and District Offices (September 30, 2012)	2/80	\$156 thousand net overstatement	\$1.4 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, 2012)

- Seven UDOs were incorrect because the USMS did not record an accrual for goods and services received as of March 31, 2012. This resulted in a net overstatement of \$555 thousand.

- Four UDOs were incorrect because of errors in calculating accounts payable accruals or previously received amounts were not adjusted to reflect the actual invoice amounts. This resulted in a net understatement of \$15 thousand.

- Three UDOs were overstated by a total of $1.1 million because USMS obligated additional funds for a purchase card without a valid obligating document and two obligations were recorded in Standardized Tracking Accounting and Reporting System (STARS) before GSA accepted the project.

- One UDO was understated by $109 thousand because a refund received from GSA was not re-obligated in accordance with USMS procedures.

- Two UDOs were incorrect because the USMS did not record an accrual for goods and services received as of March 31, 2012. This resulted in a net overstatement of $17 thousand.

- Four UDOs were incorrect because of errors in calculating accounts payable accruals or previously received amounts were not adjusted to reflect the actual invoice amounts. This resulted in a net overstatement of $744 thousand.

- Three UDOs were understated by a net $22.3 million because the obligations were not recorded correctly. For one item, the USMS obligated the entire amount allocated by HQ rather than the amount on the purchase order; for another item, the amount should have been deobligated by the USMS; and for another item, the USMS did not obligate the full contract amount as of March 31, 2012.

Headquarters; and District Offices (June 30, 2012)

- Five instances where USMS did not accrue for products/services received prior to June 30 and/or USMS did not adjust accrual amounts based on amounts received and/or paid prior to June 30. Combined, these exceptions caused the UDO balance to be overstated by a net $198 thousand.

- Twenty instances where USMS did not accrue for Court Security Officer (CSO) start-up costs based on the required methodology and/or could not support the obligated amount per the contract either because support was not provided, or the contract amount was not entered in STARS correctly. These exceptions caused the UDO balance to be overstated by a net $1.6 million.

- Six instances where documentation was not provided to fully support the amount obligated and/or amounts accrued. These exceptions caused the UDO balance to be understated by a net $144 thousand.

- One instance where USMS posted the accrued amount incorrectly in STARS based on supporting documentation. In this case the travel accrual that was posted for June was posted in STARS twice. In this instance, the obligated amount entered in STARS did not tie to the task orders. This caused the UDO balance to be understated by $630.

- One instance where both Headquarters and the District Office entered the June obligation thus overstating the UDO balance by $1.8 million.

Headquarters and District Offices (September 30, 2012)

- One instance where the amount accrued for September was not sufficient to cover the value of services received thus overstating the UDO balance by $157 thousand.

- One instance where an accrual was entered for a purchase card even though services were already paid for thus understating the UDO balance by $539.

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 with USMS procedures, which resulted in the following known and likely misstatements.

Delivered Orders – Obligations Unpaid
Fiscal Year 2012 Test Results

Sample Population	Number of Errors/Transactions Tested	Known Errors	Likely Misstatement[2]
Headquarters and District Offices (March 31, 2012)	8/109	$751 thousand net understatement	$1.9 million net understatement
Headquarters and District Offices (June 30, 2012)	15/109	$31 thousand net understatement	$1.6 million net overstatement
Headquarters and District Offices (September 30, 2012)	14/80	$248 thousand net overstatement	$4.2 million net overstatement

[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 understatement may project to a likely net overstatement.

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

Headquarters and District Offices (March 31, 2012)

- Two instances in which the USMS did not accrue for services received during March and/or the accrual was calculated incorrectly. The two errors resulted in the Accounts Payable balance being understated by $92 thousand.

- One instance in which USMS personnel double-posted an accrual due to invoices received and unidentified IPAC's which resulted in an overstatement of $89 thousand.

- One instance in which a refund from a vendor on a prior transaction was not processed correctly. This resulted in a negative Accounts Payable balance when there should have been no payable. This error resulted in Accounts Payable being understated by $28.

- Two instances in which the USMS did not accrue for services received prior to March and/or did not adjust accrual amounts to equal actual invoiced amounts when invoices were received, causing the Accounts Payable balance to be understated by a net $21 thousand.

- Two instances in which accrued amounts were recorded incorrectly. In one instance, USMS entered labor hours worked instead of the dollar value of the wages. In the other instance, USMS incorrectly calculated the Monthly Start Up accrual. These errors resulted in a $727 thousand net understatement of the Accounts Payable balance.

Headquarters and District Offices (June 30, 2012)

- One instance where the accrual methodology was not representative of the services being provided. This caused the Accounts Payable to be understated by $36 thousand.

- Two instances where the USMS did not accrue for products/services received prior to June 30 and/or did not adjust accrual amounts based on amounts received and/or paid prior to June 30. Combined, these exceptions caused the Accounts Payable to be understated by $167 thousand.

- Six instances where the USMS posted an accrued amount incorrectly in STARS. This caused the Accounts Payable to be overstated by a net $ 96 thousand.

- One instance where the USMS could not provide documentation to support accrued amounts. This resulted in the Accounts Payable being understated by $48 thousand.

- Two instances where the USMS did not accrue for CSO start-up costs based on the established methodology. These exceptions caused the Accounts Payable to be understated by $12 thousand.

- One instance where USMS did not accrue for services received prior to June 30. This caused the Accounts Payable to be understated by $716.

- One instance where the accrual methodology being applied to the contract was not representative of the services being provided. This caused the Accounts Payable to be understated by $85 thousand.

- One instance where the Account Payable balance recorded had been direct paid under a different obligation number. Therefore as of June 30, 2012 the Accounts Payable balance should have been de-obligated. This resulted in an overstated Accounts Payable balance of $221 thousand.

Headquarters and District Offices (September 30, 2012)

- One instance where the accrual was not posted in accordance with supporting documentation. This caused the Accounts Payable to be understated by $91 thousand.

- Two instances where the accrual was posted at an amount different from what was provided in the supporting documentation. These caused the Accounts Payable balance to be understated by $360.

- Three instances related to prisoner housing where the accrual for August and/or September were not processed. These caused the Accounts Payable balance to be understated by $92 thousand.

- Three instances where the district office posted the year-end accrual incorrectly based on a misunderstanding regarding guidance distributed by USMS. In these instances the district office accrued for the entire amount on the contract, instead of just accruing the entire start-up portion of the contract, which was what was outlined in the guidance. This caused the Accounts Payable balance to be overstated by $306 thousand.

- Two instances where the methodology used to post the monthly accrual for CSO contracts was not consistent with USMS guidance. In these instances the district offices posted the monthly accruals based on the contracted amount divided by the period of performance. These caused the Accounts Payable balance to be overstated by $100 thousand.

- One instance where an accrual was processed for services that were not provided until October FY 2013. This caused the Accounts Payable balance to be overstated by $3 thousand.

- One instance where an invoice for start-up costs was paid in STARS under a different object class. This created a difference in the Accounts Payable balance at year end because the accrual processed for start-up costs is calculated by taking the contracted amount and subtracting the paid amounts posted in STARS. This caused the Accounts Payable balance to be overstated by $2 thousand.

- One instance where USMS did not adjust accrued amounts in STARS based on invoices received and paid. This resulted in the Accounts Payable balance being overstated by $20 thousand.

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 United States Standard General Ledger 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 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:

   The USMS concurs. This year, the Financial Services Division (FSD) leadership conducted both District and Headquarters Program Office Administrative Officer (AO) Training, which served to inform and educate AOs on key business process changes; FY 2012 Office of the Inspector (OIG) audit readiness insights; the Unified Financial Management System (UFMS) integration and implementation updates; and key administrative and operational messages from Executive and Program Office Leadership. Quarterly Execution Reviews (QERs) were implemented by executive leadership with the Program Offices, focusing on operating plans versus spending in all areas, as well as monthly District reviews conducted by the FSD.

   In FY 2012, the FSD created a Transactional Analysis Team (TAT) to assist the USMS Management in identifying obligations that are either invalid, outdated, missing supporting documentation, or required assistance at both the District and Program Office level. The FSD's Audit Coordination and Review (ACR) Team continued their support of District and Program Offices by also conducting visits of certain offices, and developing analytics related to Prisoner Housing, Prisoner Medical, ADT, and Court Security processes. This involved a targeted monthly and quarterly analysis and review of key District and Program Office transactions, with an emphasis on identifying and correcting issues related to the obligation and accrual of transactions. Accrual methodologies related to key areas were documented and validated. This team will continue to serve as an audit liaison, and will recommend and implement improvements in the funds management process.

The FSD leadership implemented the centralization process for obligating and accruing Prisoner Housing and the Heritage Health Solutions (HHS) contracts, helping to ensure that the application of the financial management process were consistent, timely, supported, and manual entry errors were mitigated.

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:

The USMS concurs. The Financial Services Division's (FSD) Audit Coordination and Review (ACR) Team continued their support of Program and District Offices. The ACR developed, documented, and disseminated a revised Open Obligation Review and Certification process focusing on high risk areas and obligations. Certification of the report was changed to reflect a higher level of management involvement to include Assistant Directors in the Headquarters Program Offices, and the Chief Deputy in the Districts.

In FY 2013, the USMS Management will continue to ensure that enhanced supervisory reviews and approval controls are completed at a minimum quarterly, and discrepancies resolved timely. In addition, financial processes and procedures that can be realigned or eliminated to gain efficiencies and reduce redundancy are being assessed.

3. 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:

The USMS concurs. In FY 2012, USMS Management made extensive progress in reviewing policies and procedures to ensure consistency, and prepare for the agency wide implementation of the Unified Financial Management System (UFMS) in FY 2013. Continuous reviews and monitoring of accounting processes and transactions at District and Headquarters Program offices were conducted. The successful implementation of preventive and detective controls strengthened the new processes and procedures for funds management. A comprehensive Standard Operating Procedure (SOP) was developed to help offices understand current procedures and locate relevant policies and other guidance. To complement the SOP, a Financial "Checklist" was created for the District Chiefs to assist with ensuring integrity and compliance in key financial areas. Building on this success in FY 2013 will become a cornerstone for better financial management and mission support.

* * * *

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

Alan Rosenthal, CPA, CFE
Partner

November 5, 2012
Alexandria, Virginia

EXHIBIT

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 2012.

Report	Significant Deficiency	Recommendation	Status
Annual Financial Statements Fiscal Year 2010 Report No. 11-10	Funds Management Controls Need Improvement	**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 2012 Recommendation No. 2)
		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 2012 Recommendation No. 3)
Annual Financial Statements Fiscal Year 2011 Report No. 12-15	Funds Management Controls Need Improvement	**Recommendation No. 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.	In Process (Updated by Fiscal Year 2012 Recommendation No. 1)
		Recommendation No. 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.	Completed

This page left intentionally blank.

Cotton & Company LLP
635 Slaters Lane
4th Floor
Alexandria, VA 22314

P: 703.836.6701
F: 703.836.0941
www.cottoncpa.com

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND OTHER MATTERS

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, 2012 and 2011, 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 5, 2012. 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 2012 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 OF 1996 (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 requirement 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 system 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.

We make no recommendation because this deficiency should be corrected with the implementation of a DOJ Unified Financial Management System at the USMS in fiscal year 2013.

Management Response:

The USMS concurs. STARS is an antiquated financial system with significant challenges with respect to FFMIA requirements. The USMS implemented the Department's Unified Financial Management System (UFMS) in October 2012, for all FY 2013 financial activities. This should alleviate findings relative to Federal Financial Management System Requirements.

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

Alan Rosenthal, CPA, CFE
Partner

November 5, 2012
Alexandria, Virginia

U.S. DEPARTMENT OF JUSTICE

UNITED STATES MARSHALS SERVICE

PRINCIPAL FINANCIAL STATEMENTS AND RELATED NOTES

See Independent Auditors' Report on Financial Statements

This page left intentionally blank.

Consolidated Balance Sheets
As of September 30, 2012 and 2011

Dollars in Thousands	2012	2011
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with U.S. Treasury (Note 3)	$ 488,186	$ 562,246
Accounts Receivable (Note 4)	145,641	168,560
Other Assets (Note 7)	7,093	15,506
Total Intragovernmental	640,920	746,312
Accounts Receivable (Note 4)	29	35
Inventory and Related Property (Note 5)	2,742	3,060
General Property, Plant and Equipment, Net (Note 6)	265,904	264,246
Advances and Prepayments	47	-
Other Assets (Note 7)	184	184
Total Assets	**$ 909,826**	**$ 1,013,837**
LIABILITIES (Note 8)		
Intragovernmental		
Accounts Payable	$ 25,874	$ 31,314
Accrued Federal Employees' Compensation Act Liabilities	16,753	15,912
Other Liabilities (Note 10)	12,439	14,538
Total Intragovernmental	55,066	61,764
Accounts Payable	244,011	354,200
Actuarial Federal Employees' Compensation Act Liabilities	93,617	86,365
Accrued Payroll and Benefits	36,317	33,239
Accrued Annual and Compensatory Leave Liabilities	43,258	43,940
Other Liabilities (Note 10)	8,532	12,071
Total Liabilities	**$ 480,801**	**$ 591,579**
Contingencies and Commitments (Note 11)		
NET POSITION		
Unexpended Appropriations - All Other Funds	$ 259,570	$ 257,093
Cumulative Results of Operations - All Other Funds	169,455	165,165
Total Net Position	**$ 429,025**	**$ 422,258**
Total Liabilities and Net Position	**$ 909,826**	**$ 1,013,837**

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, 2012 and 2011

Dollars in Thousands

		Gross Costs			Less: Earned Revenues			Net Cost of Operations (Note 12)
	FY	**Intra-governmental**	**With the Public**	**Total**	**Intra-governmental**	**With the Public**	**Total**	
Goal 1:	**2012**	$ 4,794	$ -	$ 4,794	$ -	$ -	$ -	$ 4,794
	2011	$ 6,484	$ -	$ 6,484	$ -	$ -	$ -	$ 6,484
Goal 2:	**2012**	32,637	-	32,637	-	-	-	32,637
	2011	30,396	-	30,396	-	-	-	30,396
Goal 3:	**2012**	544,969	2,609,317	3,154,286	1,537,097	6,548	1,543,645	1,610,641
	2011	546,964	2,627,882	3,174,846	1,581,441	2,519	1,583,960	1,590,886
Total	**2012**	**$ 582,400**	**$ 2,609,317**	**$ 3,191,717**	**$ 1,537,097**	**$ 6,548**	**$ 1,543,645**	**$ 1,648,072**
	2011	**$ 583,844**	**$ 2,627,882**	**$ 3,211,726**	**$ 1,581,441**	**$ 2,519**	**$ 1,583,960**	**$ 1,627,766**

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

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

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

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

Consolidated Statements of Changes in Net Position
For the Fiscal Years Ended September 30, 2012 and 2011

Dollars in Thousands	2012	2011
Unexpended Appropriations		
Beginning Balances	**$ 257,093**	**$ 328,900**
Budgetary Financing Sources		
Appropriations Received	1,189,000	1,142,388
Appropriations Transferred-In/Out	416,211	388,191
Other Adjustments	(2,200)	(2,285)
Appropriations Used	(1,600,534)	(1,600,101)
Total Budgetary Financing Sources	**2,477**	**(71,807)**
Unexpended Appropriations	**$ 259,570**	**$ 257,093**
Cumulative Results of Operations		
Beginning Balances	**$ 165,165**	**$ 137,022**
Budgetary Financing Sources		
Appropriations Used	1,600,534	1,600,101
Other Financing Sources		
Transfers-In/Out Without Reimbursement	58	162
Imputed Financing from Costs Absorbed by Others (Note 13)	51,770	55,646
Total Financing Sources	**1,652,362**	**1,655,909**
Net Cost of Operations	**(1,648,072)**	**(1,627,766)**
Net Change	4,290	28,143
Cumulative Results of Operations	**$ 169,455**	**$ 165,165**
Net Position	**$ 429,025**	**$ 422,258**

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, 2012 and 2011

Dollars in Thousands	2012	2011
Budgetary Resources:		
Unobligated Balance, Brought Forward, October 1	$ 90,397	$ 133,375
Recoveries of Prior Year Unpaid Obligations	54,620	64,819
Other Changes in Unobligated Balance	(7,632)	(21,395)
Unobligated Balance from Prior Year Budget Authority, Net	137,385	176,799
Appropriations (discretionary and mandatory)	1,610,644	1,549,689
Spending Authority from Offsetting Collections (discretionary and mandatory)	1,538,614	1,596,290
Total Budgetary Resources	**$ 3,286,643**	**$ 3,322,778**
Status of Budgetary Resources:		
Obligations Incurred (Note 14)	3,184,684	3,232,381
Unobligated Balance, End of Period:		
Apportioned	61,752	57,730
Unapportioned	40,207	32,667
Total Unobligated Balance - End of Period	101,959	90,397
Total Status of Budgetary Resources:	**$ 3,286,643**	**$ 3,322,778**
Change in Obligated Balance:		
Obligated Balance, Net - Brought Forward, October 1		
Unpaid Obligations, Gross	$ 648,610	$ 708,551
Less: Uncollected Customer Payments from Federal Sources	188,832	165,214
Total Obligated Balance, Net - Brought Forward, October 1	459,778	543,337
Obligations Incurred	3,184,684	3,232,381
Less: Outlays, Gross	3,240,907	3,227,503
Change in Uncollected Customer Payments from Federal Sources	28,761	(23,618)
Less: Recoveries of Prior Year Unpaid Obligations	54,620	64,819
Obligated Balance, Net - End of Period		
Unpaid Obligations, Gross	537,767	648,610
Less: Uncollected Customer Payments from Federal Sources	160,071	188,832
Total Obligated Balance, Net - End of Period	**$ 377,696**	**$ 459,778**
Budgetary Authority and Outlays, Net:		
Budgetary Authority, Gross (discretionary and mandatory)	3,149,258	3,145,979
Less: Actual Offsetting Collections (discretionary and mandatory)	1,567,371	1,572,672
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	28,761	(23,618)
Budget Authority, Net (discretionary and mandatory)	**$ 1,610,648**	**$ 1,549,689**
Outlays, Gross (discretionary and mandatory)	$ 3,240,907	$ 3,227,503
Less: Actual Offsetting Collections (discretionary and mandatory)	1,567,371	1,572,672
Agency Outlays, Net (discretionary and mandatory)	**$ 1,673,536**	**$ 1,654,831**

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

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 Consistent with the Rule of Law"

"Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law"

"Ensure the Support and Fair, Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels"

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 with the Public, Accrued Federal Employees' Compensation Act (FECA) Liabilities, Accrued Payroll and Benefits, and Accrued Annual and Compensatory Leave 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 the fiscal years (FYs) ended September 30, 2012 and 2011, and as such, intra-entity transactions have not been eliminated.

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.

Note 1. Summary of Significant Accounting Policies (continued)

J. Advances and Prepayments

Advances and Prepayments consist of intragovernmental advances provided to Federal Prison Industries, Inc. for the equipping of vehicles and equipment. Advances provided to the Public include 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 Public 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 Liability for Nonfiduciary Deposit Funds and Undeposited Collections 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.

Note 1. Summary of Significant Accounting Policies (continued)

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).

For employees covered by the CSRS, the USMS contributes 7.0 percent of the employee's gross pay for normal retirement or 7.5 percent for law enforcement retirement. For employees covered by the FERS, the USMS contributes 11.9 percent of the employee's gross pay for regular employees, and 26.3 percent 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 percent of gross pay to this account and match employee contributions up to an additional 4.0 percent 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

The 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 based on 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.

Note 1. Summary of Significant Accounting Policies (continued)

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 current FY will reimburse the FECA SBF for benefits paid through a prior FY. 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

Note 1. Summary of Significant Accounting Policies (continued)

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.

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. The allocation transfers occur periodically throughout the fiscal year.

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 be 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 2011 financial statements were reclassified to conform to the FY 2012 Departmental financial statement presentation requirements. Changes to the presentation of the Combined and Combining Statements of Budgetary Resources were made, in accordance with guidance provided in OMB Circular A-136, *Financial Reporting Requirements* and as such, activity and balances reported on the FY 2011 Combined and Combining Statements of Budgetary Resources have been reclassified to conform to the presentation in the current year. Certain other prior year amounts have also been reclassified to conform with the current year presentation. The reclassifications had no material effect on total assets, liabilities, net position, change in net position or budgetary resources as previously reported.

Dollars in Thousands, Except as Noted

Note 1. Summary of Significant Accounting Policies (continued)

X. Subsequent Events

Subsequent events and transactions occurring after September 30, 2012 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.

Note 2. Non-Entity Assets

As of September 30, 2012 and 2011

	2012	2011
Intragovernmental		
Fund Balance with U.S. Treasury	$ 8,531	$ 12,071
Total Non-Entity Assets	8,531	12,071
Total Entity Assets	901,295	1,001,766
Total Assets	$ 909,826	$ 1,013,837

Note 3. Fund Balance with U.S. Treasury

As of September 30, 2012 and 2011

	2012	2011
Fund Balances		
Revolving Funds	$ 36,488	$ 33,882
General Funds	443,167	516,293
Other Fund Types	8,531	12,071
Total Fund Balances with U.S. Treasury	$ 488,186	$ 562,246
Status of Fund Balances		
Unobligated Balance - Available	$ 61,752	$ 57,730
Unobligated Balance - Unavailable	40,207	32,667
Obligated Balance not yet Disbursed	377,696	459,778
Other Funds (With)/Without Budgetary Resources	8,531	12,071
Total Status of Fund Balances	$ 488,186	$ 562,246

Dollars in Thousands, Except as Noted

Note 3. Fund Balance with U.S. Treasury (continued)

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. It also includes a rescission of prior year funding.

Note 4. Accounts Receivable

As of September 30, 2012 and 2011	2012	2011
Intragovernmental		
Accounts Receivable	$ 145,641	$ 168,560
With the Public		
Accounts Receivable	29	35
Total Accounts Receivable	$ 145,670	$ 168,595

Intragovernmental accounts receivable primarily consists of reimbursable revenue with OFDT.

Note 5. Inventory and Related Property

As of September 30, 2012 and 2011	2012	2011
Operating Materials and Supplies Held for Current Use	$ 2,742	$ 3,060

Dollars in Thousands, Except as Noted

Note 6. General Property, Plant and Equipment, Net

As of September 30, 2012

	Acquisition Cost	Accumulated Depreciation	Net Book Value	Useful Life
Construction in Progress	$ 40,516	$ -	$ 40,516	N/A
Buildings, Improvements, and Renovations	3,422	(3,422)	-	12 years
Aircraft	29,000	(14,745)	14,255	7-25 years
Vehicles	30,988	(20,212)	10,776	5-10 years
Equipment	47,869	(28,801)	19,068	5-15 years
Leasehold Improvements	448,235	(266,946)	181,289	12 years
Total	$ 600,030	$ (334,126)	$ 265,904	

During the fiscal year ended September 30, 2012, the USMS purchased $29,646 in capitalized property from Federal Sources and $11,033 from the Public.

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	$ 576,096	$ (311,850)	$ 264,246	

During the fiscal year ended September 30, 2011, the USMS purchased $23,236 in capitalized property from Federal Sources and $24,371 from the Public.

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

Dollars in Thousands, Except as Noted

Note 7. Other Assets

As of September 30, 2012 and 2011	2012	2011
Intragovernmental		
Advances and Prepayments	$ 7,093	$ 15,506
Other Assets With the Public	184	184
Total Other Assets	$ 7,277	$ 15,690

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, 2012 and 2011	2012	2011
Intragovernmental		
Accrued FECA Liabilities	$ 16,753	$ 15,912
Other Unfunded Employment Related Liabilities	88	77
Total Intragovernmental	16,841	15,989
With the Public		
Actuarial FECA Liabilities	93,617	86,365
Accrued Annual and Compensatory Leave Liabilities	43,258	43,940
Total With the Public	136,875	130,305
Total Liabilities not Covered by Budgetary Resources	153,716	146,294
Total Liabilities Covered by Budgetary Resources	327,085	445,285
Total Liabilities	$ 480,801	$ 591,579

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.

Dollars in Thousands, Except as Noted

Note 9. Leases

As of September 30, 2012 and 2011		
Capital Leases	2012	2011
Summary of Assets Under Capital Lease		
Land and Buildings	$ -	$ 10,727
Accumulated Amortization	-	(10,727)
Total Assets Under Capital Lease (Note 6)	$ -	$ -

The USMS had one capital lease for an aircraft hangar in Oklahoma City, Oklahoma, which expired in FY 2011 and was converted to an operating lease in FY 2012.

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.

Note 10. Other Liabilities

As of September 30, 2012 and 2011	2012	2011
Intragovernmental		
Employer Contributions and Payroll Taxes Payable	$ 12,261	$ 11,908
Other Post-Employment Benefits Due and Payable	90	194
Other Unfunded Employment Related Liabilities	88	77
Advances from Others	-	2,359
Total Intragovernmental	12,439	14,538
With the Public		
Liability for Nonfiduciary Deposit Funds, and Undeposited Collections	8,532	12,071
Total With the Public	8,532	12,071
Total Other Liabilities	$ 20,971	$ 26,609

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

Dollars in Thousands, Except as Noted

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, 2012 and 2011, are presented in the following table.

	Accrued	Estimated Range of Loss	
	Liabilities	Lower	Upper
As of September 30, 2012			
Reasonably Possible		$ -	$ -
As of September 30, 2011			
Reasonably Possible		$ 5,000	$ 10,000

Dollars in Thousands, Except as Noted

Note 12. Net Cost of Operations by Suborganization

For the Fiscal Year Ended September 30, 2012

	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 Consistent with the Rule of Law						
Gross Cost	$ -	$ -	$ -	$ 4,794	$ -	$ 4,794
Net Cost of Operations	-	-	-	4,794	-	4,794
Goal 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law						
Gross Cost	-	-	-	32,637	-	32,637
Net Cost of Operations	-	-	-	32,637	-	32,637
Goal 3: Ensure and Support the Fair, Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels						
Gross Cost	53,077	403,725	1,435,579	1,261,997	(92)	3,154,286
Less: Earned Revenue	57,631	-	1,435,579	50,527	(92)	1,543,645
Net Cost of Operations	(4,554)	403,725	-	1,211,470	-	1,610,641
Net Cost of Operations	$ (4,554)	$ 403,725	$ -	$ 1,248,901	$ -	$ 1,648,072

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 Consistent with the Rule of Law						
Gross Cost	$ -	$ -	$ -	$ 6,484	$ -	$ 6,484
Net Cost of Operations	-	-	-	6,484	-	6,484
Goal 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law						
Gross Cost	-	-	-	30,396	-	30,396
Net Cost of Operations	-	-	-	30,396	-	30,396
Goal 3: Ensure and Support the Fair, Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels						
Gross Cost	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

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 29.8 percent of basic pay for regular, 50.9 percent law enforcement officers, 23.2 percent regular offset, and 45.2 percent law enforcement officers offset. For employees covered by Federal Employees Retirement System (FERS), the cost factors are 13.7 percent of basic pay for regular and 29.7 percent 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 the U.S. Department of Justice. 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.

Dollars in Thousands, Except as Noted

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

For the Fiscal Years Ended September 30, 2012 and 2011	2012	2011
Imputed Inter-Departmental Financing		
Treasury Judgment Fund	$ 7,496	$ 8,416
Health Insurance	28,979	28,496
Life Insurance	106	103
Pension	15,189	18,631
Total Imputed Inter-Departmental	$ 51,770	$ 55,646
Total Imputed Financing	$ 51,770	$ 55,646

Note 14. Information Related to the Statement of Budgetary Resources

Apportionment Categories of Obligations Incurred:

	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
For the Fiscal Year Ended September 30, 2012			
Obligations Apportioned Under			
Category A	$ 1,693,498	$ 1,490,564	$ 3,184,062
Category B	622	-	622
Total	$ 1,694,120	$ 1,490,564	$ 3,184,684
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	$ 1,622,322	$ 1,610,059	$ 3,232,381

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.

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, 2012 and 2011	2012	2011
UDO Obligations Unpaid	$ 219,158	$ 217,540
UDO Obligations Prepaid/Advanced	7,140	15,506
Total UDO	$ 226,298	$ 233,046

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 FY for new obligations unless some restrictions have been placed on those funds by law. Amounts in expired fund symbols are not available for new obligations, but may be used to adjust previously established obligations.

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

The reconciliation as of September 30, 2012 is not presented, because the submission of the Budget of the United States Government (Budget) for FY 2014, which presents the execution of the FY 2012 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).

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

For the Fiscal Year Ended September 30, 2011: (Dollars in Millions)	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources (SBR)	$ 3,323	$ 3,232	$ -	$ 1,655
Funds not Reported in the Budget				
Expired Funds	(41)	(16)	-	-
USMS Court Security Funds	(428)	(418)	-	(407)
Budget of the United States Government	$ 2,854	$ 2,798	$ -	$ 1,248

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

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, 2012 and 2011

	2012	2011
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$ 3,184,684	$ 3,232,381
Less: Spending Authority from Offsetting Collections and Recoveries	1,593,234	1,661,109
Obligations Net of Offsetting Collections and Recoveries	1,591,450	1,571,272
Net Obligations	1,591,450	1,571,272
Other Resources		
Transfers In/Out Without Reimbursement	58	162
Imputed Financing from Costs Absorbed by Others (Note 13)	51,770	55,646
Net Other Resources Used to Finance Activities	51,828	55,808
Total Resources Used to Finance Activities	1,643,278	1,627,080
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	(1,092)	19,383
Resources That Fund Expenses Recognized in Prior Periods (Note 16)	(682)	(17,014)
Resources That Finance the Acquisition of Assets	(40,679)	(47,928)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(42,453)	(45,559)
Total Resources Used to Finance Net Cost of Operations	$ 1,600,825	$ 1,581,521
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)	$ 8,110	$ 4,876
Depreciation and Amortization	39,543	38,387
Revaluation of Assets or Liabilities	855	1,730
Other	(1,261)	1,252
Total Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period	47,247	46,245
Net Cost of Operations	$ 1,648,072	$ 1,627,766

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 no certainty that budgetary authority will be realized, such as the enactment of an appropriation, are considered liabilities not covered by budgetary resources. These liabilities totaling $153,716 and $146,294 on September 30, 2012 and 2011, 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, 2012 and 2011	2012	2011
Resources that Fund Expenses Recognized in Prior Periods		
Decrease in Accrued Annual and Compensatory Leave Liabilities	$ (682)	$ -
Other		
Decrease in Contingent Liabilities	-	(17,000)
Decrease in Other Unfunded Employment Related Liabilities	-	(14)
Total Other	-	(17,014)
Total Resources that Fund Expenses Recognized in Prior Periods	$ (682)	$ (17,014)
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
(Increase)/Decrease in Exchange Revenue Receivable from the Public	6	12
Other		
Increase in Actuarial FECA Liabilities	7,252	2,875
Increase in Accrued FECA Liabilities	841	187
Increase in Other Unfunded Employment Related Liabilities	11	-
Total Other	8,104	3,062
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	$ 8,110	$ 4,876

This page left intentionally blank.

U.S. DEPARTMENT OF JUSTICE

UNITED STATES MARSHALS SERVICE

REQUIRED SUPPLEMENTARY INFORMATION

(UNAUDITED)

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, 2012

Dollars in Thousands	Salaries & Expense	Court Security	Construction	Justice Prisoner and Alien Transportation System	Total
Budgetary Resources:					
Unobligated Balance, Brought Forward, October 1	$ 45,013	$ 9,281	$ 2,051	$ 34,052	$ 90,397
Recoveries of Prior Year Unpaid Obligations	40,651	11,585	862	1,522	54,620
Other Changes in Unobligated Balance	(2,568)	(5,064)	-	-	(7,632)
Unobligated Balance from Prior Year Budget Authority, Net	83,096	15,802	2,913	35,574	137,385
Appropriations (discretionary and mandatory)	1,173,002	422,642	15,000	-	1,610,644
Spending Authority from Offsetting Collections (discretionary and mandatory)	1,481,021	-	-	57,593	1,538,614
Total Budgetary Resources	$ 2,737,119	$ 438,444	$ 17,913	$ 93,167	**$ 3,286,643**
Status of Budgetary Resources:					
Obligations Incurred	2,690,482	425,327	16,983	51,892	3,184,684
Unobligated Balance, End of Period:					
Apportioned	14,685	5,349	687	41,031	61,752
Unapportioned	31,952	7,768	243	244	40,207
Total Unobligated Balance - End of Period	46,637	13,117	930	41,275	101,959
Total Status of Budgetary Resources:	$ 2,737,119	$ 438,444	$ 17,913	$ 93,167	**$ 3,286,643**
Change in Obligated Balance:					
Obligated Balance, Net - Brought Forward, October 1					
Unpaid Obligations, Gross	$ 470,165	$ 131,550	$ 38,260	$ 8,635	$ 648,610
Less: Uncollected Customer Payments from Federal Sources	180,028	-	-	8,804	188,832
Total Obligated Balance, Net - Brought Forward, October 1	290,137	131,550	38,260	(169)	459,778
Obligations Incurred	2,690,482	425,327	16,983	51,892	3,184,684
Less: Outlays, Gross	2,741,897	425,168	19,035	54,807	3,240,907
Change in Uncollected Customer Payments from Federal Sources	28,943	-	-	(182)	28,761
Less: Recoveries of Prior Year Unpaid Obligations	40,651	11,585	862	1,522	54,620
Obligated Balance, Net - End of Period					
Unpaid Obligations, Gross	378,099	120,124	35,346	4,198	537,767
Less: Uncollected Customer Payments from Federal Sources	151,085	-	-	8,986	160,071
Total Obligated Balance, Net - End of Period	$ 227,014	$ 120,124	$ 35,346	$ (4,788)	**$ 377,696**
Budgetary Authority and Outlays, Net:					
Budgetary Authority, Gross (discretionary and mandatory)	2,654,023	422,642	15,000	57,593	3,149,258
Less: Actual Offsetting Collections (discretionary and mandatory)	1,509,960	-	-	57,411	1,567,371
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	28,943	-	-	(182)	28,761
Budget Authority, Net (discretionary and mandatory)	$ 1,173,006	$ 422,642	$ 15,000	$ -	**$ 1,610,648**
Outlays, Gross (discretionary and mandatory)	$ 2,741,897	$ 425,168	$ 19,035	$ 54,807	$ 3,240,907
Less: Actual Offsetting Collections (discretionary and mandatory)	1,509,960	-	-	57,411	1,567,371
Agency Outlays, Net (discretionary and mandatory)	$ 1,231,937	$ 425,168	$ 19,035	$ (2,604)	**$ 1,673,536**

2012

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
Other Changes in Unobligated Balance	(8,877)	(11,646)	(872)	-	(21,395)
Unobligated Balance from Prior Year Budget Authority, Net	116,308	20,275	11,836	28,380	176,799
Appropriations (discretionary and mandatory)	1,125,568	407,529	16,592	-	1,549,689
Spending Authority from Offsetting Collections (discretionary and mandatory)	1,530,897	-	-	65,393	1,596,290
Total Budgetary Resources	**$ 2,772,773**	**$ 427,804**	**$ 28,428**	**$ 93,773**	**$ 3,322,778**
Status of Budgetary Resources:					
Obligations Incurred	2,727,760	418,523	26,377	59,721	3,232,381
Unobligated Balance, End of Period:					
Apportioned	19,279	3,964	536	33,951	57,730
Unapportioned	25,734	5,317	1,515	101	32,667
Total Unobligated Balance - End of Period	45,013	9,281	2,051	34,052	90,397
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, Gross	$ 527,443	$ 132,491	$ 34,653	$ 13,964	$ 708,551
Less: Uncollected Customer Payments from Federal Sources	156,080	-	-	9,134	165,214
Total Obligated Balance, Net - Brought Forward, October 1	371,363	132,491	34,653	4,830	543,337
Obligations Incurred	2,727,760	418,523	26,377	59,721	3,232,381
Less: Outlays, Gross	2,737,148	407,018	20,694	62,643	3,227,503
Change in Uncollected Customer Payments from Federal Sources	(23,948)	-	-	330	(23,618)
Less: Recoveries of Prior Year Unpaid Obligations	47,890	12,445	2,077	2,407	64,819
Obligated Balance, Net - End of Period					
Unpaid Obligations, Gross	470,165	131,550	38,260	8,635	648,610
Less: Uncollected Customer Payments from Federal Sources	180,028	-	-	8,804	188,832
Total Obligated Balance, Net - End of Period	**$ 290,137**	**$ 131,550**	**$ 38,260**	**$ (169)**	**$ 459,778**
Budgetary Authority and Outlays, Net:					
Budgetary Authority, Gross (discretionary and mandatory)	2,656,465	407,529	16,592	65,393	3,145,979
Less: Actual Offsetting Collections (discretionary and mandatory)	1,506,949	-	-	65,723	1,572,672
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	(23,948)	-	-	330	(23,618)
Budget Authority, Net (discretionary and mandatory)	**$ 1,125,568**	**$ 407,529**	**$ 16,592**	**$ -**	**$ 1,549,689**
Outlays, Gross (discretionary and mandatory)	$ 2,737,148	$ 407,018	$ 20,694	$ 62,643	$ 3,227,503
Less: Actual Offsetting Collections (discretionary and mandatory)	1,506,949	-	-	65,723	1,572,672
Agency Outlays, Net (discretionary and mandatory)	**$ 1,230,199**	**$ 407,018**	**$ 20,694**	**$ (3,080)**	**$ 1,654,831**

This page left intentionally blank.

U.S. DEPARTMENT OF JUSTICE

UNITED STATES MARSHALS SERVICE

OTHER ACCOMPANYING
INFORMATION

(UNAUDITED)

This page left intentionally blank.

Combined Schedule of Spending
For the Fiscal Year Ended September 30, 2012

Dollars in Thousands		2012
What Money is Available to Spend?		
Total Resources		$ 3,286,643
Less: Amount Available but Not Agreed to be Spent		61,752
Less: Amount Not Available to be Spent		40,207
Total Amounts Agreed to be Spent		**$ 3,184,684**
How was the Money Spent?		
Personnel Compensation and Benefits		
	1100 Personnel Compensation	$ 543,780
	1200 Personnel Benefits	227,881
	1300 Former Personnel	150
Contractual Services and Supplies		
	2100 Travel & Transportation of Persons	34,846
	2200 Transportation of Things	22,828
	2300 Rent, Communications, and Utilities	218,284
	2400 Printing	469
	2500 Other Services	2,069,407
	2600 Supplies and Materials	45,078
Acquisition of Assets		
	3100 Equipment/IT Software	76,425
	3200 Leasehold Improvements	1,759
Total Spending		3,240,907
Amounts Remaining to be Spent		$ (56,223)
Total Amounts Agreed to be Spent		**$ 3,184,684**

This page left intentionally blank.

U.S. DEPARTMENT OF JUSTICE

UNITED STATES MARSHALS SERVICE

APPENDIX

This page left intentionally blank.

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* and the *Independent Auditors' Report on Compliance and Other Matters* to the United States Marshals Service (USMS). The USMS's response is incorporated in the *Independent Auditors' Report on Internal Control over Financial Reporting* and the *Independent Auditors' Report on Compliance and Other Matters* 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 finalized and consistently implemented policies and procedures for recording obligations and deobligations in a timely manner, and 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. **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).